

ROLL WITH THE PUNCHES



PEOPLE'S
INSURANCE

CARING WITH LOVE

People's Insurance PLC
Annual Report

2020

ROLL WITH THE PUNCHES

Our performance this year signifies our capabilities as we took on one of the most unique and unprecedented challenges we have ever faced. Our challenger which was forceful on a global scale was the pandemic but we, as a trained and dynamic entity were able to face it head on and deal with the adversity in our own resourceful way. Our stability and strength being quick on our feet and dodging the blows that felled many are evident in our results for the year and we are ready to roll with the punches as we remain quick and agile in order to lessen impact and emerge victorious in a new normal.

Contents



WHEN OUR BACKS WERE AGAINST THE ROPES, WE PUSHED THROUGH WITH RENEWED VIGOUR

THE PEOPLE'S INSURANCE STORY

| | |
|---|----|
| Responsible Corporate Reporting | 5 |
| Integrated Thinking at People's Insurance | 8 |
| 2020 at a Glance | 9 |
| Performance Highlights | 9 |
| Milestones | 12 |
| The People's Insurance Story | 14 |
| Our Impact | 15 |
| Value Creation Model | 16 |



PROTECTING OURSELVES AND OUR CUSTOMERS DURING THESE UNCERTAIN TIMES

LEADERSHIP INSIGHTS

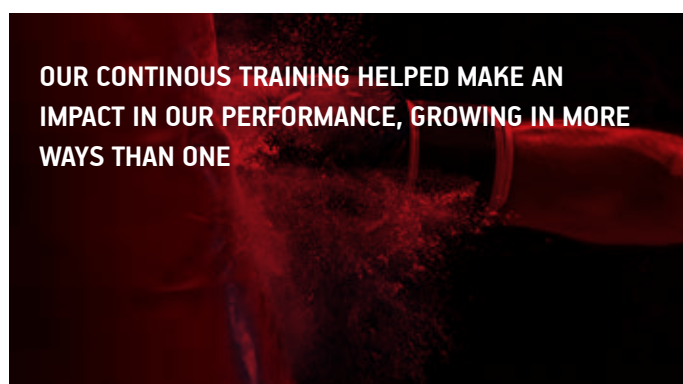
| | |
|----------------------------------|----|
| Chairman's Message | 19 |
| Chief Executive Officer's Review | 22 |
| Board of Directors | 26 |
| Corporate Management | 31 |
| Management Team | 32 |
| Support Service Team | 35 |



WE KEPT A STEADY HAND IN KEEPING IN LINE WITH NECESSARY REGULATIONS AND BEING A GOOD CORPORATE CITIZEN

CORPORATE GOVERNANCE

| | |
|---|-----|
| Corporate Governance | 89 |
| Annual Report of the Board of Directors on the Affairs of the Company | 95 |
| Directors' Statement on Internal Control | 101 |
| Board Audit Committee Report | 102 |
| Related Party Transactions Review Committee Report | 104 |
| Board Human Resources, Remuneration and Nomination Committee Report | 105 |
| Investment Committee Report | 107 |



OUR CONTINUOUS TRAINING HELPED MAKE AN IMPACT IN OUR PERFORMANCE, GROWING IN MORE WAYS THAN ONE

FINANCIAL INFORMATION

| | |
|--|-----|
| Statement of Directors' Responsibility for Financial Reporting | 109 |
| CEO's and CFO's Responsibility Statement | 111 |
| IBNR and LAT Certification | 112 |
| Independent Auditor's Report | 113 |
| Statement of Profit or Loss | 116 |
| Statement of Comprehensive Income | 117 |
| Statement of Financial Position | 118 |
| Statement of Changes in Equity | 119 |
| Statement of Cash Flows | 120 |
| Notes to the Statement of Cash Flows | 121 |
| Notes to the Financial Statements | 122 |

OUR STRATEGIC THINKING HELPED US MAINTAIN A CLEAR HEAD AND A FUTURE-READY VISION AMIDST THE CONVOLUTION



DELIVERING VALUE THROUGH STRATEGY

| | |
|-----------------------------------|----|
| Operating Environment | 37 |
| Economic and Industry environment | 37 |
| Insurance Industry | 39 |
| Business Environment Scan | 40 |
| Our Strategy | 41 |
| Listening to Our Stakeholders | 41 |
| Materiality Analysis | 43 |
| Strategy and Resource Allocation | 46 |
| Approach to Sustainability | 53 |
| Risk Management | 54 |

WE DIDN'T THROW IN THE TOWEL AND WE DIDN'T LET OUR STAKEHOLDERS DO SO EITHER



OUR APPROACH TO VALUE CREATION

| | |
|---------------------------------|----|
| Performance and Value Creation | 63 |
| Performance Against Competition | 63 |
| Operational Reviews | 64 |
| Business Line Reviews | 66 |
| Financial Capital | 68 |
| Manufactured Capital | 72 |
| Human Capital | 74 |
| Intellectual Capital | 79 |
| Social and Relationship Capital | 81 |
| Natural Capital | 85 |

WE EMERGED WINNERS, CLINCHING THE TITLE WITH A SIMPLE FORMULA OF STRENGTH, STABILITY AND INNOVATION



SUPPLEMENTARY INFORMATION

| | |
|---|-----|
| Annex i – Code of Best Practice on Corporate Governance | 206 |
| Annex ii – Listing Rules of the Colombo Stock Exchange | 221 |
| Annex iii – Carbon Conscious Certificate | 225 |
| Annex iv – GRI Content Index – ‘In Accordance’ - Core | 226 |
| Shareholder Information | 229 |
| Quarterly Analysis 2020 | 234 |
| Quarterly Analysis 2019 | 235 |
| Five Year Summary | 236 |
| Glossary of Insurance Terms | 237 |
| Distribution Network | 241 |
| Corporate Information | 242 |
| Notice of Meeting | 243 |
| Notes | 244 |
| Form of Proxy | 245 |
| Investor Feedback Form | 247 |

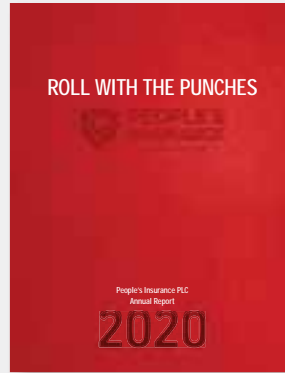


WHEN OUR BACKS WERE AGAINST THE ROPES, WE PUSHED THROUGH WITH RENEWED VIGOUR

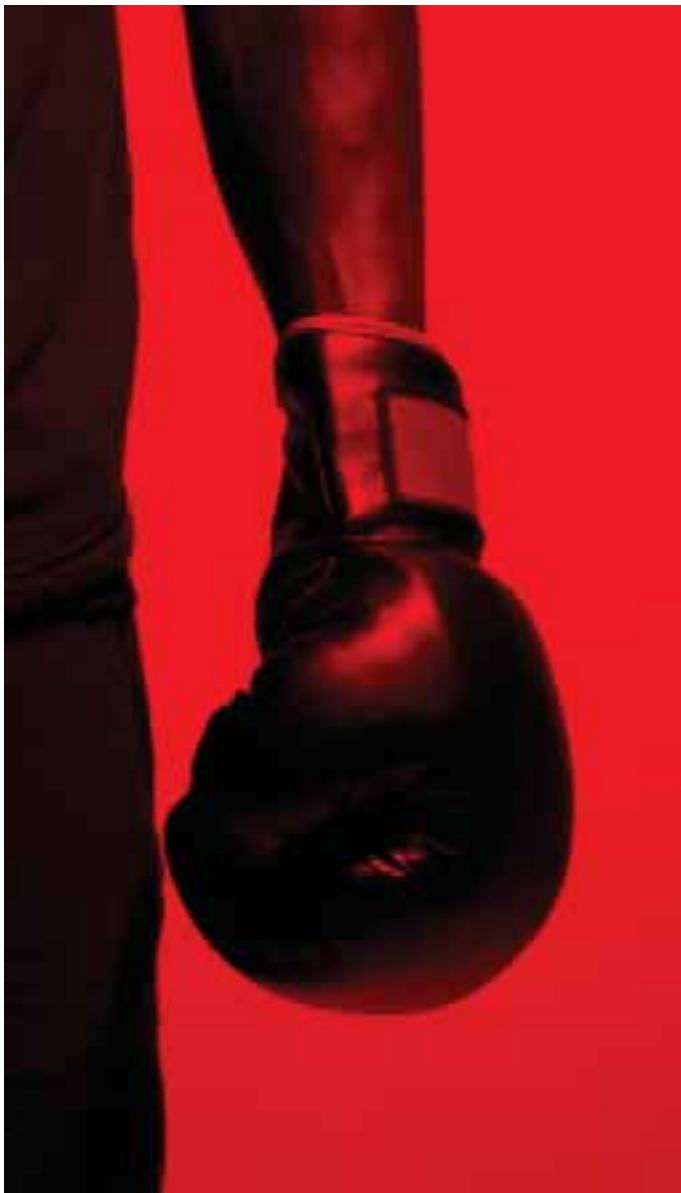
THE PEOPLE'S INSURANCE STORY

| | |
|---|----|
| Responsible Corporate Reporting | 5 |
| Integrated thinking at People's Insurance | 8 |
| 2020 at a Glance | 9 |
| Performance Highlights | 9 |
| Milestones | 12 |
| The People's Insurance Story | 14 |
| Our Impact | 15 |
| Value Creation Model | 16 |

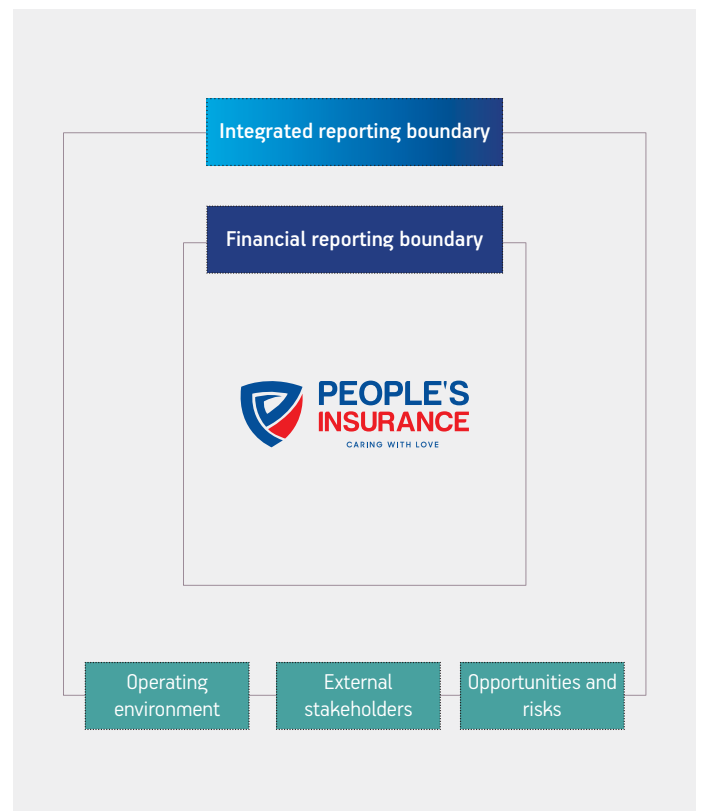
7th Welcome to our seventh Integrated Report



This year, we present our seventh Integrated Annual Report which presents a concise yet comprehensive overview of how People's Insurance PLC (herein referred to as 'PI' or the 'Company') directed its strategy in delivering value to its diverse stakeholders. The Report includes information on the Company's operating environment, short, medium and long-term strategies, triple bottom line performance as well as its approach to governance and risk management.







Scope and boundary: The Report covers the operations of PI for the period from 1st January to 31st December 2020. We adopt an annual reporting cycle and this Report builds on the Company's previous Annual Report for the financial year ended 31st December 2019. There are neither material restatements of information reported last year nor any significant changes to the Company's structure, size or supply chain. The boundary of reporting for the financial statements (page 122) is limited to the operations of the Company. The narrative from pages 37 to 87 includes information pertaining to the Company's operatin landscape, customers and supply chain.



Responsible Corporate Reporting

Integrity of information

The integrity of the financial and non-financial information presented in this Report is ensured through stringent internal and external mechanisms. The presentation of information is also in line with several globally accepted reporting frameworks, standards and principles as presented below.

| |  Financial Information |  Integrated Report |  Sustainability Report |  Corporate Governance |
|---------------------------------|---|--|--|---|
| Standards and Principles | <ul style="list-style-type: none"> ▶ Sri Lanka Accounting Standards (SLFRS/ LKAS) ▶ Companies Act No. 7 of 2007 ▶ Listing Rules of the CSE | <ul style="list-style-type: none"> ▶ Integrated Reporting Framework published by the International Integrated Reporting Council (including revisions published in January 2021) | <ul style="list-style-type: none"> ▶ GRI Standards - In Accordance 'Core' criteria ▶ Gender Parity Reporting Framework of CA Sri Lanka | <ul style="list-style-type: none"> ▶ Code of Best Practice on Corporate Governance 2017 ▶ Regulation of Insurance Industry Act No. 43 of 2000 and amendments ▶ Direction on Corporate Governance for Insurers by the IRCSL |
| Internal assurance | <ul style="list-style-type: none"> ▶ Ongoing review of reporting process and internal controls by the Internal Audit function and monitored by the Board Audit Committee | <ul style="list-style-type: none"> ▶ Board of Directors ensures compliance with <IR> Framework and attests to the integrity and accuracy of the Report | <ul style="list-style-type: none"> ▶ Information collated by respective departments and assured by the Sustainability Committee | <ul style="list-style-type: none"> ▶ Board of Directors ensures voluntary compliance on the Code of Best Practice on Corporate Governance 2017 and mandatory compliance with directive issued by the IRCSL |
| External assurance | <ul style="list-style-type: none"> ▶ External assurance on financial statements provided by the Auditor General | | | |

REPORTING IMPROVEMENTS

We are committed to consistently improving the readability and meaningfulness of our Report. Key improvements featured in this year's Report include the following:

| <IR> Principle | Reporting improvements |
|---|--|
| Connectivity | <ul style="list-style-type: none"> ▶ Demonstrate connectivity between external trends, strategic priorities and capitals through better use of navigation icons ▶ Clearly showcase the impact of COVID-19 and other trends in the operating environment on the Company's strategy and performance |
| Reliability | <ul style="list-style-type: none"> ▶ Integrity of financial and non-financial information is assured through both internal and external mechanisms |
| Materiality | <ul style="list-style-type: none"> ▶ The Company's materiality assessment follows a comprehensive review of the operating environment, consideration of stakeholder inputs and the Company's strategic aspirations. This year, we have also considered the implications of the pandemic given the unprecedented conditions that prevailed during the year |
| Strategic focus and future orientation | <ul style="list-style-type: none"> ▶ Increased disclosure on the Company's strategic actions and how strategy was realigned to address the prevalent risks and capitalise on the opportunities presented |
| Other improvements | <ul style="list-style-type: none"> ▶ Adoption of revisions proposed in the <IR> Framework in January 2021 |

Forward Looking Statements

This Annual Report includes forward looking statements (identified through words such as anticipate, estimate, intend, believe and expect among others) which are based on the Company's expectations of future industry dynamics and events. These statements are subject to inherent risks which could relate to factors beyond the Company's control and we caution investors that actual events could differ materially from those expressed in these forward-looking statements.

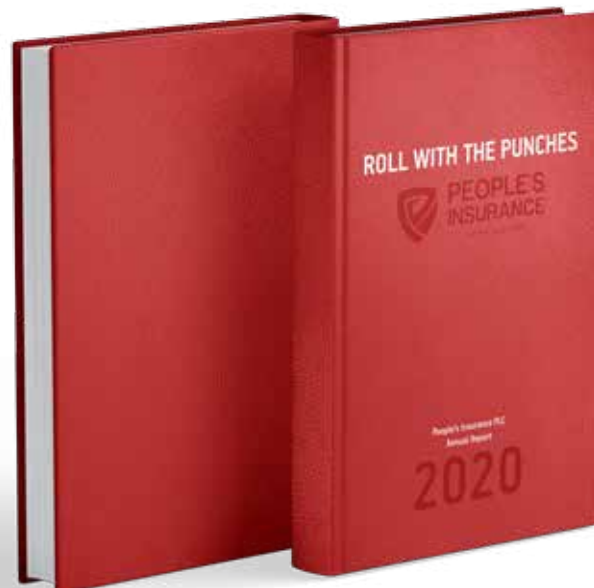
BOARD RESPONSIBILITY

The Board of Directors hereby confirms that the Company's Annual Report for 2020 addresses all relevant material matters and represents the Company's integrated performance in a fair and accurate manner. The Board also confirms that the Report has been prepared in line with the guidelines presented by the <IR> Framework. The Report is approved and authorised for publication.

Signed on behalf of the Board,

Isuru Balapatabendi
Chairman

6th May 2021
Colombo



The Annual Report is available on hard copies and on our official website, www.peoplesinsurance.lk

NAVIGATION ICONS

Capitals as defined in the <IR> Framework



Financial Capital



Manufactured Capital



Human Capital



Social and Relationship Capital



Intellectual Capital



Natural Capital

Strategic priorities



Business growth and profitability



Customer service excellence



Optimisation of resource utilisation



Preferred workplace



Compliance



Social and environmental commitment

COVID-19 implications



Impact of COVID-19

Feedback

We welcome your feedback, comments and suggestions on this Report. Please direct your feedback to;

Chief Financial Officer
People's Insurance PLC
No. 07, Havelock Road,
Colombo 05, Sri Lanka.
Telephone : +94 11 2126126
Fax : +94 11 2126322
Email : nilushan@plc.lk

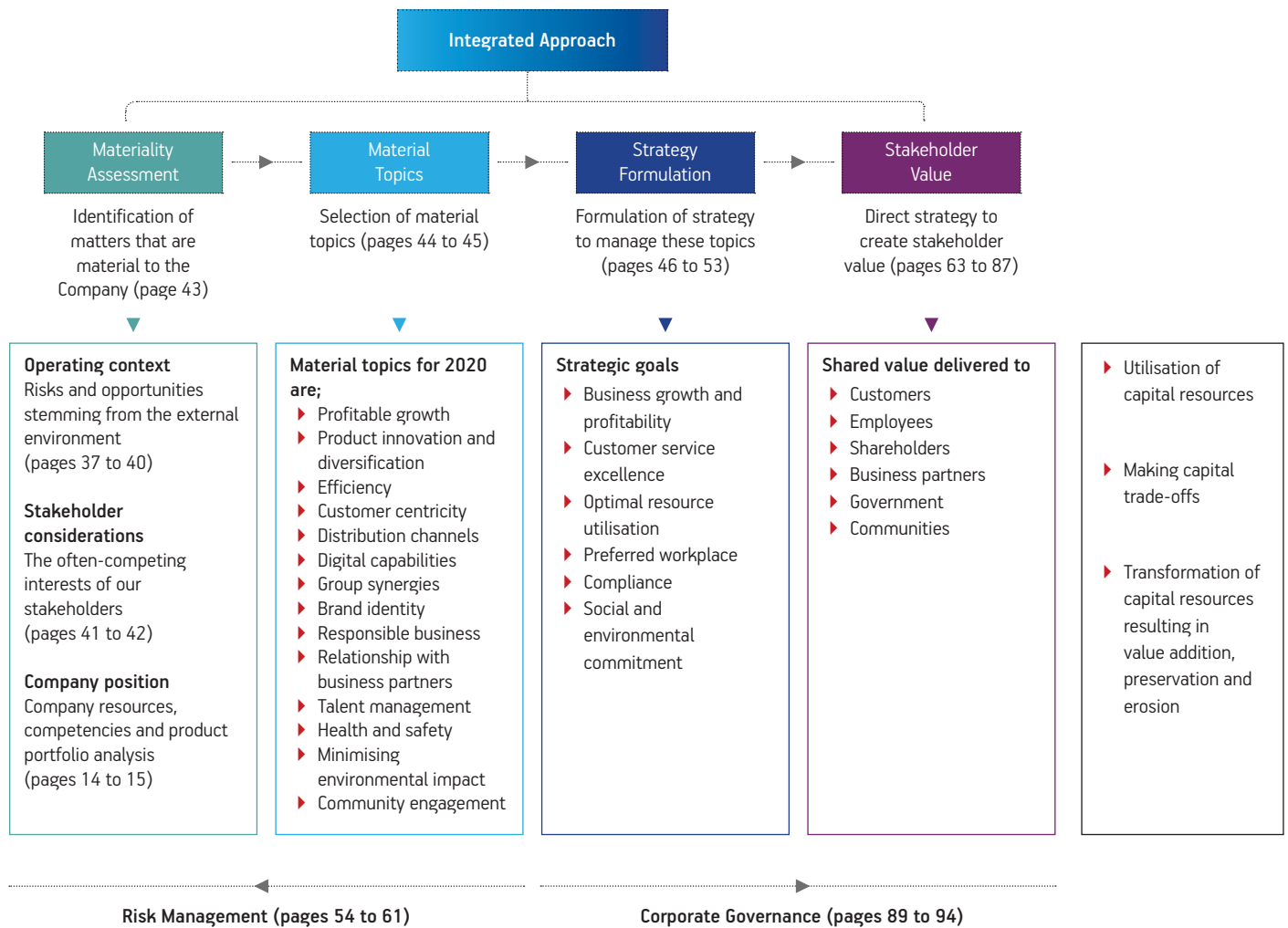
A feedback form is set out on page 247.



Responsible Corporate Reporting

Integrated Thinking at People's Insurance

In recent years, we have strived to embed integrated thinking across our operations through clearly identifying our capital inputs, resource allocations and trade-offs when setting and implementing strategy and driving stakeholder value creation. This integrated approach we adopt to formulate strategy is graphically presented below.



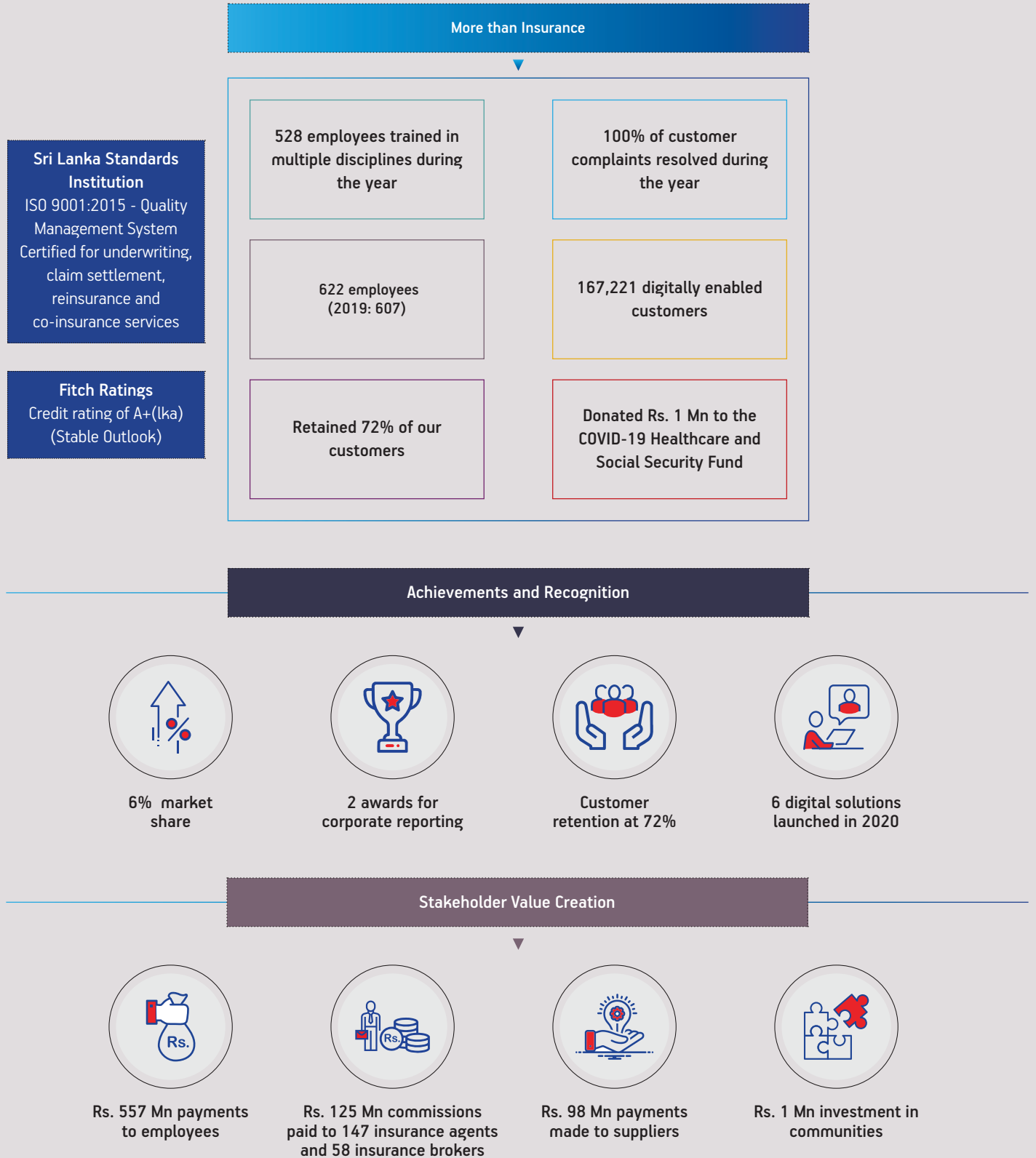
2020 at a Glance

Performance Highlights

| | Measurement Unit | 2020 | 2019 | Change % |
|--|------------------|--------|-------|----------|
| Financial Performance | | | | |
| Revenue | Rs. Mn | 6,163 | 6,109 | 0.9% |
| Gross written premium | Rs. Mn | 6,012 | 6,030 | -0.3% |
| Net earned premium | Rs. Mn | 5,303 | 5,262 | 0.8% |
| Net claims and benefits | Rs. Mn | 2,700 | 3,553 | -24.0% |
| Underwriting and net acquisition costs | Rs. Mn | 560 | 517 | 8.3% |
| Other operating, administrative and finance expenses | Rs. Mn | 1,236 | 1,127 | 9.7% |
| Underwriting results | Rs. Mn | 808 | 65 | 1,143.1% |
| Other revenue | Rs. Mn | 859 | 847 | 1.4% |
| Pre-tax profit | Rs. Mn | 1,668 | 912 | 82.9% |
| Income tax | Rs. Mn | 472 | 264 | 78.8% |
| Profit after tax | Rs. Mn | 1,195 | 648 | 84.4% |
| Net claims ratio | % | 51 | 68 | -17.0% |
| Net expense ratio | % | 34 | 31 | 3.0% |
| Net combined ratio | % | 85 | 99 | -14.0% |
| Underwriting margin | % | 15 | 01 | 14.0% |
| Return on equity | % | 26 | 18 | 8.0% |
| Financial Position and Stability | | | | |
| Total assets | Rs. Mn | 10,596 | 9,580 | 10.6% |
| Financial investments | Rs. Mn | 8,574 | 7,350 | 16.7% |
| Total liabilities | Rs. Mn | 5,977 | 5,938 | 0.7% |
| Insurance contract liabilities | Rs. Mn | 4,623 | 4,924 | -6.1% |
| Equity | Rs. Mn | 4,619 | 3,643 | 26.8% |
| Investor Ratios | | | | |
| Market value per share (Closing) | Rs. | 28.20 | 21.70 | 30.0% |
| No. of shares in issue | Mn | 200 | 200 | - |
| Market capitalisation | Rs. Mn | 5,640 | 4,340 | 30.0% |
| Earnings per share | Rs. | 5.98 | 3.24 | 84.6% |
| Net asset value per share | Rs. | 23.10 | 18.21 | 26.9% |
| Dividend per share | Rs. | 3.00 | 1.85 | 62.2% |
| Price/Earnings ratio | Times | 4.72 | 6.70 | -29.6% |
| Dividend cover | Times | 1.99 | 1.75 | 13.7% |
| Statutory Ratios | | | | |
| Capital Adequacy Ratio (CAR) | % | 304 | 248 | 56.0% |
| Total Available Capital (TAC) | Rs. Mn | 4,163 | 3,141 | 32.5% |

2020 at a Glance

CREATING VALUE IN 2020



NAVIGATING THE COMPLEXITIES OF 2020

The year 2020 was one like no other with the global outbreak of the COVID-19 pandemic bringing about extraordinary changes and complexities to organisations, governments and communities around the world. As the Government adopted unprecedented measures to restrict movements to curb the spread of the virus, Sri Lanka entered a lockdown in March 2020 giving rise to considerable challenges for our employees, customers and business partners.

Impact on our financial performance: As the country's external position deteriorated leading to considerable pressure on the exchange rate, the Government of Sri Lanka sought to restrict vehicle imports into the country which in turn had a significant impact on our motor insurance portfolio. Meanwhile, the sustained decline in interest rates affected the Company's investment income. On the other hand, limited mobility resulted in a sharp improvement in claims performance, thereby supporting the Company's overall profitability.

Impact on our financial position: Throughout the year, proactive measures were taken to strengthen the financial position, preserve liquidity and manage the Company's risk profile. The regulator imposed restrictions on dividend distribution which in turn enabled the Company to shore up its capital and improve its capital adequacy ratio. There was an increase in the premium outstanding during the year 2020 amidst the impact from the pandemic.

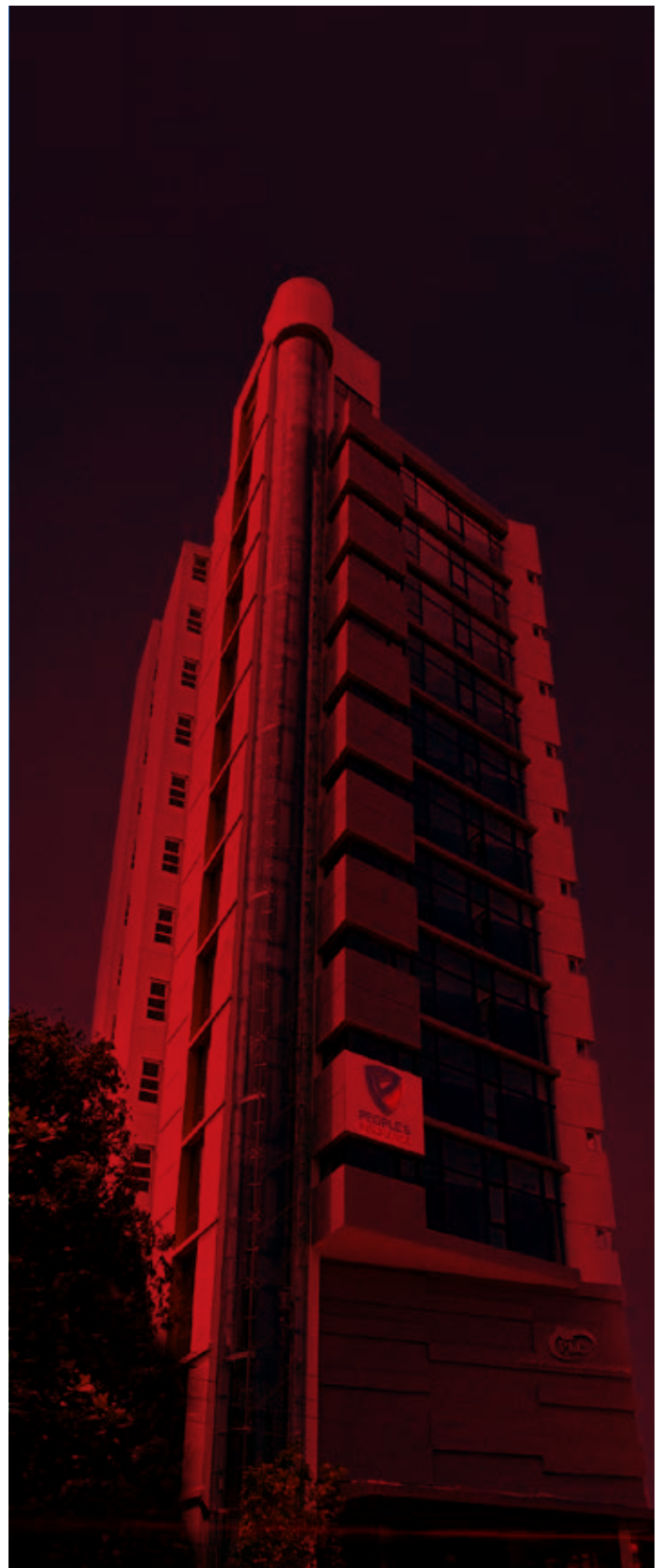
Impact on operations: The lockdown and requirements for physical distancing caused disruptions to normal operations, impacting the way in which the Company engages with customers and employees. With insurance being classified as an essential service, operations returned to normalcy relatively quickly, although additional expenditure was triggered due to health and safety measures. Meanwhile, additional IT costs were incurred to facilitate work-from-home arrangements and digital engagement with customers.

While our mid-to-long term strategic priorities remained relatively unchanged, strategy was reassessed to effectively address the implications of the pandemic:

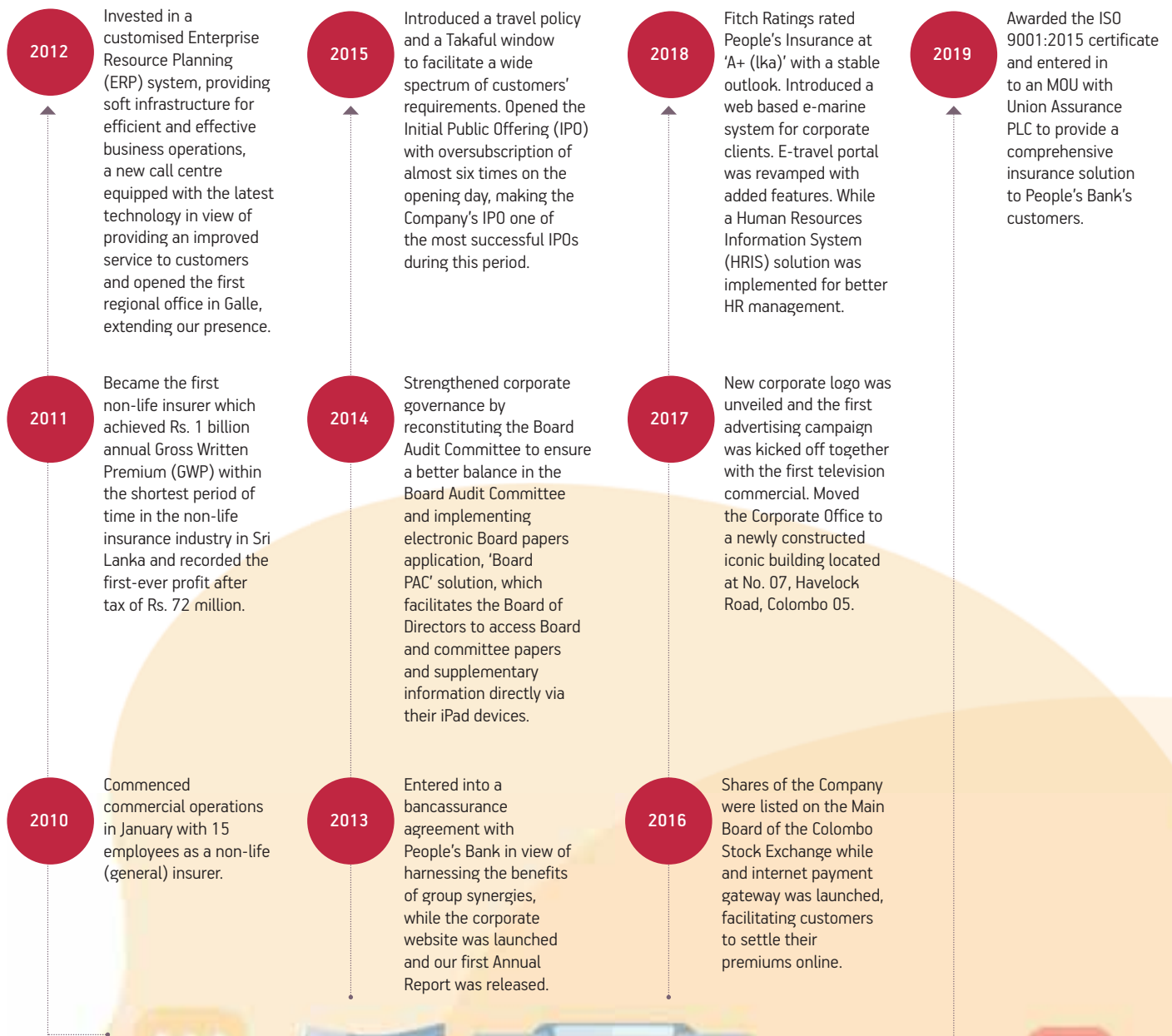
- ▶ Accelerating digital adoption among customers through facilitating digital delivery and online payments
- ▶ Drive customer centricity through innovations and digital services
- ▶ Ensuring employee health and safety through work-from-home arrangements, roster schemes and increased digital engagement
- ▶ Strengthen leadership, governance and risk management frameworks

Where relevant, throughout this Report we discuss:

- ▶ The implications of COVID-19 on PI
- ▶ How we addressed stakeholder needs and concerns
- ▶ How we are adapting to the new realities of the post-pandemic world
- ▶ How we are strengthening risk management systems to address the challenges posed by the pandemic



Milestones



2020

Q1

- Introduced e-motor certificate for motor insurance policy holders
- Paid the final dividend of Rs. 1.10 per share for 2019, amounting to Rs. 220 million
- Opened a new regional branch in Trincomalee.
- A claim portal directly connected to the Call Centre was introduced to be in touch with customer's to handle customer claims inquiries more efficiently

Q2

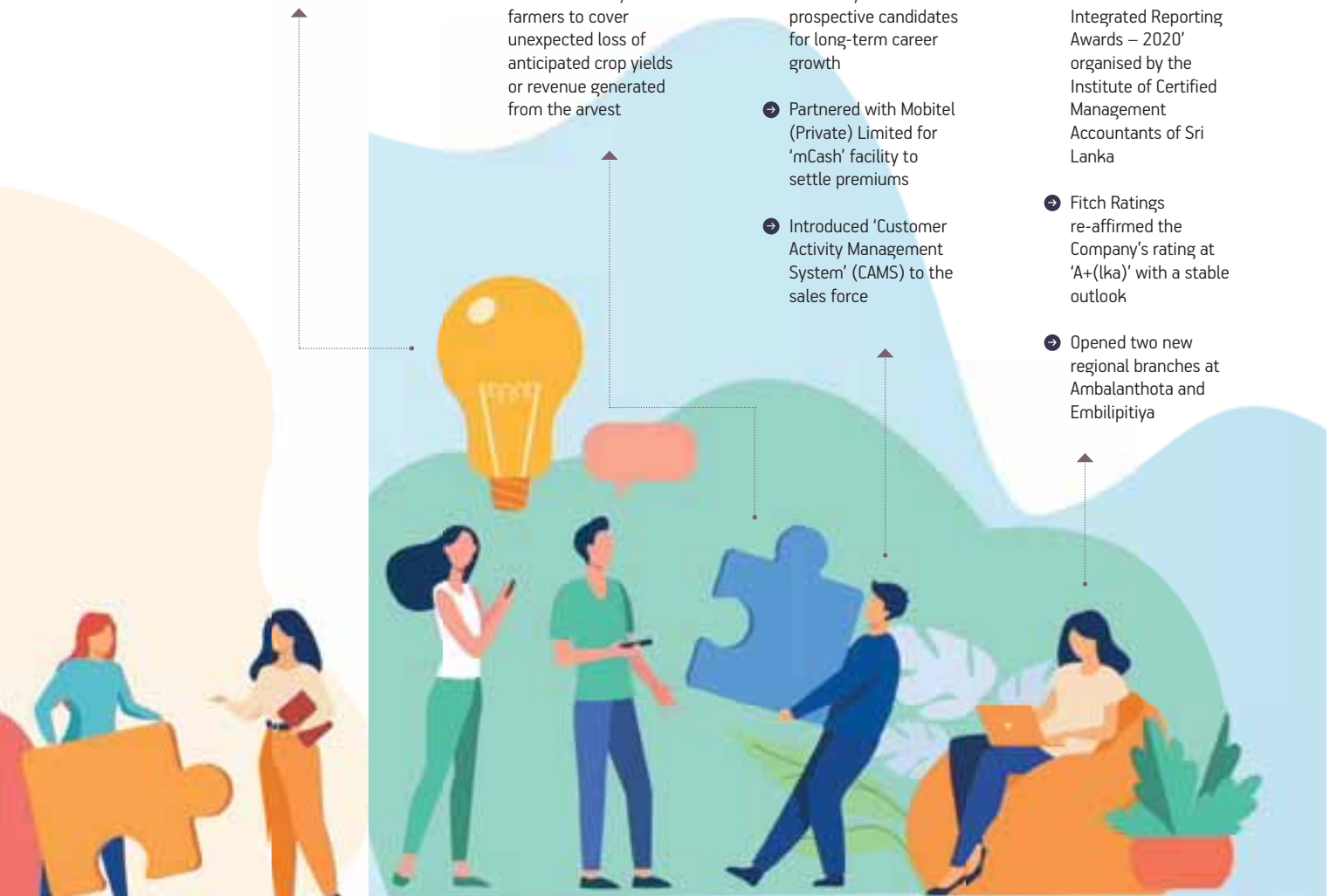
- Insurance was named as an essential service by the Government and steps were taken to keep the Head Office and branches open with necessary safety measures
- Introduced a more convenient web-based insurance payment facility with credit card installment plans
- Introduced 'Work-From-Home' concept through VPN technology
- Launched Crop Insurance Policy for farmers to cover unexpected loss of anticipated crop yields or revenue generated from the arvest

Q3

- Introduced a mobile app to assessors to provide a faster and efficient service to customers
- Launched Cyber Security Insurance Policy. This product is intended to protect businesses and individuals from Internet-based risks, and generally from the risks relating to information technology
- Signed an MOU with the University of Kelaniya for recruiting their university students as prospective candidates for long-term career growth
- Partnered with Mobitel (Private) Limited for 'mCash' facility to settle premiums
- Introduced 'Customer Activity Management System' (CAMS) to the sales force

Q4

- Launched the latest customer payment system 'People's Pay Way' which includes CDM, KIOSK, Online, QR code and 'People's Wave' payment system
- Successfully hosted its 11th Annual General Meeting on a virtual platform
- Annual Report 2019 themed 'A Universe of Opportunity' was awarded Best Integrated Report – Insurance Sector and 10 Best Integrated Reports at the 'Excellence in Integrated Reporting Awards – 2020' organised by the Institute of Certified Management Accountants of Sri Lanka
- Fitch Ratings re-affirmed the Company's rating at 'A+(lka)' with a stable outlook
- Opened two new regional branches at Ambalanthota and Embilipitiya

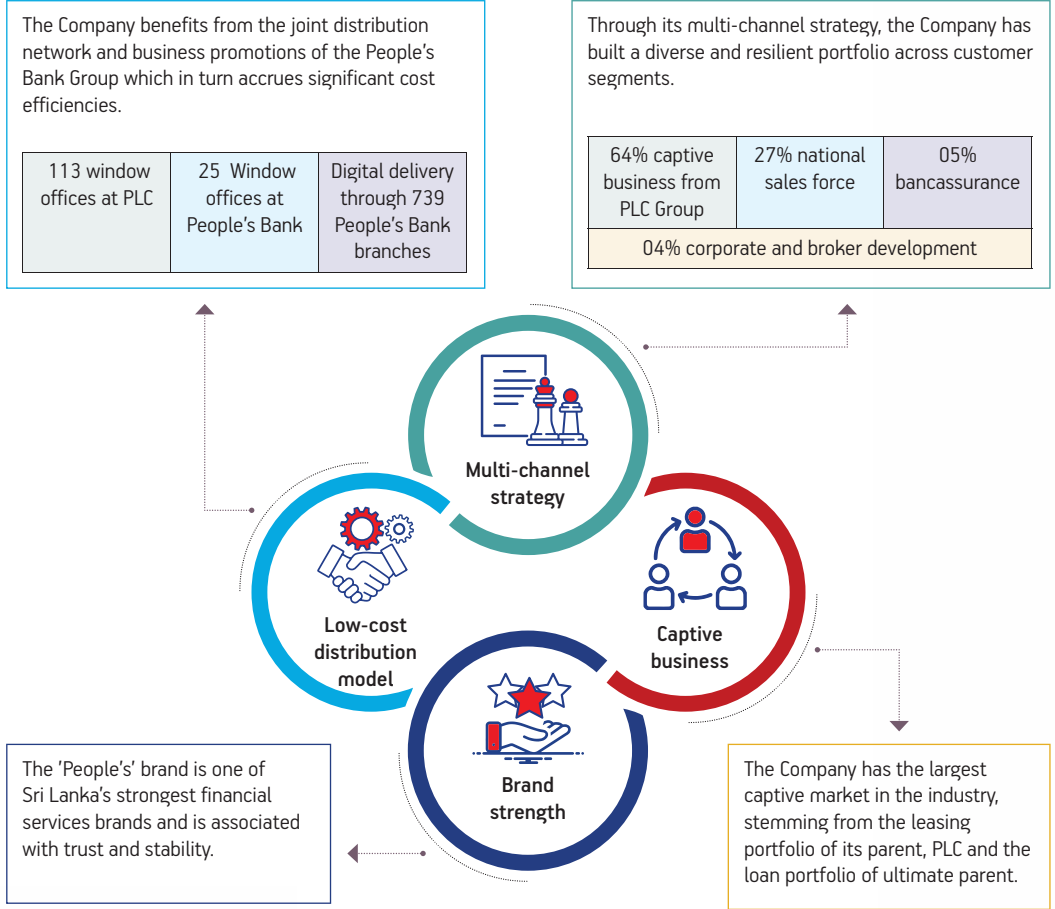


The People's Insurance Story

People's Insurance PLC is one of Sri Lanka's most profitable non-life (general) insurers which has successfully carved a niche for itself in an intensely competitive industry by leveraging its strong brand, low-cost distribution model and multi-channel strategy. The Company offers an array of motor, fire and engineering, marine and miscellaneous insurance solutions to retail and corporate clients.

PI is registered under the Regulation of Insurance Industry Act and regulated by the Insurance Regulatory Commission of Sri Lanka. It is a subsidiary of People's Leasing & Finance PLC – Sri Lanka's largest non-bank financial institution which in turn is part of the People's Bank Group – the country's second largest licensed commercial bank.

OUR PILLARS OF OUR COMPETITIVE EDGE



Our Product Portfolio

The Company offers an array of non-life insurance products catering to the diverse needs of its retail and corporate clientele.



Motor
84% of GWP

- ▶ Comprehensive and third party motor vehicle insurance



Fire
8% of GWP

- ▶ Hotelier's comprehensive
- ▶ Property
- ▶ Solar panel
- ▶ Home
- ▶ Business interruption
- ▶ Terrorism
- ▶ Dwelling fire
- ▶ Business insurance
- ▶ Fire business premises
- ▶ Niwahana
- ▶ Erection all risks insurance
- ▶ Machinery all risks
- ▶ Plant & machinery
- ▶ Deterioration of stocks
- ▶ Electronic equipment
- ▶ Contractor's all risks
- ▶ Boiler & pressure vessel
- ▶ Machinery breakdown



Marine
1% of GWP

- ▶ Marine cargo imports
- ▶ Marine cargo exports/off shore insurance
- ▶ Single transit (any local land transits)
- ▶ Marine insurance open cover (agreement for imports/exports)
- ▶ Goods in transit
- ▶ Hull & machinery for vessels - ocean going/ inland water ways/ aviation insurance for aircrafts
- ▶ Fishing boats
- ▶ Pleasure craft



Miscellaneous
7% of GWP

- ▶ Product liability
- ▶ Health care
- ▶ Professional indemnity
- ▶ Fidelity guarantee
- ▶ Plate glass
- ▶ Burglary
- ▶ Goods in transit
- ▶ Personal accident
- ▶ Public liability
- ▶ Money
- ▶ Directors & officers liability
- ▶ Workman's compensation
- ▶ Banker's indemnity
- ▶ All risk
- ▶ People's guardian
- ▶ People's MIVIS
- ▶ Tour operators ;iability
- ▶ Neon sign
- ▶ Commercial general liability
- ▶ Travel smart

Our Impact

The Company generated an economic value of Rs. 2,980 Mn during the year, an increase of 41% from 2019. Of the total value generated, 64% was distributed among key stakeholders while the remainder was retained within the operations for future growth. The value distribution among the Company's key stakeholders is given below.

Rs. 557 Mn

Salaries and benefits to employees

12% ▲

Rs. 559 Mn

Insurance commissions to intermediaries

8% ▲

Rs. 472 Mn

Taxes to the government

79% ▲

Rs. 600 Mn

Dividends declared to shareholders

62% ▲

Rs. 98 Mn

Payments to suppliers

2% ▲

Social and Environmental Impacts

Rs. 2,698 Mn

Insurance claims and benefits

Rs. 80,000

Investments in environmental initiatives

Rs. 1 Mn

Investment in CSR

529 tCO₂e

Carbon footprint

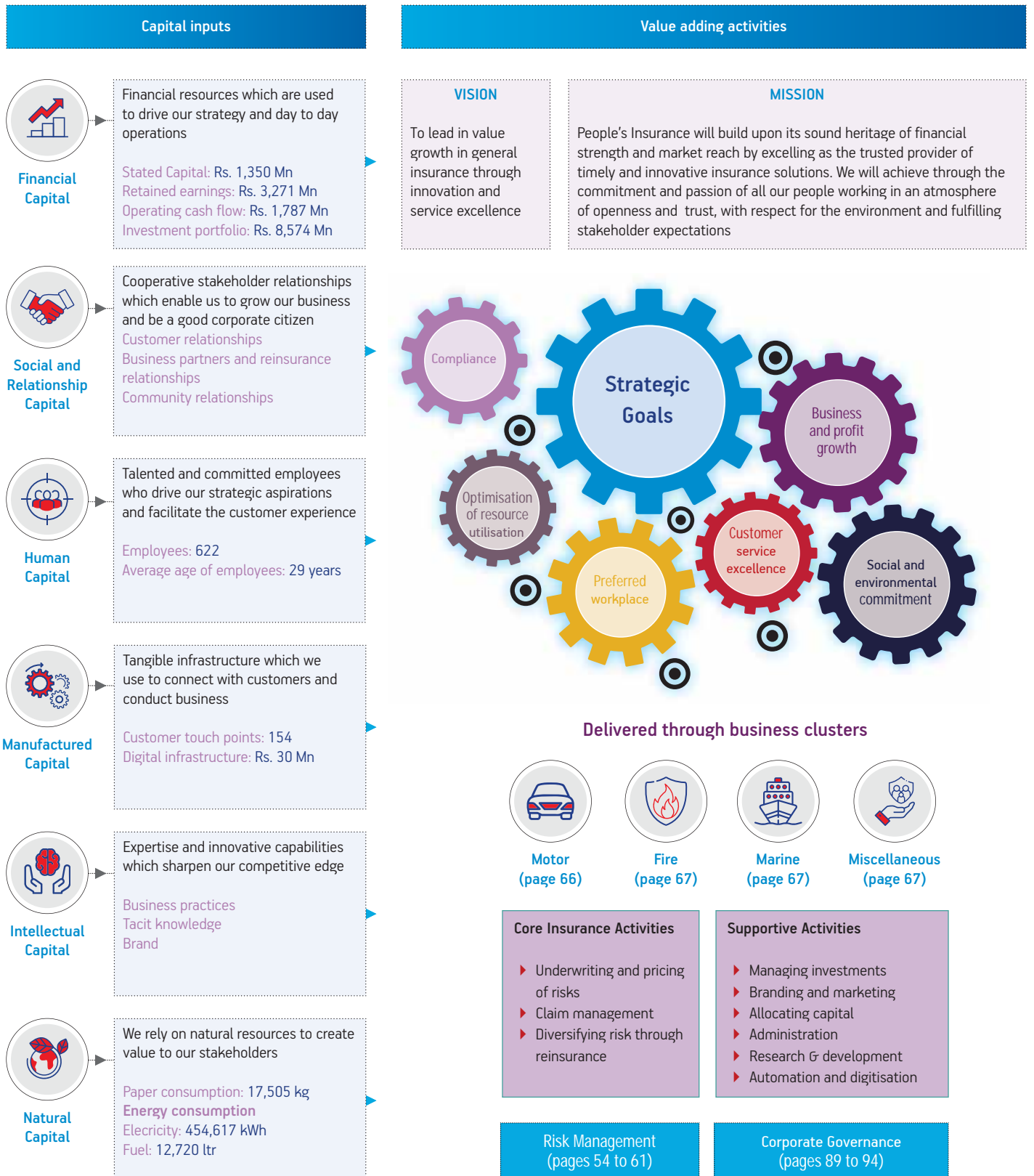
19%

Waste-paper recycled



The People's Insurance Story

Value Creation Model



Outputs/ Impacts

How we make money

Rs. 6,012 Mn

GWP
through

227,093
policies

-

Rs. 675 Mn

Reinsurance

-

Rs. 33 Mn

Net change in reserve for unearned
premium

-

Rs. 2,700 Mn

Claims

-

Rs. 560 Mn

Underwriting and net acquisition costs

-

Rs. 1,236 Mn

Operating expenses

=

Rs. 808 Mn

Underwriting profit

+

Rs. 859 Mn

Other income

=

Rs. 1,668 Mn

Pre-tax profit

-

Rs. 472 Mn

Income tax

=

Rs. 1,195 Mn

Profit after tax

Outcomes



Financial Capital

(pages 68 to 71)

Shareholder returns commensurate with the risk undertaken

- + Earnings per share: Rs. 5.98
- + Profit after tax: Rs. 1.20 Bn
- + Dividend per share: Rs. 3.00
- + Share price appreciation: 30%



Social and Relationship Capital

(pages 81 to 84)

Mutually beneficial relationships with stakeholders

- + Customer retention: 72%
- + Value created to business partners: Rs. 657 Mn
- + Supplier payments: Rs. 98 Mn
- + Community investment: Rs. 1 Mn

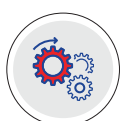


Human Capital

(pages 74 to 78)

Conducive and dynamic work environment with opportunities for skill development

- + Employee retention: 84%
- + Employee payments: Rs. 557 Mn
- + Promotions: 146
- + Training hours: 2,721



Manufactured Capital

(pages 72 to 73)

Ongoing upgrade of facilities and a stable, secure IT infrastructure

- + Capital expenditure: Rs. 38 Mn



Intellectual Capital

(pages 79 to 80)

+ Unique organisational capital base and strong brand name



Natural Capital

(pages 85 to 87)

- Carbon footprint generated: 529 tCO₂e

- + Waste paper recycled: 3,321 kg

- ▶ Customers
- ▶ Business partners
- ▶ Communities

- ▶ Employee value

- ▶ Customer value

- ▶ Employee value
- ▶ Customer value

VALUE TRANSFORMATION AT PI

As a non-life insurance company, PI offers a range of policies which provide protection against eventualities such as fire, motor accidents, theft, sickness and catastrophe, among others. Revenue is derived from insurance activities and investments. The Company relies on several types of resources and relationships (refer to Capital inputs in the Value Creation model above), which are transformed through core insurance activities such as underwriting and reinsurance and several supportive activities including investment management, marketing and distribution, administration, research and development and automation which are delivered through several business clusters. These activities are guided by the Company's strategic goals which are also listed above.

Through this process, capital inputs are nurtured, preserved or depleted as the Company makes trade-offs in its capitals to drive its strategic aspirations. This transformation is depicted through outcomes (illustrated above), which are directly linked to stakeholder value.

+ Positive outcome - Negative outcome



PROTECTING OURSELVES AND OUR CUSTOMERS DURING THESE UNCERTAIN TIMES

LEADERSHIP INSIGHTS

| | |
|----------------------------------|----|
| Chairman's Message | 19 |
| Chief Executive Officer's Review | 22 |
| Board of Directors | 26 |
| Corporate Management | 31 |
| Management Team | 32 |
| Support Service Team | 35 |

Chairman's Message



"PEOPLE'S INSURANCE DELIVERED A COMMENDABLE PERFORMANCE SUPPORTED BY THE EFFECTIVE IMPLEMENTATION OF A TIMELY AND FORWARD-LOOKING STRATEGY. IMMEDIATE PRIORITY WAS PLACED ON ENSURING THE SAFETY OF OUR EMPLOYEES WHILE OFFERING UNINTERRUPTED SERVICE TO OUR CUSTOMERS; ACCORDINGLY, THE COMPANY SWIFTLY IMPLEMENTED A RANGE OF STRINGENT HEALTH PROTOCOLS INCLUDING FACILITATING WORK-FROM-HOME ARRANGEMENTS AND LEVERAGING DIGITAL PLATFORMS FOR ENGAGEMENT."

Chairman's Message

It is my pleasure to present to you the Annual Report and Audited Financial Statements of People's Insurance PLC for the financial year ended 31st December 2020. While undoubtedly one of the most challenging years of this generation, the disruptions of 2020 created opportunity to rethink, reposition and transform. The Board takes pride in the way the People's Insurance team rallied together to ably capitalise on this opportunity, providing an essential service to the public and delivering record profitability amidst extraordinary challenges.

The devastating impacts of COVID-19 and the resultant restrictions led to an inevitable slowdown in the country's economic activity, as weaker sentiments, high unemployment and moderating demand affected economic growth. Resultantly, Sri Lanka's GDP contracted by 3.6% in 2020, although a gradual recovery was seen in the 4th quarter of the year as the economy grew by 1.3%. The Government and Central Bank of Sri Lanka adopted an accommodative monetary policy

stance to stimulate economic growth which in turn led to the sustained decline in market interest rates throughout the year. Meanwhile, the country's external position deteriorated with the Sri Lankan Rupee experiencing significant depreciation pressure due to the drastic drop in foreign currency inflows. To preserve valuable foreign currency reserves and defend the Rupee, the Government imposed import restrictions on several non-essential products which included motor vehicles. The circumstances that prevailed muted the growth and expansion opportunities in the insurance industry – particularly in the non-life insurance segment which is dominated by motor insurance. Resultantly, the non-life insurance sector recorded a 1.3% decline in Gross Written Premium (GWP). On the other hand, requirements for social distancing and the heightened health and safety concerns led to a sharp decline in mobility which in turn supported the industry's claims performance-therby negating the impact of lower investment income.



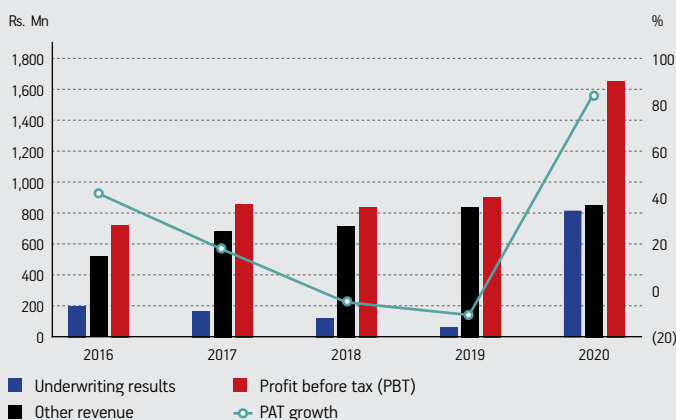
Against this backdrop, People's Insurance delivered a commendable performance supported by the effective implementation of a timely and forward-looking strategy. Immediate priority was placed on ensuring the safety of our employees while offering uninterrupted service to our customers; accordingly, the Company swiftly implemented a range of stringent health protocols including facilitating work-from-home arrangements and leveraging digital platforms for engagement. Strategic emphasis was placed on accelerating our digital journey, as we effectively capitalised on customers' increasing prevalence towards virtual platforms.

Significant resources were directed towards strengthening digital capabilities including developing the required systems, mobile applications and online platforms which were promptly rolled out during the year, thereby transforming the customer experience. The Company also continued its' innovation drive, launching seven new products during the year,

including an insurance policy for inbound travel, a much-needed offering to support the recovery of Sri Lanka's tourism sector. As a result of these efforts, the Company outperformed the industry in business growth, maintaining business volumes relatively unchanged over the previous year. As mobility was restricted during the year, motor claims recorded a significant decline, which in turn upheld the Company's underwriting profitability to a record high of Rs. 808 million. Meanwhile, profit-after-tax increased by 84% to Rs. 1.2 billion during the year, attesting to the resilience of the Company's strategy and agility of its operating model.

Notwithstanding the volatile circumstances that prevailed, we firmly believe that fundamentals such as sound corporate governance remain essential to sustainable value creation. The Board was refreshed during the year with the appointment of six new Directors. Resultantly, the Board composition and skill profile has been enhanced with Directors combining diverse

Profitability



**“NOTWITHSTANDING
THE VOLATILE
CIRCUMSTANCES
THAT PREVAILED,
WE FIRMLY
BELIEVE THAT
FUNDAMENTALS
SUCH AS SOUND
CORPORATE
GOVERNANCE
REMAIN ESSENTIAL
TO SUSTAINABLE
VALUE CREATION”**

insights, perspectives and industry experience, thereby enriching discussions and the overall quality of decisions. Governance structures were also strengthened during the year with the establishment of the Board Integrated Risk Management Committee and the Board Strategic Plan Review Committee which enabled focused attention of selected Board members on these critical areas. The Board also reviewed and revised the Company's policy framework with emphasis on enhancing the performance management policy in nurturing a dynamic and performance-driven culture within the organisation. Given the conditions that prevailed during the year, risk management emerged as a key Board priority; in addition to consistently monitoring risk dashboards, risk structures were strengthened through facilitating closer connectivity between the Risk and Compliance function and Board Audit Committee.

The Company's approach to stakeholder engagement is aimed at nurturing and maintaining meaningful, transparent and sound relationships. Despite the conditions that prevailed, the Company made a definitive decision to retain all employees at full remuneration while bonus payments were also made in a timely manner. Service to customers continued uninterrupted as the Company seamlessly shifted to digital platforms for both interaction and transactions. As a responsible corporate citizen, People's Insurance also accelerated its efforts to combat

the COVID-19 pandemic, through a Rs. 1 million contribution to the COVID-19 Healthcare and Social Security Fund. Meanwhile, the Company continued to make progress in driving its sustainability agenda as the increased shift towards digital platforms led to a reduction in paper consumption and better resource utilisation; the Company is also driving concerted efforts at reducing its carbon intensity over time thereby reducing its impacts on the environment.

Sri Lanka's economy is positioned for gradual recovery, given improving sentiments, conducive interest rates and the gradual opening of the country's borders for international tourism. While the emergence of a third wave of infections could tamper the outlook, we remain optimistic regarding a medium-term economic recovery. As the insurance industry undergoes transformation and customer needs evolve, the Company is positioned to reinvent itself as a vibrant, future-fit and dynamic organisation. Strategic emphasis will be placed on diversifying the portfolio and increasing penetration in non-motor segments, thereby building a more resilient model. The Company will also continue to progress on its digital journey, leveraging existing capabilities to build a customer-centric, technologically savvy and innovative organisation.

As I look forward to an exciting year ahead, I would like to take this opportunity to extend my gratitude to my colleagues on the Board for their valuable

counsel during the year. I would also like to thank the Insurance Regulatory Commission of Sri Lanka for their continued support and guidance in this challenging year. The results presented in this Report are a testament to the spirit and capabilities of the dynamic team at People's Insurance and I congratulate the Chief Executive Officer, Senior Management team and all employees for their contributions in successfully navigating the complexities of an extremely challenging year. I would also like to thank all our customers, business partners and other stakeholders for their continued partnership in our journey.



Isuru Balapatabendi
Chairman

6th May 2021
Colombo

Chief Executive Officer's Review



"THE UNPRECEDENTED OPERATIONAL CHALLENGES THAT PREVAILED DURING THE YEAR WERE THE ULTIMATE TEST OF THE COMPANY'S AGILITY AND RESILIENCE WHILE NECESSITATING A RESET OF OUR STRATEGY AND REALIGNMENT OF OUR OPERATING MODEL. AGAINST THIS BACKDROP, I AM EXTREMELY PLEASED TO REPORT THAT THE PEOPLE'S INSURANCE TEAM RALLIED TOGETHER, QUICKLY ADAPTING TO NEW WAYS OF WORKING AND DELIVERING RECORD PROFITABILITY DESPITE THE EXTRAORDINARY CHALLENGES THAT PREVAILED."

The unprecedented operational challenges that prevailed during the year were the ultimate test of the Company's agility and resilience while necessitating a reset of our strategy and realignment of our operating model. Against this backdrop, I am extremely pleased to report that the People's Insurance team rallied together, quickly adapting to new ways of working and delivering record profitability despite the extraordinary challenges that prevailed. It therefore gives me great pleasure to present to you, a high-level overview of the Company's strategy and performance for 2020 and plans for 2021.

BUILDING RESILIENCE

With the first outbreak of COVID-19 in Sri Lanka and the resultant lockdown, the Company swiftly adapted to the new realities of the pandemic, maintaining focus on our strategic priorities and executing plans to achieve our long-term aspirations. A pandemic response team was appointed and stringent safety protocols were implemented in line with the guidelines issued by the Sri Lankan health authorities. We also leveraged our digital capabilities to offer remote working facilities for employees and strengthen engagement with customers, thereby ensuring uninterrupted service while safeguarding both internal and external stakeholders. Meanwhile, a definitive decision was made to retain all employees at full remuneration thereby guaranteeing their financial security. As business activities faced an inevitable slowdown, the Company directed its

resources towards developing its digital solutions and platforms, positioning it in good stead to customer convenience, accessibility and uninterrupted service.

FINANCIAL PERFORMANCE

Restrictions on the imports of motor vehicles coupled with the negative impact from the pandemic during the year significantly affected the growth of the motor insurance sector with the industry recording a 1.9% decline in GWP. People's Insurance performed comparatively better, supported by its multi-channel strategy which enabled the Company to maintain GWP relatively unchanged at Rs. 6.01 Bn during the year. While opportunities for expanding the captive business was limited given the sharp downturn in the leasing segment, other channels including national sales, bancassurance and corporate and broker recorded commendable growth during the year.

Unprecedented restrictions to mobility resulted in a significant decline in motor insurance claims during the year, resulting in the Company's net claims ratio improving to 50.9% from 67.5% in the previous year. Meanwhile, despite additional costs incurred to implement the required safety guidelines, the Company was able to contain the increase in overhead costs to 10%, as relentless focus was placed on driving process efficiencies and optimising resources. Overall, the Company's expense ratio increased to 34% from 31% the previous year, although the expense ratio remained well

below industry average. The net combined ratio declined to 85% from 99% in the previous year, reflecting the sharp drop in claims. Resultantly, the Company's underwriting profit increased to a record Rs. 808 Mn during the year.

Other revenue consisting of fee income, interest and dividend income, net fair value gains/(losses) and other income increased marginally by 1% to Rs. 859 Mn during the year, supported mainly by realised gains on government securities, which offset the sustained decline in market interest rates during the year. Overall, the Company's pre-tax profit increased by 83% to Rs. 1.67 Bn during the year, marking the highest profitability in the Company's operating history. Profit after tax more than doubled to Rs. 1.20 Bn during the year.

The Company maintains a healthy balance sheet, marked by continued asset growth and strong capital levels. Total assets increased by 11% to Rs. 10.60 Bn while total equity grew by 27% supported by strong profit generation. Resultantly, the Company's Capital Adequacy Ratio (CAR) improved further to 304% and remained considerably above the industry average for non-life insurers.

DELIVERING OUR STRATEGY

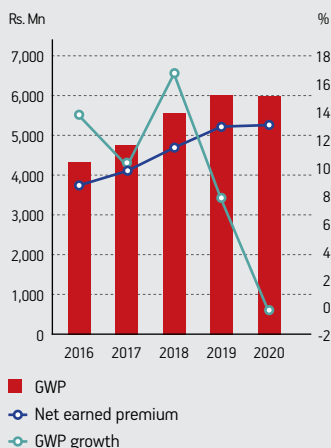
The conditions that prevailed during the year compelled us to revisit the Company's Corporate Strategic Plan for 2019-2021 and refine our objectives and action plans in order to address emerging dynamics. While the Plan aims to leverage the Company's brand value and unique positioning to

“OUR TEAM'S ABILITY TO SWIFTLY ADAPT TO NEW WAYS OF WORKING WHILE CONTINUING TO SERVE CUSTOMERS AND DRIVE THE COMPANY'S STRATEGIC ASPIRATIONS AMIDST SUCH CHALLENGES HAS BEEN NOTHING SHORT OF OUTSTANDING.”

Chief Executive Officer's Review



Premium Income



strengthen its market position, we sought to complement this agenda with increased focus on digital propositions, innovation and customer service.

Strategic focus was placed on accelerating our digital journey to capitalise on customers' dramatic shift towards mobile and online platforms. Accordingly, we facilitated digital premium payments through cash deposit machines, online platforms and the corporate website, among others. A sales app was also developed during the year to facilitate digital engagement with customers. The Company also leveraged its digital platforms to facilitate work from home arrangements, providing the necessary infrastructure and VPN connections for employees to perform routine and critical tasks seamlessly.

Innovation remained a key priority and the Company launched 7 new products and rebranded 2 existing products, in both the motor and

non-motor insurance classes. These new offerings feature increased customer convenience, as well as affordability and other value-added features aimed at enhancing the overall customer value proposition. The Company also launched a unique insurance policy for inbound travel, a product we believe will support the recovery of the country's tourism sector. In addition to the above, we placed continued importance on strengthening relationships within the People's Group, enhancing our governance risk management frameworks, and leveraging the strength of our brand to drive increased customer penetration.

COMMITMENT TO EMPLOYEES

Our team's ability to swiftly adapt to new ways of working while continuing to serve customers and drive the Company's strategic aspirations amidst such challenges has been nothing short of outstanding. I commend our young and dynamic team for their indomitable spirit in these trying times and am confident that their passion and agility will drive the Company forward. We maintained a high level of engagement with our employees during the lockdown period, ensuring that they remained connected to the organisation and to each other. Training and development also continued and digitally delivered despite the conditions that prevailed. The foundation was also placed to drive a step-change in the Company's organisational culture through the launch of a culture statement, emphasising the

creation of a dynamic, innovation-driven, future fit workforce. Multi-faceted engagement initiatives together with an enhancement of the Company's performance management framework are planned for 2021 as we continue to create a performance-driven, progressive culture within the organisation.

SUSTAINABILITY

The Company's Sustainability Policy is designed to meet the triple objectives of economic success, social responsibility and environmental responsibility. Due to the conditions that prevailed during the year and requirements for social distancing, the Company was compelled to curtail its CSR initiatives; however, we contributed to the Government's efforts to combat the COVID-19 pandemic through a contribution to the COVID-19 Healthcare and Social Security Fund. In furthering our environmental commitment, we continued to track our carbon footprint based on the GHG protocol and the Company's total emissions were maintained at 529 tCO₂e.

WAY FORWARD

Economic conditions have gradually returned to normalcy in recent months with customer and investor sentiments improving following the rollout of the vaccination. That said, the recent surge in infections and the emergence of a third wave continue to weigh on the country's path to recovery, tampering the medium-term economic outlook. The evolving nature of the pandemic makes it extremely

difficult to predict its intensity and transmission, thereby rendering it challenging for organisations to plan ahead. Despite these conditions, we remain optimistic on the long-term growth potential of our industry and organisation and will continue to drive our strategy towards capitalising on the opportunities presented by a growing industry. Key priorities for 2021 will include pursuing premium growth through expanding the direct sales channels while driving cross-sell opportunities exploiting group synergies. We also hope to strengthen the corporate and broker division to drive increased penetration in the corporate sector. Digital capabilities will continue to be a key growth pillar and we will pursue an aggressive digital drive through launching several mobile applications across all key processes and operations.

ACKNOWLEDGEMENTS

I would like to take this opportunity to extend my deepest gratitude to the Chairman and Board of Directors for their guidance in navigating the complexities of an extremely challenging year. On behalf of the People's Insurance team, I would also like to place on record our appreciation to the Boards of People's Bank and People's Leasing & Finance PLC for their continued support in driving our strategic aspirations.

I am proud to lead such a committed and motivated team and I thank each and every employee for their dedication in extraordinarily difficult

circumstances. My appreciation also goes out to the regulator, the Insurance Regulatory Commission of Sri Lanka for their continued efforts to create a conducive industry environment. I would also like to thank all our stakeholders including our valuable customers and business partners for partnering us in our journey of growth and I look forward to your support in the years to come.

Thank you,



Deepal Abeysekera
Chief Executive Officer

6th May 2021
Colombo

Board of Directors



Mr. Isuru Balapatabendi

Non-executive, Non-independent Chairman

Mr. Balapatabendi assumed duties as the Chairman of People's Insurance PLC in June 2020.

He is an Attorney-at-law and currently operates a Law Chamber in the practice of Civil and Commercial Law. He also holds a L.L.M. from the University of Pittsburg, Pennsylvania, USA.

Mr. Balapatabendi served as a State Counsel in the Attorney General's Department prior to being appointed a Diplomat to the Embassy of Sri Lanka in The Hague, The Netherlands from 2008 to 2010 during which he served as a representative of Sri Lanka to the organisation for Prohibition of Chemical Weapons and Hague Conference on Private International Law (HCCH). He was also appointed as the Head of Chancery at the Sri Lankan Mission in The Hague. He was appointed as the Legal Advisor to the Minister of Investment Promotions in 2012 for legal matters relating to investment laws in Sri Lanka and Board of Investment. Mr. Balapatabendi has also served in the Director boards of Sri Lanka Insurance Corporation, Seylan Bank and Bank of Ceylon prior to being appointed to the People's Insurance Board.

He has served as an executive committee member of the Bar Association of Sri Lanka. He was appointed the Chairman of the Junior National Law Conference in 2007 and as the Convener of the National Law Conference 2020.

At present, he functions as a Director of People's Bank and Sri Lanka Ports Authority.



Mr. Ranjith Kodituwakku

Non-executive, Non-independent Director

Mr. Kodituwakku was appointed as a Non-executive, Non-independent Director in June 2020.

Mr. Kodituwakku holds a Master's Degree in Business Administration specialised in Finance from the University of Colombo, Bachelor of Laws (Honours) from the University of New Buckinghamshire, United Kingdom and is an Associate Member of the Institute of Bankers of Sri Lanka and a Certified Member of Sri Lanka Institute of Marketing.

Commencing a career in 1982 in People's Bank, Mr. Kodituwakku progressed to earn a plethora of experiences having worked in different capacities, both local and foreign which in turn allowed him to claim for a solid knowledge base in the spheres of Branch Banking, Consumer Banking, Commercial Banking, Corporate Banking, Off-shore Banking, International Banking, Project Financing, Recoveries and Digitalisation arena etc.

He is a key figure in driving the bank towards digitalisation on mapping business requirements to a digital platform by adopting best practices in the industry and re-engineering business processes for which the bank was awarded many prestigious awards/recognitions both internationally and locally.

He is serving as the Chief Executive Officer/General Manager of People's Bank with effect from 19th June 2020. He also serves as the Chairperson of Financial Ombudsman Sri Lanka (Guarantee) Ltd. and Director of People's Leasing & Finance PLC, People's Travels Ltd., People's Merchant Finance PLC, Lankan Alliance Finance Ltd. - Bangladesh, Credit Information Bureau of Sri Lanka, Lanka Clear (Pvt) Ltd., National Payments Council, Sri Lanka Banks' Association (Guarantee) Ltd., Lanka Financial Services Bureau and Institute of Bankers of Sri Lanka.



Mr. Shamindra Marcelline

Non-executive, Non-independent Director

Mr. Marcelline was appointed as a Non-executive, Non-independent Director of People's Insurance PLC in March 2021.

He graduated from the Colombo International School in Sri Lanka in 1993. He holds a Degree in Economics and Accountancy (BSc.) from City University (1996), London (UK) and also in Financial Advisors' International Qualification (FAIQ), Chartered Insurance Institute, UK (2008).

Mr. Marcelline is an experienced banker with local and foreign bank exposure in addition to working overseas for the HSBC Group and brings with him unique industry insights so as to contribute towards the strategic direction of the Company.

At DFCC, he spearheaded the Bank's Corporate Banking strategic initiatives across the country and in overseas markets.

In October 2019, he played a key role in securing the mandate for Sole Adviser and Structuring Bank for a Dual Tranche Bi-lateral Loan Facility for a leading Maldivian company, recognised as the largest ever loan facility given by DFCC Bank Sri Lanka.

As a member of the Bank's Executive Committee, Asset and Liability Committee and Operational Risk Management Committee, Mr. Marcelline played a strategic role in harnessing the Bank's corporate initiatives.

He joined DFCC Bank following a cross posting as the Country Manager, Maldives by the HSBC Group.

He is credited with the transformation of the banking industry in Maldives and he was responsible for the largest asset drive in the islands at the time.

Under his stewardship, the development, performance and growth of the Commercial and Global Banking business consisting of corporate real estate, international subsidiary banking and public sector areas, grew into a formidable wholesale banking initiative. It included P&L responsibility and he successfully oversaw a team of Relationship and Product Managers, enabling the Bank to build and sustain strategic relationships with key stakeholders and business leaders.

He also headed the Financial Institutions Group and Public Sector for HSBC Sri Lanka and Maldives before joining the DFCC Bank.

Among his key achievements, he had been successful in managing the Sri Lanka Sovereign and Quasi-Sovereign Institutions implementing the HSBC Group Investment Banking strategy.

Mr. Marcelline has strong credentials in the banking and finance sector in Sri Lanka and has contributed towards showcasing Sri Lanka's investment potential globally.

He has participated in multiple investor-road-show events held across the USA, UK, Middle East and South East Asia as a part of the initiatives driven by the Ministry of Finance, Central Bank of Sri Lanka and leading state and commercial banks.

He serves as the Chief Executive Officer/General Manager of People's Leasing & Finance PLC and Director of People's Leasing Fleet Management Limited, People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited, People's Micro-Commerce Limited and Lankan Alliance Finance Limited, Bangladesh.

Board of Directors



Mr. Lakshman Abeysekera

Non-executive, Independent Director

Mr. Abeysekera was appointed as a Non-executive, Independent Director of People's Insurance PLC in October 2015.

He draws from almost three decades of experience in the fields of Accounting, Finance and Management and he is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka as well as a Member of the Governing Council of Association of Accounting Technicians of Sri Lanka. He holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Mr. Abeysekera is highly proficient in international trade, shipping and pharmaceutical sectors across local, public quoted and multinational companies. He held the positions of Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Senior Accountant at Lankem Ceylon PLC and Accountant at Hoechst (Ceylon) Limited. Further, He held the Directorships of Non-Ex Pharmaceuticals Limited, AAT Sri Lanka and JanRich (Foods) Ltd.

Mr. Abeysekera presently serves SDB Bank in the capacity of Chairman.



Mr. Johnson Fernando

Non-executive, Independent Director

Mr. Fernando was appointed as a Non-executive, Independent Director of People's Insurance PLC in June 2020.

He has held many senior positions within the Expo Industrial Group which has diversified interests in Apparel, Food Packaging, Industrial Printing, Commercial Printing, Logistics Management, Engineering and Construction. He was the President of the Sri Lanka Association of Printers, Vice President of the Sri Lanka-China Business Council Cooperation. Mr. Fernando functioned as a Director of People's Leasing & Finance PLC, Lankan Alliance Finance Limited, Bangladesh and People's Merchant Finance PLC.

Mr. Fernando presently serves as a Director Expo Industrial Engineering (Pvt) Limited, Expo Property Developers (Pvt) Limited, Expo Printers (Pvt) Limited, Expo Cargo Links (Pvt) Limited, Expo Trade Links (Pvt) Limited and Shore to Shore (Pvt) Limited. He is also an advisory Board Member of the BCI Campus and Colombo Catholic Press, a Committee member of National Hospital of Sri Lanka and Vice Chairman of the International Chamber of Commerce Sri Lanka.



Dr. Kasun Wijetilleke

Non-executive, Independent Director

Dr. Wijetilleke was appointed as a Non-executive, Independent Director of People's Insurance PLC in June 2020.

He is a Consultant Psychologist and currently operates as the Joint Managing Director of Pubudu House of Education & Genesis Consultancy, Visiting lecturer in Management, Psychology and a practicing Counselor. A Fellow of Institute of Chartered Professional Managers - FCPM and the Chartered Institute of Marketing - FCIM (UK), Member of the Sri Lanka Institute of Directors - SLID, Life Member of Organisation of Professional Associations - OPA, also a member of many professional associations namely Institute of Certified Management Accountant - CMA, Certified Global Business Analysis - CGBA (Aus), Sri Lanka National Institute of Professional Counselors - MIPC, Institute of Management - MIM(SL) Young Members Forum - Ceylon Chamber of Commerce - CCC and Certified Member of Sri Lanka Institute of Marketing - CMSLIM.

Dr. Wijetilleke holds a doctorate in Psychology and is reading for his second PhD in Economics at University of Colombo. He hold an MBA from Cardiff Metropolitan University (UK), Master of Business Administration - MBA - University of Wales (UK), Master of Commerce - M.Com & Bachelor of Computer Application BCA, Advance Diploma in Train the Trainer from City & Guilds (UK) and many more diplomas and certifications including Certified Innovation Manager - CIM.

During his professional career, he held the honorary positions of President, Vice-President of Association of Accountancy Technicians Toastmasters - AAT - Sri Lanka, Committee Member of the Young Professionals, Restaurant, Bar and Social Events Committees of OPA, Executive Council Member IMSL, Mentor

for CIM(UK), Treasurer Divisional Conference , Administration Manager & a Judge of Toastmaster International District 82 - India and Sri Lanka. District & Zone Chairman, District and Regional Coordinator Lions International 306A1 & LEO Multiple District Director 306 (Sri Lanka).

He was appointed as the First Sri Lankan LEO Representative to Chair the First International LEO Conference at the First LEO Convention in USA - 2007 & First Leo Lion to be appointed as the Sergeant at Arms at the 90th International Lions Convention in USA – 2007. He was selected as one of the The Ten Outstanding Young Persons of Sri Lanka (TOYP). Sri Lankan Representative to represent Sri Lanka - 2007, Winner Best Zone Chairman Lions Clubs - 2014, Winner Best PR Project LEO Multiple District 306 - 2007 and awarded Deshamannya, Lanka Janranjana, Lanka Puthra, Vishva Abimani in 2012 considering the service rendered to the society and the underprivileged.

He has also served as Director Client Leadership at Mind Share World/Unilever (Sri Lanka), Head/Manager of Strategic Planning and Business Analysis Mas Holding (Active) Trading (Pvt) Ltd., Head of Cost Reduction at Star Garments Group, worked at Ceylon Tobacco Company - CTC/British American Tobacco - BAT IT dept. and was appointed as a resource Counselor for the Sri Lankan Navy in 2008 apart from being a Consultant at The Police academy; prior to being appointed to the People's Insurance Director Board.

Board of Directors



Mr. Rohan Tennakoon

Non-executive, Non-independent Director

Mr. Tennakoon was appointed as a Non-executive, Non-independent Director of People's Insurance PLC in March 2021.

He holds Master's Degree in Business Administration (MBA) from the University of Colombo and MSc. in Management from the University of Sri Jayewardenepura, BSc. Business Administration (2nd Class Upper) from the University of Sri Jayewardenepura, an Associate Member of the Institute of Bankers of Sri Lanka, Member of the Professional Bankers Association of Sri Lanka and holds Licentiate 1 of the Institute of Chartered Accountants of Sri Lanka.

Mr. Tennakoon is presently serving as the Deputy General Manager - Risk and Control in People's Leasing & Finance PLC.

He has served in People's Leasing & Finance PLC for over 23 years in various capacities and counts over 29 years of experience in many diversified fields such as Accounting, Travel Trade, Manufacturing, Exporting and Banking prior to joining Leasing/Finance sector.

He has been serving in Branch Operations contributing to branch network and concept development over a period of nearly 20 years inclusive of Operations, Business Development and spearheaded the Islamic Finance Division prior to the present position in Risk & Control.

He is actively involved in the Finance House Association of Sri Lanka in the Council of Management and served as the Deputy Chairman of the council in the year 2019 and also was the Chairman of the Sports Committee in 2015 and 2018. He is also serving as the Compliance Officer of the Credit Information Bureau of Sri Lanka.

He is also serving in the panel of jury of the SLIM-NASCO and involved in nurturing the upcoming young talent in the sales fraternity.



Ms. Lakmini Kottegoda

Company Secretary

Ms. Lakmini Kottegoda was appointed as the Company Secretary of People's Insurance PLC in July 2018. She is an Attorney-at-law with a Bachelor's Degree in Law.

She also serves as the Company Secretary of People's Leasing & Finance PLC.

Corporate Management



Mr. Deepal Abeysekera
Chief Executive Officer

Mr. Abeysekera was appointed as the Chief Executive Officer of People's Insurance PLC on 1st July 2017. Prior to that, he was the Head of Marketing and Research of People's Bank. He is well known for his proven capabilities in strategic business development in banking and insurance industry, counting 40 years of experience. He has been responsible for setting up sales, marketing and strategic business development operations in financial sector organisations and has successfully led corporate brands to top positions in their respective industries in brand value and market leadership. The prestigious 'Brand Champion of the Year' and 'Brand Leadership Award' were conferred on him by Sri Lanka Institute of Marketing and the World Brand Congress in recognition of his distinctive achievements.

He is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing, UK, a Member of the Chartered Management Institute (CMI), UK and a Member of the Institute of Certified Management Accountants (CMA). He also holds an MBA from the University of Southern Queensland, Australia. He is an EX-CO member of the Insurance Association of Sri Lanka. Mr. Abeysekera is a Past President and an Advisory Council Member of the Institute of Professional Bankers (Sri Lanka), was conferred an honorary Life Membership of the APBSL in recognition of the outstanding services rendered to the Banking Industry. He is the President of the Board of Management of The Management Club (TMC).



Ms. Jeevani Kariyawasam
Chief Operating Officer

Ms. Kariyawasam has been associated with People's Insurance from its inception in October 2009 as the Head of Operations. She counts more than 25 years insurance experience. During her career, she has also been associated with HNB Assurance and National Insurance Corporation in several functional and leadership roles in Underwriting and Claims Management.

Ms. Kariyawasam holds a BSc. Honours Degree in Bio Science from the University of Colombo. She is also an Associate member of the Chartered Insurance Institute (CII) - UK and a Senior Associate CIP Member of the Australia and New Zealand Institute of Insurance and Finance (ANZIIF).

She had also been an office bearer at the Association of Chartered Insurance Professionals (Sri Lanka) as the Membership Secretary between 2016 and 2019 and a Council Member of Sri Lanka Insurance Institute between 2011 and 2014.



Mr. Nilushan Somarathna
Chief Financial Officer

Mr. Somarathna joined People's Insurance in August 2012 and has been heading the finance department since then. Prior to joining the Company, he served as Manager - Finance at Union Assurance PLC. He has over 17 years of finance and audit experience, including previous experience at Union Assurance PLC and PricewaterhouseCoopers.

Mr. Somarathna has a BSc. Business Administration (Special) Degree from the University of Sri Jayewardenepura. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and a prize winner of the intermediate examination conducted by the ICASL. He also holds a Master's Degree in Business Administration (MBA) from the University of Southern Queensland, Australia.



Mr. Nichula Dias
Chief Human Resources Officer

Mr. Dias joined Peoples Insurance in February 2021. He has been in senior leadership roles for more than two decades in many different industries internationally and locally, specialising in strategic human resources, streamlining internal processes, transformation and change management. Prior to joining the Company, he served as the Group Head of Organisational Development for Ambeon Group and two of the largest construction companies in the Middle East in a similar capacity.

Mr. Dias holds an MBA from SIKKIM Manipal University. He is a Senior Certified Professional (SCP) of International Public Management Association for Human Resources (IPMA-HR), USA and a Member Association of Business Executives (ABE), UK and a Certified Assessor from SHL, UK.

Management Team



Mr. Hareendra Dissanayaka
Senior Manager - Motor Claims



Mr. Dulip Dissanayake
Senior Manager - Finance



Ms. Sumudu Bandara
*Senior Manager - Non-motor
Claims*



Ms. Shalika de Silva
Senior Manager - Legal



Mr. Channa R. Abeywickrema
*Senior Manager - Motor
Underwriting*



Mr. Sharman Kulatilake
National Sales Manager



Mr. Dinesh Rosa
Senior Manager - Bancassurance



Ms. Sambavi Kanagasabapathy
Head of Internal Audit



Mr. Danushka Hettiarachchi
Head of Fire and Miscellaneous



Mr. Chandima Sumanathunga
Head of Reinsurance and Marine



Mr. Sampath Digamadulla
*Manager - Contact Centre and
Customer Relationship*



Ms. Thushari Baddevithana
Manager - Motor Claims



Mr. Sashika Jayathilaka
Manager - Reinsurance



Mr. Kosala Jayarathne
Motor Engineer



Ms. Maheshika Perera
Manager - Finance & Strategy



Ms. Gowri Navoda
Manager - Research and Development



Mr. Annesly Arsakulasuriya
Manager - Corporate and Broker Sales



Mr. Dileepa Perera
Manager - Investments



Mr. Malinda Wickramasinghe
Manager - Broker Business Development



Mr. Roshan Ranasinghe
Manager - Corporate Business Development



Mr. Manjula Jayasekara
Zonal Manager



Mr. Kumara Priyantha Yatawarage
Zonal Manager



Mr. Nandana Bandara
Zonal Manager



Mr. Muditha Abeywickrama
Zonal Manager

Management Team



Ms. Priyarshi Hewavitharana
Manager - Marine



Mr. Chandrasiri Gannile
Manager - Administration



Mr. Uvindu Pathirana
*Manager - Non-motor
Underwriting*



Mr. Dinesh Palihawadana
Manager - Finance



Mr. Hasinda Fernando
*Manager - Talent and Performance
Development*



Mr. Asiri Saputhanthrige
*Unit Manager - Sales Force
Development*

Support Service Team



Mr. Prabath Gunasena

Deputy General Manager - ICT (Group)

Mr. Gunasena joined People's Leasing & Finance PLC in 1999 and has been the head of the ICT department for the past 22 years. He is presently serving as Deputy General Manager - ICT and Head of ICT for the PLC Group.

He holds an MBA from University of Western Sydney. He has a Diploma in Computer System Design from the National Institute of Business Management (NIBM), Sri Lanka and a Diploma in Project Management for Information Systems from Institute of Systems Science, National University of Singapore. He is a member of the British Computer Society.



Mr. Fazmil Mowlana

Manager – ICT (Group)

Mr. Mowlana joined People's Leasing & Finance PLC in December 2009. He has over 22 years of experience in ICT including insurance experience at National Insurance Corporation Limited. He holds a Diploma in Computer System Design from the National Institute of Business Management (NIBM) of Sri Lanka. He is a member of the British Computer Society.



Mr. Danushka Liyanage

Manager - ICT

Mr. Liyanage joined People's Leasing & Finance PLC in September 2010. He possesses over 16 years of experience in the insurance industry. Prior to joining the Company, he worked as Assistant Manager - ICT at Ceylinco Insurance PLC.

Mr. Liyanage has a BSc. Honours Degree in Computing and Information Systems from the Lincoln University, UK. He also holds a Master's Degree in Business Administration from London Metropolitan University, UK.



OUR STRATEGIC THINKING HELPED US MAINTAIN A CLEAR HEAD AND A FUTURE- READY VISION AMIDST THE CONVOLUTION

DELIVERING VALUE THROUGH STRATEGY

| | |
|-----------------------------------|----|
| Operating Environment | 37 |
| Economic and Industry environment | 37 |
| Insurance Industry | 39 |
| Business Environment Scan | 40 |
| Our Strategy | 41 |
| Listening to Our Stakeholders | 41 |

| | |
|----------------------------------|----|
| Materiality Analysis | 43 |
| Strategy and Resource Allocation | 46 |
| Approach to Sustainability | 53 |
| Risk Management | 54 |

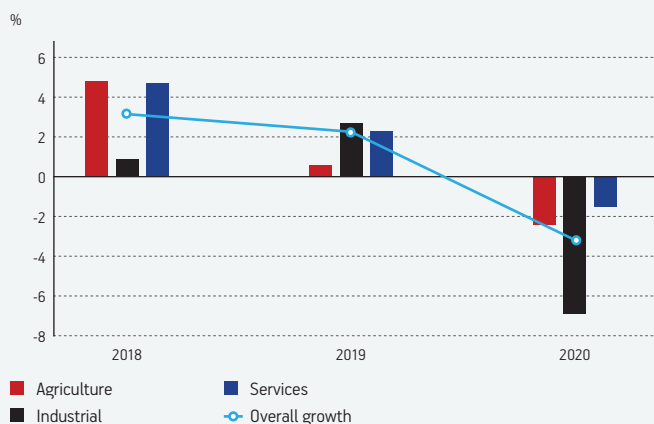
Operating Environment

Economic and Industry Environment

Economic Growth

Sri Lanka experienced the inevitable economic toll of the COVID-19 pandemic for most of the year with an extended lockdown and other social distancing measures, sharp deceleration in consumer and investor sentiments and a weak external sector directly impacting growth. Resultantly, the country's GDP contracted by 3.6% during the year with all economic sub-sectors shrinking in comparison to the previous year. As organisations adapted to the unprecedented operating conditions, the economy has shown gradual signs of recovery with the GDP expanding by 1.3% in the fourth quarter of 2020.

Sri Lanka Economic Growth



Implications on PI

- ▶ Impact on customer affordability
- ▶ Decline in demand
- ▶ Intensified price competition

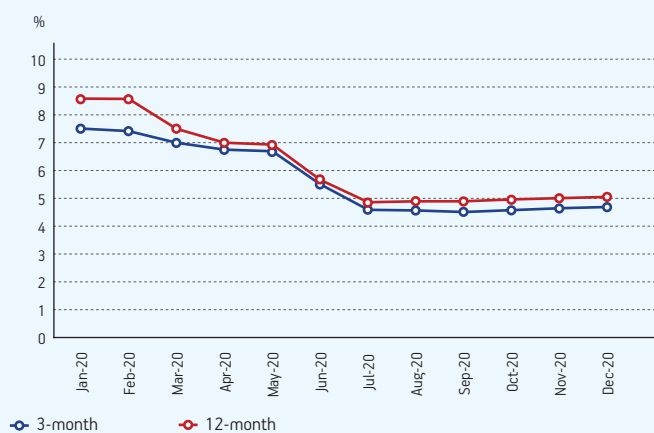
Strategic response

- ▶ Strengthen customer engagement and competitive pricing
- ▶ Leverage relationships with parent and ultimate parent
- ▶ Continued geographical expansion

Monetary Policy and Interest Rates

The Government and the CBSL sought to drive economic recovery through an accommodative monetary policy and concerted relief measures. Accordingly, a series of monetary easing measures were implemented including multiple reductions in the policy rate and the Statutory Reserve Ratio (SRR). Resultantly, market interest rates recorded sustained decline for most part of the year with deposit rates and yields on government securities in the primary and secondary markets falling sharply during the year.

Interest Rate Trends



Implications from PI

- ▶ Adverse impact on investment income generated on fixed income portfolio

Strategic response

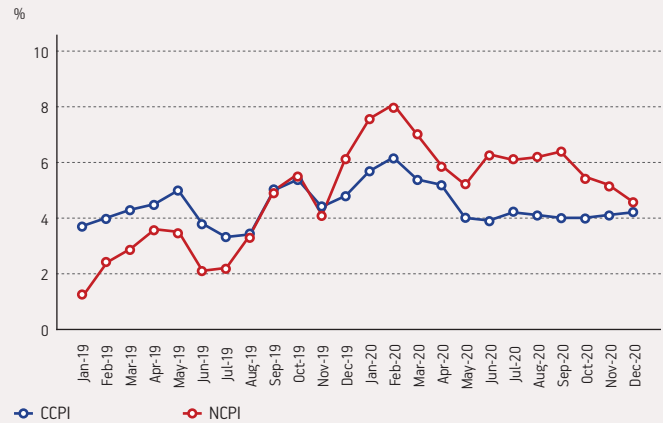
- ▶ Astute management of investment portfolio, including timely disposal decisions

Operating Environment

Inflation

Inflation remained moderate around 4%-6% during the year, reflecting subdued demand and impacts on disposable income. Food inflation increased gradually by mid-2020 prior to decelerating by end of the year.

Inflation CCPI & NCPI (Y-o-Y Percentage Change)



Implications on PI

- ▶ Implications on customer affordability

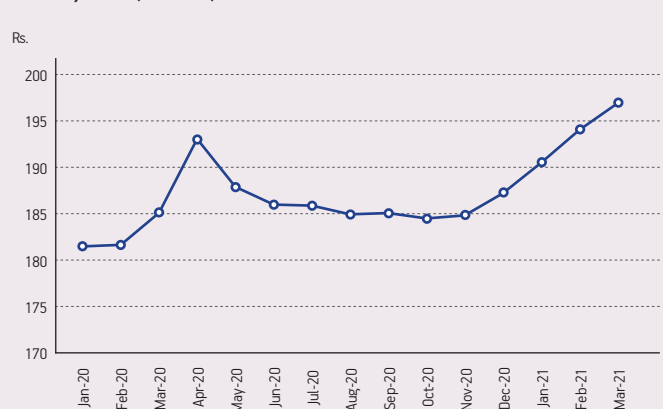
Strategic response

- ▶ Leverage our low-cost distribution model to offer competitive pricing

External Sector and Exchange Rate Movements

Sri Lanka's external position faced considerable pressure during the year, reflecting a sharp decrease in foreign currency inflows against the backdrop of a sharp fall in tourism earnings, outflows through foreign debt repayments and outflows from capital markets. The exchange rate depreciated by 2.6% in 2020 while the ensuing months have seen a sharp deterioration, with the Rupee falling by 6.4% in the first 3 months of 2021. In order to preserve the country's foreign exchange, the Government imposed a range of restrictions on non-essential imports, including motor vehicles.

Exchange Rate (USD/LKR)



Implications on PI

- ▶ Sharp downturn in motor industry affected the growth of the motor insurance segment

Strategic response

- ▶ Pursue growth in non-motor business
- ▶ Focus on customer retention

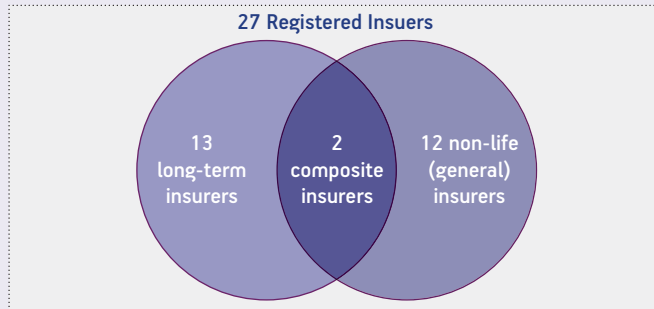
Economic Outlook

Following the roll-out of the vaccination drive and improvements in investor sentiments, economic activity has returned to relative normalcy. The CBSL remains confident of a GDP growth of 5%-6% in 2021 although key risks including a deteriorating external position, fiscal pressures and impending foreign debt settlements temper this outlook.

Insurance Industry

The COVID-19 pandemic, its resultant economic fallout and fiscal and monetary policy measures adopted to contain the spread of the virus had wide-ranging implications on the performance of the insurance industry. The infographic below provides a high-level overview of the main factors that shaped the industry's performance during the year.

Industry Composition



Implications of COVID-19

- ▶ Impact of import restrictions on motor vehicles
- ▶ Decline in interest rates and its impacts on investment income
- ▶ Dramatic shifts in interacting with customers and employees
- ▶ Adverse effect on the tourism and travel industry

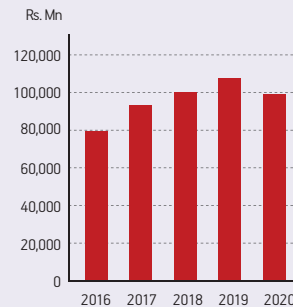
Asset Growth

11% y-o-y
Rs. 226 Bn ▲

Asset expansion remained healthy although slowing marginally in comparison to 2019.

GWP Growth

Non-life GWP



Motor class recorded a drop while medical and fire and engineering classes recorded growth during the year as per the data published by IASL

Key Regulatory Developments

- ▶ All non-life insurance policyholders were granted a three-month extension for premium payments for policies commenced from 1st March 2020 to 30th June 2020.
- ▶ Added stringency of considerations when determining dividend payments including financial performance, stress arising from COVID-19, impact on solvency positions and capital buffer
- ▶ Amendments to the corporate governance guidelines for insurers, including a recommendation to adopt the Code of Best Practice on Corporate Governance 2017

Claims Performance



Reductions in incidents covered by motor insurance given restrictions on mobility.

Profitability

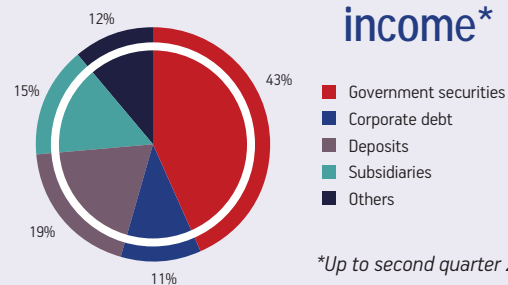
Non-life insurance sector recorded a profit growth of 105% y-o-y in 2020 driven by the significant reduction in claims during the year.

Investment Portfolio

6% y-o-y
Rs. 135 Bn* ▲

-12% y-o-y
Rs. 4.82 Bn
Investment income* ▼

Investment Portfolio












*Up to second quarter 2020

Operating Environment

Business Environment Scan


The Company persistently assesses its business environment to identify emerging opportunities and risks which have the potential to influence our ability to create value. In 2020, this assessment took into consideration the short, medium and long-term implications of the pandemic. The table below illustrates these opportunities and risks.


| Role of Technology in Insurance | Strategic Response |
|--|--|
| <ul style="list-style-type: none"> + Technological developments in AI, big data and machine learning are offering opportunities to provide customers with new solutions and improved service + Provide avenues to tailor our product offerings around individuals' needs + Transform the distribution model through online platforms and mobile applications thereby allowing low-cost distribution - Inability to keep abreast of technological innovations could erode the Company's competitive position - Elevated cyber security and data privacy related risks <p>Expected increases in technology spend (% of respondent insurers)</p> <p>Source: Deloitte Inc.</p> |  (page 46)  (page 46) |
| <p>Focus on expense management</p> <ul style="list-style-type: none"> + In operations across the insurance value chain, managing costs and driving efficiencies remain critical - partly to offset added costs that were incurred due to the pandemic but also to quicken the pace of recovery and support future growth <p>Source: Deloitte Inc.</p> |  (page 46)  (page 46) |
| <p>Re-evaluating talent strategies and unprecedented changes to operations</p> <ul style="list-style-type: none"> + The periodic rises in infections and the possibility of the emergence of a third wave in Sri Lanka has prompted organisations to remain flexible in work practices - Employees with traditional mindsets will face challenges in overcoming technology related obstacles which may impact productivity and satisfaction - Work-from-home arrangements could spark increased challenges in maintaining appropriate work-life balance |  (page 46)  (page 46) |
| <p>Increasing stringency of regulations</p> <ul style="list-style-type: none"> - Insurance companies are being required to strengthen the regulatory, compliance and legal frameworks to keep pace with tighter regulatory regimes. It is therefore critical that insurers invest in modernising the compliance functions to meet oversight and monitoring expectations in a cost-effective, reliable and proactive manner |  (page 46) |
| <p>Implications of climate change</p> <ul style="list-style-type: none"> + The increasingly prevalent implications of climate change such as natural catastrophes, rising temperatures and extreme weather patterns have created new risks and assets to cover for non-life insurers - Risks stem from absence of reliable precedents in covering evolving climate risks - Natural disasters, disruptions to agricultural supply chains and other implications of climate change could result in an escalation in claims |  (page 46)  (page 46) |

Our Strategy

Listening to Our Stakeholders

We build and maintain high quality relationships with our stakeholders. Stakeholder needs are identified through proactive and ongoing engagement and are a key consideration when determining strategy. The Company uses three criteria in order to determine which stakeholders to engage with; namely, willingness, expertise and value of engagement. The Company's approach to stakeholder engagement during the year under review is presented below.


| SHAREHOLDERS/INVESTORS | | |
|--|---|--|
| Comprises the Parent entity People's Leasing & Finance PLC; ultimate parent, People's Bank and 25% of minority shareholders | | |
| How we engage <ul style="list-style-type: none"> ▶ Annual General Meeting ▶ Annual Report ▶ Board papers (monthly) ▶ Quarterly financial results ▶ Investor meetings (as and when required) ▶ Networking events (ongoing) ▶ Disclosures to the CSE (ongoing) | Topics and concerns raised <ul style="list-style-type: none"> ▶ Business continuity amidst the pandemic situation ▶ Sustainable growth in earnings ▶ Financial position ▶ Market position and competitive edge ▶ Risk management practices ▶ Compliance and good governance ▶ Social and environmental responsibility | Value delivered <ul style="list-style-type: none"> ▶ EPS of Rs. 5.98 ▶ DPS of Rs. 3.00 ▶ Return on equity of 26% |
| Quality of relationship: Strong <ul style="list-style-type: none"> ✓ Well attended AGM ✓ Proactive involvement in strategy formulation with two Board members representing PLC and two representing People's Bank ✓ 68% contribution from captive business of the Group | | |
|  | Implications and response <ul style="list-style-type: none"> ▶ The regulator imposed restrictions on dividend payments to ensure the stability of the sector, which in turn adversely impacted shareholder returns ▶ We will continue to pursue innovation and portfolio diversification in order to address the impacts on motor insurance, following the restrictions on vehicle imports | |

| EMPLOYEES | | |
|---|---|--|
| 622 employees | | |
| How we engage <ul style="list-style-type: none"> ▶ Performance appraisal (annual) ▶ Engagement through digital platforms (ongoing) ▶ Multi-level staff meetings (ongoing) ▶ Year-round event calendar (ongoing) ▶ CSR activities (ongoing) ▶ Training programmes (ongoing) ▶ Newsletter (monthly) ▶ Intranet (ongoing) | Topics and concerns raised <ul style="list-style-type: none"> ▶ Attractive remuneration and rewards ▶ Ensuring health and safety ▶ Opportunities for skill development ▶ Career progression ▶ Job security ▶ Dynamic work environment ▶ Fair employee practices | Value delivered <ul style="list-style-type: none"> ▶ Payments to employees of Rs. 557 Mn ▶ Investment in training: Rs. 4.7 Mn |
| Quality of relationship: Strong <ul style="list-style-type: none"> ✓ Employee retention rate of 84.10% | | |
|  | Implications and response <ul style="list-style-type: none"> ▶ Disruption of normal ways of working compelled the organisation to introduce work from home arrangements ▶ All employees received full salary, including bonus and increments ▶ Implementation of stringent health and safety standards to ensure employee safety ▶ Enhancement engagement through digital platforms and shifted training initiatives to digital channels | |

| CUSTOMERS | | |
|--|--|---|
| 2,849 corporate customers 178,419 retail customers | | |
| How we engage <ul style="list-style-type: none"> ▶ Face to face interaction (ongoing) ▶ Engagement through digital platforms (ongoing) ▶ Communication materials (ongoing) ▶ 24-hour call centre ▶ Road shows (ongoing) ▶ Customer complaint procedure (ongoing) ▶ Media (ongoing) | Topics and concerns raised <ul style="list-style-type: none"> ▶ Competitive pricing ▶ Innovative product solutions ▶ Convenient and fair claims settlement ▶ Quick turnaround time for claims processing ▶ Good customer service | Value delivered <ul style="list-style-type: none"> ▶ Claims settled: Rs. 3,038 Mn |
| Quality of relationship: Good <ul style="list-style-type: none"> ✓ Customer retention rate of 72% ✓ Customer complaints received and resolved: 100% | | |

Our Strategy

| | |
|---|---|
|  | Implications and response <ul style="list-style-type: none"> ▶ Face to face interaction fell sharply and we shifted to digital engagement platforms to assist with client queries and service ▶ Relief granted on premium collection in line with regulatory requirements ▶ Implemented convenient and accessible channels to facilitate premium payments |
|---|---|

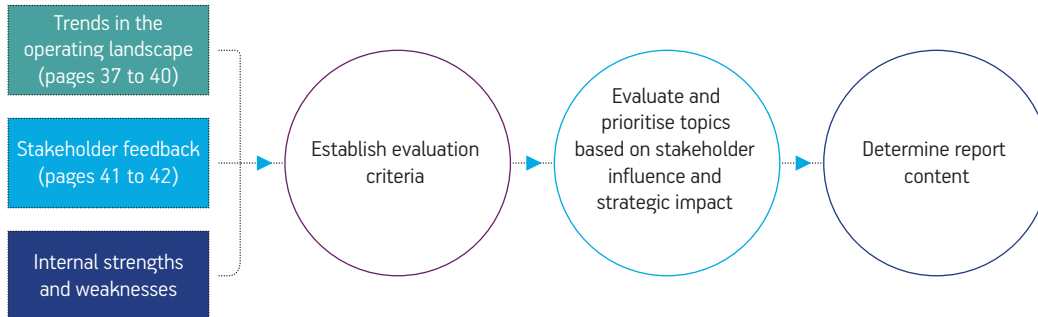
| | | |
|--|--|---|
| BUSINESS PARTNERS 38 suppliers 10 reinsurers 58 brokers, vehicle agents, garages and financial institutions | | |
| How we engage <ul style="list-style-type: none"> ▶ Meetings (ongoing) ▶ Training programmes (ongoing) ▶ Reinsurance declarations (ongoing) | Topics and concerns raised <ul style="list-style-type: none"> ▶ Opportunities for business growth ▶ Prompt payments ▶ Ease of doing business ▶ Good business practices ▶ Timely disclosure of relevant information | Value delivered <ul style="list-style-type: none"> ▶ Commissions paid: Rs. 559 Mn ▶ Payments to suppliers: Rs. 98 Mn |
| Quality of relationship: Moderate ✓ New business generated: Rs. 1,805 Mn | | |
|  | Implications and response <ul style="list-style-type: none"> ▶ Maintained virtual communication and ensured continuity of mutual value creation ▶ Settled payments on due dates without credit extensions | |

| | | |
|--|---|---|
| REGULATORS Insurance Regulatory Commission of Sri Lanka Colombo Stock Exchange Department of Inland Revenue | | |
| How we engage <ul style="list-style-type: none"> ▶ Meetings (periodic) ▶ Regulatory reporting (ongoing) ▶ Written communications (ongoing) | Topics and concerns raised <ul style="list-style-type: none"> ▶ Compliance ▶ Continuity of operations ▶ Timely payment of taxes ▶ Good governance ▶ Good business practices ▶ Active contribution to industry dialog | Value delivered <ul style="list-style-type: none"> ▶ Payment of taxes: Rs. 472 Mn |
| Quality of relationship: Strong ✓ Fully compliant with all relevant regulations | | |
|  | Implications and response <ul style="list-style-type: none"> ▶ Engaged proactively with the regulator to ensure continuity of sector operations and create a conducive environment for businesses to operate | |

| | | |
|---|---|--|
| COMMUNITIES | | |
| How we engage <ul style="list-style-type: none"> ▶ CSR engagements (ongoing) ▶ Meetings (if required) ▶ Branch level engagement (ongoing) | Topics and concerns raised <ul style="list-style-type: none"> ▶ Job creation ▶ Good business practices ▶ Community service projects ▶ Preserving the environment | Value delivered <ul style="list-style-type: none"> ▶ Investment in CSR: Rs. 1 Mn |
| Quality of relationship: Moderate ✓ Maintained harmonious relationships with communities we operate in | | |
|  | Implications and response <ul style="list-style-type: none"> ▶ Contribution to COVID-19 Healthcare and Social Security Fund amounting to Rs. 1 Mn ▶ As a precautionary measure, no CSR activities were conducted | |

Materiality Analysis

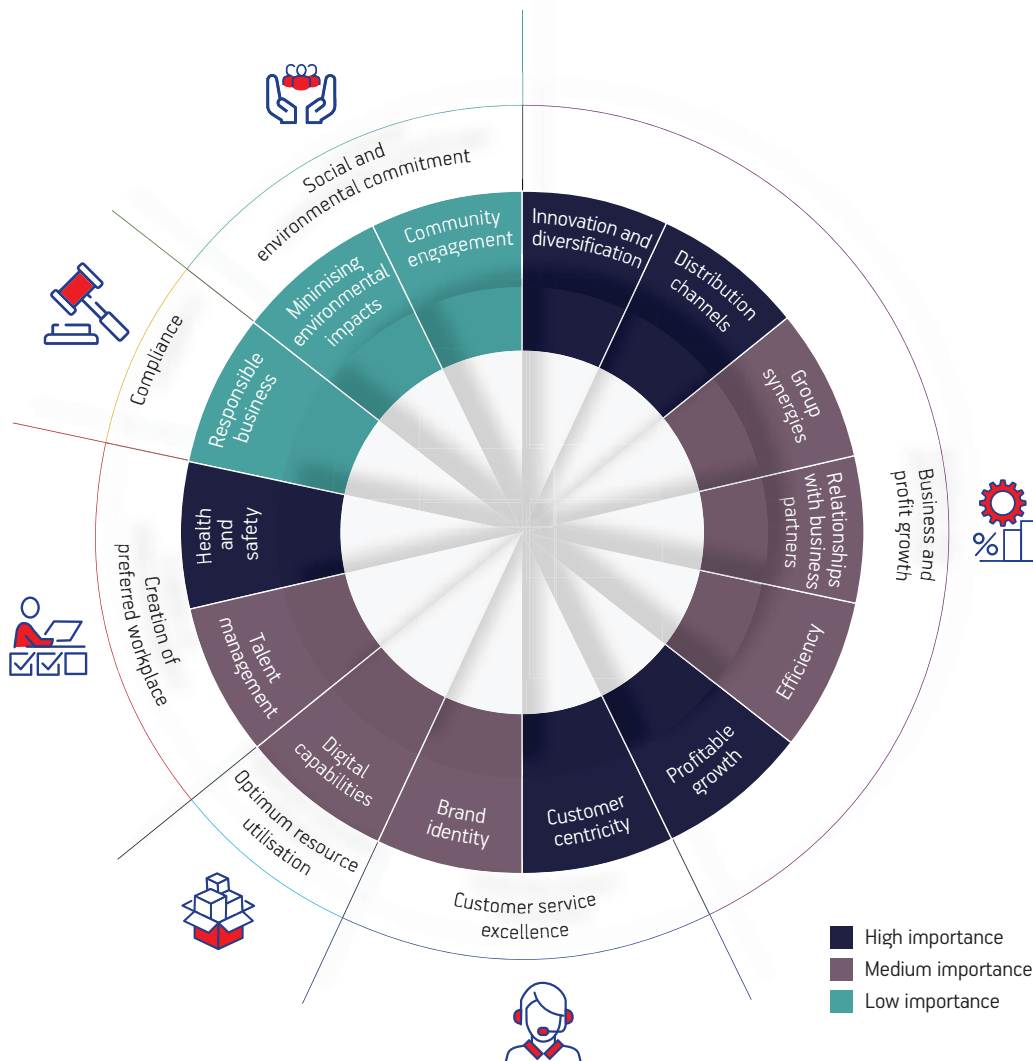
A material assessment is conducted annually, helping us to identify the issues that of most significance to our stakeholders and could potentially affect the Company's ability to create value over the short, medium and long-term. Material topics are determined following an evaluation of industry and competitor trends, feedback received from stakeholder engagement and the Company's strengths and weaknesses. The process adopted for determining material topics is listed below:











With the outbreak of the pandemic, the Company's operating landscape changed significantly, which in turn impacted its list of material topics. There were no major changes to the topic boundaries in comparison to 2019. The material topics represent factors that relate to our business, industry landscape and supply chain and are also informed by the topics prescribed in the GRI Standards. Changes in materiality compared to the previous year are clearly listed below.







MATERIALITY HEAT MAP

The following heat map demonstrates the Company's 14 material topics (inner circle), aligned to the 7 strategic priorities (outer circle). The material topics have been colour-coded to reflect their level of importance to the Company's stakeholders and strategy.



Our Strategy

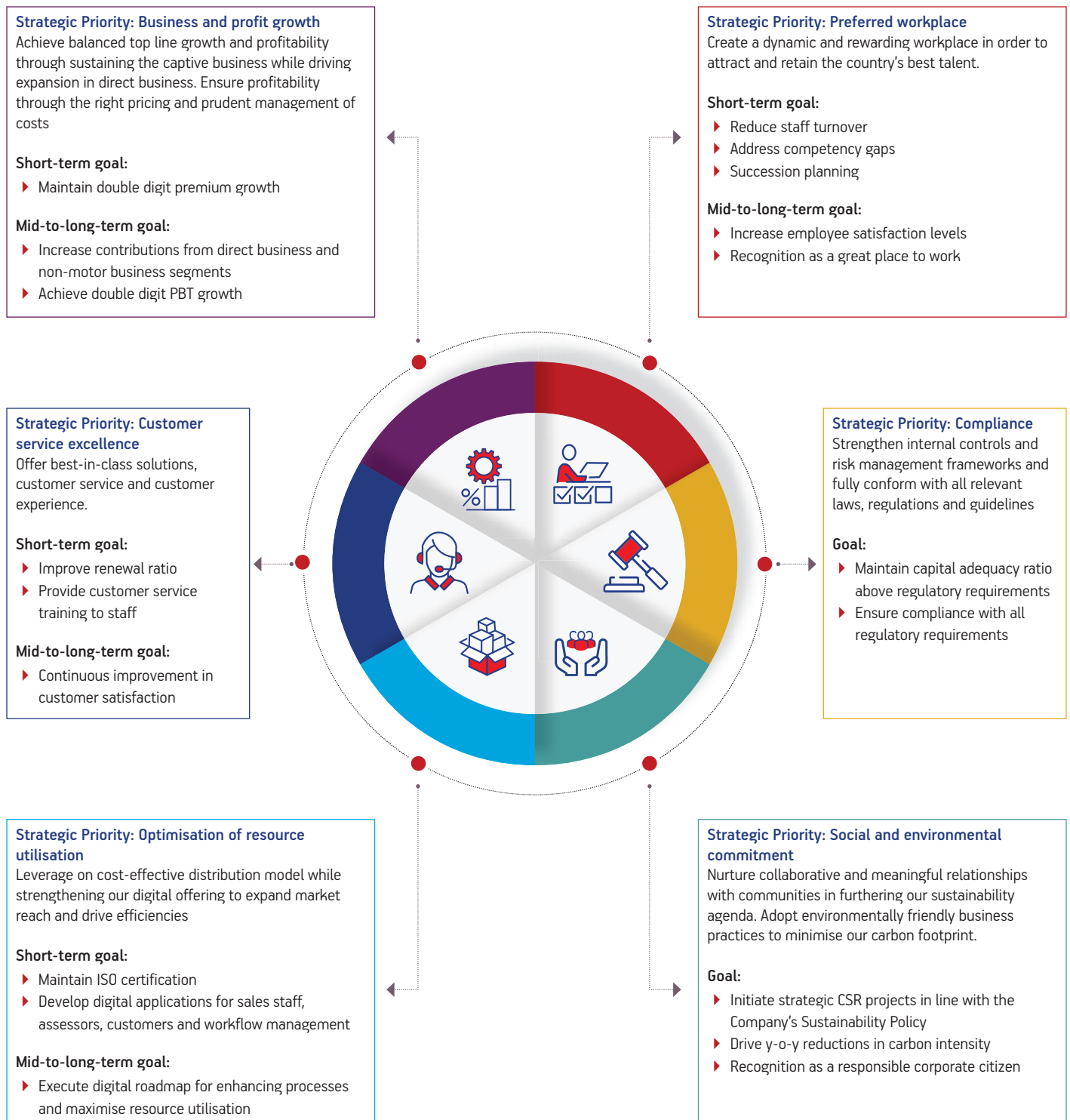
| Material topic | Why it is material to us | Reporting boundary | Relevance to strategy | Corresponding GRI topic | Materiality compared to 2019 |
|---|--|--|--|-------------------------------|--|
| 1) Profitable growth | Ensures sustainable returns to shareholders while achieving consistent business growth | Limited to the Company's operations |  Business and profit growth | GRI 201: Economic Performance | |
| 2) Product innovation and diversification | Important in reducing dependence on our captive business and motor class | Boundary includes the Company's operations and its customers |  Business and profit growth | - | Heightened importance of diversification due to sharp downturn in vehicle industry |
| 3) Efficiency | Critical in driving consistent reductions in our combined ratio and achieving profitability targets | Limited to the Company's operations |  Business and profit growth | - | Increased emphasis on cost saving and operational efficiency |
| 4) Customer centricity | Delivering the best in class customer experience and sharpening our competitive edge | Boundary includes the Company's operations and its customers |  Customer service excellence | - | |
| 5) Distribution channels | Expanding customer reach and increasing contributions from direct business | Boundary includes the Company's operations, business partners, customers and potential customers |  Business and profit growth | - | |
| 6) Digital capabilities | Expanding customer reach and enhance customer experience | Boundary includes Company's operations, parent/ultimate parent and business partners |  Optimise resource utilisation | - | Increased focus given limitations on face to face interaction |
| 7) Group synergies | Leveraging on the distribution network and brand name of the parent and ultimate parent | Boundary includes Company's operations, parent and ultimate parent |  Business and profit growth | - | |
| 8) Brand identity | Strengthening the Company's brand identity in the insurance industry will enable it to achieve growth in the direct business while acquiring new customers | Boundary includes the Company's operations and potential customers in the insurance market |  Customer service excellence | - | |

| Material topic | Why it is material to us | Reporting boundary | Relevance to strategy | Corresponding GRI topic | Materiality compared to 2019 |
|--|---|---|--|--|------------------------------|
| 9) Responsible business | As a responsible corporate citizen, we are committed to maintaining the highest level of integrity and accountability in our operations | Boundary includes our operations as well as external stakeholders |  Compliance | GRI 204: Procurement practices GRI 205: Anti-corruption GRI 206: Anti-competitive behaviour GRI 417: Marketing and labelling GRI 418: Customer privacy GRI 402: Labour management relations | |
| 10) Relationships with business partners | Maintaining co-operative relationships with business partners will enable us to strengthen our market position through expanding our customer reach | Boundary includes our operations as well as external stakeholders |  Business and profit growth | - | |
| 11) Talent management | Attracting and retaining the right talent is critical in driving our strategic aspirations and facilitating the customer experience | Boundary is limited to our employees |  Preferred workplace | GRI 401: Employment GRI 404: Training and education GRI 405: Diversity and equal opportunities GRI 406: Non-discrimination | |
| 12) Health and safety | Given the outbreak of the pandemic, health and safety emerged as a key priority during the year | Boundary extended to our employees and customers |  Preferred workplace | - | New material topic |
| 13) Minimising environmental impacts | We are committed to consistently reducing our carbon footprint and contributing to the achievement of the SDGs | Boundary is limited to our own operations |  Social and environmental commitment | GRI 302: Energy GRI 305: Emissions GRI 306: Effluents and waste GRI 307: Environmental compliance | |
| 14) Community engagement | Driving meaningful change in the communities we operate is an important part of our sustainability agenda | Boundary extends to the communities in which we operate |  Social and environmental commitment | GRI 419: Socio-economic compliance GRI 413: Local communities | |

Our Strategy

Strategy and Resource Allocation

The Company's Corporate Plan for 2019-2021 clearly demonstrates the strategic objectives that it aspires to meet and the short, medium and long-term priorities and actions required to achieve these objectives. The conditions that prevailed during the year required a reset and realignment of the strategic actions although the priorities defined under the Corporate Plan remained broadly unchanged.











STRATEGIC PROGRESS IN 2020

The delivery of our strategic actions and achievement of our strategic priorities during the year were inevitably impacted by the prevalent conditions. Following the outbreak of the pandemic, focus was directed towards ensuring the safety of employees while offering uninterrupted services to customers. Our strategic pillars remained relevant in these conditions, enabling the Company to navigate the complexities presented by the operating landscape.











Business and Profit Growth

| | | | | |
|---------------------------------|--|---|--|---|
| Initiatives in 2020 | <ul style="list-style-type: none"> ✓ Strengthen relationships with parent and ultimate parent company ✓ Launch of seven new products ✓ Increased focus on the non-motor sector ✓ Ensured continuity of business through the use of digital platforms ✓ Continued geographical expansion with the addition of 3 new branches ✓ Increased focus on the National Sales, Bancassurance and Corporate and Broker channels | | | |
| Resources allocated |  Rs. 167 Mn investment in sales and marketing expenses |  3 new customer contact points |  58 marketing officers added to the team |  Strengthened relationships with new business partners |
| Implications of COVID-19 | <ul style="list-style-type: none"> ▶ Restrictions on the imports of motor vehicles had a direct impact on the growth of the motor insurance segment, thereby affecting GWP ▶ Limited opportunities for pursuing growth through traditional channels ▶ Reduction in investment income reflecting the sharp drop in interest rates ▶ Reduction in claims stemming from limited mobility | | | |
| Performance | <ul style="list-style-type: none"> ▶ Flat GWP growth, outperforming the industry average which recorded a contraction of 1.3% ▶ More than ten-fold increase in underwriting profit to Rs. 808 Mn ▶ Net claims ratio of 51% (2019: 68%) ▶ 82% growth in profit after tax to Rs.1.20 Bn | | | |
| Trade-offs in capital |   Increased reliance on digital platforms can over time reduce the Company's dependence on human capital in driving growth | |   Stronger relationships with business partners would enable the Company to diversify its portfolio from its captive business | |
| Outlook for 2021 | <ul style="list-style-type: none"> ▶ Further expansion of the national sales channel to drive increased penetration ▶ Expand bancassurance channel and drive increased cross-selling through People's Bank ▶ Strengthen the corporate and broker channel | | | |

Our Strategy








Customer Service Excellence

| | | | |
|---------------------------------|---|--|--|
| Initiatives in 2020 | <ul style="list-style-type: none"> ✓ Facilitating premium collection through digital/online channels including CDM, Kiosks, M-Cash and online payments ✓ Launch of a Sales App (CAM) to drive our customer reach ✓ New products launched catering to emerging customer requirements ✓ Increased social media engagement | | |
| Resources allocated |  Rs. 16.6 Mn investment in digital infrastructure |  58 marketing officers added to the team | |
| Implications of COVID-19 | <ul style="list-style-type: none"> ▶ Restrictions on face-to-face engagement with customers necessitating innovative, digital driven engagement ▶ Opportunity to accelerate the Company's digital drive ▶ 3-month relief period granted to customers for premium payments | | |
| Performance | <ul style="list-style-type: none"> ▶ Customer retention: 72% ▶ Customer complaints resolved: 100% | | |
| Trade-offs in capital |   Investments in digital platforms result in financial outlay in the short-term, but will enhance financial value creation in the long-term |   The development of digital skills will sharpen the intellectual capital of our workforce |   Enhanced engagement through digital platforms will support increased customer convenience, thereby nurturing social and relationship capital in the long-term |
| Outlook for 2021 | <ul style="list-style-type: none"> ▶ Increased focus on digital platforms in driving enhanced customer value and sharpening the competitive edge | | |







Preferred Workplace

| Initiatives in 2020 | <ul style="list-style-type: none"> ✓ Facilitated work from home arrangements to ensure the safety of our team including the launch of a new work from home policy ✓ Uninterrupted training and development drive delivered through digital platforms ✓ Offered roster-wise transportation ✓ Sharpened focus on employee productivity ✓ Ensured financial security of employees by guaranteeing full remuneration in the outbreak of the pandemic ✓ Focus on nurturing a performance driven culture | | | | | | |
|---------------------------------|--|--|--|------------------|-----------------|------------|------------|
| Resources allocated |  Rs. 557 Mn payments to employees |  Rs. 7.6 Mn investment in ensuring the safety of employees |  Rs. 4.7 Mn investment in training and development | | | | |
| Implications of COVID-19 | <ul style="list-style-type: none"> ▶ Heightened vulnerability of health and safety risks ▶ Embraced new practices of working including work-from-home | | | | | | |
| Performance | <ul style="list-style-type: none"> ▶ Employee retention rate: 84% <table border="1" data-bbox="396 1136 1065 1220"> <thead> <tr> <th style="background-color: #0070c0; color: white;">Revenue/employee</th> <th style="background-color: #003366; color: white;">Profit/employee</th> </tr> </thead> <tbody> <tr> <td>Rs. 9.9 Mn</td> <td>Rs. 1.9 Mn</td> </tr> </tbody> </table> | | | Revenue/employee | Profit/employee | Rs. 9.9 Mn | Rs. 1.9 Mn |
| Revenue/employee | Profit/employee | | | | | | |
| Rs. 9.9 Mn | Rs. 1.9 Mn | | | | | | |
| Trade-offs in capital |  Improved employee productivity to lead to long-term positive impact on financial capital |  Enhanced customer experience facilitated by skills and attitudes of our Human Capital | | | | | |
| Outlook for 2021 | <ul style="list-style-type: none"> ▶ Creation of a dynamic and agile workplace through strengthening the required HR Governance structures and mechanisms and engagement ▶ Nurturing a performance-driven culture through enhancing the performance management framework | | | | | | |

Our Strategy



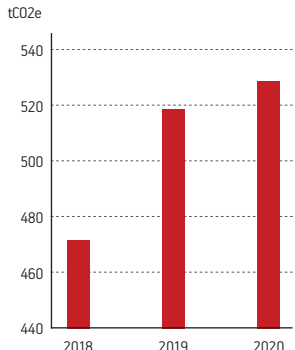





Compliance

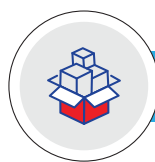
| | | |
|---------------------------------|---|--|
| Initiatives in 2020 | <ul style="list-style-type: none"> ✓ Elevated skill profile on the Board with the appointment of new Directors during the year ✓ Strengthened corporate governance framework with the establishment of two new Board Sub-committees for Strategic Plan Review and Risk Management | |
| Resources allocated |  <p>Capabilities on the Board of Directors, management team and all employees</p> |  <p>Culture of compliance</p> |
| Implications of COVID-19 | <ul style="list-style-type: none"> ▶ New guidelines issued on relief on premium payments of policy holders | |
| Performance | <ul style="list-style-type: none"> ▶ Fully compliant with all relevant regulations and guidelines including requirements of the Insurance Industry Act and amendments under the Insurance Regulatory Commission of Sri Lanka and the Continued Listing Rules of the Colombo Stock Exchange | |
| Trade-offs in capital |   <p>A compliance-driven culture has strengthened the Company's base of organisational knowledge</p> | |
| Outlook for 2021 | <ul style="list-style-type: none"> ▶ Further strengthen the Company's governance and compliance mechanisms in ensuring full compliance with all relevant regulations and guidelines ▶ On target for the implementation of IFRS 17 which was deferred by one year | |








Social and Environmental Commitment

| Initiatives in 2020 | <ul style="list-style-type: none"> ✓ Rs.1 Mn donation to the COVID-19 Healthcare and Social Security Fund ✓ Strived towards paperless operations through increased digital adoption ✓ Ongoing projects aimed at driving energy efficiency | | | | | | | | | | |
|---------------------------------|---|---|--|------|--------------------------|------|------|------|------|------|------|
| Resources allocated |  Rs. 1 Mn |  Volunteer hours – Zero due to pandemic | | | | | | | | | |
| Implications of COVID-19 | <ul style="list-style-type: none"> ▶ Unable to conduct any community engagement initiatives due to restrictions prevailed during the year under review | | | | | | | | | | |
| Performance | <p style="text-align: center;">Carbon footprint</p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Year</th> <th>Carbon footprint (tCO2e)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~470</td> </tr> <tr> <td>2019</td> <td>~520</td> </tr> <tr> <td>2020</td> <td>~530</td> </tr> </tbody> </table> | | | Year | Carbon footprint (tCO2e) | 2018 | ~470 | 2019 | ~520 | 2020 | ~530 |
| Year | Carbon footprint (tCO2e) | | | | | | | | | | |
| 2018 | ~470 | | | | | | | | | | |
| 2019 | ~520 | | | | | | | | | | |
| 2020 | ~530 | | | | | | | | | | |
| Trade-offs in capital |  <p>Increased business activity and volumes would lead to an inevitable increase in the Company's carbon footprint</p> |  <p>The Company's strategic focus towards digital processes would lead to a gradual reduction in paper use, thereby reducing waste generation</p> |  <p>Investments in community engagement would adversely impact financial capital in the short-term, while strengthening the Company's relationship capital over the long-term</p> | | | | | | | | |
| Outlook for 2021 | <p>The Company intends to recommence its social and environmental activities over the short-term to medium term. The impending resurgence of a third wave of infections may delay these activities further and we will continue to monitor the emerging developments</p> | | | | | | | | | | |

Our Strategy



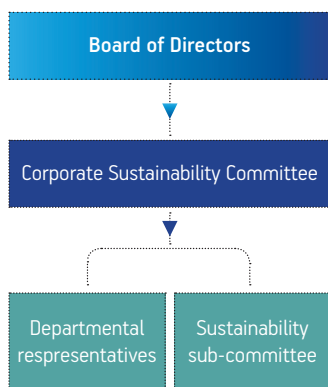
Resource Optimisation

| | | |
|---------------------------------|--|--|
| Initiatives in 2020 | <ul style="list-style-type: none"> ✓ Accelerating digital adoption in key processes including facilitating digital payments, customer activity management app, online payments etc. ✓ Fully digitalised the claims management process and introduced an e-insurance card ✓ Ongoing focus on cost efficiencies | |
| Resources allocated | <div style="text-align: center;">  Rs. 22.9 Mn investments in digital offerings </div> | |
| Implications of COVID-19 | <ul style="list-style-type: none"> ▶ Accelerated the Company's journey towards digitalisation and automation ▶ Opportunity to drive process efficiencies and rationalise costs | |
| Performance | <ul style="list-style-type: none"> ▶ Automated processes ▶ Enabled remote working arrangements ▶ Contained the increase in overhead expenses to 10% | |
| Trade-offs in capital | <div style="text-align: center;">   </div> <p>Initial investments in digital infrastructure led to an outflow of funds, although over the long-term this will strengthen the Company's customer value proposition and sharpen its competitive edge</p> | <div style="text-align: center;">   </div> <p>A productivity-driven, cost conscious culture would enhance the Company's tacit knowledge over the long-term</p> |
| Outlook for 2021 | <ul style="list-style-type: none"> ▶ Aggressive digital drive with the introduction of several mobile applications. ▶ Improvement in processes through eliminating bottlenecks | |

Approach to Sustainability

Governance and approach

In recent years, the Company has strived to embed sustainability as an organisation-wide discipline, encouraging cross-functional participation in social and environmental initiatives and rolling out a Sustainability Policy. The Policy clearly sets out the Company's sustainability objectives, governance structures and reporting mechanisms. A dedicated executive level committee - namely, the Corporate Sustainability Committee is responsible for the implementation of the sustainability policy and reports to the Board of Directors on all related projects. The Committee is assisted by sustainability coordinators, sustainability sub-committees and departmental representatives, thereby ensuring that the Company's sustainability philosophy is propagated among all employees in the organisation.



Sustainability objectives

The Company's sustainability policy sets out three key objectives; namely, achieving economic success, discharging social responsibility and environmental responsibility. These pillars are graphically illustrated below together with their relevance to the Sustainable Development Goals.



Risk Management

OUR APPROACH TO RISK

We create value by assuming risks of individuals and organisations. Insurance contracts such as motor, fire, marine and others are issued by us to cover these various risks. As a result, of undertaking such risks, the Company is exposed to a range of underwriting, operational and financial risks which are effectively identified and managed through an integrated risk management framework.

At People's Insurance, our integrated approach to risk management is based on the proactive identification and categorisation of risk, assessment of the impact of risk on the Company, risk mitigation strategies and review of such

strategies. This process requires us to constantly monitor our risk landscape, including both the internal and external environment, to identify new and emerging risks that may impact People's Insurance in achieving its strategic priorities.

A strong risk culture is present at People's Insurance supported by effective risk management by the Board. All employees including management are responsible for identifying and managing the risk which fall within their purview. A strong risk culture has been embedded through training, awareness sessions, policy frameworks and standards. The outcome is our risk management culture – where risks are predicted, identified and reported at every level.



Highlights in 2020

Board responsibility in risk management

- ▶ Reviewed and initiated discussions on the disaster recovery and business continuity plan, anti-fraud policy and disciplinary code
- ▶ Approved formation of the Integrated Risk Management Committee on 30th December 2020 – members yet to be appointed
- ▶ Approval for the Risk and Compliance department to fall under the purview of the Board Audit Committee

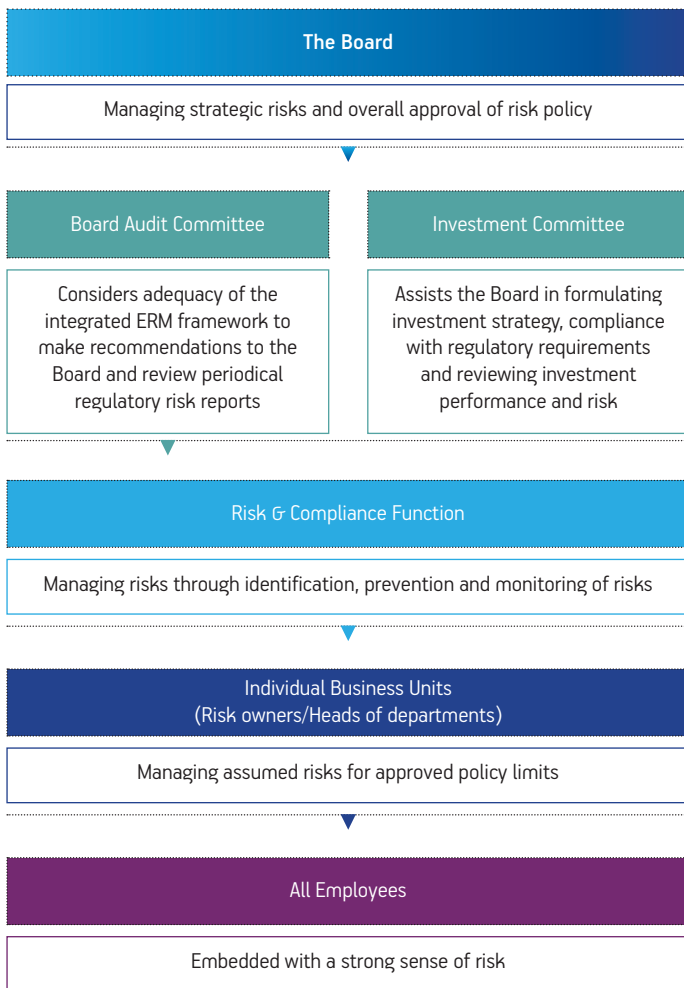
Risk & Compliance

- ▶ Developed a compliance dashboard with comprehensive reporting
- ▶ Reporting of quarterly fraud summaries to be used as a base for a fraud register
- ▶ Risk assessment covering all operational areas to assess the impact of COVID-19
- ▶ Enhanced the business continuity plan framework
- ▶ Emergency response guidelines covering the COVID-19 pandemic outbreaks
- ▶ A guide on COVID-19 preparedness for staff
- ▶ Developed a procedure for fire safety preparedness

INTEGRATED RISK MANAGEMENT FRAMEWORK

Risk Governance

The Board of Directors hold apex responsibility for ensuring that the Company's risks are managed effectively and proactively. The Board is supported by two sub-committees, Audit and Investment in discharging its risk related responsibilities. The Board also drives the implementation of the Company's integrated risk management framework. During the year, the Board reviewed the terms of reference and approved the formation of an Enterprise Risk Management Committee. The management has been delegated the authority for managing the Company's overall risk profile and is responsible for implementing the risk management policy. This team was further strengthened by the appointment of a risk and compliance officer during the year. Oversight and monitoring of risks is also carried out at group level by the Group Integrated Risk Management Committee.



Group Integrated Risk Management Committee

Identifies new and emerging risks and develop suitable action plans and improvements to existing processes

Capital Management

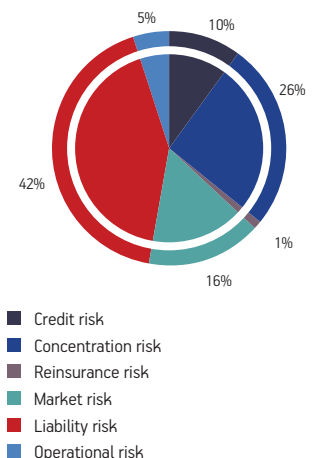
People’s Insurance’s capital management framework aims to actively manage capital, optimising its structure and source, to ensure returns to shareholders and policyholders are maximised consistently while complying with regulatory requirements.

The objectives, policies and approaches to managing the risks that affect People’s Insurance’s capital position are described in detail on pages 182 to 183 in the Notes to the Financial Statements.

There are several regulatory requirements implemented by the Insurance Regulatory Commission of Sri Lanka (IRCSL) under the risk-based capital regime to minimise the risk of default and insolvency on the part of the insurer. People’s Insurance is required to maintain at a minimum, a capital adequacy ratio (CAR) of 120% and a total available capital (TAC) of Rs. 500 million with supervisory CAR level of 160%.

| Overview of Risk-based Capital | |
|--|--|
| <div style="border: 1px solid black; padding: 5px; display: inline-block;">Capital Adequacy Ratio (CAR)</div> | $\frac{\text{Total Available Capital (TAC)}}{\text{Risk-based Capital Required (RCR)}} \times 100$ |
| <p>The IRCSL requires insurance companies to have a minimum regulatory CAR of 120% and a minimum TAC of Rs. 500 million</p> | |
| Total available capital | Risk-based capital required for 6 types of risk |
| <ul style="list-style-type: none"> ▶ Tier 1 + Tier 2 ▶ Capital deductions ▶ Tier 2 capital < 50% of Tier 1 capital | <ul style="list-style-type: none"> ▶ Credit risk ▶ Concentration risk ▶ Reinsurance risk ▶ Market risk ▶ Liability risk ▶ Operational risk |

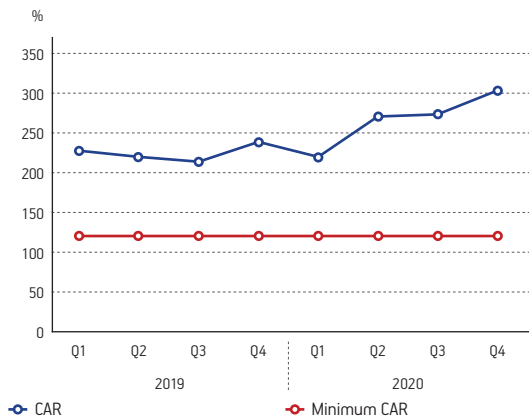
Total Risk Capital



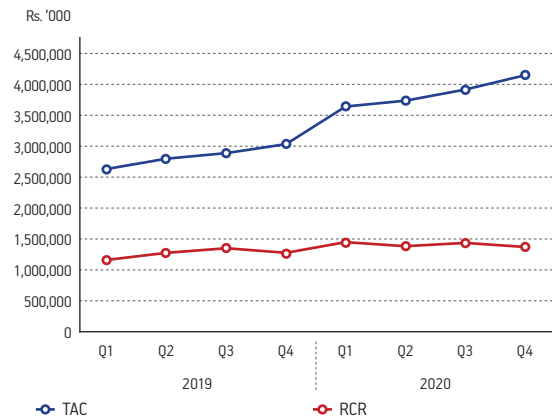
People’s Insurance complied with both the capital adequacy and total available capital requirements imposed by the IRCSL during the year.

Risk Management

Capital Adequacy Ratio (CAR)



Risk-based Capital Requirement



OUR KEY RISKS

The risks we face are classified into four key areas. Risks in each area are identified, analysed, evaluated and assigned an appropriate risk rating that considers the significance of impact and likelihood of occurrence. We mitigate/manage each risk through effective internal controls, diversification, imposing risk limits, transfer of risks, constant monitoring and periodical review. The risk dashboard is reviewed by the Group Integrated Risk Management committee and the Board on a quarterly basis.

Strategic Risk - The risks associated with our corporate strategy and the industry including compliance with regulatory requirements.

Insurance Risk - For non-life insurance contracts, the most significant risks arise from natural disasters, climate changes, civil commotion and terrorist activities. For longer term claims inflation risk is also present. For healthcare contracts, the most significant risks arise from lifestyle changes, medical science and technology improvements.

Investment Risk - The risk that an investment's actual gains will differ from an expected outcome or return including the possibility of losing some or all of the original investment is our investment risk.

Operational Risk - Encompasses the uncertainties and hazards we face when conducting our daily business activities such as breakdowns in internal processes, people and systems.

| COVID-19 Pandemic | |
|--|--|
| <p>RISK AND MITIGANTS</p> <p>The COVID-19 pandemic resulted in dramatic shifts in the Company's risk landscape, given its unprecedented economic impact. Customers felt the inevitable economic toll of the pandemic, which in turn led to significant changes in the Company's risk profile. Prompt action by the Board of Directors to address these risks enabled the Company to be resilient in extremely challenging situations.</p> | |
| <p>Service Disruptions</p> <ul style="list-style-type: none"> ▶ The CEO met with department heads frequently, evaluated disruptions and promptly actioned plans to ensure continuity of service to customers. ▶ Customers encouraged to onboard online platforms to pay premiums ▶ Identified staff provided with work from home facilities ▶ Call centre staff worked 24x7 on a roster basis ▶ Incident BCP developed by the risk and compliance department | <p>Re-evaluating Our Business Model</p> <ul style="list-style-type: none"> ▶ Heightened importance in pursuing portfolio diversification given sharp downturn in motor vehicle industry, resulting from the ban on vehicle imports. ▶ To move from on site to a remote or mobile/online service model ▶ Payment options widened to include payment through the company website, online fund transfers and payments through People's Bank CDMs ▶ Mandatory proposal forms and claim request forms were uploaded to the company website to facilitate online access for customers ▶ Introduction of online sales platform. Sales staff trained on this process |
| <p>Data Privacy and Security</p> <p>The change in our service model necessitated ensuring contractual obligations such as data privacy of customers are maintained. To this effect our IT team made certain that:</p> <ul style="list-style-type: none"> ▶ Firewall protection was in place ▶ Transactions were monitored ▶ Access given only on requirement basis with necessary approvals | <p>Employee Health</p> <ul style="list-style-type: none"> ▶ Followed health and safety guidelines prescribed by WHO and the government ▶ Remote working facilitated through VPN access ▶ Day to day communications of management conducted through conference calls and WhatsApp ▶ A mechanism was introduced for employees to report health concerns |

COVID-19 Pandemic

| | |
|---|--|
| <p>Premium Collections</p> <ul style="list-style-type: none"> ▶ A report on lapsed policies was prepared and reviewed weekly with emphasis on the reasons for non-payment of premiums ▶ Receivables were monitored with the Head of Finance working closely with the channel heads | <p>Our Stakeholders</p> <ul style="list-style-type: none"> ▶ Additional disclosures required by the ICRSL due to the pandemic have been made on a timely basis ▶ Disclosures have been made in the financial statements as required by regulatory authorities and accounting bodies |
|---|--|

Risks in Detail

A description of the significant risks faced by the Company in each of the four key risk areas detailing mitigating/managing measures, risk rating and performance together with the link each key risk has to strategy and materiality are given in the following table.

Strategic Risks

| | |
|---|---|
| Link to strategic goals: Business and profit growth | Link to materiality: Profitable growth, Product innovation and diversification, Efficiency, Distribution channels |
|---|---|

| | Mitigating/Managing Risk | Risk exposure level | KPIs | | |
|--|---|---|--|--|--|
| | | | | Target | Actual |
| <p>Business Risk This is the risk associated with People's Insurance's future business plans and strategies – the risk of underperforming due to unanticipated changes in the internal and external environment.</p> <p>Government-imposed restrictions on vehicle imports has posed a significant risk to the Company's motor vehicle insurance portfolio, due to limited growth opportunities presented by this sector.</p> | <ul style="list-style-type: none"> ▶ The three year strategic corporate plan is updated on an annual basis and approved by the Board of Directors ▶ Ongoing review and monitoring of internal and external factors that impact planned objectives ▶ Performance appraisals of all staff including the Board of Directors ▶ Periodical review of strategies and prompt action to manage unfavourable deviations ▶ Selection and implementation of underwriting strategy to ensure diversification of risk considering type of risk and level of insured benefits. | <ul style="list-style-type: none"> ■ ■ ■ ■ ■ | <ul style="list-style-type: none"> ROE Return on Assets Sales Performance Investment Performance Operational losses | <ul style="list-style-type: none"> >15% >6% >10% >9.7% <0.5% | <ul style="list-style-type: none"> 28.9% 11.8% (0.03)% 10.6% 0.0% |
| <p>Regulatory Risk Regulatory risk is the risk that a change in laws and regulations will affect our business. The risk of non-compliance with laws and regulations is also addressed as part of regulatory risk.</p> | <ul style="list-style-type: none"> ▶ Changes to laws and regulations and the business impact thereon are reviewed by management. ▶ A comprehensive regulatory checklist is signed off by relevant officials monthly ▶ A Board paper on compliance, reviewed by the internal audit department, is presented to the Board of Directors monthly ▶ People's Insurance is strongly represented at industry forums and works closely with regulators. This ensures the Company's is current on changes to laws and regulations and its concerns are voiced. | <ul style="list-style-type: none"> ■ ■ | <ul style="list-style-type: none"> Risk based capital adequacy ratio Total available capital | <ul style="list-style-type: none"> >220% >Rs. 500 Mn | <ul style="list-style-type: none"> 304% Rs. 3,141 Mn |

Risk Management

Insurance Risks

Link to strategic goals: Business and Profit growth, Optimising resource utilisation

Link to materiality: Profitable growth, Efficiency

| | Mitigating/Managing Risk | Risk Rating | KPIs | | |
|--|---|-------------------------------------|--|--|--|
| | | | | Target | Actual |
| <p>Underwriting Risk The risk making losses on underwriting activities. Underwriting risk can arise from either an inaccurate assessment of risks when underwriting a policy or from factors beyond the control of underwriters.</p> | <ul style="list-style-type: none"> ▶ Continuous development of underwriting staff through training, skills development and encouraging qualifying professionally. ▶ Critical review of underwriting results to identify loss making clients and moving these clients strategically out of the portfolio ▶ Regular review of profitability, pricing, terms and conditions of product portfolio to identify required changes ▶ Regulatory authority alerted if set limits on approvals of underwriting amounts and risks are exceeded | <p>■</p> <p>■</p> | <p>Underwriting results</p> <p>Combined ratio</p> | <p>744 Mn</p> <p><86%</p> | <p>808 Mn</p> <p>85.7%</p> |
| <p>Product Design Risk Risk of non-life insurance product designs of the portfolio being outdated due to reasons including climate change and its consequences such as various natural disasters, changes in behavioural trends of people and a steady cost escalation in vehicle spare parts.</p> | <ul style="list-style-type: none"> ▶ Constant alert on internal and external factors that may impede planned objectives ▶ Periodic review of existing product features and the development strategies in line with environmental changes ▶ Diversification of insurance contracts across a large geographical area | <p>■</p> | <p>Number of new products introduced</p> | <p>>2</p> | <p>7</p> |
| <p>Claim Settlement Risk This is the risk of possible disputes that may arise at the time of settling claims.</p> | <ul style="list-style-type: none"> ▶ Customers are advised on the consequences of inadequate sums insured and excess ▶ Claims manual is updated periodically ▶ Information arising from various issues is cross checked prior to settling a claim ▶ The claims approval process and claims payment processes are segregated ▶ Claim intimations are done through a 24x7 call centre | <p>■</p> <p>■</p> <p>■</p> <p>■</p> | <p>Net claims ratio:</p> <p>Motor</p> <p>Fire</p> <p>Marine</p> <p>Miscellaneous</p> | <p><52%</p> <p><58%</p> <p><40%</p> <p><100%</p> | <p>49.1%</p> <p>53.9%</p> <p>13.4%</p> <p>112.2%</p> |
| <p>Reinsurance Risk Reinsurance risks refers to the inability of the ceding company or the primary insurer to obtain insurance from reinsurance at the right time and at an appropriate cost. It also includes the risk that a reinsurer will be unable to meet its reinsurance obligations due to inadequate financial strength.</p> | <ul style="list-style-type: none"> ▶ Annual review of reinsurance arrangements and strategies to ensure adequacy of such covers ▶ Global trusted stable portfolio of reinsurance companies which are rated high by various bodies such as Standard & Poor, A.M. Best, etc. ▶ Periodic review of credit rating and ensure all the reinsurer maintain the rating throughout the year ▶ Outstanding reinsurance receivables are reviewed monthly to ensure that all dues are collected or set-off against the payable on time | <p>■</p> | <p>Reinsurance receivables outstanding for more than 6 months</p> | <p><5%</p> | <p>0.0%</p> |

| | Mitigating/Managing Risk | Risk Rating | KPIs | | |
|--|--|-------------|--|--------|--------|
| | | | | Target | Actual |
| Credit Risk (Insurance Receivables) Arises when policyholders are unable to settle their outstanding dues. | <ul style="list-style-type: none"> ▶ Regular and rigorous follow-up for outstanding premiums ▶ Periodic policy cancellation for not settling within the given period ▶ Verifying the status of outstanding premiums prior to settling claims ▶ Periodic review of premium receivables to ensure adequate impairment provisions ▶ Monitoring reinsurance receivables | ■ | Premium receivable outstanding for more than 60 days | <15% | 27% |

Investment Risks

Link to strategic goals: Business and profit growth

Link to materiality: Profitable growth

| | Mitigating/Managing Risk | Risk Rating | KPIs | | | | | | | | | | | | | | |
|---|--|-----------------|------------|----------------|--------|---------------------------|-----|-----------------------|-----|-------------|----|--------------------|---|--|---|---|---|
| | | | | Target | Actual | | | | | | | | | | | | |
| Concentration Risk Insufficient diversification of the investment portfolio such as concentration in one industry, geography or type of security is our concentration risk. | <ul style="list-style-type: none"> ▶ Concentration limits are specified in the Delegation of Financial Authority Manual and Investment Operations Manual ▶ Single exposures are reviewed by the Investment Committee periodically ▶ Investment portfolio is reviewed by the Board monthly ▶ Monitoring of single exposure limits at entity and group levels that is a regulatory requirement ▶ Investment in equity instruments is done through careful analysis <p>Concentration Risk</p> <table border="1"> <caption>Concentration Risk Data</caption> <thead> <tr> <th>Asset Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Fixed deposits</td> <td>44%</td> </tr> <tr> <td>Corporate debt securities</td> <td>32%</td> </tr> <tr> <td>Government securities</td> <td>15%</td> </tr> <tr> <td>Unit trusts</td> <td>9%</td> </tr> </tbody> </table> | Asset Type | Percentage | Fixed deposits | 44% | Corporate debt securities | 32% | Government securities | 15% | Unit trusts | 9% | ■ | Government securities Fixed deposits Listed equity Corporate debt Unit trusts/ mutual funds Commercial papers | 100% <65% <30% <65% <30% <30% | 15% 44% 0% 30% 9% 2% | | |
| Asset Type | Percentage | | | | | | | | | | | | | | | | |
| Fixed deposits | 44% | | | | | | | | | | | | | | | | |
| Corporate debt securities | 32% | | | | | | | | | | | | | | | | |
| Government securities | 15% | | | | | | | | | | | | | | | | |
| Unit trusts | 9% | | | | | | | | | | | | | | | | |
| Liquidity Risk This is the risk of being unable to meet contractual obligations such as payments of claims and reinsurance due to inadequate cash flows. | Details on risk mitigation strategies are given on page 188, Note 47 to the financial statements - Liquidity risk. <p>Maturity Profile</p> <table border="1"> <caption>Maturity Profile Data</caption> <thead> <tr> <th>Maturity Period</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>0-6 months</td> <td>48%</td> </tr> <tr> <td>Over 2 years</td> <td>28%</td> </tr> <tr> <td>7-12 months</td> <td>9%</td> </tr> <tr> <td>1-2 years</td> <td>5%</td> </tr> <tr> <td>No stated maturity</td> <td>10%</td> </tr> </tbody> </table> | Maturity Period | Percentage | 0-6 months | 48% | Over 2 years | 28% | 7-12 months | 9% | 1-2 years | 5% | No stated maturity | 10% | ■ | Cheque returns due to non-availability of funds | 0 | 0 |
| Maturity Period | Percentage | | | | | | | | | | | | | | | | |
| 0-6 months | 48% | | | | | | | | | | | | | | | | |
| Over 2 years | 28% | | | | | | | | | | | | | | | | |
| 7-12 months | 9% | | | | | | | | | | | | | | | | |
| 1-2 years | 5% | | | | | | | | | | | | | | | | |
| No stated maturity | 10% | | | | | | | | | | | | | | | | |

Risk Management

| | Mitigating/Managing Risk | Risk Rating | KPIs | | |
|---|--|-------------|--|--------|--------|
| | | | | Target | Actual |
| Credit Risk – Financial Instruments The inability of the investee institution to meet interest or principal payments as agreed. | Details on risk mitigation strategies are given on page 184, Note 47 to the financial statements - Credit risk on financial investments. Credit Rating Profile of Investment | Green | Investments rated A and above as a percentage of total investments | >90% | 93% |
| Market Risk The loss of value of an investment due to adverse movements in asset prices. | Details on risk mitigation strategies are given on page pages 189 to 190, Note 47 to the financial statements - Market risk. | Green | Price sensitive investments as a percentage of total investments | <30% | 12% |

Operational Risks

| | |
|---|---|
| Link to strategic goals: Optimising resource efficiency | Link to materiality: Operational excellence, Digital capabilities, Efficiency, Health and safety, Talent management |
|---|---|

| | Mitigating/Managing Risk | Risk Rating | KPIs | | |
|--|---|-------------|--|-------------------------|-------------------------|
| | | | | Target | Actual |
| Socio/Economic/Political Risk This is the risk of a negative impact on operations due to changes in the socioeconomic, political environment and investment climate. | <ul style="list-style-type: none"> ▶ The socio-economic and political climates are considered in formulating strategy ▶ Pricing is reviewed considering inflation and current market trends ▶ Developing alternative distribution channels with evolving socio-economic trends | | Revision of environment analysis and SWOT analysis | Revise annually | Revised annually |
| Environmental Risk The actual or potential adverse impacts on operations and product responsibility with respect to emissions, waste and resource depletion is our environmental risk. | <ul style="list-style-type: none"> ▶ The sustainability committee provides leadership promoting environmentally conscious initiatives and behaviour ▶ Paper waste and e-waste of People's Insurance are responsibly disposed through approved recyclers ▶ Carbon footprint is measured and monitored | | Carbon intensity | 0.85 tCO ₂ e | 0.85 tCO ₂ e |

| | Mitigating/Managing Risk | Risk Rating | KPIs | | |
|--|---|-------------|--|-----------|-----------|
| | | | | Target | Actual |
| Information Technology Risk This refers to the risk of failure or breakdown of systems that results in interrupting Operations, loss or exploitation of data and cyber security risks. | <ul style="list-style-type: none"> ▶ Group IT policies, which People's Insurance follow, comprehensively cover IT discipline, use of licensed software, monitoring usage of the internet, email and mail server and the use of antivirus, firewall servers and software ▶ Risks relating to IT including cyber security are reviewed by the Audit Committee and the Board ▶ Ensuring all staff are familiar with the information security policy ▶ A 'back up' system is maintained at an off-site location to prevent data losses ▶ Controls such as Unified Threat Management (UTM) and Sophos | ■ | Availability of back ups | Available | Available |
| | | ■ | Availability of a business continuity plan | Available | Available |
| Human Resources Risk Shortage of professionally qualified/skilled personnel, de-motivation and loss of staff form part of this risk. | <ul style="list-style-type: none"> ▶ Employees are provided with training both in-house and external to enhance skills ▶ Facilitate development of employees by providing financial assistance for their professional education ▶ Review remuneration packages to be competitive with the market ▶ Performance based incentive schemes such as bonuses | ■ | Staff turnover | <15% | 16% |
| Reputational Risk The risk that an event or incident could damage the image of the People's Insurance. | <ul style="list-style-type: none"> ▶ Company internal controls are reviewed by internal and external auditors, whose reports are reviewed by the Audit Committee ▶ Maintain close relationships with regulators, standard setters and other insurance companies etc., to ensure being up to date and in compliance with regulatory matters | ■ | Compliance -breaches reported | 0 | 1 |
| | | ■ | -fines imposed | 0 | 0 |
| Fraud Risk This is the risk of misappropriation of assets including fraudulent reporting due to weak internal controls. | <ul style="list-style-type: none"> ▶ Internal audits are regularly carried out in areas susceptible to fraud ▶ Authority limits, segregation of duties and access controls have been implemented for all critical functions. ▶ A whistle blowing procedure is in place - an employee can report concerns directly to the Board Audit Committee ▶ Investigations are immediately carried out on detection of a fraud ▶ Zero tolerance policy with respect to fraud | ■ | Number of frauds -internal | 1-3 | 2 |
| | | ■ | -external | 1-3 | 0 |



WE DIDN'T THROW IN THE TOWEL AND WE DIDN'T LET OUR STAKEHOLDERS DO SO EITHER

OUR APPROACH TO VALUE CREATION

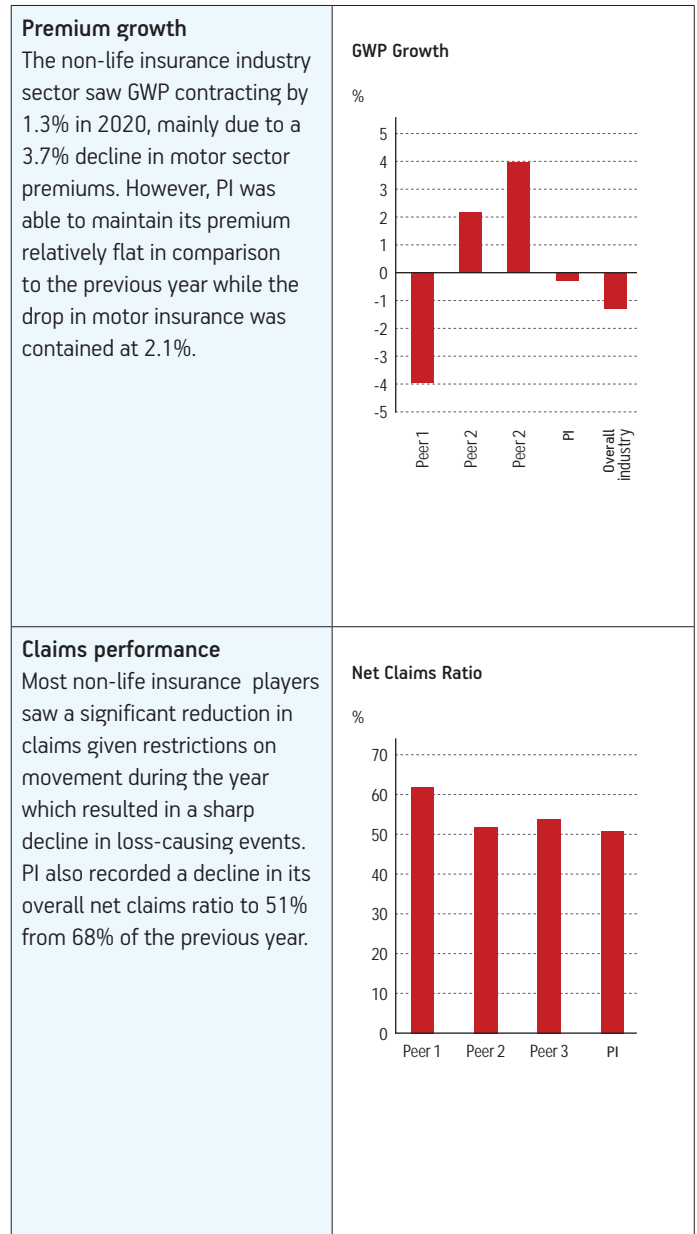
| | | | |
|---------------------------------|----|---------------------------------|----|
| Performance and Value Creation | 63 | Manufactured Capital | 72 |
| Performance Against Competition | 63 | Human Capital | 74 |
| Operational Reviews | 64 | Intellectual Capital | 79 |
| Business Line Reviews | 66 | Social and Relationship Capital | 81 |
| Financial Capital | 68 | Natural Capital | 85 |

Performance and Value Creation

THE COMPANY IS ALSO ONE OF THE FASTEST GROWING NON-LIFE INSURERS IN THE INDUSTRY AND ITS UNIQUE DISTRIBUTION MODEL AND CAPTIVE BUSINESS HAS ENABLED IT TO EMERGE AS ONE OF THE VERY FEW PLAYERS IN THE MARKET TO GENERATE POSITIVE UNDERWRITING RESULTS.

Performance Against Competition

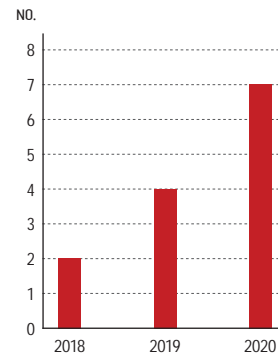
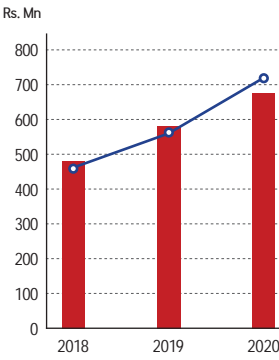
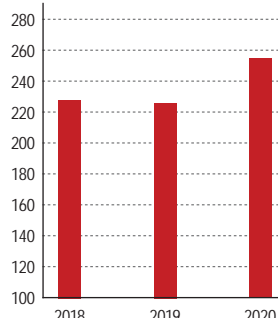
The Company's resilient performance during the year attests to the timeliness and agility of its strategy and effective implementation.



Performance and Value Creation





Operational Reviews

As a non-life insurer, PI's value chain comprises several activities from the point of conceptualising and developing products to customer delivery and policy management. The following section provides a brief overview of how the Company conducts these activities and the progress it made during the year under review. Our activities included the following:

| <p>Product development We persistently scan trends in the environment, emerging customer requirements and competing offerings to ensure that our products are in line comparable and can cater to evolving customer needs. The marketing team together with a dedicated product development team combine efforts to structure and design offerings that are competitive, attractive to customers and commercially viable. Despite the conditions that prevailed during the year, the Company continued its product development initiatives, focusing on motor, marine and fire insurance segments.</p> | <p>KPIs</p> <p>New Products</p>  <p>2 products were relaunched in 2020 with new features</p> | <p>Reinsurance We seek reinsurance arrangements with global reinsurers in line with the stringent requirements and standards of the regulator. We utilise the services of an internal expert reinsurance panel in formulating and entering reinsurance agreements, ensuring that risk and return considerations are balanced appropriately (Please refer to page 242 for a list of the Company's reinsurers).</p> | <p>KPIs</p> <p>Reinsurance</p>  <p>■ Reinsurance premium ceded ● Reinsurance ratio (%)</p> | | | | | | | | | | | | | | | | | | | | |
|---|---|--|---|--|------|------|------|----------------------|--------|--------|--------|-------------------------|-------|-------|-------|----------------------|------|------|------|-------------------|----|----|----|
| <p>Underwriting Effective underwriting ensures an appropriate balance between policy premiums and potential claims. The Board holds ultimate responsibility for formulating the Company's underwriting policies in line with market dynamics and our risk appetite.</p> <p>We continue to invest in strengthening the technical skills of our employees, nurturing them with the skills required to conduct underwriting effectively.</p> | <p>KPIs</p> <p>Underwriting Staff</p>  | <p>Claims management Claims management is an important determinant of an insurers' competitive edge; a positive experience in managing claims encourages customer loyalty while negative claims experience can impact customer retention. During the year, we accelerated our digital journey in processing claims, thereby enhancing efficiency and convenience to the customer.</p> <p>Claims also reduced during the year, given the prevalent conditions and resultant restrictions on mobility.</p> <table border="1" data-bbox="841 1375 1498 1585"> <thead> <tr> <th></th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Claims settled (No.)</td> <td>55,993</td> <td>57,276</td> <td>40,577</td> </tr> <tr> <td>Claims settled (Rs. Mn)</td> <td>3,697</td> <td>3,298</td> <td>2,882</td> </tr> <tr> <td>Net claims ratio (%)</td> <td>68.7</td> <td>67.5</td> <td>50.9</td> </tr> <tr> <td>Claims team (No.)</td> <td>59</td> <td>56</td> <td>56</td> </tr> </tbody> </table> | | | 2018 | 2019 | 2020 | Claims settled (No.) | 55,993 | 57,276 | 40,577 | Claims settled (Rs. Mn) | 3,697 | 3,298 | 2,882 | Net claims ratio (%) | 68.7 | 67.5 | 50.9 | Claims team (No.) | 59 | 56 | 56 |
| | 2018 | 2019 | 2020 | | | | | | | | | | | | | | | | | | | | |
| Claims settled (No.) | 55,993 | 57,276 | 40,577 | | | | | | | | | | | | | | | | | | | | |
| Claims settled (Rs. Mn) | 3,697 | 3,298 | 2,882 | | | | | | | | | | | | | | | | | | | | |
| Net claims ratio (%) | 68.7 | 67.5 | 50.9 | | | | | | | | | | | | | | | | | | | | |
| Claims team (No.) | 59 | 56 | 56 | | | | | | | | | | | | | | | | | | | | |

| | | | | |
|---|-------------------------------|-------------|-------------|-------------|
| Investment Management The Company's investment income is its primary driver of earnings and investments are managed through a dedicated Investment Management function which ensures the optimal management of funds with consideration given to market trends and risk-return dynamics. The sustained decline in interest rates adversely impacted the Company's investment income during the year. | | | | |
| | | 2018 | 2019 | 2020 |
| | Investment portfolio (Rs. Mn) | 6,658 | 7,350 | 8,574 |
| | Investment income (Rs. Mn) | 650 | 781 | 805 |
| Portfolio return (%) | 11 | 11.4 | 10.6 | |

Distribution and Marketing
 PI benefits from a multi-channel distribution strategy which includes the Company's regional offices, customer touchpoints at the parents' branch network, national sales force comprising over 300 marketing staff and agents as well as bancassurance network. Captive business (representing the portfolios of People's Leasing and People's Micro Commerce) is the largest contributor to our business with a share of around 64% in 2020. However, it is noteworthy that in line with the Company's strategic aspirations, we have reduced reliance on the captive market with direct channels accounting for 47% of premiums, compared to 42% in 2019. It is noteworthy that the Company's multi-channel strategy served it well during the year, enabling it to demonstrate resilience against the sharp drop in leasing volumes stemming from the captive market.

| Channel | Highlights in 2020 and outlook 2021 | KPI |
|--|---|-------------------|
| PLC Group captive business  64% of GWP | <ul style="list-style-type: none"> ▶ Impacted by the drop in motor vehicle insurance ▶ Maintained position as the largest contributor to the Company's GWP ▶ Expected to remain challenging given continued import restrictions | 9% decline in GWP |
| National Sales  27% of GWP 162 marketing staff 147 insurance agents | <ul style="list-style-type: none"> ▶ Expansion of the national sales force ▶ Increased focus on digital engagement | 11% growth in GWP |
| Bancassurance  5% of GWP 28 employees in regional offices of People's Bank and other 4 banks | <ul style="list-style-type: none"> ▶ Leveraged strong relationships with five banks (including People's Bank) to drive premium growth ▶ Significant potential for growth given untapped portfolio of People's Bank and opportunities for product bundling | 12% growth in GWP |
| Corporate and Broker  4% of GWP 58 brokers | <ul style="list-style-type: none"> ▶ Strategic focus on increasing penetration of the corporate clientele in the People's Bank Group ▶ Ongoing emphasis on strengthening relationships with brokers | 81% growth in GWP |

Performance and Value Creation

Business Line Reviews

The Company's product portfolio consists of four main classes of insurance with motor insurance dominating the portfolio with a share of 84% of GWP.



Motor
84%



Marine
1%



Fire
8%



Miscellaneous
7%

PRODUCT STRATEGY IN 2020

As growth in business volumes slowed down, the Company placed strategic emphasis on strengthening the customer value proposition including extending credit for premium collection, accelerating the digital drive and enhancing customer convenience. An e-insurance card was also introduced during the year and the Company commenced development of several new mobile apps including a customer service app and an assessor app which will significantly streamline the tasks of assessors.

We also launched several new products during the year, while strengthening our physical reach with the opening of three new branches in Trincomalee, Ambilitiya and Ambalanthota.

The non-life insurance industry operated in a very competitive environment as restrictions on vehicle imports and reduced economic activities led to the industry recording negative growth. PI maintained its market share during the year and outperformed the industry.

MOTOR INSURANCE SECTOR

Operating environment

The non-life insurance industry GWP declined by 1.3% in 2020 with motor insurance GWP decreasing by 3.7%. Restrictions on vehicle imports that impacted the leasing market, inevitably impacted premium growth. Net claims ratio for motor insurance dropped considerably due to lockdowns and travel restrictions imposed to contain the spread of COVID-19. Resultantly, the sector saw improvements in profitability despite a sharp decline in investment income stemming from the reduction in interest rates.

Our Performance

PI's motor GWP declined by 2% during the year, stemming mainly from the 8% decline in the captive insurance business which accounts for 64% of our motor insurance portfolio as leasing volumes decreased. However, the non-captive market performed well with a growth of 9%, reflecting the Company's recent efforts to diversify its distribution channels and pursue growth from the non-captive market.



Implications of COVID-19

- ▶ Sharp slowdown in GWP growth
- ▶ Reduction in claims from motor and health insurance
- ▶ Challenges faced in premium collections

| | 2020 | 2019 | Change % |
|-------------------------------|---------|---------|----------|
| GWP (Rs. Mn) | 5,024 | 5,132 | (2.10) |
| Reinsurance premium (Rs. Mn) | (156) | (144) | 8.12 |
| Net claims (Rs. Mn) | (2,348) | (3,143) | (25.27) |
| Underwriting results (Rs. Mn) | 1,965 | 1,125 | 74.64 |
| Net claims ratio (%) | 47.91 | 65.28 | (26.61) |

Reinsurance premiums ceded increased by 8% due to higher non-motor business growth and change of reinsurance arrangements. Motor insurance claims declined significantly during the year due to lockdowns and travel restrictions imposed and the net claims ratio improved to 47.91% from 65.28% the previous year. This resulted in an underwriting profit of Rs. 808 Mn compared to Rs. 65 Mn recorded in the previous year.

NON-MOTOR INSURANCE SECTOR

Market Performance

The entire non-motor insurance lines recorded positive results during the year with fire, miscellaneous and marine insurance increasing by a respective 4%, 122% and 11% during the year. On the other hand, marine and general accident categories declined by a respective 3% and 10%.

Our Performance

| | 2020 | 2019 | % Change |
|--|-------|-------|----------|
| GWP (Rs. Mn) | | | |
| Fire | 504 | 483 | 4.3 |
| Marine | 42 | 19 | 121.1 |
| Miscellaneous | 441 | 396 | 11.4 |
| Reinsurance premium (Rs. Mn) | | | |
| Fire | (370) | (331) | 11.8 |
| Marine | (31) | (15) | 101.7 |
| Miscellaneous | (119) | (90) | 32.2 |
| Net claims (Rs. Mn) | | | |
| Fire | (69) | (67) | 3.0 |
| Marine | (1) | (2) | (50.0) |
| Miscellaneous | (280) | (342) | (18.1) |
| Underwriting results before other expenses (Rs. Mn) | | | |
| Fire | 88 | 107 | (17.8) |
| Marine | 10 | 3 | 233.3 |
| Miscellaneous | 18 | (43) | 141.9 |
| Net claims ratio (%) | | | |
| Fire | 54 | 45 | 9.0 |
| Marine | 15 | 59 | (44.0) |
| Miscellaneous | 106 | 115 | (9.0) |

PI's non-motor categories recorded commendable growth, with all three product lines, fire, marine and miscellaneous, demonstrating GWP growth during the year. Reinsurance premiums ceded also increased due to GWP growth, but at an accelerated rate, given a slight shift towards reinsuring a higher portion of the risk of each insurance class.

Although claims for fire insurance increased during the year, all other classes showed a decrease in the number of claims. Health insurance claims included under miscellaneous also declined significantly, given elevated safety risks and policy holders preference to minimise visits to hospitals.

The fire and marine sectors remained profitable in 2020 with the underwriting profits of the fire sector declining 20% and the marine sector increasing 228%. The miscellaneous sector made an underwriting loss during the year as health insurance claims, although lower than the previous year, still remained high. Underwriting loss in the miscellaneous sector was however less in the current financial year.

Outlook

Our focus in the coming year will be on strengthening all sales channels and expanding geographical reach to increase coverage. To support expanding our sales channels, we will recruit additional staff, promote cross selling within the People's Bank Group for bancassurance and seek increased penetration among the corporate clients of the Peoples' Group for corporate & broker. Digitisation will remain a key priority with the introduction of mobile applications which will facilitate convenience to the customer and drive service excellence. Introduction of innovative new products, improving processes and delivering service excellence is expected to drive give us an edge, in an industry which is seeing intensifying competition.

Performance and Value Creation



The Company's Financial Capital consists of its monetary resources which enable strategic actions and in turn provide the quantum of value delivered to our stakeholders.

</> FINANCIAL CAPITAL

Rs. 1.35 Bn
Capital

Rs. 4.61 Bn
Shareholders funds

Rs. 1.59 Bn
Cash generated from operations

Highlights of 2020



Maintained revenue despite the adverse industry conditions



Significant improvement in claims ratio supported overall profitability



Record underwriting and overall profitability

Value nurtured/trade-offs



Rs. 1.20 Bn profit-after-tax, delivering on the Company's shareholder commitments

Key performance indicators

SHAREHOLDER VALUE

- ▶ Earnings per share: Rs. 5.98 (2019: Rs. 3.24)
- ▶ Dividend per share: Rs. 3.00 (2019: Rs. 1.85)
- ▶ Share price increase: 30%

UNDERWRITING PERFORMANCE

- ▶ Claims ratio declined to 51% from 68% the year before
- ▶ 11-fold increase in underwriting profit to Rs. 808 Mn

EFFICIENCIES

- ▶ Expense ratio of 34% supported by the Company's unique distribution model

WAY FORWARD ▶

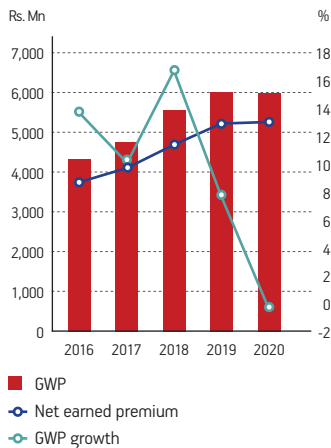
Focus on sustainable value growth including prudent investment and expense management to ensure consistent value distribution to shareholders

FINANCIAL PERFORMANCE

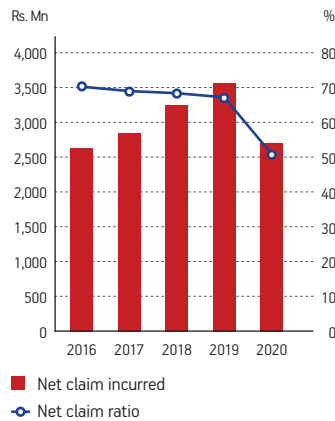
Summary

| | 2020 | 2019 | Variance |
|------------------------------------|---------|---------|----------|
| Gross written premium (Rs. Mn) | 6,012 | 6,030 | -0.3% |
| Net earned premium (Rs. Mn) | 5,303 | 5,262 | 0.8% |
| Net claims and expenses (Rs. Mn) | (4,495) | (5,196) | -13.5% |
| Underwriting profit (Rs. Mn) | 808 | 65 | 1139% |
| Investment & other income (Rs. Mn) | 859 | 847 | 1.5% |
| Profit before tax (Rs. Mn) | 1,667 | 912 | 82.9% |
| Taxation (Rs. Mn) | (472) | (264) | 78.6% |
| Profit for the year (Rs. Mn) | 1,195 | 648 | 84.6% |
| Net claims ratio (%) | 50.90 | 67.52 | -24.6 |
| Net expense ratio (%) | 33.86 | 31.24 | 8.4 |
| Net combined ratio (%) | 85.76 | 98.76 | -13.2 |

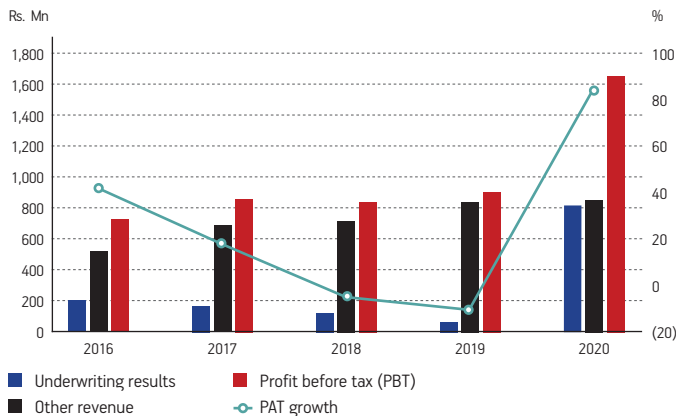
Premium Income



Net Claims



Profitability



EXCEPTIONAL FINANCIAL PERFORMANCE AMIDST ADVERSITY

The year under review was one of extraordinary challenges, with the deep-drawn effects of the COVID-19 pandemic, the inevitable economic downturn and sustained decline in interest rates impacting the entire insurance industry. That said, the Company's strategic agility and resilience, as we quickly adapted to successfully face the challenges of the year, is aptly demonstrated by our results. Despite the conditions that prevailed, the Company delivered record growth and profitability, with profit after tax increasing by 84.6% over the previous year to Rs. 1,195 Mn the highest profit in the Company's history.

Gross Written/Net Earned Premium

Gross written premium (GWP) declined marginally by 0.3% during the year, in comparison to the overall industry's GWP contraction of 1.3% at the end of 2020. All sectors other than the motor sector recorded growth in GWP, while as the highest contributor to the Company's GWP with a share of 84%, the drop in motor insurance inevitably

impacted overall GWP. Overall, expected GWP growth was impacted by limited growth in the motor sector due to restrictions on motor vehicle imports, disruption of normal business operations due to COVID-19 lockdowns and travel restrictions and the general economic downturn resulting from the COVID-19 pandemic.

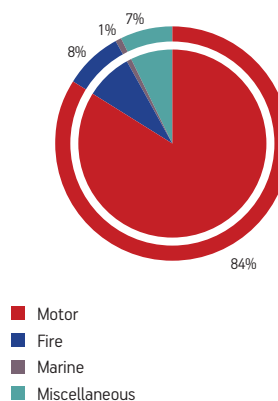
The change in the reserve of the unearned premiums decreased by 60% in 2020, positively impacting gross earned premiums. The decline in GWP during the year was a contributory factor to this reduction.

Reinsurance premiums ceded increased 16% to Rs. 675 Mn during the year mainly due to change of reinsurance arrangements. Overall, net earned premium increased by 0.8% to Rs. 5,303 Mn in 2020.

Insurance Claims and Other Expenses

Falling claims across all insurance categories except for fire, resulted in net claims decreasing 24% to Rs. 2,700 Mn during the year. A significant reduction in motor claims by 25% as lockdowns and travel restrictions became the norm was the main contributory factor.

Premium Composition



Performance and Value Creation

Underwriting and net acquisition costs increased by 8.2% to Rs. 560 Mn as the Company focused on non-motor GWP growth. Other operating and administrative expenses also increased by 10.5% to Rs.1,216 Mn. As a result of the initiatives taken to expand the Company's operation and service provided, increase of the brand awareness of the Company and increased debtors impairment changes amidst the COVID-19 pandemic.

The Net combined ratio, which is the addition of the claims ratio and the expense ratio decreased to 85.8% (2019 - 98.8%) with the reduction in the cost of claims. Our combined ratio continued to remain below 100%.

Underwriting Results

Underwriting profit increased significantly during the year to Rs. 808 Mn (2019 - Rs. 65 Mn) as claims and expenses decreased by 13.5% on the back of a marginal 0.3% decline in GWP. The Company continues to be one of the few non-life insurers generating underwriting profits, backed by low-cost distribution model and captive market.

Investment and Other Income

PI's investment and other income comprised fee income, interest and dividend income, net fair value gains/losses and other income which increased by 1.48% to Rs. 859 Mn during the year. Lower interest rates and a marginal fall in GWP resulted in decreasing fee income and interest income which was offset by an increase in net realised gains and net fair value gains on PI's investment portfolio.

Profits

Profit before tax increased by 82.8% to Rs.1,668 Mn during the year. The higher profit resulted in an increased income tax charge of Rs. 472 Mn for the year. Net profit for the year grew by 84.6% to Rs.1,195 Mn, the highest profit recorded by PI.

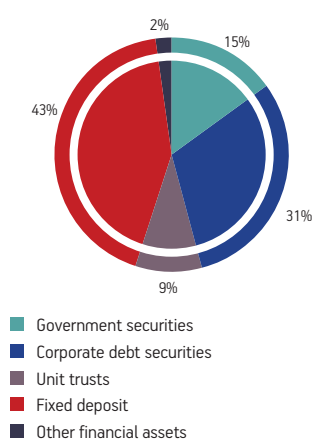
FINANCIAL STRENGTH AND STABILITY

Assets

Our financial position continued to strengthen with a 10.6% growth in total assets to Rs.10.6 Mn. Additions to PPE amounted to Rs. 43 Mn and included office equipment, computer hardware, furniture and fittings and a reclassification under SLFRS 16 on right of use assets.

Financial investments comprised 81% of the total assets of PI. Despite reductions in interest rates and dividend payments, financial assets grew by 16.7%, supported by profit growth and reinvestment of interest earned. Our investment portfolio continued to be dominated by investments in fixed deposits (43%) and quoted corporate debentures (26%). We have continued to diversify our

Our Investment Portfolio - 2020



investment portfolio by increasing our exposure to unit trusts (9%) and unquoted corporate debentures (3%). The investment philosophy of PI balances the risks and returns of its investment strategy that underpins the guidelines and regulations for investments under the Risk Based Capital (RBC) regime of the IRCSL.

Overall difficulties experienced in collections from customers during the year increased insurance receivables by 15% to Rs.1,133 Mn amidst the COVID-19 pandemic.

Equity

Our strong equity position made up of stated capital, retained earnings and other reserves of Rs. 4,619 Mn has enabled us to maintain a CAR well above the minimum capital requirements of the RBC regime at 304%.

Liabilities

Insurance contract liabilities includes gross provisions for outstanding claims, incurred but not reported claims and the provision for net unearned premium. Insurance contract liabilities made up 77% of liabilities and decreased by 6% as at year end in line with the significant decline in claims and marginal decline in GWP.

To ensure that the required insurance provisions stipulated by the insurance regulator, the IRCSL, were met, we obtained a certification from an independent professional actuarial firm, NMG Financial Services Consulting Pte Ltd. (NMG), on the adequacy of the provisioning for incurred but not reported claims (IBNR) as at 31st December 2020. The IBNR provision, together with

case reserves is expected to be adequate to meet future liabilities in respect of our claims obligations as at 31st December 2020.

At the end of each reporting period, insurance companies are required to carry out a Liability Adequacy Test (LAT) according to Sri Lanka Financial Reporting Standards (SLFRS) 4 - Insurance Contracts. LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). PI's consultant actuaries, NMG has certified that UPR maintained by us is adequate in relation to the unexpired risks of PI as at 31st December 2020.

Income tax payable amounted to Rs. 435 Mn (+293%) as our income tax expense for the year increased with the profit before tax growth.

CASHFLOWS

The Company's cash position improved during the year, recording an increase in cash and cash equivalents of Rs. 72 Mn compared to a decrease of Rs. 178 Mn in the previous year. Cash flows from operating activities grew 59% to Rs.1,597 Mn as claim payments and reinsurance premiums paid decreased in addition to an increase in reinsurance claims receipts and interest received. Excess cash was utilised to invest in financial instruments and purchase of PPE, resulting in a cash outflow from investing activities of Rs. 1,237 Mn. Net cash outflows from financing activities declined to Rs. 287 Mn, mainly as a result of reduced dividends paid during the year.

Value Created for Shareholders

It was a year of historic profits for PI. In keeping with the guidelines issued by the IRCSL, a dividend was not paid for the year 2020. A second interim dividend of Rs.1.10 per share was declared for the year ended 31 December, 2019, which was paid in March 2020. A final dividend of Rs. 3 per share amounting to Rs. 600 Mn has been declared by the Board of Directors subject to the approval of shareholders for the year 2020 upon complying with the regulations imposed by the IRCSL.

| | 2020 | 2019 | Variance % |
|--------------------------------|-------|-------|------------|
| Earnings per share (Rs.) | 5.98 | 3.24 | 84.6 |
| Dividends per share (Rs.) | 3.00 | 1.85 | 62.2 |
| Net assets per share (Rs.) | 23.09 | 18.21 | 26.8 |
| Return on assets (%) | 11.28 | 6.76 | 66.9 |
| Return on equity (%) | 25.88 | 17.78 | 45.6 |
| Share price (closing) (Rs.) | 28.20 | 21.70 | 30.0 |
| Market capitalisation (Rs. Mn) | 5,640 | 4,340 | 29.9 |
| P/E ratio | 4.72 | 6.70 | -29.6 |
| Dividend pay-out ratio (%) | 50.20 | 57.13 | -12.1 |

The Company's Manufactured Capital ensures ongoing customer interaction and smooth functioning of operations through its branch reach and digital infrastructure. Our transformation to a client-centric, digitally enabled organisation is heavily dependent on the quality and adequacy of our Manufactured Capital.

</> MANUFACTURED CAPITAL

15
regional offices

24X7
contact centre

25
window offices at
People's Bank

113
window offices at People's
Leasing & Finance PLC

Highlights of 2020



Addition of 3 new regional offices to the Company's network



Acceleration of the Company's digital journey through facilitating online channels

Value nurtured/trade-offs



Rs. 39 Mn financial capital investments in strengthening manufactured capital



Improved customer convenience, leading to improved satisfaction and loyalty



Continuous improvements in process efficiencies

Key performance indicators

VOLUME GROWTH

- ▶ 34% fixed assets turnover ratio
- ▶ Rs. 6.01 Bn sales generated
- ▶ 72% customer retention
- ▶ 116,426 new policies issued

EFFICIENCIES GENERATED

- ▶ Improvement in claims processing time
- ▶ Zero-system breakdown

WAY FORWARD ▶

Accelerate digital journey with launch of apps for sales management, claims assessment and customer service

CUSTOMER TOUCHPOINTS

The Company's low-cost distribution model, which stems from its ability to leverage the extensive island-wide branch reach of both its parent and ultimate parents a key aspect of its' branch network. PI's network comprises 154 customer touch points across all districts which includes corporate office, regional offices and window offices in PLC branches and People's Bank branches. Despite the conditions that prevailed during the year, the Company added 3 regional offices in strategic locations in Trincomalie, Embilitiya and Embalanthota driving further penetration across the country.

| | 2020 | 2019 |
|--|------|------|
| Corporate office and regional offices | 16 | 13 |
| Window offices at PLC and People's Bank branches | 138 | 138 |
| Total customer touch points | 154 | 151 |
| Investment in the distribution network | | |
| 1) Expansion (Rs. Mn) | 12 | 18 |
| 2) Maintenance and upgrade (Rs. Mn) | 2 | 4 |

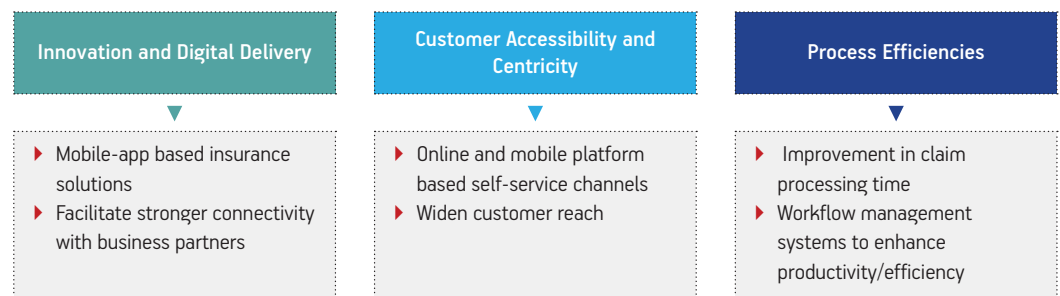
Physical infrastructure accounts for 89% of the Company's PPE, while digital infrastructure accounts for the remainder. With investments in digital capabilities gradually increasing, it is expected to account for a larger profile of the Company's PPE over the medium to long-term.

VALUE ADDITION IN 2020

Given the conditions that prevailed during the year and customers' increased prevalence towards online platforms, our strategy for the year focused primarily on our digital infrastructure. Accordingly, the Company invested Rs. 13.9 Mn in the following:

- ▶ Facilitate work-from-home facilities for all critical employees through providing infrastructure and VPN connections
- ▶ Development of online platforms to ensure continuity of business including the sales app - CAMS
- ▶ Facilitate the payment of premiums through online platforms including mCash, company website and PLC Online channel

Even prior to the pandemic, the Company had identified digital delivery as an effective way of driving down reductions in acquisition cost. Over the short to medium-term, we will seek to accelerate our digital journey, focusing on the Company's three focus areas of innovation, delivery efficiency and customer centricity as illustrated below.



Robust information systems: Our digital journey is supported by an integrated, end-to-end insurance system which supports the efficient functioning of key operational processes. Five modules support core functions such as policy and claims processing, underwriting, reinsurance as well as non-core functions. The system also facilitates effective decision making and risk management through providing timely and reliable information. The Company also currently operates an e-portal across 739 People's Bank branches, which has allowed it to increase contributions from the bancassurance channel.

WAY FORWARD

The Company has ambitious plans in place to further accelerate its digital journey, with several innovations planned over the short to medium-term.

- ▶ Increased focus on mobile platforms including the launch of apps for assessors, sales management and customer, thereby facilitating convenience to the customers and improved process efficiencies
- ▶ Continued emphasis on remote working as well as further improvements to disaster recovery and business continuity plans to ensure safety of employees given the evolving nature of the pandemic

Performance and Value Creation

As a service organisation, the skills and motivation of our 622 - strong team is among the Company's most valuable assets. We nurture our human capital through providing opportunities for skill and career development in a rewarding and conducive work environment.

</> HUMAN CAPITAL

622
employees

19%
female
representation

116
new recruits

29
average age of
employees

Highlights of 2020



116 recruits added to the team



Efforts to strengthen the Company's performance management system



Launch of a culture statement to shape a dynamic and professional organisation



Formation of a trade union by employees

Value nurtured/trade-offs



Rs. 557 Mn payments to employees



Rs. Rs. 4.7 Mn investment in training and development



146 employees promoted during the year



Rs. 7.6 Mn investment in ensuring employee safety

Key performance indicators

EMPLOYEE DEVELOPMENT

- ▶ 7.4 average training hours
- ▶ 2,721 total training hours

DIVERSE WORK PLACE

- ▶ 27% female representation at senior management level
- ▶ 100 retention of employees after maternity leave.

ENSURING EMPLOYEE SAFETY

- ▶ Work from home facilitated for 87 employees
- ▶ 1 instance of COVID-19 infections

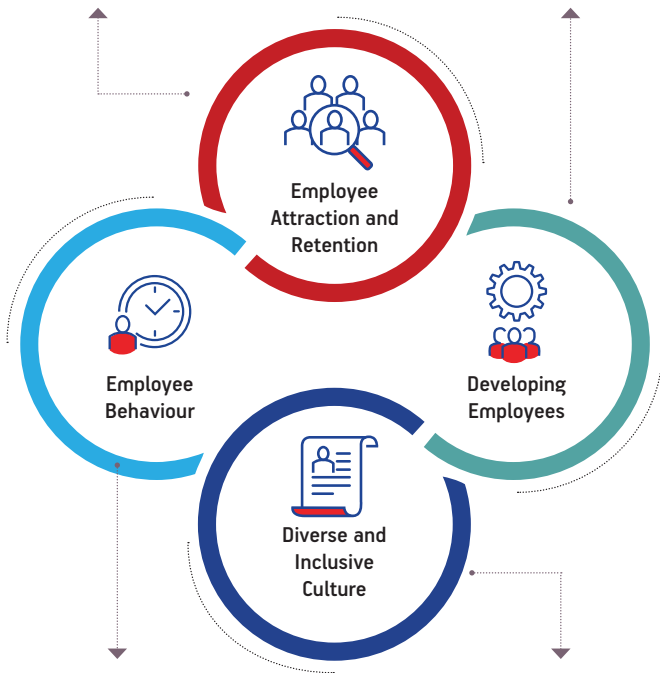
WAY FORWARD ▶

- ▶ Nurture a dynamic and performance-driven organisational culture
- ▶ Enhance employee productivity and optimise resource allocation through restructuring the organisation into 4 verticals
- ▶ Digitisation of HR processes

OUR APPROACH TO HUMAN CAPITAL MANAGEMENT

In recent years, PI has strived to drive increased professionalism and dynamism across the organisation through strengthening people-related policies, governance structures and formulating a people strategy which is aligned to the Company's corporate strategy. While generally in line with the policy framework of the People's Bank Group, the Company's policies have been refined to reflect industry dynamics and market practices. The Company's policy framework is structured as follows:

- | | |
|--|---|
| <ul style="list-style-type: none"> ▶ Recruitment Policy ▶ Performance Management Policy ▶ Communication Policy ▶ Grading , title matrix and benefits policy ▶ Certificate of Appreciation ▶ Bonus Policy | <ul style="list-style-type: none"> ▶ Training and Development Policy ▶ Succession Planning ▶ Career progression and promotion policy |
|--|---|



- | | |
|---|---|
| <ul style="list-style-type: none"> ▶ Employee handbook - Includes details on recruitment, transfers, working hours, dress code, training and development, communication, workplace behaviour and safety at work among others ▶ Employee Code of Conduct- Sets out employee expectations on general conduct as well as moral and ethical conduct. ▶ Disciplinary Code ▶ Anti Fraud Policy ▶ Anti Bribery Policy ▶ Code of Ethics | <ul style="list-style-type: none"> ▶ Non-discrimination policy ▶ Gender parity - policies to prevent sexual harassment at the workplace, diversity and inclusion as well as guidelines on gender pay equality ▶ Whistleblowing policy ▶ Grievance handling policy |
|---|---|



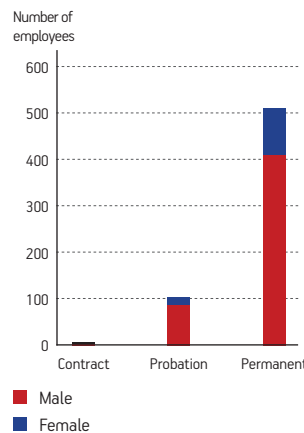
Implications of COVID-19

Following the outbreak of the pandemic, ensuring health and safety of employees emerged as a key priority and the Company took proactive measures to implement stringent safety protocols across the organisation. Work-from-home arrangements were facilitated for all office employees while digital platforms were used to maintain engagement and continuously offer training and development opportunities.

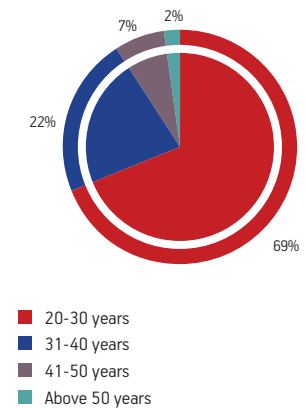
TEAM PROFILE

People's Insurance team comprises 622 high-performing employees who facilitate our customer experience and are empowered to deliver results. With an average age of 29, the team is young and agile with a high level of adaptability to changing dynamics. We do not engage employees on a part-time basis. Given the conditions that prevailed during the year, the Company sought to curtail recruitments and additions to the team amounted to just 116 though a higher number was budgeted. The profiles of new employees are also presented below:

Team by Contract and Gender



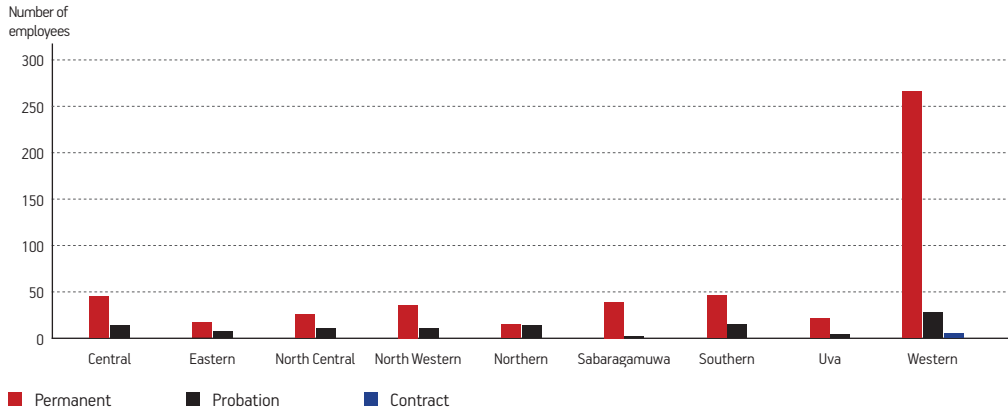
Age Representation



19%
overall female representation rate

Performance and Value Creation

Employment by Contract and Region



Profiles of new recruits 2020

| New recruits by age | | | New recruits by gender | | | New recruits by location | | |
|---------------------|--------|-------------|------------------------|--------|-------------|--------------------------|--------|-------------|
| | Number | Composition | | Number | Composition | | Number | Composition |
| 20-30 | 98 | 84% | Male | 92 | 79% | Central | 12 | 10% |
| 31-55 | 9 | 8% | Female | 24 | 21% | Eastern | 7 | 6% |
| 41-50 | 7 | 6% | | | | North Central | 12 | 10% |
| Over 50 years | 2 | 2% | | | | North Western | 10 | 9% |
| | | | | | | Northern | 8 | 7% |
| | | | | | | Sabaragamuwa | 5 | 4% |
| | | | | | | Uva | 2 | 2% |
| | | | | | | Western | 41 | 35% |
| | | | | | | Southern | 19 | 17% |

HR STRATEGY IN 2020

The Company's HR strategy for the year centred on establishing a foundation for driving a step-change in HR practices to facilitate the creation of a dynamic, agile and performance-driven workforce. Key priorities included the following:

Transforming Organisational Culture

The Company launched a new culture statement during the year, setting the tone for the behaviour expected from employees in achieving the Company's strategic aspirations. The statement encourages employees to challenge the status quo, embrace change and fulfill the needs of external stakeholders through understanding and anticipating their needs. The culture statement

was propagated to employees through ongoing engagement and awareness sessions. The Company also implemented a coordinated change management programme to drive the transformation to a more dynamic and agile organisation.

Strengthening the Performance Management System

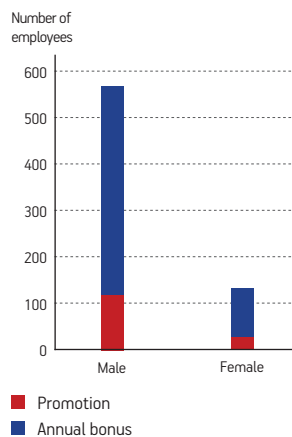
During the year, the Company laid the groundwork for transforming its performance management system with the aim of aligning it to the Company's corporate strategy and competency

framework. Accordingly, steps were taken to streamline the Company's KPI and KRA framework, focusing on the competencies required to drive the Company's strategy. We also enhanced transparency of the performance management system, ensuring all employees clearly understood the Company's expectations in driving performance. The Company's permanent employees currently undergo two performance appraisals during the year with performance assessed against pre-defined KPIs at an individual and collective level. During the year under review, 146 employees were assessed for promotions and 556 were evaluated for bonus payments.

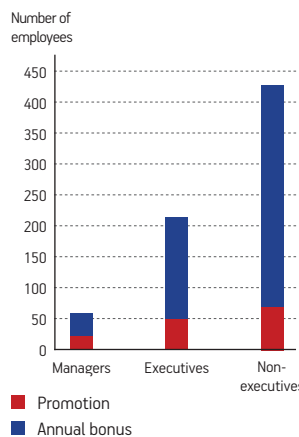
Employee Productivity

Enhancing productivity was a key priority during the year as we focused on optimising human capital resources, realigning the organisational structure and right sizing operations to drive congruence to corporate plans and strategies.

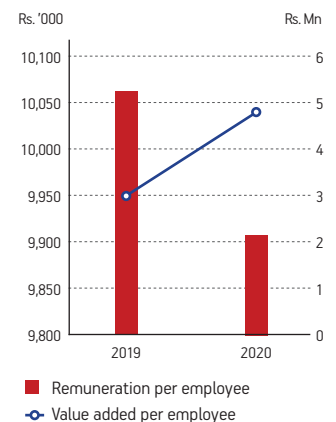
Appraisals by Gender



Appraisals by category



Employee Productivity



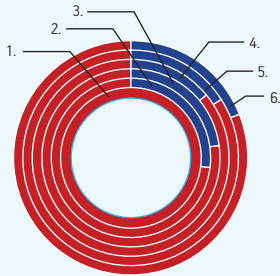
Gender Parity in PI

The Company is committed to developing an equitable and inclusive organisational environment in which all employees can thrive. Driving gender equality remains vital to this agenda and we have strengthened our policy framework, employee practices and HR strategy to build a workplace which offers women the opportunity to achieve their career aspirations while maintaining a good work-life balance.

Policies Ensuring Gender Parity

| Diversity and inclusion | Remuneration | Sexual harassment | Training opportunities |
|----------------------------|--|-------------------------------|--|
| Equal opportunity employer | No gender-based discrimination on remuneration | Anti-sexual harassment policy | Equal opportunities for training and development |

Gender representation across categories



| | Female | Male |
|--------------------------------|--------|--------|
| 1. Board of Directors | 0% | 100.0% |
| 2. Senior management and above | 27% | 73.0% |
| 3. Management | 23% | 77.0% |
| 4. Senior executive | 14% | 86.0% |
| 5. Executive | 16% | 84.0% |
| 6. Other | 19% | 81.0% |

Employee Practices

Employees are encouraged to work from home as a new initiative and they are equipped with required facilities to enable remote working.

Our track record

The overall gender representation remains skewed towards males mainly due to the nature of the industry which typically employs males for marketing and field officer roles. However, female representation is relatively high at management levels demonstrating the Company's commitment towards creating an equitable and inclusive workplace for women.

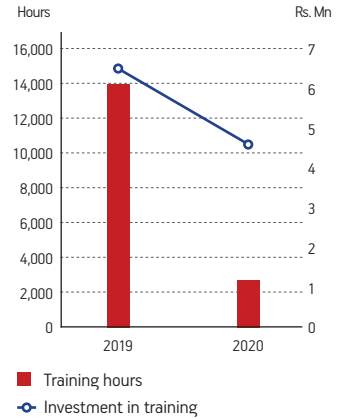
Female representation in key departments

| | Female |
|--------------|--------|
| Finance | 26% |
| HR | 50% |
| Legal | 75% |
| Audit | 60% |
| Sales | 4% |
| Underwriting | 17% |
| Other | 52% |

24%
of new recruits are females

100%
return to work after maternity leave

Training Record



Training hours

Executive and management: 59
Non-executive: 2,662

Internal trainings on

- ▶ Processes and products

External trainings on

- ▶ Practicing mindfulness at work
- ▶ The CFO of the future
- ▶ Professional grooming & Motivational programme
- ▶ Brand coordinator training
- ▶ Customer service for Excellence experience
- ▶ Disruptive & exponential innovation in the post COVID world
- ▶ Timely updates on taxation and finance

TRAINING AND DEVELOPMENT

The Company continued to invest in upskilling employees, with several programmes delivered through digital platforms during the year. Talent gaps are identified through performance appraisals and a comprehensive training calendar is developed in order to address these gaps. A dedicated training and a development centre staffed with internal faculty drives all internal training programmes, thereby nurturing a culture of knowledge sharing across the organisation. The Company also supports the lifelong learning of employees through reimbursing 100% of fees incurred for professional insurance, marketing and finance qualifications, professional subscriptions and MBAs. The training proposition includes the following:

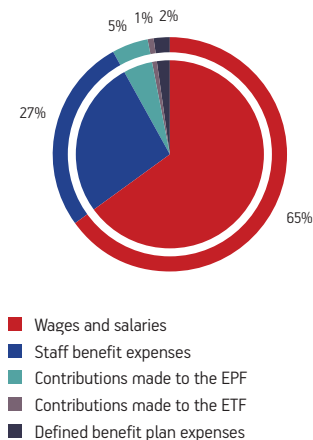


Performance and Value Creation

REWARDS AND REMUNERATION

The Company offers competitive and attractive remuneration which is designed to attract and retain talent. Remuneration consists of both fixed and variable elements, with the latter determined through annual performance appraisals. We also contribute 12% of the basic salary to the Employee Provident Fund and 3% to the Employee Trust Fund. Total remuneration to employees amounted to Rs. 557 Mn during the year, an increase of 12% compared to 2019.

Compensation and Benefit



Benefits given to permanent employees

- ▶ Medical insurance
- ▶ Vehicle loans
- ▶ Travelling reimbursements
- ▶ Housing loan interest reimbursements
- ▶ Gymnasium facilities
- ▶ Mobile phones
- ▶ Staff welfare society benefits (including death donations)

ENGAGEMENT

The conditions that prevailed during the year necessitated a strengthening of employee engagement, to ensure emotional well-being as well as maintaining motivation levels. Given requirements for social distancing, the Company sought to enhance engagement through digital channels for frequent meeting at department level.

Grievance mechanisms:

Employees are encouraged to openly communicate their issues and grievances with their immediate supervisors and management. The Company's organisational culture and relatively flat structure encourages open-door communication. In addition, our employees also have recourse to a formal grievance redressal mechanism, independently managed by the HR department. In the reporting year, we did not record any grievances on labour practices or violations of human rights under this formal mechanism.

WAY FORWARD







The year 2021 is expected to be a transformative year for the Company's HR function as it drives broad-based changes in organisational culture, performance management and operational processes. The Company will also seek increased digitisation of HR processes thereby enhancing efficiency and progressing towards achieving paperless aspirations.

COLLECTIVE BARGAINING AND FREEDOM OF ASSOCIATION

We recognise our employees' right to be represented by trade unions and enter into collective bargaining agreements. During the year, our employees formed a trade union and we maintained cordial relations with the union representatives. At present, the Company does not have any collective bargaining agreements in place, but adequate notice is given regarding any significant operating changes to ensure employee buy-in.

In a service industry such as ours, the ability to understand changing consumer preferences and respond through innovative solutions is key to sustaining the competitive edge. This ability is largely dependent on intangible factors such as organisational capital and tacit knowledge, which form the Company's Intellectual Capital.

</> INTELLECTUAL CAPITAL

| | Highlights of 2020 | Value nurtured/trade-offs | Key performance indicators |
|--------------------------------------|--|--|---|
| Group synergies |  <p>Leveraged the People's brand to increase penetration through captive business</p> |  <p>Rs. 4.7 Mn investment in training and development Rs. 39.8 Mn investment in brand building</p> | <p>BUSINESS GROWTH THROUGH GROUP SYNERGIES</p> <ul style="list-style-type: none"> ▶ Rs 3.80 Bn GWP generated through captive channels ▶ Rs. 288 Mn generated through bancassurance <p>EFFICIENCIES</p> <ul style="list-style-type: none"> ▶ Expense ratio of 34% considerably better than industry average |
| The 'People's' Brand |  <p>Ongoing initiatives aimed at brand building initiatives</p> |  <p>Persistent improvements in efficiencies will lead to long-term growth in financial capital</p> | |
| Collective knowledge of employees |  <p>Ongoing investment in training and development</p> |  <p>Development of human capital through a unique base of organisational capital</p> | |
| Organisational systems and processes | | | |

WAY FORWARD ▶

- ▶ Promote cross selling by further leveraging Group synergies
- ▶ Drive further improvements in processes and service delivery

Performance and Value Creation

OUR BRAND

The Company benefits from its unique position within the People's Bank Group, thereby leveraging the People's brand to drive business volumes and customer loyalty, emerging among the fastest growing non-life insurers in the country. The People's brand is one of Sri Lanka's strongest financial service brands and as the second largest licensed commercial bank and largest NBFi in the country, the state-owned People's Bank and People's Leasing & Finance PLC are associated with the brand attributes of trust, stability, and long-term partnership. The brand is frequently featured among the country's top brands in independent brand rankings including the following:

Brand Accolades in 2020

Peoples Bank: Sri Lanka's 3rd most valuable brand with a value of Rs. 44.75 Bn (Brand Finance 2020)

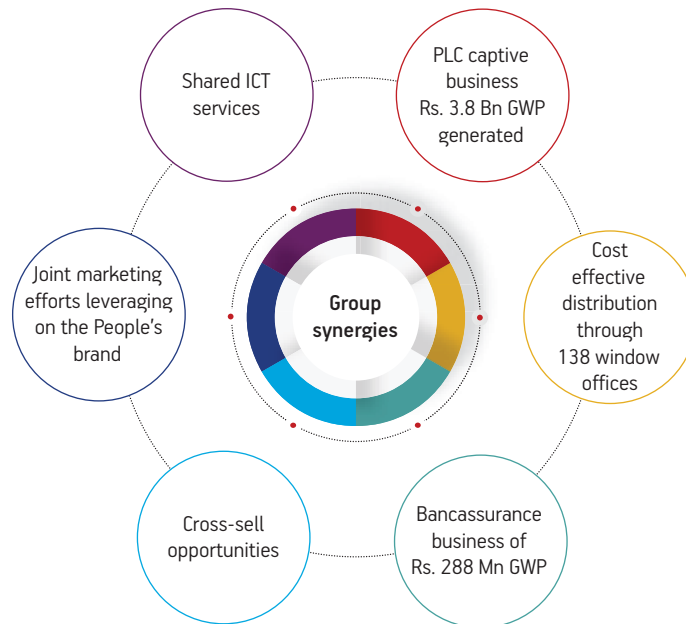
People's service brand of the year 2020-SLIM Neilsen People's Awards

People's Banking Service Provider of the year 2020-SLIM Neilsen People's Awards

People's Leasing & Finance: Financial Services Brand of the Year with a brand value of Rs. 8.79 Bn

GROUP SYNERGIES

The Company accrues numerous benefits from being part of a leading financial services group including the ability to leverage on the strength of the brand, the parents' distribution network, customer accessibility, joint marketing efforts and shared back-office functions among others. Although captive business declined during the year under review in view of the non-conducive environment in the leasing industry, it continues to dominate the Company's income profile, with a share of 53% during the year.



ORGANISATIONAL TACIT KNOWLEDGE

Operating in a service industry, organisational capital forms a key element of our competitive edge as it supports strategy formulation, collaborating with business partners and understanding customer and market dynamics. As we drive towards nurturing a performance-driven culture, we will also seek to strengthen this knowledge base through a culture of mentoring, coaching and knowledge sharing.

SYSTEMS AND PROCESSES

Compliance to several certifications and management frameworks served the Company well during the year, as prevalent conditions required a step-change in our operating model and ways of working. These frameworks offered a solid

foundation for this transformation, ensuring fundamentals remained unchanged while providing the flexibility to embrace new ways of working. Key systems include;

- ▶ ISO 9001: 2005 Quality Management Certification: we are the only general insurer to have obtained this certification from the national body for quality management systems, Sri Lanka Standards Institution. The Certification covers the provision of services related to underwriting the insurance policies, claim settlement and supportive services for general insurance covering fire, engineering, marine, motor vehicle, employer's liability and miscellaneous insurance business and arranging reinsurance and co-insurance services

- ▶ 5S in collaboration with the National Productivity Secretariat

WAY FORWARD

The implementation of IFRS 17- Insurance Contracts has been deferred by one year to 2023 in view of the challenges faced by the industry in the implementation. We have currently completed the first stage of the implementation and geared towards the second stage and are confident of meeting the required timeline for implementation.

As industry competition intensifies, nurturing and maintaining meaningful and mutually beneficial relationships with our customers, business partners and communities is key to sustaining our competitive edge.

</> SOCIAL AND RELATIONSHIP CAPITAL

181,268
customers

253 business partners
including agents/
brokers, suppliers and
reinsurance providers

Relationships
with parent and
ultimate parent

Community
relationships

Highlights of 2020



Strengthened customer engagement through digital platforms while adding 3 branches to the network



Development of new products

Value nurtured/trade-offs



Rs. 1,805 Mn new business generated



Rs. 39.9 Mn investment in marketing communications will strengthen brand and drive increased customer attraction

Key performance indicators

DRIVING CUSTOMER SATISFACTION

- ▶ 100% customer complaints resolved
- ▶ Increased customer convenience through offering digital platforms for premium payments

BUSINESS GROWTH THROUGH RELATIONSHIPS

- ▶ Maintained GWP levels despite sharp downturn in leasing industry and adverse industry conditions
- ▶ Achieved growth in fire and miscellaneous business

WAY FORWARD ▶

- ▶ Strengthen relationships with parent and group companies in driving growth while pursuing parallel growth through other channels
- ▶ Ongoing focus on understanding customer needs and responding through innovative, affordable products
- ▶ Accelerate digital journey to drive increased convenience and accessibility, thereby sharpening the Company's competitive edge

Performance and Value Creation

MANAGING OUR STAKEHOLDER RELATIONSHIPS

As a service industry operator in a regulated industry, we place strategic emphasis on maintaining the highest degree of transparency and integrity in all our stakeholder dealings. This is facilitated through a comprehensive suite of policies and governance structures and well as a range of formal and informal platforms to maintain proactive engagement with all stakeholders, as set out on pages 41 to 42 of this Report. The Company's 'Policy on Business Ethics' clearly sets out the expectations we have from our employees when transacting with third parties. During the year under review, there were no reported incidents of corruption and/or fraud and no fines/penalties for non-compliance with laws and regulations pertaining to socio-economic compliance.

CUSTOMER RELATIONSHIPS

Customers are at the heart of everything we do and our customers comprise 181,268 individuals, SMEs and corporates representing all districts across the island. The majority of our customer relationships originate through the Company's captive business. Despite the challenging conditions that prevailed, National Sales, Corporate and Broker and Bancassurance channels contributed for the non-captives business growth.



Implications of COVID-19

The conditions that prevailed during the year, necessitated a strengthening of customer engagement as well as increased focus on customer convenience through facilitating digital platforms for transactions. In line with the guidelines introduced by the regulator, the Company also offered a three-month extension for premium payments for policies commenced from 1st March 2020 to 30th June 2020.

Customers in numbers

181,268

Total customers

5%

Growth in policy volume

Delivering the customer value proposition 2020

| Pillar | Developments | KPIs |
|---------------------------------------|---|---|
| Portfolio of relevant products | <p>The Company offers a wide array of personal and business non-life insurance products ranging from motor vehicle and healthcare to marine and burglary insurance. Our products consist of both generic products and value-added products which offer premium features. New products launched during the year included the following;</p> <ul style="list-style-type: none"> ▶ People's Guardian: Extended Personal Accident Benefit(PAB) cover with lower premium ▶ Home Insurance 'Niwahana' for individuals/families owning a residence ▶ Package policies for tractors, school vans, motor bikes and lorries ▶ Marine insurance for fishing boat owners | <p>7 New products launched</p> <p>New business generated Rs. 1,805 Mn</p> |
| Convenience and accessibility | <p>In addition to the Company's physical contact points (referred below), PI facilitated engagement and transactions through online channels, thereby enhancing convenience and accessibility.</p> <div style="display: flex; flex-wrap: wrap; justify-content: space-around;"> <div style="background-color: #4CAF50; color: white; padding: 5px; margin: 5px;">16 corporate office and regional offices</div> <div style="background-color: #2196F3; color: white; padding: 5px; margin: 5px;">113 window offices at PLC</div> <div style="background-color: #3F51B5; color: white; padding: 5px; margin: 5px;">28 representatives at People's Bank</div> <div style="background-color: #9C27B0; color: white; padding: 5px; margin: 5px;">205 Insurance brokers and agents</div> <div style="background-color: #795548; color: white; padding: 5px; margin: 5px;">196 marketing staff strength</div> <div style="background-color: #3F51B5; color: white; padding: 5px; margin: 5px;">Digital delivery through 739 People's Bank branches</div> </div> | <p>3 New branches added</p> <p>Enabling premium payments through digital platforms</p> |

| Pillar | Developments | KPIs |
|--|--|---|
| Customer engagement and service | <p>We strive to embed customer centricity across all stages of our customer journeys. This is facilitated through proactive engagement with customers, a year-round calendar of marketing and promotional activities, a systematic customer complaint handling process and robust mechanisms to measure customer satisfaction.</p> <p>Given requirements for social distancing during the year, we sought to strengthen engagement through digital platforms thereby ensuring uninterrupted service to customers.</p> <p>Marketing communications: The Company typically seeks to enhance the visibility of its brands through seasonal campaigns, monthly press releases, roadshows and advertisements on electronic media. We adopt transparent, respectful advertising and marketing without any gender bias. There were no instances of non-compliance to any regulations, voluntary codes or other guidelines related pertaining to marketing communications during the year.</p> | <p>72% Customer retention</p> <p>100% Customer complaints resolved</p> <p>Rs. 39.9 Mn investment in marketing communications</p> <p>Rs. 3,038 Mn claims settled</p> |
| Responsible business practices | <div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid #ccc; padding: 5px; width: 30%; text-align: center;"> <p>Fair pricing</p> <p>▼</p> <ul style="list-style-type: none"> ▶ The Company adopts fair pricing practices, supported by good underwriting and actuarial practices </div> <div style="border: 1px solid #ccc; padding: 5px; width: 30%; text-align: center;"> <p>Customer privacy</p> <p>▼</p> <ul style="list-style-type: none"> ▶ We have access to customer's confidential information and are duty-bound to protect this information. We have invested in state-of-the-art IT infrastructure and have implemented strict process controls to ensure customer privacy is maintained at all times </div> <div style="border: 1px solid #ccc; padding: 5px; width: 30%; text-align: center;"> <p>Product information</p> <p>▼</p> <ul style="list-style-type: none"> ▶ Product information communicated to customers include insured values, premium payments and terms and conditions among others ▶ Insurance proposals are available in all 3 languages ▶ During the year, there were no instances of non-compliance to regulations and/or voluntary codes pertaining to product related information </div> </div> | <p>Zero Incidents of legal action stemming from anti-competitive behaviour, anti-trust and monopolistic practices</p> <p>Zero Substantiated complaints regarding loss of customer data</p> <p>Zero Instances of non-compliance to regulations and/or voluntary codes pertaining to product related information</p> |

BUSINESS PARTNERS

Our business partners create the vital link to the customer and we strive to build mutually-beneficial, impactful relationships through ongoing engagement which ensures commonality of business objectives.

| Partner profile | Value creation/ Value delivery | KPIs |
|---|--|---|
| Insurance agents and brokers | | |
| 147 agents certified under the Sri Lanka Institute of Insurance and registered with the Insurance Regulatory Commission of Sri Lanka | <p>Value to PI: Agents and brokers create a strong link between the Company and potential customers, enabling us to widen our reach and strengthen our market position</p> <p>Value to stakeholder: We provide comprehensive training on products, processes, professional conduct and customer relationship management among others</p> | <p>Rs. 817 Mn premium income generated</p> <p>Rs. 125 Mn commissions paid</p> |

Performance and Value Creation

| Partner profile | Value creation/ Value delivery | KPIs |
|--|---|--|
| Reinsurers and reinsurance brokers | | |
| 10 reinsurers from Singapore, UK, India and Sweden. We only engage with reinsurers rated BB and above as stipulated by the Insurance Regulatory Commission of Sri Lanka | <p>Value to PI: Provides financial protection and risk diversification, enabling the Company to underwrite more business.</p> <p>Value to stakeholder: Generates a regular stream of income in the form of reinsurance premiums</p> | <p>Rs. 675 Mn reinsurance premium</p> <p>11% reinsurance/GWP ratio</p> |
| Suppliers | | |
| 38 suppliers through whom we procure office consumables, IT equipment and furniture among other service providers | <p>Value to PI: Support smooth functioning of our operations through delivering a range of office equipment and consumables on a timely manner</p> <p>Value to stakeholder: Opportunities for business expansion</p> | <p>Rs. 98 Mn payments to suppliers</p> <p>100% local suppliers</p> |

COMMUNITY ENGAGEMENT

PI's CSR activities are aligned to its Sustainability Policy which provides guidance on the objectives to be achieved through any community engagement initiative. When determining projects for roll-out, the Company gives due consideration to initiatives that are aligned to our businesses, thereby ensuring alignment between commercial and sustainability objectives.

The Company has launched several ongoing CSR programmes including a tree planting initiative with Sri Lanka Climate Fund and critical training on medical emergencies. However, given the conditions that prevailed during the year, the Company was compelled to curtail its CSR activities due to heightened safety concerns and social distancing requirements.

COVID-19 relief

In extending its support to the national cause, the Company contributed Rs. 1 Mn as a donation to the Government COVID-19 Healthcare and Social Security Fund.



The Company's environmental impacts stem primarily from the consumption of natural resources and discharge of emissions. Despite our relatively low impacts, we are committed to driving sustained reductions in the carbon footprint in our operations and reducing paper consumption.







</> NATURAL CAPITAL

454,617 kWh
of electricity consumed

3,321 kg
of paper recycled

12,720 ltr
of fuel consumed

The healthy functioning of the eco system

| Highlights of 2020 | Value nurtured/trade-offs | Key performance indicators |
|---|---|---|
|  Reduced consumption of paper through increased digital drive |  Rs. 22.9 Mn investment in digital solutions | NATURAL INPUTS <ul style="list-style-type: none"> ▶ 17,505 kg of paper consumption ▶ 1.74% increment in electricity consumption ▶ 0.4% reduction in electricity intensity |
|  Ongoing focus on energy efficiency |  Employee awareness on preserving energy | |
|  Recycling of paper through approved third party recyclers | | NATURAL OUTPUTS <ul style="list-style-type: none"> ▶ 1.96% increment in carbon footprint ▶ Maintain the same carbon intensity at 0.85 tCO₂e level |
|  Temporary halting of environmental community initiatives due to the prevalent conditions | | |

WAY FORWARD ▶

We will continue to drive sustained reductions in our energy and carbon intensity as set out in our environmental policy and environmental management framework. Our long term objective is to achieve carbon neutrality across all our operations and in doing so, we drive concerted efforts to enhance energy efficiency and mitigate the greenhouse gas emissions. The Company will also continue to contribute to strategic green campaigns focusing on meaningful improvements in the environment.

Performance and Value Creation

The Company's comprehensive Environmental Policy clearly sets out our environmental aspirations and actions required to drive these goals. We also ensure full compliance to relevant environmental regulations set out by the Central Environment Authority and during the year, there were no instances of fines/penalties imposed on the Company for non-compliance. Given the conditions that prevailed during the year, the Company was restricted in engaging in environment-related CSR activities; however we hope to re-commence these initiatives once the COVID 19 pandemic allows us to act accordingly.

Environmental Policy

| | | |
|---|--|---|
| <p>Resource Conservation Conserving the use of natural resources such as water and energy to the extent practicable</p> | <p>Collaboration with Communities Collaborating with the communities, we work with to conserve and rejuvenate the environment</p> | <p>Reduction of Supply Chain Impacts Working with our supply chain partners to ensure environmental impacts and risks are minimised across our value chain</p> |
| <p>Waste Prevention and Management We are committed to reducing the quantity and degree of waste generated from our operations in a responsible manner</p> | | |

Environmental Management Approach

Environmental Impact Management

| Our operations | | | | External initiatives |
|----------------------------------|-------------------|-------------------------------|---|-------------------------------|
| Reducing paper consumption/waste | Energy efficiency | Reducing our carbon footprint | Introduction of environmentally friendly products such as solar insurance | 'One Million Trees programme' |



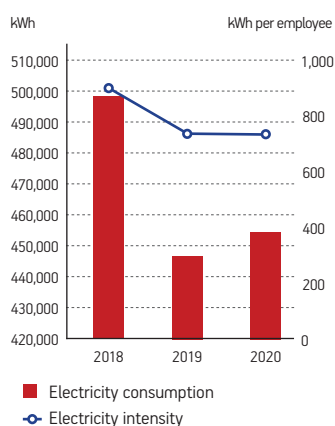
CONSUMPTION OF NATURAL RESOURCES

Paper: The strategic shift towards digitising processes and automating operations have led to a sustained decline in paper consumption. We also adopt the 3R approach – reuse, reduce and recycle in propagating a culture of resource consciousness in the organisation. During the year, total paper consumption declined by 3% reflecting increased focus on digital platforms to conduct operations. Used paper is sent to an approved third-party recycler, thereby minimising the landfill waste of our operations.

Energy: The Company's key energy sources are electricity sourced from the national grid and fuel used for transportation purposes including employee travel, training, and marketing activities. Given the conditions



Energy Consumption



that prevailed during the year and limited operations in branches, the Company's energy consumption declined by 5.4% to 465kWh.

We are driving concerted efforts to achieve increased energy efficiency and during the year under review, electricity intensity (defined as electricity consumption per employee) declined by 0.4% to 733 kWh. Key initiatives to reduce energy consumption include, the use of energy efficient lighting and cooling equipment, encouraging employees to engage in energy conservation and use of a sophisticated building management system in our corporate office which ensures the tracking and monitoring of energy.

Energy consumption in 2020

| | 2020 | 2019 | Change y-o-y (%) |
|---|---------|---------|------------------|
| Direct consumption | | | |
| Electricity (kWh) | 454,617 | 446,835 | 1.74 |
| Energy intensity - electricity consumption per employee (kWh) | 733 | 736 | (0.4) |
| Indirect consumption | | | |
| Fuel consumption (ltr) | 12,720 | 13,808 | (7.8) |

CARBON FOOTPRINT

Implications of climate change:

Climate risks directly impact the insurance industry through increasing catastrophic losses as well as causing damages to crop and buildings. While we are yet to quantify these implications, we are committed to playing our part in contributing towards the reductions of the country's greenhouse gas emissions in line with the Sustainable Development Goals.

We continue to track our carbon footprint based on the GHG Protocol published by the World Resource Institute and World Business Council for Sustainable Development. The computation covers the Company's corporate office, regional offices and call centre. During the year, the Company's carbon footprint amounted to 528.79 tCO₂e, an increase of 1.96% compared to the previous year. However, the carbon intensity (defined as carbon footprint per employee) was maintained at the same level during the year, at 0.85 tCO₂e.

| Emission Category | Emission Sources | GHG emissions in (tCO ₂ e) 2020 | GHG emissions in (tCO ₂ e) 2019 |
|---------------------------------|---|--|--|
| | Company owned vehicles | 4.61 | 7 |
| | Rented vehicles | 17.71 | 19 |
| Direct emission | | 22.32 | 26 |
| Indirect GHG emissions | Diesel generators | 2.71 | 7 |
| | Fire extinguishers | 0.004 | 0 |
| | Refrigerant leakage | 42.94 | 2 |
| | Grid electricity | 213.53 | 261 |
| | Transmission and distribution loss | 19.15 | 24 |
| | Business travel of employees via air | 0.00 | 3 |
| | Employee commuting, not paid by the company | 221.69 | 191 |
| | Waste disposal | 0.04 | 0 |
| | Waste transport | 0.03 | 0 |
| | Municipal water | 0.95 | 1 |
| | Company hired vehicles | 5.43 | 4 |
| Transport locally purchased | 0.00 | 0 | |
| Total indirect emissions | | 506.47 | 493 |
| Total emissions | | 528.79 | 519 |



WE KEPT A STEADY HAND IN KEEPING IN LINE WITH NECESSARY REGULATIONS AND BEING A GOOD CORPORATE CITIZEN

CORPORATE GOVERNANCE

| | |
|---|-----|
| Corporate Governance | 89 |
| Annual Report of the Board of Directors on the Affairs of the Company | 95 |
| Directors' Statement on Internal Control | 101 |
| Board Audit Committee Report | 102 |
| Related Party Transactions Review Committee Report | 104 |
| Board Human Resources, Remuneration and Nomination Committee Report | 105 |
| Investment Committee Report | 107 |

Corporate Governance

Highlights of 2020

- ▶ Strengthened Board oversight by approving and establishing the following Board level sub-committees.
 - Strategic Plan Review Committee
 - Integrated Risk Management Committee
- ▶ Approved revision of the Board Audit Committee TOR to incorporate the requirements of the National Audit Act
- ▶ Reviewed the post COVID-19 resource maximisation and restructuring initiative
- ▶ Approved introduction of online platforms and acceleration of the digital drive

Going Forward

- ▶ Further, strengthen Board oversight through establishment of Board sub-committees:
- ▶ Ensure business continuity and disaster recovery
- ▶ Continue the digital drive and ensure customer convenience
- ▶ Standardisation of policies and procedures

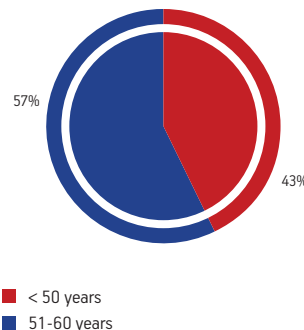
HOW WE ARE GOVERNED

Strong corporate governance practices underpin our value creation and have enabled PI to withstand and navigate many of the challenges stemming from both the internal and external environments. The Company's corporate governance framework has been designed to comply with all relevant mandatory requirements for insurers while embracing industry best practices and voluntary codes. In addition to clearly defined structures and Board-approved policy frameworks, our corporate values, business ethics policy and code of conduct for all employees are strongly ingrained within PI ensuring integrity and transparency in all aspects of our operations.

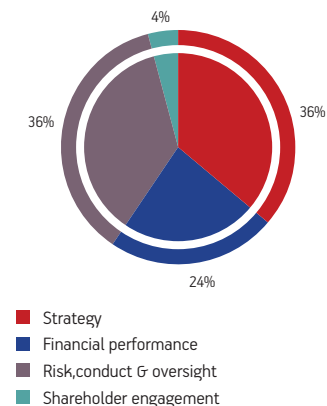
OUR BOARD

- ▶ 7 Directors
- ▶ 3 Independent Directors
- ▶ 100% Non-executive Directors

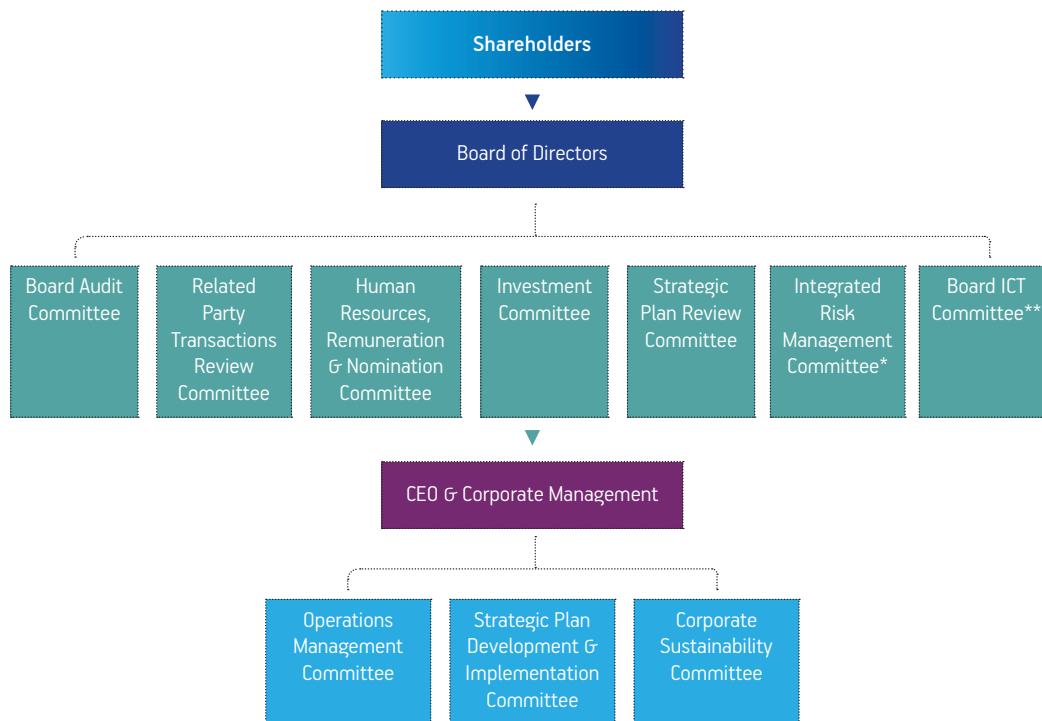
Diversity by Age



Time Spent



Corporate Governance Structure



* This was formed in December 2020

** This was formed in February 2021

Corporate Governance

| Compliance with Regulations and Best Practices | | |
|---|---|---|
| External | | Internal |
| Regulatory | Voluntary | |
| <ul style="list-style-type: none"> ▶ Corporate Governance Framework for Insurers: Amended Direction #17 and Determinations and regulations issued by the IRCSL (Fully compliant with mandatory provisions. A comprehensive checklist on compliance is provided on page 220) ▶ Listing Rules of the Colombo Stock Exchange – Rules 7.10 & 7.6 (Fully compliant with mandatory provisions. A comprehensive checklist on compliance is provided on pages 221 to 224) ▶ Companies Act No. 7 of 2007 ▶ Motor Traffic Act ▶ Inland Revenue Act ▶ Anti-money Laundering Act ▶ Consumer Affairs Authority Act ▶ Determinations and guidelines issued by the SEC | <ul style="list-style-type: none"> ▶ Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka (Voluntary adoption. A comprehensive checklist on compliance is provided on pages 206 to 219) ▶ Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) ▶ GRI Sustainability Reporting Standards issued by the Global Reporting Initiative (GRI) | <ul style="list-style-type: none"> ▶ Articles of Association ▶ Board and sub-committees Terms of Reference ▶ Business ethics policy ▶ Code of ethical conduct for office staff ▶ Code of ethical conduct for sales staff ▶ Manual of Delegation of Financial Authority ▶ Risk management framework ▶ Internal control system ▶ Board approved policy framework |

During the year under review, the following Directors resigned from the Board of the Company:

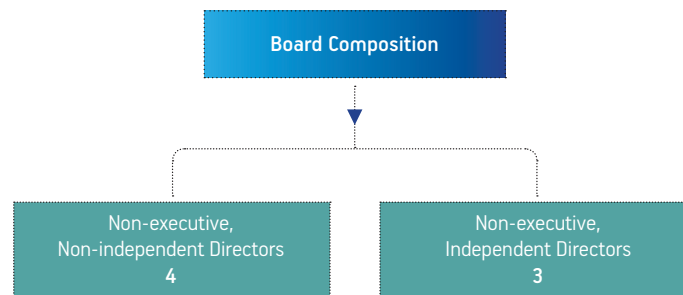
- ▶ Mr. Jehan P. Amaratunga – resigned from the post of Chairman/Director with effect from 28th February 2020
- ▶ Mr. W. M. Abeyrathna Bandara – with effect from 28th February 2020
- ▶ Mr. N. P. Karunarathne – with effect from 28th February 2020
- ▶ Mr. Pavithra Fernando – with effect from 28th February 2020
- ▶ Mr. Rasitha Gunawardana – with effect from 1st June 2020
- ▶ Mr. A. S. Ibrahim – with effect from 3rd December 2020

During the year under review, the following Directors were appointed to the Board of the Company:

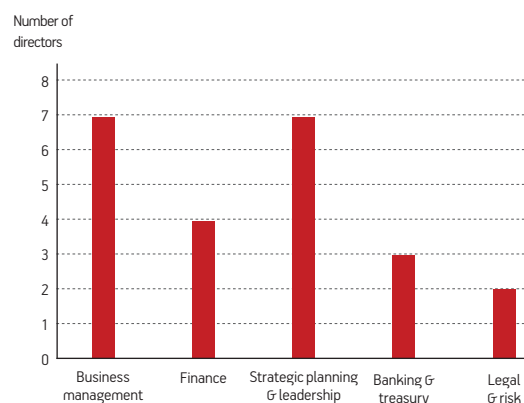
- ▶ Mr. Isuru Balapatabendi – appointed as Chairman/Director with effect from 8th June 2020
- ▶ Mr. Ranjith Kodituwakku – with effect from 8th June 2020
- ▶ Mr. Johnson Fernando – with effect from 8th June 2020
- ▶ Dr. Kasun Wijetilleke – with effect from 8th June 2020

THE BOARD OF DIRECTORS

PI's Board comprises the Chairman and six Directors, all of whom are respected professionals from both the public and private sectors. The Board consists entirely of Non-executive Directors of whom three are independent. All appointments to the Board of PI are approved by the Insurance Regulatory Commission of Sri Lanka. The varied backgrounds, experience, expertise and age of the Directors brings a rich diversity to Boardroom proceedings as the Board oversees the performance of the management and formulate business strategies to achieve long-term value creation at PI. The Board of PI was reconstituted with effect from 8th June 2020 (please refer to pages 26 to 30 for profiles of Directors). A summary of changes in Board of Directors' composition is as follows.



Experience



The following Directors were appointed to the Board subsequent to the year under review:

- ▶ Mr. Shamindra Mercelline – with effect from 17th March 2021
- ▶ Mr. Rohan Tennakoon – with effect from 17th March 2021

EFFECTIVE LEADERSHIP

The Board provides strategic leadership and holds executive management responsible for strategy execution, within a framework of effective risk management tools and internal controls. It is the responsibility of the Board to formulate and implement PI's strategy and monitor performance against goals and objectives. The Board is also accountable for setting the tone at the top and nurturing a culture of integrity, fairness and transparency through compliance with laws and regulations, policies and binding codes. As a responsible corporate citizen, the Board also provides oversight on the Company's sustainability agenda, ensuring that diverse stakeholder interests are balanced and adverse impacts on the society and environment are minimised in the process of value creation.

The role of the Chairman and the CEO are defined through clearly demarcated responsibilities. A Senior Independent Director (SID) has also been appointed as recommended by best practices of corporate governance.

There are also seven Board sub-committees that have been delegated specific oversight responsibilities by the Board. Of these, two sub-committees were formed during the year; the Strategic Plan Review Committee and the Integrated Risk Management Committee (approved by the Board on 30th December 2020 and its members are yet to be appointed).



The scope of these newly established committees is clearly defined in committee TORs which are summarised below:

| Board Strategic Plan Review Committee | Board Integrated Risk Management Committee |
|---|--|
| <ul style="list-style-type: none"> ▶ Provide strategic direction ▶ Review strategic plan, processes, progress and recommend corrective action ▶ Recommendation of strategic corporate plan ▶ Review performance against strategic objectives ▶ Ensure quarterly progress review meetings are conducted | <ul style="list-style-type: none"> ▶ Monitor areas of risk management and compliance ▶ Review risk appetite levels and risk tolerance levels for effective risk management ▶ Continuous assessment of the Company's risk profile ▶ Review company's business continuity, risk and mitigating measures as part of its overall integrated risk management framework ▶ Assess the independence of the risk and compliance function, approve appointment and termination of the officer in charge of risk management and compliance |

The scope of the Remuneration & Nomination Committee was expanded during the year and it was renamed as the Human Resources, Nomination & Remuneration Committee. The TOR of the Board Audit Committee was also revised to incorporate the requirements of the National Audit Act and its scope extended to include risk and compliance. Further details on the activities of the Board sub-committees are available in the sub-committee reports from pages 102 to 107.

Corporate Governance

| Key Areas of Focus and Decisions Made in 2020 by the Board | | |
|---|---|---|
| Strategy Formulation | Financial Reporting | Risk Management |
| <ul style="list-style-type: none"> ▶ Approval of strategy implementation plan 2020 ▶ Review of strategy implementation ▶ Operational performance review ▶ Approval for online platforms and expediting the digital drive ▶ Prudent investment management ▶ Post COVID resource maximisation and restructuring initiative ▶ Reinsurance strategy and extension to reinsurance programme | <ul style="list-style-type: none"> ▶ Forecasted financial statements under multiple scenarios ▶ Approval of quarterly financial statements in 2020 ▶ Approval of annual financial statements of 2019 ▶ Approval of the budget | <ul style="list-style-type: none"> ▶ Ongoing monitoring of industry dynamics and emerging risks ▶ Ongoing monitoring of the Company's risk profile ▶ Formed and brought the risk and compliance function under the purview of Board Audit Committee ▶ Established the Board Integrated Risk Management Committee ▶ Reviewed and initiated discussions on the business continuity and disaster recovery plan ▶ Reviewed and initiated discussions on Anti-fraud Policy and Disciplinary Code |
| Regulatory Compliance | Governance & Stakeholder Engagement | Regular Updates |
| <ul style="list-style-type: none"> ▶ Declaration by Directors to the IRCSL ▶ Review of compliance report ▶ Revision of TOR of the Board Audit Committee to incorporate the requirements of the National Audit Act ▶ Update on IRCSL correspondence | <ul style="list-style-type: none"> ▶ Reconstitution of Board sub-committees ▶ Establishment of three new Board subcommittees ▶ Progress review of HR function ▶ Monitoring of whistleblower process ▶ Approval of the Company's performance related Bonus Policy and promotion guidelines ▶ Review and initiated discussions on business continuity, disaster recovery plan, Anti-fraud Policy and Disciplinary Code ▶ Approval of annual bonus payment to staff | <ul style="list-style-type: none"> ▶ Monthly performance reports ▶ Investment compliance and performance reports ▶ Regulatory reports ▶ Highlights of the Board sub-committees ▶ Quotation analysis report ▶ Compliance report |

INDEPENDENCE

To determine the independence of individual Board members' a self-declaration is obtained from each Board member on an annual basis. The following criteria is considered when determining a Director's independence. A Director should be:

- ▶ Independent from management and free of any business or other relationship
- ▶ Independent from substantial shareholders
- ▶ Independent based on length of service with the Company or parent of the Company

Three out of seven Directors were considered by the Board to be independent as at report date.

DIRECTORS' INTERESTS

The Business Conduct and Ethics Policy of PI prohibits a Director, Key Management Personnel or employee, from using their position or confidential & price-sensitive information, to benefit themselves or a third-party. Directors are required to inform the Board of conflicts or potential conflicts of interests in relation to business transactions or other Directorships. Registers of individual Directors' interests in and outside PI are maintained and updated regularly. Directors do

not participate in the discussions or voting in a matter on which they may have a material interest. Such abstentions are recorded in the minutes by the Company Secretary.

The Board is aware of the various commitments of its Directors and is satisfied that all Directors allocate time sufficiently to discharge their responsibilities effectively.

ACCESS TO INFORMATION

Upon appointment to the Board, all Directors are kept informed on the contents of the policies and the procedures of the company allowing them to familiarise

themselves with the Company's activities and governance philosophy. Further, all required documents are provided by the Board Secretary upon their request.

Directors also have access to training opportunities to ensure that they are kept abreast of emerging industry developments. During the year, a session focusing on adoption of the National Audit Act was conducted for the Directors.

EFFECTIVE MEETINGS

The Board and its committees meet regularly as prescribed by their respective mandates. Special meetings may be convened as necessary at the request of the Chairperson or any Independent Non-executive Director. Chairpersons set the meeting agendas, assisted by the CEO and the Company Secretary.

Meetings are scheduled in advance with enough time allocated for each agenda item. During the meeting, each agenda item – circulated prior to the meeting – is discussed, and senior management are made available for clarifications. After the meeting, matters raised are followed up by the management, Board sub-committees and the Board itself. The Board is aware of the various commitments of its Directors and is satisfied that all Directors allocate time sufficiently to discharge their responsibilities effectively.

Details of the meetings held by the Board and its sub-committees and a snapshot of the time spent by the Board on various key areas are given below.

| Board Member | Board Meetings | Audit Committee | Related Party Transactions Committee | Human resources, Remuneration & Nomination Committee | Investment Committee |
|---|----------------|-----------------|--------------------------------------|--|----------------------|
| Mr. Jehan P. Amarathunga ¹ | N/A | N/A | N/A | N/A | N/A |
| Mr. Lakshman Abeysekera | 9/10 | 6/6 | 3/4 | 4/4 | N/A |
| Mr. W. M. Abeyrathna Bandara ¹ | N/A | N/A | N/A | N/A | N/A |
| Mr. N. P. Karunaratne ¹ | N/A | N/A | N/A | N/A | N/A |
| Mr. Pavithra Fernando ¹ | N/A | N/A | N/A | N/A | N/A |
| Mr. Rasitha Gunawardana ² | 1/1 | N/A | N/A | N/A | N/A |
| Mr. A. S. Ibrahim ³ | 8/8 | N/A | N/A | 2/3 | 2/2 |
| Mr. Isuru Balapatabendi ⁴ | 9/9 | N/A | N/A | 4/4 | 3/3 |
| Mr. Ranjith Kodituwakku ⁴ | 9/9 | 6/6 | 4/4 | N/A | N/A |
| Mr. Johnson Fernando ⁴ | 9/9 | N/A | 4/4 | 4/4 | 2/3 |
| Dr. Kasun Wijetilleke ⁴ | 9/9 | 6/6 | N/A | 4/4 | 3/3 |

¹Resigned with effect from 28th February 2020

²Resigned with effect from 1st June 2020

³Resigned with effect from 3rd December 2020

⁴Appointed with effect from 8th June 2020

N/A - Not Applicable

BOARD EVALUATION

An annual Board evaluation is carried out and that is structured along the lines recommended by the Code of Best Practice on Corporate Governance 2017. Key aspects considered included, contribution to strategy formulation, contribution to ensuring effective risk management, quality of stakeholder relationships and contribution towards discharging sub-committee responsibilities. Self-assessment of Board members was carried out for the year 2020.

BOARD CONTINUITY

The Board has adopted a formal and transparent procedure for the appointment of Directors with the responsibility for overseeing the process delegated to the Remuneration and Nomination Committee. All appointments are made with the prior approval of the regulator. The Articles of Association prescribes that a Director holds office until the next AGM following his/her appointment and should stand for re-election by shareholders. The Articles require 1/3rd of

Non-executive Directors to retire by rotation at each AGM at which point they may offer themselves for reappointment by the shareholders.

DIRECTORS REMUNERATION

The Board, based on the directions issued by the Government and provisions in the Articles of Association of the Company, collectively determines the remuneration of Non-executive Directors, including members of the Human Resources, Remuneration & Nomination

Committee. Non-executive Directors are paid a fixed fee for attending Board meetings and Board Committee meetings based on the Government directions. This fee is not based on performance nor pensionable. Directors' emoluments are disclosed on Note 20 to the financial statements.

Corporate Governance

RELATIONS WITH SHAREHOLDERS

The Annual General Meeting is the key platform facilitating shareholder engagement and the Company's AGM is typically well attended. The Chairmen of the Board sub-committees are also available at the AGM to respond to shareholders' queries. The SID is also accessible to shareholders to assist in matters not addressed through other channels.

Engagement with other stakeholders are facilitated through a range of formal and informal platforms as listed on pages 41 to 42 of this Report.

ACCOUNTABILITY AND AUDIT Risk management and internal control

The Board holds primary responsibility for the Company's risk management and the Risk Management Report on pages 54 to 61 describes the risk governance structure at PI, the integrated risk management framework, the key risks, how we mitigate/manage the risks and the KPI targets together with actual performance. To strengthen risk management, the Board approved the TOR for an Integrated Risk Management Committee on 30th December 2020. However, its members are yet to be appointed. A Risk and Compliance officer was also recruited during the year. The Integrated Risk Management Committee of the Parent Company also continued to monitor the Company's risk exposures through quarterly reports submitted to them.

PI has in place a framework of stringent internal controls that operates and monitors implementation of Board policies. Risks and controls are regularly reviewed and monitored by the Board with the assistance of the Board Audit Committee.

Code of Business Conduct and Ethics

The Chairman and Board of Directors set the tone at the top and is responsible for instilling a culture of ethics and judicious empowerment. This is facilitated through a Business Conduct and

Ethics Policy (which is signed off on by all Directors and employees) as well as the Code of Ethical Conduct for Employees.

During the year, training was conducted on corporate governance and business ethics for managers. The Company orientation programme also includes comprehensive coverage of the corporate governance, business ethics and whistle blower policies. The Board actively monitored the whistle blowing process with the feedback received.

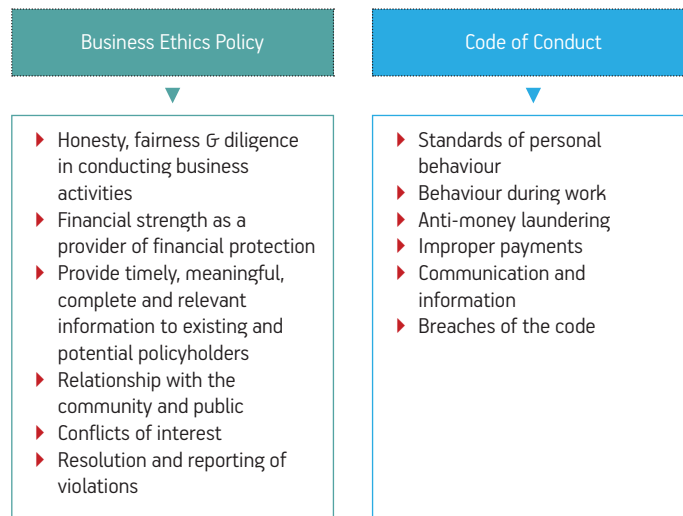
The Group ICT department was awarded the ISO/IEC 27001:2005 certification by Det Norske Veritas (DNV) for conforming to the prestigious global benchmark of the ISO/ IEC 27001:2005 Information Security Management System Standard.

ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)

PI has recognised the growing importance of ESG factors in conducting business and these factors are built into PI's business model (pages 16 to 17), strategy (page 46), sustainability policy (page 53), governance and the integrated risk management framework (pages 54 to 61).

Our Corporate Sustainability Committee (CSC) comprising the CEO, CFO and senior management is responsible for guiding the sustainability process and is accountable to the Board. The CSC supports the value creation process to stakeholders by integrating ethical, social and environmental responsibility into daily business activities and strategic decisions. The Board is regularly updated on ESG developments that could affect PI's performance and sustainability.

The sustainability coordinator appointed by the CSC is responsible for focusing on the sustainability strategy of PI. The sustainability coordinator submits periodical updates to the Board.



CYBERSECURITY

As we continue to increasingly digitalise the way we do business, cybersecurity has emerged as a key risk. IT governance is integral in assuring the integrity and confidentiality of information management. The Board Audit Committee is delegated with the authority to implement the IT governance framework. Its design, implementation and execution have been assigned to the Group ICT Department. The Board Audit Committee ensures that risks are adequately addressed through risk monitoring & assurance and considers the impact of IT on financial controls in its annual audit plan.

In light of the significant role of technology within the Company's operations, a Board level sub-committee was formed in February 2021, to strengthen Board oversight in this area.

Annual Report of the Board of Directors on the Affairs of the Company

The details set out herein provide information required by Section 168 of the Companies Act No. 07 of 2007 ('Companies Act') to be set out in the Annual Report of the Board of Directors on the Affairs of the Company and are guided by the Code of Best Practice on Corporate Governance 2017.

1. GENERAL

The Board of Directors of People's Insurance PLC ('the Company') has pleasure in presenting this report to the shareholders together with the audited financial statements for the year ended 31st December 2020 of the Company and the Independent Auditor's Report on the financial statements conforming to all statutory requirements. This report was approved by the Board of Directors on 6th May 2021.

2. REVIEW OF BUSINESS

[Section 168 (1) (a)]

The nature of the business of the Company together with any change thereof during the accounting period

2.1. Vision, mission and corporate conduct

The Company's vision and mission statements are provided on page 16. The Company's business activities have been carried out within the framework of the vision and mission statements, which reflects our commitment to the highest ethical standards and integrity as set out in the Code of Business Conduct and Ethics and in conformity with the corporate culture and the values of the Company stated on page 76 of this Report.

2.2. Principal business activities

The principal activity of the Company is carrying out non-life insurance business for both individual and corporate customers. There were no significant changes in the nature of principal activities of the Company during the financial year under review. The Company has not engaged in any activity, which contravenes laws and relevant regulations.

In line with the principal activity of the Company, we issue non-life Takaful products to our customers as a window operation under the Company's main operation with the approval of the Insurance Regulatory Commission of Sri Lanka.

2.3. Company ownership structure

The details of the Company ownership structure is given on page 14 of this Annual Report.

2.4. Branch network

The total branch network of the Company as at 31 December 2020 comprised 15 regional offices and 113 window offices at People's Leasing & Finance PLC branch network.

2.5. Review of business performance

A review of the financial and operational performance and future business developments of the Company is contained in the Chairman's Message (pages 19 to 21), Chief Executive Officer's Review (pages 22 to 25) and Performance and Value Creation (pages 63 to 87). These reports form an integral part of the Annual Report of the Board of Directors and together with the audited financial statements reflect the state of the affairs of the Company.

2.6. Future developments

An overview of the future developments of the Company is presented in the Chairman's Message (pages 19 to 21, Chief Executive Officer's Review (pages 22 to 25) and Performance and Value Creation (pages 63 to 87).

3. FINANCIAL STATEMENTS

[Section 168 (1) (b)]

Completed and signed financial statements of the Company

The financial statements of the Company for the year ended 31st December 2020 have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards (SLFRSs and LKASs) and comply with the requirements of the Companies Act No. 07 of 2007 and Regulation of Insurance Industry Act No. 43 of 2000 as amended and which were duly certified by the Chief Financial Officer (the person responsible for the preparation

3.2. Financial results appropriations

The Company recorded a net profit of Rs. 1,195 million for the year. A synopsis of the Company's performance is presented below.

| | 2020 Rs. '000 | 2019 Rs. '000 |
|--|------------------|------------------|
| Profit after taxation | 1,195,314 | 647,654 |
| Profit brought forward from previous year | 2,295,701 | 2,018,047 |
| Profit available for appropriation | 3,491,015 | 2,665,701 |
| Appropriations | | |
| Final dividend paid in respect of previous year | (220,000) | (220,000) |
| Interim dividend paid in respect of current year | - | (150,000) |
| Un-appropriated profit carried forward | 3,271,015 | 2,295,701 |

3.3. Provision for taxation

The tax position of the Company is disclosed in Note 21 (pages 142 to 143) to the financial statements.

of the financial statements) and were approved by two members of the Board as appearing on page 116 to 204 form an integral part of this Report.

3.1. Directors' responsibility for financial reporting

The Directors are responsible for the preparation of the financial statements of the Company to reflect the true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto. The Statement of Directors' Responsibility for Financial Reporting provided on pages 109 to 110 forms an integral part of this report.

Annual Report of the Board of Directors on the Affairs of the Company

3.4. Property, plant and equipment and market value of properties

The Company does not possess any freehold land or building as at 31.12.2020. Leasehold buildings and other fixed assets have been recorded as per Sri Lanka Accounting Standards. Details of property, plant and equipment are shown in Note 25 (pages 147 to 149).

3.5. Intangible assets

Details of intangible assets including the movements of the intangible assets during the period are set out in the Note 24 (pages 145 to 146).

3.6. Reserves

The movement in reserves during the year is set out in the Statement of Changes in Equity on page 119.

3.7. Investments

Details of investments held by the Company are disclosed in Note 27 (pages 152 to 159) to the financial statements.

3.8. Turnover

The Company underwrote an amount of Rs. 6,012 million in 2020 (Rs. 6,030 million in 2019) as gross written premium. Gross written premium for the year by major classes of business is given on page 131.

3.9. Stated capital and shareholders' funds

In compliance with the Companies Act, the financial statements reflect the stated capital of the Company. The stated capital of the Company as at 31st December 2020 amounted to Rs. 1,350 million (Rs. 1,350 million in 2019).

4. EXTERNAL AUDITOR

[Section 168 (1) (c) (i) and (j)]

Auditors report on financial statements of the Company with a separate disclosure on amounts payable by the Company to Auditors as audit fees and fees for other services rendered during the accounting period & Auditors' relationship or any interest with the Company

4.1. Auditor and their Independence

In accordance with the National Audit Act No. 19 of 2018, People's Insurance PLC falls under the definition of 'Auditee Entity' and the Auditor General or any person authorised by the Auditor General shall carry out the audit of the Company and their responsibilities in relation to the financial statements are set out in the Independent Auditor's Report given on page 115.

4.2. Auditor's report

The Report of the Auditor General on the financial statements of the Company is provided on pages 113 to 115.

4.3. Auditor's remuneration

A sum of Rs. 2,477,458 (2019 - Rs. 2, 878,806) was payable to Auditors as audit fees during the year under review and a sum of Rs. 371,619 (2019 - Rs. 563,521) was payable by the Company for tax related services and other non-audit work performed.

4.4. Appointment of auditors

The Auditor General functions as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution.

5. ACCOUNTING POLICIES

[Section 168 (1) (d)]

Accounting policies and changes made to the accounting policies during the year under review

Accounting policies of the Company are prepared based on the Sri Lanka Accounting Standards and industry best practices. The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the financial statements. There were no changes to the accounting policies made during the year under review.

6. BOARD OF DIRECTORS

[Sections 168 (1) (e), (f), (h)]

Particulars of the entries in the Interests Register of the Company during the accounting period, remuneration and other benefits paid to the Directors of the Company during the accounting period and information on directorate of the Company during and the end of the accounting period.

6.1. Profiles

Names of the Board of Directors together with their profiles, including skills and experience are set out on pages 26 to 30 of this Annual Report.

6.2. Appraisal of Board performance

The method used to appraise the performance of the Board of Directors is presented in the 'Corporate Governance' section on page 93 and performance evaluations were obtained from the Board.

6.3. Other directorships/significant positions of Directors

Information of the other directorships/significant positions of the present Directors of the Company are given in their profiles presented on pages 26 to 30.

6.4. Resignations and appointments

During the year under review, the following Directors resigned from the Board of the Company:

- ▶ Mr. Jehan P. Amaratunga – resigned from the post of Chairman/Director with effect from 28th February 2020;
- ▶ Mr. W. M. Abeyrathna Bandara – with effect from 28th February 2020;
- ▶ Mr. N. P. Karunarathne – with effect from 28th February 2020;
- ▶ Mr. I. P. Fernando – with effect from 28th February 2020;
- ▶ Mr. Rasitha Gunawardana - with effect from 1st June 2020;
- ▶ Mr. A. S. Ibrahim – with effect from 3rd December 2020

During the year under review, the following Directors were appointed to the Board of the Company:

- ▶ Mr. Isuru Balapatabendi – appointed as Chairman/Director with effect from 8th June 2020;
- ▶ Mr. Ranjith Kodituwakku – with effect from 8th June 2020;
- ▶ Mr. Johnson Fernando - with effect from 8th June 2020;
- ▶ Dr. Kasun Wijetilleke – with effect from 8th June 2020.

Following Directors were appointed to the Board subsequent to the year under review:

- ▶ Mr. Shamindra Mercelline – with effect from 17th March 2021;
- ▶ Mr. Rohan Tennakoon – with effect from 17th March 2021.

6.5. Interests Register

In compliance with the requirements of the Companies Act, the Company maintains an Interests Register. Particulars of any entry made in the Interests Register are detailed below.

6.6. Directors' Interests in transactions

The Directors of the Company have made general declarations as provided for in section 192 (2) of the Companies Act. Arising from this, details of contracts in which they have an interest are found in Note 48 on 197 to 202, under related party transactions.

6.7. Loans to Directors

The Company has not granted any loans to the Directors.

6.8. Directors' interest in shares

The Directors have disclosed to the Board their shareholding in the Company and any acquisition or disposal thereof. The Directors' individual shareholding in the Company as at 31st December 2020 and 31st December 2019 are given below.

| Name of Director | Number of Shares | |
|---|--------------------------|--------------------------|
| | As at 31st December 2020 | As at 31st December 2019 |
| Mr. Jehan P. Amaratunga ¹ | N/A | - |
| Mr. Lakshman Abeysekara | - | - |
| Mr. A. S. Ibrahim ³ | N/A | - |
| Mr. S. P. K. Gunaratne ¹ | N/A | - |
| Mr. W. M. Abeyrathne Bandara ¹ | N/A | - |
| Mr. N. P. Karunaratne ¹ | N/A | - |
| Mr. Pavithra Fernando ¹ | N/A | - |
| Mr. Rasitha Gunawardana ² | N/A | - |
| Mr. Isuru Balapatabendi ⁴ | - | N/A |
| Mr. Ranjith Kodituwakku ⁴ | - | N/A |
| Mr. Johnson Fernando ⁴ | - | N/A |
| Dr. Kasun Wijetilleke ⁴ | - | N/A |

¹ Resigned with effect from 28th February 2020

² Resigned with effect from 1st June 2020

³ Resigned with effect from 3rd December 2020

⁴ Appointed with effect from 8th of June 2020

N/A - Not Applicable

CEO does not possess shares of People's Insurance PLC as at 31.12.2020.

6.9. Remuneration to Directors

The details of Directors' fees and Directors' emoluments paid during the year are stated below.

| | 2020 Rs. '000 | 2019 Rs. '000 |
|---|------------------|------------------|
| Non-executive, Non-independent Directors' fees and emoluments | 1,375 | 2,925 |
| Non-executive, Independent Directors' fees and emoluments | 650 | 3,150 |
| Total | 2,025 | 6,075 |

6.10. Directors' meetings

Details of Directors' meetings are presented on page 93.

7. SHARE INFORMATION

Significant shareholder information along with substantial shareholder details and other share related information

7.1. Distribution schedule of shareholdings

Information on the distribution of shareholding and the respective percentages are given in the section on 'Shareholder Information' on pages 231 to 232.

7.2. Information on earnings, dividends, net assets and market value

Information relating to earnings, dividend, net assets and market value per share is given on page 232. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given in the section on 'Shareholder Information' on page 231.

7.3. Substantial shareholdings

Names of the top twenty shareholders for voting shares, percentages of their respective holdings and percentage holding of the public, etc. are given in the section on 'Shareholder Information' on page 229.

7.4. Equitable treatment to shareholders

The Company has at all times ensured that all shareholders are treated equitably.

7.5. Dividends

With the direction of Insurance Regulatory Commission of Sri Lanka on the dividend declaration and distribution, the Company has not paid any dividend for the year under review, even though company maintained a healthy solvency position through-out the period.

However, a final dividend of Rs. 3.00 per share totalling to Rs. 600 Mn has been declared by the Board of Directors subject to shareholder approval for the financial year ended 31st December 2020. The Board of Directors ensured that the Company would meet the requirement of the solvency test in terms of section 56(3) of the Company's Act No. 07 of 2007

Annual Report of the Board of Directors on the Affairs of the Company

immediately after the payment of the said proposed final dividends and compliance with the terms and conditions issued by the IRCSL in March 2021. Accordingly, the Board of Directors provided the Statement of Solvency to the Auditors and obtained the Certificates of Solvency from the Auditors in respect of the final dividend proposed and the Directors Declaration was submitted to the IRCSL as per regulation prior to make the dividend declaration, thereby strictly confirming to the above statutory provision.

7.6. Information on ratios, market prices of shares and credit ratings

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on 'Shareholder Information' on page 232.

8. DONATIONS AND CSR

[Section 168 (1) (g)]

Total amount of donations made by the Company during the accounting period

During the year under review, the Company made donations amounting to Rs. 1,000,000 (2019 – Rs. 885,993) in terms of the resolution passed at the last Annual General Meeting. The corporate social responsibility initiatives of the Company are presented in Social and Relationship Capital on page 84 and Natural Capital on pages 85 to 87.

9. CORPORATE GOVERNANCE

[Code of Best Practice D.1, D.1.1, D.1.4, D.4], [G.1, G.2, G.3]

Board of Directors emphasis on the corporate governance practices and procedures

The Board of Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, the Board has provided the necessary resources and installed appropriate processes and procedures in compliance with the relevant codes of best practice issued by the regulatory and professional bodies. The Board has ensured that the Company complied with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka ('SEC') and the Institute of Chartered Accountants of Sri Lanka ('ICASL'). The measures taken in this regard and information to fulfil disclosure requirements of the above code, directions and the Listing Rules of the Colombo Stock Exchange ('CSE') are set out on pages 206 to 224 of this Annual Report.

Further, the Directors declare that:

- ▶ The Company has not engaged in any activity which contravenes laws and regulations
- ▶ All material interests in contracts involving the Company have been declared by the Directors and they have refrained from voting on matters in which they were materially interested
- ▶ The Company has made all endeavours to ensure the equitable treatment of shareholders

- ▶ The business is a going concern
- ▶ A review of internal controls Covering financial, operational and compliance controls and risk management has been conducted and the Directors have obtained a reasonable assurance of their effectiveness and successful adherence

9.1. Board sub-committees

The Board, while assuming the overall responsibility and accountability for the management of the Company, has also appointed Board sub-committees to ensure more effective control over certain affairs of the Company, conforming to the corporate governance standards of the Listing Rules of the CSE and adopting best practices thereon. Accordingly, the following Board sub-committees have been constituted by the Board.

| Board Sub-committees | Committee Report Reference |
|--|----------------------------|
| Board Audit Committee | Pages 102 to 103 |
| Human Resources, Remuneration and Nomination Committee | Pages 105 to 106 |
| Related Party Transactions Review Committee | Page 104 |
| Board Investment Committee | Page 107 |

The Board also established new sub-committees on Strategic Plan Review, Integrated Risk Management and Information Technology as at the reporting date.

The composition of each Board sub-committee and Directors' attendance at meetings are given on page 93.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard (LKAS) 24 – Related Party Disclosures, which has been adopted in the preparation of these financial statements.

Such transactions disclosed by the Directors are given in Note 48 to the financial statements on pages 197 to 202 and form a part of the Annual Report of the Board of Directors. During the year, there were no transactions which exceeded 10% of the equity or 5% the total assets which require immediate disclosure to the CSE and separate disclosure in the Annual Report.

The Company has complied with the requirements of the Code of Best Practices on Related Party Transactions issued by the SEC and has complied with all disclosure requirements as per the Code.

HUMAN RESOURCES, REMUNERATION AND NOMINATION COMMITTEE

The details of the Human Resources, Remuneration and Nomination Committee are given on pages 105 to 106 of this Annual Report.

BOARD AUDIT COMMITTEE

All the members of the Board Audit Committee are Non-executive Directors. The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer attend the meetings by invitation. The report of the Board Audit Committee is given on pages 102 to 103.

9.2. System of internal controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls, covering financial operations and compliance controls required to carry its operation in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Directors have appointed a qualified internal auditor to carry out the internal audit function and report on the effectiveness of financial, operational and compliance controls to the Board Audit Committee.

9.3. Risk management

The Board and executive management of the Company have put in place an adequate risk identification, measurement and mitigation process. The risk management function is strengthened with a dedicated officer under the purview of Board Audit Committee. In addition, a

group level risk management committee is in place with Company level representatives.

A detailed overview of the process is outlined in the Risk Management report on pages 54 to 61.

9.4. Compliance with laws and regulations

To the best of knowledge and belief of the Directors, the Company has complied with all applicable laws and regulations. A separate paper on regulatory compliance is submitted to the Board on a monthly basis. Further, the Company complies with the Financial Transaction Reporting Act No. 40 of 2011 and the Convention on the Suppression of Terrorist Financing Act No. 3 of 2013, by sending a monthly report to the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka (CBSL).

9.5. Environment

The Directors confirm that to the best of their knowledge, the Company has not engaged in any activity, which causes detriment to the environment.

9.6. Environmental, social and governance Reporting

Environmental, social and governance (ESG) considerations affect value creation and the execution of strategies of the Company. The Company's Annual Report contains sufficient information on the recognition, management, measurement and reporting on ESG risks and opportunities as set out on pages 37 to 67.

9.7. Internet of things

Group IT policies by which the Company is governed,

comprehensively cover the process to identify connections to the Company's network, cyber security risks identification, effectiveness of cyber security risk management. The functions of Chief Information Security Officer are delegated to the Head of IT of the PLC Group. Related information is set out in Corporate Governance section on page 94.

9.8. Going concern

After considering the financial position, the Company's corporate/business plans, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance issued jointly by the Securities Exchange Commission and the Institute of Chartered Accountants of Sri Lanka, there is a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, the Company continues to adopt the going concern basis in preparing the financial statements.

In determining the above significant management judgements, estimates and assumptions, the impact of the COVID-19 pandemic has been considered as of reporting date and specific considerations have been disclosed under the relevant notes in the financial statements. In addition, the management of the Company evaluated the resilience of the business considering a wide range of factors under multiple stress tested scenarios, relating to expected premium volumes, volatility of claims, expense management, profitability, ability to defer non-essential

capital expenditure, reinsurance payment timelines, liquidity of the investment portfolio and the ability to continue providing services to ensure businesses continue as with minimum impact.

10. STAKEHOLDER MANAGEMENT AND INTEGRATED REPORTING

The Company has taken several measures to manage its valued stakeholders in value creation process. Economic, environment and social aspects are adequately addressed in the reporting process. Relevant details are presented in stakeholder engagement on pages 41 to 42 of this Annual Report.

11. STATUTORY PAYMENTS

To the best of knowledge and belief, the Directors are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to the employees have been made on time.

12. OUTSTANDING LITIGATIONS

In the opinion of the Directors and in consultation with the Company Lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company other than those arising in the normal course of conducting insurance business.

13. EVENTS AFTER THE REPORTING DATE

Details of events after the reporting date are provided in Note 50 (page 203) to the financial statements.

Annual Report of the Board of Directors on the Affairs of the Company

14. ANNUAL GENERAL MEETING

The Annual General Meeting will be held at People's Insurance PLC via audio and visual technology, on 28th June 2021 at 9.30 a.m. The Notice of the Meeting relating to the 12th Annual General Meeting is given on page 243.

15. COMPLIANCE WITH REQUIREMENTS ON THE CONTENT OF THE ANNUAL REPORT IN RULE 7.6 OF THE LISTING RULES

| Rule reference | Information required to be disclosed | Status of compliance | Page reference |
|----------------|--|-------------------------------------|----------------|
| 7.6 (i) | Names of persons who were Directors of the Company during the financial year | <input checked="" type="checkbox"/> | 90 |
| 7.6 (ii) | Principal activities of the Company and its subsidiaries during the year | <input checked="" type="checkbox"/> | 122 |
| 7.6 (iii) | Information on 20 largest shareholders at the end of the year | <input checked="" type="checkbox"/> | 229 |
| 7.6 (iv) | The public holding percentage | <input checked="" type="checkbox"/> | 230 |
| 7.6 (v) | Directors' and Chief Executive Officer's holding in shares | <input checked="" type="checkbox"/> | 230 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors | <input checked="" type="checkbox"/> | 56 to 61 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations | <input checked="" type="checkbox"/> | 61 |
| 7.6 (viii) | Information on buildings/land holdings and investment properties as at the end of the year | <input checked="" type="checkbox"/> | 147 to 149 |
| 7.6 (ix) | Number of shares representing the stated capital as at the end of the year | <input checked="" type="checkbox"/> | 231 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities and related information | <input checked="" type="checkbox"/> | 231 to 232 |
| 7.6 (xi) | Ratios and market price information on equity, debt, change in credit rating | <input checked="" type="checkbox"/> | 232 |
| 7.6 (xii) | Significant changes in the Company's or subsidiaries' fixed assets | N/A | Not applicable |
| 7.6 (xiii) | Details of funds raised through a public issue, Rights Issue and a Private Placement during the year | N/A | Not applicable |
| 7.6 (xiv) | Information in respect of Employee Share Ownership or Stock Option schemes | N/A | Not applicable |
| 7.6 (xv) | Disclosure pertaining to Corporate Governance practice in terms of Rules 7.10.0, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules | <input checked="" type="checkbox"/> | 221 to 224 |
| 7.6 (xvi) | Related party transactions exceeding 10% of the Equity or 5% of the total assets of the entity | <input checked="" type="checkbox"/> | 98 |

ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

[Section 168 (1) (k)]

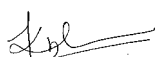
The Board of Directors does hereby acknowledge the contents of this Annual Report.



Isuru Balapatabendi
Chairman



Lakshman Abeysekera
Director



Lakmini Kottegoda
Company Secretary

6th May 2021
Colombo

Directors' Statement on Internal Control

The following statement is presented by the Board of Directors to be in line with Section D1.5 of the Code of Best Practices on Corporate Governance 2017 (Code) issued by The Institute of Chartered Accountants of Sri Lanka.

RESPONSIBILITY

The Board of Directors (Board) is responsible for the adequacy and effectiveness of the Internal Control system and risk management practices within the Company in order to safeguard the shareholder's investment and the Company's assets. However, due to the inherent nature of the Internal Control System, systems of internal control are designed to manage, rather than to eliminate the risk of failure to achieve business objectives. In view of this, the system of internal controls can only provide reasonable, but not absolute assurance against material misstatements of loss.

The Board has established an on-going process to ensure the significant risks faced by the Company are identified, evaluated and managed within an acceptable risk profile and this process includes enhancing the system of internal control as and when there are changes to the business environment or regulatory guidelines. The process is in place and reviewed by the Board through the Board Audit Committee, assisted by the Internal Auditors. With the view of improving the Internal Control Environment, the Board has reviewed the internal control deficiencies identified and relevant recommendations reported by the Board Audit Committee and directed appropriate actions.

The Management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

SYSTEM OF INTERNAL CONTROL

The board has implemented the following to obtain reasonable assurance that proper system of internal controls are in place:

- ▶ Several Board Sub-committees are instituted to assist the Board in ensuring the effectiveness of the Company's operations and that those are in accordance with the corporate objectives, strategies, annual budgets and business direction.
- ▶ Policies are developed covering most of the functional areas of the Company and these are approved by the Board or Board approved sub-committees. Such policies are reviewed and approved periodically.
- ▶ The internal audit department reviews for compliance with policies and procedures and the effectiveness of the internal control systems on an on-going basis and highlight significant findings in respect of any non-compliance. Audits are carried out on significant processes in accordance with the audit plan which is drawn based on the level of risk assessed which is approved by the Board Audit Committee. Findings of the internal audits are submitted to the Board Audit Committee for review at periodic meetings.
- ▶ The Board Audit Committee of the Company reviews the outcome of the audits carried out on internal control systems, regulatory authorities and internal audits, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the scope and quality of the internal audit function and the risk management framework of the Company. Key Risk Indicators have been identified for all major operations of the Company a summary of the Key Risk Indicators are included in the Risk Dashboard and presented to the Audit Committee quarterly. The proceedings of the Audit Committee are tabled at the Board Meetings of the Company. Further, details of the activities carried out by the Board Audit Committee are presented in the Board Audit Committee Report on pages 102 to 103.
- ▶ In assessing the internal control system, the Company continued to review and update procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company. The internal audit department continues to verify the suitability of design and effectiveness of these procedures and controls on an on-going basis.
- ▶ A compliance checklist covering all applicable laws and regulations is signed-off by relevant heads of department, based on which

the Risk and Compliance officer presents the Compliance Statement at monthly Board meetings.

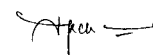
CONFIRMATION STATEMENT

The Board having implemented the internal control processes as mentioned above, confirms that the financial reporting system of People's Insurance PLC has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with the applicable Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, Companies Act, No. 07 of 2007, regulatory requirements of the Insurance Regulatory Commission of Sri Lanka and the Colombo Stock Exchange.

By order of the Board



Isuru Balapatabendi
Chairman



Shameendra Marcelline
Director



Lakshman Abeysekera
Chairman - Board Audit Committee

6th May 2021
Colombo

Board Audit Committee Report

COMPOSITION

The Board Audit Committee appointed by the Board, comprises the following Non-executive Directors, majority of whom are independent. During the year 2020, the Committee was reconstituted with the resignation of Mr. R.Gunawardena and Mr. W. M Abeyrathna Bandara. Accordingly, following are the members of the Board Audit Committee as of the date of this report.

Mr. Lakshman Abeysekera

(Non-executive, Independent Director)

Dr. Kasun I. Wijetilleke

(Non-executive, Independent Director)

Mr. Ranjith Kodituwakku

(Non-executive, Non-independent Director)

Brief profiles of members of the Board Audit Committee as at 31st December 2020 are given on pages 26 to 30 of this Annual Report.

The Head of Internal Audit functions as the Secretary to the Audit Committee.

Expertise of the Committee

The Committee Chairman Mr. Lakshman Abeysekera is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Association of Accounting Technicians of Sri Lanka with over 25 years' experience in accounting, finance and management.

The Board of Directors has satisfied themselves that the current members of the Audit Committee are collectively competent in the industry,

financial matters and have recent and relevant experience which enable smooth functioning of the Committee.

Continuous Professional Development

The Committee participated at seminars conducted internally and externally with the view of keeping its knowledge up to date.

CHARTER

The terms of reference of the Board Audit Committee is clearly defined in the Charter. The Charter of the Board Audit Committee approved by the Board is revisited and revised annually with the concurrence of the Board of Directors to ensure that the new developments relating to the functions of the Committee are addressed. The charter of the Committee was last reviewed and approved by the Board in July 2020.

The Committee is accountable to the Board and reports on its activities regularly to the Board of Directors. The Committee has unrestricted access to information, cooperation from the management and discretion to invite any Director or Executive Officer to attend its meetings.

The functions of the Committee are geared to assist the Board of Directors in its general oversight responsibilities in relation to financial reporting, internal control, risk management, compliance, internal audit and external audit.

The composition, roles and functions of the Committee are in accordance with the Listing

Rules on Corporate Governance of the Colombo Stock Exchange and the Code of Best practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

AUTHORITY

The Committee has the explicit authority to investigate in to any matter, full access to information and to obtain external professional advice at the Company's expense.

THE OBJECTIVE AND ROLE

The Committee assesses, ensures and is empowered by the Board in terms of the following:

- ▶ Integrity of the financial reporting and compliance with financial reporting requirements under the Sri Lanka Accounting Standards and other reporting requirements under related regulations
- ▶ Effectiveness of the Company's internal controls, risk management systems and governance processes
- ▶ Company's ability to continue as going concern in the foreseeable future
- ▶ Independence and performance of the External Auditors and Company's internal audit function
- ▶ Compliance with legal and regulatory requirements including performance of the compliance function

MEETINGS

The proceedings of the Committee meetings are conducted in accordance with the terms of the Board Audit Committee. The Chief Executive Officer, Chief Operating Officer, Chief Financial

Officer and Risk and Compliance Officer are regular attendees to the meetings by invitation as and when required. The External Auditors also attend meetings, on invitation, to brief the Committee on external audit related and other specific matters.

During the year 2020, the Committee held six meetings. Attendance of the members at meetings is set out in the table on page 93 of this Annual Report.

ACTIVITIES IN 2020

Financial Reporting System

In order for the Board to assure the integrity of the financial statements of the Company in the lines of significant financial reporting, disclosures and judgments contained therein, the committee assisted the Board in its oversight responsibility. The assurance is assumed through an independent review of risks, controls and governance processes. The Committee quarterly reviews the financial statements while annual financial statements are reviewed in consultation with the external and internal auditors prior to making recommendation to the Board for approval.

Compliance with reporting requirements

The Committee reviews with the management the significant accounting and reporting issues and developments in Accounting Standards and adoption of applicable changes. The Committee continuously monitors the compliance with relevant accounting standards and keeps the Board abreast at regular intervals.

Oversight on Regulatory Compliance

The Board Audit Committee scrutinises whether the conduct of the business is in compliance with applicable laws and regulations and policies of the Company by reviewing the compliance statements prepared by the management. The Risk and Compliance Officer under the guidance of the Committee, obtains statements of compliance from heads of operating departments in order to prepare the monthly compliance statement and submits it to the Board. The Internal Audit Department of the company is mandated to conduct independent test checks on regulatory compliance requirements annually.

Identification of Risk and Control Measures

With the motive of maintaining an effective internal control environment, the Committee seeks required assurance from the Risk and Compliance Officer and other related business units on remedial actions taken in respect of the risks identified. A risk grading matrix is adopted for assessing and measuring the risks identified and a quarterly Risk Dashboard is submitted for deliberations of the Committee by the Risk and Compliance Officer.

The Company also adopts a risk based audit approach and the effectiveness of the internal control procedures that are in place to identify, manage and mitigate all significant risks are monitored by the Committee on a quarterly basis.

Internal Audit

The Committee monitors the effectiveness of internal audit function by reviewing the adequacy of the audit coverage, functions and resources of the internal audit department and ensures that the department has necessary authority to carry out its audits. It also ensures the independence of the audit function by appraising the activities it audited and that those were performed with impartiality, proficiency and due professional care.

The Committee approves the audit plan formulated by the Internal Audit Department and reviews its progress of implementation regularly. Significant findings of internal audits and other assignments with recommendations to the management are considered and appropriate acclamations are issued by the Committee. Further, follow-up actions on internal and external audit recommendations are monitored.

Performance of the Internal Audit Department is quarterly appraised by the Committee against the audit plan and set key performance indicators.

Appointment of External Auditors

Auditor General is the External Auditor of the Company and he has authorised Ernst & Young to carry out the Audit of the Company for the year ended 31st December 2020 as per the constitution.

External Audit

Audited financial statements, results of the external audit, letter of representation issued to the External Auditors and recommendations contained in the Management Letter and management response thereto are reviewed by the Committee, while ensuring that appropriate follow-up actions are taken.

The Board Audit Committee also holds private meetings with the External Auditors to understand any gaps and dissent experienced by the Auditors during the course of the audits. The Committee also reviews the other services provided by the outsourced External Auditors to ensure that their independence as Auditors has not been compromised.

Ethics and Good Governance

The Committee constantly emphasises on upholding ethical values of the staff members. In this regard the whistleblowing policy was strengthened and followed educating and encouraging all employees to resort to whistle-blowing if they suspect any wrong doings or improprieties. Highest standard of good Governance and adherence to the company's Code of Ethics were ensured.

Whistle Blowing and Fraud

The Company's whistle blower protection policy intends serving a wide-spread informal channel for the corporate fraud risk management. It encourages employees and others who have serious concerns about any aspect of the Company's work such as any improper or illegal

activity or unethical practices in the Company or receives credible information of the same, to come forward and voice those concerns. Concerns raised are investigated by independent parties and overseen by the Board Audit Committee. The identity of the person raising the concern is kept confidential and even anonymous complaints are looked at.



Lakshman Abeysekera
Chairman – Board Audit Committee

6th May 2021
Colombo

Related Party Transactions Review Committee Report

Related Party Transactions Review Committee (RPTRC) was established in October 2015 by the Board in compliance with the Code of Best Practices on the Related Party Transactions (Code) issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE). RPTRC is a formally constituted sub-committee of the Board of Directors and it reports regularly to the Board.

COMPOSITION

The RPTRC comprises the following Non-executive Directors with effect from 8th June 2020 following the reconstitution of the Board whose brief profiles are given on pages 26 to 30 of this Annual Report. The composition of the RPTRC meets the requirements under the Listing Rules of CSE.

Mr. Johnson Fernando - Chairman of the Committee (Non-executive, Independent Director)

Mr. Ranjith Kodituwakku - Member (Non-executive, Non-independent Director)

Mr. Lakshman Abeysekara - Member (Non-executive, Independent Director)

FUNCTIONS OF THE COMMITTEE

The primary function of the Committee is to review all proposed related party transactions, other than those transactions explicitly exempted under Rule 27 of the Code, prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

MEETINGS AND ACTIVITIES

The proceedings of the Committee meetings which mainly include activities under its mandate are reported to the Board of Directors. The Committee had four meetings during the year 2020 and details of attendance of the Committee members are set out in the table under page 93. The Chief Executive Officer and members of the management of the Company are invited to attend meetings as and when required.

The Board of Directors continuously monitors whether the transactions entered into with related parties are carried out in the ordinary course of business and at arm's length via the reporting by the RPTRC on their observations on all related party transactions. During the year, there has not been any transaction that required reporting and approval of the Board of Directors.

METHODOLOGY ADOPTED BY THE COMMITTEE

The methodology adopted by the RPTRC is set out in the Terms of Reference of the Committee approved by the Board of Directors and are in compliance with the requirements under the Code. As such, the mandate of the Committee consists of inter alia the following:

- ▶ Adopt policies and procedures to review related party transactions of the Company.
- ▶ Review in advance all proposed related party transactions of the Company except those explicitly exempted in the Code.
- ▶ Determine whether such related party transactions require the approval of the

Board or shareholders of the Company as determined in Rule 13 of the Code, and if necessary forward the same for their approval.

- ▶ If related party transactions are recurrent, the Committee shall establish guidelines for senior management to follow in its ongoing dealings with the relevant related party. Thereafter, the Committee on an annual basis shall review and assess ongoing relationships with the related party to see that they are in compliance with the Committee's guidelines and that the related party transactions remain appropriate.
- ▶ Ensure that no Director of the Company shall participate in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the related party transaction to the Committee.
- ▶ If there is any potential conflict in any related party transaction, the Committee may recommend the creation of a special committee to review and approve the proposed related party transaction.
- ▶ Ensure that immediate market disclosures and disclosures in the Annual Report as required by the Code are made in a timely and detailed manner.

DECLARATION

Related party transactions that took place during the year in terms of the Sri Lanka Accounting Standards are disclosed in the

financial statements and have been approved by the Board of Directors. It may also be noted that there were no related party transactions that occurred during the financial year under review which required approval of the shareholders of the Company as determined in Rule 13 of the Code. Please refer the Annual Report of the Board of Directors on the Affairs of the Company, page 98 for the declaration made by the Board of Directors, confirming that no related party transaction falling within the ambit of the Listing Rules which required an immediate market disclosure was entered into by the Company during year ended 31st December 2020.



Johnson Fernando
Chairman - Related Party Transactions Review Committee

6th May 2021
Colombo

Board Human Resources, Remuneration and Nomination Committee Report

The Board Human Resources, Remuneration and Nomination Committee is appointed by the Board. The Committee reviews human resources and remuneration aspects of the Company, including the remuneration of Board of Directors in accordance with the government directives and Key Management Personnel (KMP) below the main Board.

COMPOSITION AND COMMITTEE MEETINGS

The Board Human Resources Remuneration and Nomination Committee comprises the following Non-executive Directors with effect from 8th June 2020 following the reconstitution of the Board whose brief profiles are given on pages 26 to 30 of this Annual Report.

Mr. Isuru Balapatabendi – Chairman of the Committee (Non-executive, Non-independent Director)

Mr. Lakshman Abeysekera – Member (Non-executive, Independent Director)

Mr. Johnson Anthony Fernando – Member (Non-executive, Independent Director)

Dr. Kasun Wijetilleke – Member (Non-executive, Independent Director)

Mr. Shamindra Marcelline – Member (Non-executive, Non-independent Director)

Note – Mr. Shamindra Marcelline was appointed to the Remuneration and Nomination Committee with effect from 30th December 2020.

The Secretary of the Company functions as the Secretary to the Committee.

The proceedings of the Committee meetings which mainly include activities under its mandate are regularly circulated among all Directors of the Board.

CEO attends meetings of the Committee by invitation, other than in instances where matters relating to him are discussed. The CEO reports to the Committee on the changes in salary structures and terms of the KMP below the main Board, if any.

During the year, the Committee conducted four meetings and the details pertaining to the attendance are provided on page 93 of this Annual Report.

ROLES AND RESPONSIBILITIES

- i. Nomination related responsibilities of the Committee are as follows:
 - ▶ Propose a suitable Charter for the appointment and reappointment of Directors to the Board.
 - ▶ Identify and recommend to the Board or the Chairman, suitable candidates to fill any vacancy/vacancies of the Board and all reappointments to the Board as well as proposing selection and appointment of the Chairman in case of a vacancy.
 - ▶ Consider and determine if a Director is able to and has been adequately carrying out the duties as a Director and if necessary propose the maximum number of listed company Board representations which any Director may hold.

- ▶ Review and propose changes if required to the structure, size, composition and competencies of the Board and make recommendations to the Board if changes are required.
- ii. Remuneration related responsibilities are as follows:
 - ▶ Responsible for the remuneration policy and its specific application to the Executive Directors and KMP below the main Board.
 - ▶ Recommend to the Board on the remuneration and incentive framework (inclusive of equity incentives and terminal benefits) for Executive Directors and KMP below the main Board.
 - ▶ Review of objectives and key performance indicators of the Executive Directors and KMP, management development plans and succession planning of the Company.
 - ▶ Formalise the strategic human resource policy.
 - ▶ Recommend and ensure that appropriate service contracts for Executive Directors and KMP are available.

REWARD STRATEGY

Reward strategies and remuneration structure of the Company are designed to attract, motivate and retain high-caliber people, at all levels of the organisation, in a highly competitive environment.

Accordingly, a key feature of our remuneration policy is pay for performance. The skills, experience of the individual and his/her level of responsibility are also taken into account in deciding on the remuneration.

REMUNERATION PRINCIPLES

- ▶ To enable the attraction and retention of high-caliber people, with the right mix of experience, skills and knowledge to delivery on the strategy.
- ▶ To support and reinforce our desired culture and encourage behaviour consistent with values.
- ▶ To create an appropriate balance and alignment between the needs and expectations of stakeholders to ensure the creation of long-term value for them.
- ▶ To incentivise employees to deliver and sustain high levels of performance and the execution of strategic priorities.
- ▶ To align with the principles of good corporate governance.
- ▶ To promote performance based on culture, team work and recognise individual/group performance.
- ▶ To provide single or multiple levels of recognition based on the individual and team based contributions.
- ▶ To improve employee productivity, efficiency and quality of work.
- ▶ To maintain high standards of customer service.

AUTHORITY

The Committee has the authority to discuss issues relating to remuneration and nomination and report to the Board with recommendations, enabling the

Board Human Resources, Remuneration and Nomination Committee Report

Board to take a final decision on the matter. The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

EVALUATION OF THE COMMITTEE

As part of the annual self-assessment of the Board of Directors, the performance and effectiveness of the Board Committees is assessed by the Board as a whole.

DIRECTORS' COMPENSATION

Compensations paid to the Board of Directors are specified on page 97 of this Annual Report.



Isuru Balapatabendi

Chairman – Board Human Resources, Remuneration and Nomination Committee

6th May 2021
Colombo

Investment Committee Report

CHARTER OF THE COMMITTEE

The Investment Committee of People's Insurance PLC is appointed by and is responsible to the Board of Directors. The primary purpose of the Investment Committee is to assist the Board in fulfilling their responsibility to shareholders and policyholders in relation to the management of the investment portfolio, including the development of overall and portfolio specific investment guidelines. The Committee is empowered to review and amend policies and programmes falling under its purview and recommend to the Board on their adoption.

COMPOSITION AND MEETINGS

The Investment Committee consists of six members, four of whom are Non-executive Directors of the Company and two from the management. As at the annual report date, the Committee includes the following members:

- Mr. Isuru Balapatabendi** - Chairman of the Committee (Non-executive, Non-independent Director)
- Mr. S. Marcelline** – Member (Non-executive, Non-independent Director)
- Mr. Johnson Fernando** – Member (Non-executive, Non-independent Director)
- Dr. Kasun Wijethilleke** – Member (Non-executive, Independent Director)
- Mr. Deepal Abeysekera** – Member (Chief Executive Officer)
- Mr. Nilushan Somarathna** – Member (Chief Financial Officer)

With the resignation of Mr. A. S. Ibrahim (former CEO/ General Manager People's Leasing & Finance PLC) from the Board with effect from 3rd December 2020, Mr. Shamindra Marcelline

was appointed as a member to the Committee with effect from 30th December 2020. The Board Secretary of Peoples Insurance PLC functions as the Secretary to the Investment Committee. Meetings are held on a quarterly basis and Manager Investment attends meetings by invitation. During the year 2020, the Investment Committee held three meetings. Attendance of the Investment Committee members at meetings is set out in the table on page 93 of this Annual Report.

OBJECTIVES

The key objectives of the Committee are summarised below.

- ▶ Advice on formulation of investment strategy
- ▶ Guidance on the asset allocation of investment portfolio
- ▶ Review investment performance
- ▶ Review of solvency and approved assets
- ▶ Review of risk exposure
- ▶ Review compliance with internal and external investment regulations

ACTIVITIES CARRIED OUT DURING THE YEAR

At each quarterly meeting, the Committee reviewed the details of the macro-economy, investment strategy and performance of the investment portfolio of the Company presented by the management. Extensive discussions were held on economic, political, social and other conditions that could impact the performance of the Company's investment returns and the investment strategy was structured upon agreements reached during such discussions.

- ▶ Investment Operations Manual of the Company was reviewed and amended during the year to keep the operations manual relevant and up to date.
- ▶ Apart from the scheduled meetings, the Committee also maintained constant dialogue with the management throughout the year, discussing matters as and when they arose. Any issues that needed the attention of the Investment Committee were promptly attended to and solutions reached through close communication between the Investment Committee and the management
- ▶ The Committee provided guidance on maximising investment returns while working within the Company's investment risk appetite to simultaneously ensure the achievement of benchmark investment yield, budgeted income and adherence to all internal guidelines and external regulations
- ▶ The Committee also reviewed areas such as asset allocation, maturity mix, asset and liability management of the fund.
- ▶ Regular and strict scrutiny was maintained throughout the year in relation to compliance with applicable criteria, guidelines and policies stipulated in the Company's Investment Operations Manual as well as with statutory rules and regulations. A separate compliance report was tabled at each meeting affirming the state of compliance with all such requirements.

CONCLUSION

Being predominantly a fixed income fund, the Committee is of the view that the Company's investment portfolio recorded a commendable performance despite the historically low interest rates and the uncertainties prevailed in the market. The management took prudent decisions in managing its investment portfolio to surpass set targets, while operating within the regulations applicable and the framework prescribed by the Investment Operations Manual of the Company



Isuru Balapatabendi
Chairman – Investment Committee

6th May 2021
Colombo



OUR CONTINUOUS TRAINING HELPED MAKE AN IMPACT IN OUR PERFORMANCE, GROWING IN MORE WAYS THAN ONE

FINANCIAL INFORMATION

| | | | |
|--|-----|--------------------------------------|-----|
| Statement of Directors' Responsibility for Financial Reporting | 109 | Statement of Financial Position | 118 |
| CEO's and CFO's Responsibility Statement | 111 | Statement of Changes in Equity | 119 |
| IBNR and LAT Certification | 112 | Statement of Cash Flows | 120 |
| Independent Auditor's Report | 113 | Notes to the Statement of Cash Flows | 121 |
| Statement of Profit or Loss | 116 | Notes to the Financial Statements | 122 |
| Statement of Comprehensive Income | 117 | | |

Statement of Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the financial statements of the Company in accordance with the provisions of the Companies Act No. 07 of 2007 ('Companies Act') is set out in this statement. The responsibilities of the External Auditors in relation to the financial statements are set out in the Independent Auditor's Report given on page 115.

As per sections 150(1) and 151 of the Companies Act, the Directors of the Company have a responsibility for ensuring that the Company keeps proper books of accounts of all the transactions and prepare financial statements that give a true and fair view of the state of affairs of the Company as at the financial reporting date and of the financial performance for the year and place the same before the Annual General Meeting.

The financial statements comprise the statement of financial position as at 31st December 2020, statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes thereto. Accordingly, the Directors confirm that the financial statements of the Company give a true and fair view of:

1. The state of affairs of the Company as at 31st December 2020; and
2. The financial performance of the Company for the financial year then ended.

The financial statements for the year 2020, prepared and presented in this Annual Report are in agreement with the underlying books of account and are in conformity with the

requirements of the following:

- ▶ Sri Lanka Accounting Standards (SLFRSs and LKASs);
- ▶ Companies Act No. 07 of 2007;
- ▶ Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- ▶ Insurance Industry Act No. 43 of 2000 and amendments thereto;
- ▶ Statement of Recommended Practice (SoRP) issued by Insurance Regulatory Commission of Sri Lanka (IRCSL);
- ▶ Listing Rules of the Colombo Stock Exchange (CSE) and;
- ▶ Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Annual Report. The Directors confirm that in preparing these financial statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner, material departures, if any, have been disclosed and explained;
2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent and;
4. The information required by and otherwise complies with the Companies Act No. 07 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto and the

Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority are provided in full.

The Directors also ensured that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company.

The financial statements of the Company have been certified by the Chief Financial Officer, the officer responsible for their preparation as required by section 150(1)(b) of the Companies Act. In addition, the financial statements of the Company have been signed by two Directors on 6th May 2021 as required by Section 150(1)(c) of the Companies Act and other regulatory requirements. In compliance with section 148(1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which explain the Company's transactions and assist in determining the Company's financial position with reasonable accuracy at any time are maintained by the Company enabling the preparation of financial statements, in accordance with the Companies Act and further enabling the financial statements to be readily and properly audited.

The financial statements for the year 2020 prepared and presented in this Annual

Report are consistent with the underlying books of accounts and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act and Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it has been under the regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

As required by the section 56(2) of the Companies Act No. 7 of 2007, the Board of Directors wish to confirm that they have authorised the distribution of the dividends paid and proposed upon being satisfied that the Company would be able to satisfy the solvency test immediately after such distributions are made in accordance with section 57 of the Companies Act No. 7 of 2007 and have obtained certificates of solvency from the external auditors in respect of dividends paid.

The Board of Directors also wish to confirm that as required under sections 166(1) and 167(1) of the Companies Act, they have prepared this Annual Report within the prescribed time and ensured that a copy thereof is sent to the shareholders within the stipulated period of time.

Statement of Directors' Responsibility for Financial Reporting

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion. The Directors are of the view that they have discharged their responsibilities as set out in this statement.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees, and the Government and other statutory bodies that were due in respect of the Company as at the financial reporting date have been paid or, where relevant provided for.

By order of the Board



Lakmini Kottegoda
Company Secretary

6th May 2021
Colombo

CEO's and CFO's Responsibility Statement

The financial statements are prepared and presented in compliance with the following;

- ▶ Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- ▶ Companies Act No. 07 of 2007;
- ▶ Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- ▶ Insurance Industry Act No. 43 of 2000 and amendments thereto;
- ▶ Statement of Recommended Practice (SoRP) issued by Insurance Regulatory Commission of Sri Lanka (IRCSL);
- ▶ Listing Rules of the Colombo Stock Exchange (CSE) and;
- ▶ Code of Best Practice on Corporate Governance issued by CA Sri Lanka.

The formats used in the preparation of the financial statements and disclosures made comply with the specified formats prescribed in the SORP issued by IRCSL. The Company presents the financial results to its shareholders on a quarterly basis.

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the financial statements.

The Board of Directors and the management of the Company accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating

to these financial statements were made on a prudent and reasonable basis in order that the financial statements reflect in a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The internal audit department conducts periodic audits to provide reasonable assurance that the established policies and procedures of the Company are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal controls and accounting.

The Board Audit Committee of the Company meets periodically with the internal auditors and external auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

The financial statements of the Company were audited by the Auditor General and his report is given on pages 113 to 115 of this Annual Report.

We confirm that;

1. To the best of our knowledge, the financial statements, significant accounting policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the cash flows of the Company during the period under review;
2. The Company has adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements;
3. The Company has complied with all applicable laws, regulations and prudential requirements and there is no material non-compliance;
4. There are no material litigations that are pending against the Company other than those disclosed in Note 51.2 of the financial statements of this Annual Report;
5. All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at 31st December 2020 have been paid or where relevant provided for;
6. The Company has complied with all the legal and regulatory provisions of the Regulation of Insurance Industry act;
7. The Company has arranged treaty reinsurance with approved reinsurers as per the IRCSL guidelines;

8. Reserving and solvency guidelines have been complied with and total reserves are backed by matching admissible assets and;
9. The equity capital meets the set minimum capital requirement in accordance with the applicable regulations;



Deepal Abeysekera
Chief Executive Officer



Nilushan Somarathna
Chief Financial Officer

6th May 2021
Colombo

IBNR and LAT Certification



03 March 2021

To the shareholders of People's Insurance PLC

PEOPLE'S INSURANCE PLC 31 DECEMBER 2020 IBNR AND LAT CERTIFICATION

I hereby certify that the 75% confidence level IBNR provision of LKR 411,379,513 is adequate in relation to the Claim Liability of People's Insurance PLC as at 31 December 2020, net of reinsurance (undiscounted). This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at an IRCSL determined 75th percentile, to meet the future liabilities, including the claims handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2020, in many but not all scenarios of future experience. (The undiscounted 75% confidence level IBNR provision, gross of reinsurance, including an allowance for CHE is LKR 536,002,715).

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR provision of LKR 2,818,237,632 set by the Company, net of reinsurance and DAC, is adequate at a 50th percentile in relation to the unexpired risks of People's Insurance PLC as at 31 December 2020, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonableness of the data.

A handwritten signature in black ink, appearing to read 'Matthew Tiong', with a stylized flourish at the end.

Matthew Tiong

Fellow of the Institute of Actuaries of Australia (IAA)

For and on behalf of NMG Consulting

03 March 2021

T: +65 6325 9855 F: +65 6325 4700 E: contact@NMG-Group.com

www.NMG-Group.com

30 Hill Street, #03-02A, Singapore 179360

Independent Auditor's Report



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல. }
My No. }

BAF/D/PI/2021/02

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

2 | May 2021

Chairman
People's Insurance PLC

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the People's Insurance PLC for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. FINANCIAL STATEMENTS

1.1 Opinion

The audit of the financial statements of the People's Insurance PLC (the "Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, and income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company gives a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.



| Key audit matter | How my audit addressed the key audit matter |
|---|--|
| <p>Valuation of Insurance Contract Liabilities</p> <p>Insurance Contract Liabilities amounting to Rs. 4,623,435,278 (Note 37) represent 77% of total liabilities of the Company as at 31 December 2020.</p> <p>Insurance Contract Liabilities include provision for reported claims, provision for claims, IBNR, IBNER and provision for unearned premiums.</p> <p>Insurance Contract liabilities are determined as described in Note 2.9.5.</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> ▶ materiality of the reported Insurance Contract Liabilities; ▶ the degree of assumptions, judgements and estimation uncertainty associated with valuation of Insurance Contract Liabilities; and ▶ liability adequacy test carried out to ensure the adequacy of the carrying value of Insurance Contract Liabilities. <p>Key areas of significant judgements, estimates and assumptions used in the valuation of the Insurance Contract Liabilities included the following:</p> <ul style="list-style-type: none"> ▶ the determination of historical experience and business expectation such as previous claim experience, existing knowledge of risk events, industry ultimate loss ratio, claim handling expenses and management expenses; ▶ the determination method used for unearned premium calculation; and ▶ the determination on expected effects of the ongoing COVID 19 pandemic on assumptions | <p>To assess the reasonableness of the non-life insurance contract liabilities, my audit procedures included among others the following;</p> <ul style="list-style-type: none"> ▶ Checked the completeness and accuracy of the data used in the valuation of Insurance Contract Liabilities by agreeing significant details to source documents and accounting records. ▶ Test-checked the unearned premium calculation. ▶ Engaged specialised resources to assess the reasonableness of the assumptions used in the valuation of Insurance Contract Liabilities with reference to the industry data and considering the historical experience, business expectation and impact of COVID19 on the assumptions. ▶ Assessed the adequacy of the related disclosures in Note 37 and 47.1 to the financial statements. |

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

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

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Other information included in the Company's 2020 Annual Report.

The other information comprises the information included in the Company's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- ▶ Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- 2.1** National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.
- 2.1.1** I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- 2.1.2** The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.1.3** The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.
- 2.2** Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;

2.2.2 to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company's as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;

2.2.3 to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018 ;

2.2.4 to state that the resources of the Company had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.



W. P. C. Wickramaratne
Auditor General

Statement of Profit or Loss

| For the year ended 31 December | | | | 2020 | 2019 |
|--|------|------|-----------------|-----------------|------|
| | Note | Page | Rs. | Rs. | |
| Revenue | 6 | 130 | 6,162,735,846 | 6,108,525,950 | |
| Gross written premium | 7 | 131 | 6,011,567,761 | 6,029,973,270 | |
| Change in reserve for unearned insurance premium | 8 | 131 | (90,925,214) | (228,585,742) | |
| Gross earned premium | | | 5,920,642,547 | 5,801,387,528 | |
| Premium ceded to reinsurers | 9 | 132 | (674,915,654) | (580,764,338) | |
| Change in reserve for unearned reinsurance premium | 10 | 132 | 57,665,601 | 41,112,688 | |
| Net earned premium | | | 5,303,392,494 | 5,261,735,878 | |
| Claims and expenses | | | | | |
| Net claims | 11 | 133 | (2,699,553,389) | (3,552,575,189) | |
| Underwriting and net acquisition costs | 12 | 136 | (559,530,485) | (517,151,047) | |
| Other operating and administrative expenses | 13 | 137 | (1,216,195,647) | (1,100,691,791) | |
| Finance cost | 14 | 138 | (19,935,057) | (26,078,185) | |
| | | | (4,495,214,578) | (5,196,496,212) | |
| Underwriting results | | | 808,177,916 | 65,239,666 | |
| Other revenue | | | | | |
| Fee income | 15 | 139 | 53,086,098 | 53,993,709 | |
| Interest and dividend income | 16 | 139 | 751,888,385 | 781,340,659 | |
| Net realised gains/(losses) | 17 | 140 | 34,073,644 | (3,065,725) | |
| Net fair value gains/(losses) | 18 | 141 | 19,283,471 | 3,079,351 | |
| Other income | 19 | 141 | 1,011,754 | 11,442,077 | |
| | | | 859,343,352 | 846,790,072 | |
| Profit before tax | 20 | 141 | 1,667,521,268 | 912,029,738 | |
| Income tax expense | 21 | 142 | (472,206,916) | (264,375,758) | |
| Profit for the year | | | 1,195,314,352 | 647,653,980 | |
| Basic earnings per share | 22 | 143 | 5.98 | 3.24 | |

The notes to the financial statements as set out on pages 122 to 204 form an integral part of these financial statements.

Statement of Comprehensive Income

| For the year ended 31 December | | | 2020 | 2019 |
|--|------|------|---------------|-------------|
| | Note | Page | Rs. | Rs. |
| Profit for the year | | | 1,195,314,352 | 647,653,980 |
| Other comprehensive income | | | | |
| Other comprehensive income that may be reclassified to statement of profit or loss in subsequent periods: | | | | |
| - Net gains on investments in debt instruments measured at fair value through other comprehensive income | 27.4 | 159 | 24,795,381 | 10,440,909 |
| - Recycling to statement of profit or loss due to disposal of investments | 27.4 | 159 | (26,483,719) | - |
| - Deferred tax effect on above | 21.2 | 142 | 219,277 | (2,669,997) |
| | | | (1,469,061) | 7,770,912 |
| Other comprehensive income not to be reclassified to statement of profit or loss in subsequent periods: | | | | |
| - Actuarial gains/(losses) on defined benefit obligations | 38.2 | 170 | 3,911,391 | (521,342) |
| - Deferred tax effect on above | 21.2 | 142 | (1,220,312) | (498,095) |
| | | | 2,691,079 | (1,019,437) |
| Other comprehensive income for the year, net of tax | | | 1,222,018 | 6,751,475 |
| Total comprehensive income for the year, net of tax | | | 1,196,536,370 | 654,405,455 |

The notes to the financial statements as set out on pages 122 to 204 form an integral part of these financial statements.

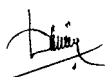
Statement of Financial Position

| As at 31 December | Note | Page | 2020 Rs. | 2019 Rs. |
|--------------------------------------|------|------|-----------------------|----------------------|
| Assets | | | | |
| Intangible assets | 24 | 145 | 10,969,646 | 1,876,389 |
| Property, plant and equipment | 25 | 147 | 185,479,090 | 238,214,775 |
| Deferred tax asset | 26 | 150 | 40,201,865 | 11,527,522 |
| Financial investments | 27 | 152 | 8,574,328,565 | 7,349,838,553 |
| Reinsurance receivables | 28 | 160 | 211,143,617 | 503,594,537 |
| Insurance receivables | 29 | 161 | 1,132,743,974 | 981,900,517 |
| Deferred expenses | 30 | 162 | 276,219,332 | 289,575,427 |
| Other assets | 31 | 163 | 113,804,834 | 75,200,225 |
| Cash and cash equivalents | 32 | 164 | 50,972,116 | 128,771,323 |
| Total assets | | | 10,595,863,039 | 9,580,499,268 |
| Equity and liabilities | | | | |
| Equity | | | | |
| Stated capital | 33 | 164 | 1,350,000,000 | 1,350,000,000 |
| Retained earnings | 34 | 165 | 3,271,015,339 | 2,295,700,987 |
| Fair value reserve | 35 | 165 | 2,788,224 | 4,257,285 |
| Other reserves | 36 | 165 | (4,618,221) | (7,309,300) |
| Total equity | | | 4,619,185,342 | 3,642,648,972 |
| Liabilities | | | | |
| Insurance contract liabilities | 37 | 166 | 4,623,435,278 | 4,923,641,866 |
| Employee defined benefit obligations | 38 | 169 | 42,733,705 | 37,238,009 |
| Other financial liabilities | 39 | 172 | 748,435,905 | 676,308,209 |
| Other liabilities | 40 | 173 | 42,621,457 | 31,769,549 |
| Reinsurance payables | 41 | 173 | 65,498,172 | 7,527,409 |
| Income tax payable | 42 | 173 | 435,327,639 | 110,748,700 |
| Bank overdrafts | 43 | 174 | 18,625,541 | 150,616,554 |
| Total liabilities | | | 5,976,677,697 | 5,937,850,296 |
| Total equity and liabilities | | | 10,595,863,039 | 9,580,499,268 |

The notes to the financial statements as set out on pages 122 to 204 form an integral part of these financial statements.

Certification

These financial statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Nilushan Somarathna
Chief Financial Officer

The Board of Directors is responsible for these financial statements. Signed for and on behalf of the Board by:



Isuru Balapatabendi
Chairman



Lakshman Abeysekera
Director

6th May 2021
Colombo

Statement of Changes in Equity

| | Note | Page | Stated capital Rs. | Retained earnings Rs. | Fair value reserve Rs. | Other reserves Rs. | Total Rs. |
|---|-------|------|--------------------------|-----------------------------|------------------------------|--------------------------|---------------|
| Balance as at 31 December 2018 | | | 1,350,000,000 | 2,034,950,758 | (3,513,627) | (6,289,863) | 3,375,147,268 |
| Adjustment on initial application of SLFRS 16, net of tax | 34 | 165 | - | (16,903,751) | - | - | (16,903,751) |
| Restated balance as at 1 January 2019 | | | 1,350,000,000 | 2,018,047,007 | (3,513,627) | (6,289,863) | 3,358,243,517 |
| Profit for the year | | | - | 647,653,980 | - | - | 647,653,980 |
| Dividends paid during the year | 34 | 165 | - | (370,000,000) | - | - | (370,000,000) |
| Other comprehensive income | 35,36 | 165 | - | - | 7,770,912 | (1,019,437) | 6,751,475 |
| Balance as at 31 December 2019 | | | 1,350,000,000 | 2,295,700,987 | 4,257,285 | (7,309,300) | 3,642,648,972 |
| Profit for the year | | | - | 1,195,314,352 | - | - | 1,195,314,352 |
| Dividends paid during the year | 34 | 165 | - | (220,000,000) | - | - | (220,000,000) |
| Other comprehensive income | 35,36 | 165 | - | - | (1,469,061) | 2,691,079 | 1,222,018 |
| Balance as at 31 December 2020 | | | 1,350,000,000 | 3,271,015,339 | 2,788,224 | (4,618,221) | 4,619,185,342 |

The notes to the financial statements as set out on pages 122 to 204 form an integral part of these financial statements.

Statement of Cash Flows

| For the year ended 31 December | | | | 2020 | 2019 |
|---|------|------|------------------------|----------------------|------|
| | Note | Page | Rs. | Rs. | |
| Operating activities | | | | | |
| Premium received from customers | | | 5,785,686,455 | 6,038,762,990 | |
| Reinsurance premium paid | | | (616,944,903) | (680,629,191) | |
| Claims paid | 11 | 133 | (3,038,173,040) | (3,697,462,502) | |
| Reinsurance receipts in respect of claims | | | 481,679,131 | 250,848,682 | |
| Interest received | | | 778,979,358 | 691,995,261 | |
| Dividends received | 16.2 | 140 | 690,650 | 1,239,786 | |
| Other operating cash flows | | | (1,604,527,964) | (1,422,377,595) | |
| Cash flows from operating activities | A | 121 | 1,787,389,686 | 1,182,377,431 | |
| Gratuity paid | 38.2 | 170 | (2,059,948) | (1,006,522) | |
| Income tax paid | 42 | 173 | (168,154,921) | (153,607,261) | |
| Interest paid on lease liability | 46.4 | 181 | (19,935,057) | (26,078,185) | |
| Net cash flows from operating activities | | | 1,597,239,760 | 1,001,685,463 | |
| Investing activities | | | | | |
| Purchase of liquid investments | | | (3,038,617,996) | (4,011,495,338) | |
| Purchase of other investments | | | (6,531,255,255) | (8,010,800,664) | |
| Sale of liquid investments | | | 3,026,018,654 | 4,214,870,644 | |
| Sale of other investments | | | 5,344,098,859 | 7,077,169,817 | |
| Purchase of intangible assets | 24.3 | 146 | (11,159,919) | - | |
| Purchase of property, plant and equipment | 25.3 | 149 | (26,536,075) | (20,986,338) | |
| Net cash flows used in investing activities | | | (1,237,451,732) | (751,241,879) | |
| Net cash flows before financing activities | | | 359,788,028 | 250,443,584 | |
| Financing activities | | | | | |
| Ordinary dividends paid | 34 | 165 | (220,000,000) | (370,000,000) | |
| Payment of lease liabilities | 46.4 | 181 | (67,253,388) | (58,011,815) | |
| Net cash flows used in financing activities | | | (287,253,388) | (428,011,815) | |
| Net increase/(decrease) in cash and cash equivalents during the period | B | 121 | 72,262,670 | (177,568,231) | |

The notes to the financial statements as set out on pages 122 to 204 form an integral part of these financial statements.

Notes to the Statement of Cash Flows

| For the year ended 31 December | | | | 2020 | 2019 |
|--|------|------|----------------------|----------------------|------|
| | Note | Page | Rs. | Rs. | |
| A. Cash flows generated from operating activities | | | | | |
| Profit before tax | | | 1,667,521,268 | 912,029,738 | |
| Adjustments for: | | | | | |
| Net fair value (gains)/losses | 18 | 141 | (19,283,471) | (3,079,351) | |
| Provision for employee defined benefit obligations | | | 11,467,035 | 10,199,769 | |
| Depreciation and amortisation expenses | | | 97,656,085 | 89,703,327 | |
| Provision for impairment | | | 75,037,857 | 18,138,385 | |
| Interest paid on lease liability | 46.4 | 181 | 19,935,057 | 26,078,185 | |
| Profit before working capital changes | | | 1,852,333,831 | 1,053,070,052 | |
| Changes in working capital | | | | | |
| (Increase)/decrease in reinsurance receivables | | | 292,450,920 | (350,475,902) | |
| Increase in insurance receivables and other assets | | | (264,485,923) | (42,010,458) | |
| (Increase)/decrease in deferred expenses | | | 13,356,095 | (25,413,241) | |
| Increase/(decrease) in insurance liabilities | | | (300,206,588) | 556,076,341 | |
| Increase/(decrease) in other liabilities | | | 193,941,351 | (8,869,361) | |
| Cash flows from operating activities | | | 1,787,389,686 | 1,182,377,431 | |
| B. Increase in cash and cash equivalents | | | | | |
| Cash and cash equivalents | 32.1 | 164 | 104,513,930 | 164,242,273 | |
| Bank overdrafts | 43 | 174 | (18,625,541) | (150,616,554) | |
| Net cash and cash equivalents as at 31 December | | | 85,888,389 | 13,625,719 | |
| Less: Net cash and cash equivalents as at 1 January | | | 13,625,719 | 191,193,950 | |
| Net increase/(decrease) in cash and cash equivalents during the period | | | 72,262,670 | (177,568,231) | |

The notes to the financial statements as set out on pages 122 to 204 form an integral part of these financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting entity

People's Insurance PLC is a public limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is situated at No. 07, Havelock Road, Colombo 05. Ordinary shares of the Company are listed on the Colombo Stock Exchange (CSE). The Company is registered under the Companies Act No. 07 of 2007 and regulated under the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto.

For more information, please refer page 242 of this Annual Report.

1.2 Parent entity and ultimate parent entity

The Company's parent entity is People's Leasing & Finance PLC. The Company's ultimate parent undertaking and controlling entity is People's Bank which is owned by the Government of Sri Lanka.

1.3 Principal activity and nature of operations

The principal activity of the Company is carrying out non-life (general) insurance business for both individual and corporate customers. There were no significant changes in nature of the principal activities of the Company during the financial year under review.

1.4 Responsibility for financial Statements

The Board of Directors is responsible for preparation and presentation of these financial statements. The responsibilities of the Board of Directors in relation to the financial statements are set out in the Statement of Directors' Responsibility for Financial Reporting on pages 109 to 111 in this Annual Report.

1.5 Number of employees

Staff strength of the Company as at 31 December 2020 is 622 (2019 - 607).

1.6 Approval of financial statements by the Board of Directors

The financial statements of the Company for the year ended 31 December 2020 were approved and authorised for issue on 6th May 2021 in accordance with the resolution of the Board of Directors on 6th May 2021.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of the Companies Act No. 7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto and Listing Rules of the CSE. The financial statements include the following components;

- ▶ a statement of profit or loss and statement of comprehensive income providing information on the financial performance of the Company for the year under review (pages 116 to 121);
- ▶ a statement of financial position providing information on the financial position of the Company as at the year-end (page 118);
- ▶ a statement of changes in equity depicting all changes in shareholders' equity (page 119);
- ▶ a statement of cash flows providing information to the users on the ability of the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows (pages 120 to 121); and
- ▶ notes to the financial statements comprising accounting policies and other explanatory information (pages 122 to 204).

2.2 Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis except for the following material items in the statement of financial position:

| Item | Basis of Measurement | Note No. | Page Reference |
|--|--|----------|----------------|
| Insurance contract liabilities | Values are determined in accordance with internationally accepted actuarial principles | 37 | 166 |
| Employee defined benefit obligations | Actuarially valued and recognised at present value | 38 | 169 |
| Financial assets at fair value through profit or loss (FVPL) | Fair value | 27.1 | 153 |
| Debt instruments measured at fair value through other comprehensive income (FVOCI) | Fair value | 27.3 | 159 |

2.3 Presentation of financial statements

An alternative format has been used in presenting accounting policies to minimise the disclosure overload and clutter in the financial statements. The assets and liabilities of the Company in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement period is presented in Note 47 (Risk management framework – exposure to liquidity risk). No adjustments have been made for inflationary factors affecting the financial statements.

2.4 Financial period

The financial statements are prepared to a financial year ended 31 December.

2.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standards or interpretation.

2.6 Comparative information

The presentation and classification of assets and liabilities in the financial statements of the previous year have been amended, where relevant for better presentation and to be comparable with those of the current year.

2.7 Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees (Rs.) which is the functional currency of the Company.

2.8 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or functions are presented separately unless they are immaterial.

2.9 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements of the Company in conformity with SLFRS and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgments, estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below whereas the respective carrying amounts of such assets and liabilities are given in related notes.

2.9.1 Going concern

In determining the basis of preparing the financial statements for the year ended 31 December 2020, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Company and the appropriateness of the use of the going concern basis.

Subsequent to the outbreak of COVID-19 in Sri Lanka, the Company has adhered to the guidelines and directions issued by both the Government and Insurance Regulatory Commission of Sri Lanka (IRCSL) when conducting its business operations. In addition to that, the management of the Company evaluated the resilience of the business considering a wide range of factors under multiple stress tested scenarios, relating to expected premium volumes, volatility of claims, expense management, profitability, ability to defer non-essential capital expenditure, reinsurance payment timelines, liquidity of the investment portfolio and the ability to continue providing services to ensure businesses continue as least impacted as possible.

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

In determining the above significant management judgements, estimates and assumptions, the impact of the COVID-19 pandemic has been considered as of the reporting date and specific considerations have been disclosed under the relevant notes.

Notes to the Financial Statements

2.9.2 Assessment of impairment

The Company's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- ▶ The external credit grading model, which assigns probability of defaults (PDs) to the individual grade
- ▶ The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life-time expected credit loss (LTECL) basis and the qualitative assessment
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis
- ▶ Development of ECL models, including the various formulas and the choice of inputs
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as gross domestic product and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD)
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models

2.9.3 Provisions for liabilities and contingencies

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

2.9.4 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available to the Company which can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Details on deferred tax assets are disclosed in Note 26 on page 150 to the financial statements.

2.9.5 Valuation of insurance contract liabilities

The estimates of insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported and claims incurred, but not enough reported (IBNR/IBNER) at the reporting date. It can take a significant period of time before the ultimate claims

cost can be established with certainty. The main assumption underlying in estimating the amount of outstanding claims is the past claims development experience. Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

2.9.6 Employee defined benefit obligation

Employee defined benefit obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increments, withdrawal rates and mortality rates. Due to the long-term nature and the valuation complexity, such estimates are subject to significant uncertainty. All assumptions are reviewed annually at each reporting date. In determining the discount rate, the management considers the interest rates of the Government of Sri Lanka treasury bonds with maturities corresponding to the expected duration of defined benefit obligation. Future expected inflation rates and salary increment rates of the Group are considered in determining the salary increases.

Details of the key assumptions used by the Actuary and sensitivities there on the estimation are contained in Note 38 on page 169.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by the Company are explained in detail in respective notes to the financial statements.

Those accounting policies presented with each note, have been applied consistently by the Company.

Set out below is an index of the significant policies, the details of which are available on the pages that follow;

| Significant Accounting Policies | Note | Page |
|--|------|------|
| Foreign currency translation | 3.1 | 125 |
| Impairment of non-financial assets | 3.2 | 125 |
| Amortised cost measurement | 3.3 | 125 |
| Impairment of financial assets | 3.4 | 126 |
| Provisions | 3.5 | 127 |
| Statement of cash flows | 3.6 | 127 |
| New standards and interpretation not yet adopted | 4 | 127 |
| Operating segments | 5 | 129 |
| Revenue | 6 | 130 |
| Gross written premium | 7 | 131 |
| Change in reserve for unearned premium | 8 | 131 |
| Premium ceded to reinsurers | 9 | 132 |

| Significant Accounting Policies | Note | Page |
|--|------|------|
| Change in reserve for unearned reinsurance premium | 10 | 132 |
| Net claims | 11 | 133 |
| Underwriting and net acquisition costs | 12 | 136 |
| Other operating and administrative expenses | 13 | 137 |
| Finance cost | 14 | 138 |
| Fee income | 15 | 139 |
| Interest and dividend income | 16 | 139 |
| Net realised gains/(losses) | 17 | 140 |
| Net fair value gains/(losses) | 18 | 141 |
| Other income | 19 | 141 |
| Profit before tax | 20 | 141 |
| Income tax expense | 21 | 142 |
| Basic earnings per share (EPS) | 22 | 143 |
| Dividends | 23 | 144 |
| Intangible assets | 24 | 145 |
| Property, plant and equipment | 25 | 147 |
| Deferred tax asset | 26 | 150 |
| Financial investments | 27 | 152 |
| Reinsurance receivables | 28 | 160 |
| Insurance receivables | 29 | 161 |
| Deferred expenses | 30 | 162 |
| Other assets | 31 | 163 |
| Fair value reserve | 35 | 165 |
| Other reserves | 36 | 165 |
| Insurance contract liabilities | 37 | 166 |
| Employee defined benefit obligations | 38 | 169 |
| Other financial liabilities | 39 | 172 |
| Other liabilities | 40 | 173 |
| Reinsurance payables | 41 | 173 |
| Income tax payable | 42 | 173 |
| Accounting classification and fair value | 45 | 175 |
| Leases | 46 | 180 |
| Event after the reporting date | 50 | 203 |
| Capital commitments and contingencies | 51 | 204 |

Other significant accounting policies which have been applied commonly by the Company are as follows;

3.1 Foreign currency translation

The Company's financial statements are presented in Sri Lankan Rupees which is also the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3.2 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed, only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3.3 Amortised cost measurement

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

Notes to the Financial Statements

3.4 Impairment of financial assets

3.4.1 Overview of the ECL principles

Based on forward-looking impairment approach, the Company has been recording the allowance for expected credit losses for all insurance receivables and other debt financial assets not held at FVPL in this section all referred to as 'financial instruments'.

Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 3.4.2. The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 47.D.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Company's policy for Companying financial assets measured on a collective basis is explained in Note. 47.D.i.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 47.D.i. based on the above process, the Company groups its financial instruments into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1: When financial instruments are first recognised, the Company recognises an allowance based on 12mECLs.

Stage 2: When a financial instrument has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 financial instrument also include instruments, where the credit risk has improved and the instrument has been reclassified from Stage 3.

Stage 3: Financial instruments considered credit-impaired (as outlined in Note 47.D.i). The Company records an allowance for the LTECLs.

3.4.2 The calculation of ECLs

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- ▶ PD - The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PD is further explained in Note 47.D.e.
- ▶ EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the counterparty would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.
- ▶ LGD is further explained in Note 47.D.e. When estimating ECLs, the Company considers three scenarios (a base case, good and bad). Each of these is associated with different PDs, EADs and LGD as set out in Note 47.D.i

When relevant, the assessment of multiple scenarios also incorporates how defaulted financial instruments are expected to be recovered, including the probability that the instrument will cure and the value of collateral or the amount that might be received for selling the asset.

3.4.3 The mechanics of the ECL method

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective interest rate (EIR). This calculation is made for each of the three scenarios, as explained above.

Stage 2: When a financial instrument has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For financial instruments considered credit-impaired (as defined in Note 47.D.i), the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for stage 2 assets, with the PD set at 100%.

3.4.4 Forward looking information

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

3.4.5 Impairment of debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount with a corresponding charge to the statement of profit or loss. The accumulated loss recognised in OCI is recycled to the statement of profit and loss upon de-recognition of the assets.

3.5 Provisions

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Expense relating to any provision is presented in the statement of profit or loss, net of any reimbursement.

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

3.6 Statement of cash flows

The statement of cash flows has been prepared using the direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) - 7, Cash Flow Statements. Interest and dividends received are classified as investing cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future financial statements.

Sri Lanka Financial Reporting Standard (SLFRS) 17 – Insurance Contracts

The Institute of Chartered Accountants of Sri Lanka issued SLFRS 17- Insurance Contracts in January 2020, effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. However, International Accounting Standard Board (IASB) has tentatively decided to defer the effective date of IFRS 17 to period beginning on or after 1 January 2023.

SLFRS 17 supersedes SLFRS 4 - Insurance Contracts, an interim standard that allows entities to use a wide variety of accounting practices for insurance contracts which includes insurance contracts covering recognition and measurement, presentation and disclosure.

The standard contains a core measurement approach to measure groups of insurance contracts known as 'General Model'. Apart from the core measurement model, if certain criteria are met, an entity may apply a simplified version of general model known as Premium Allocation Approach (PAA) and Variable Fee Approach for the contracts with direct participation features. The SLFRS 17 model combines a current balance sheet measurement of insurance contracts with recognition of profit over the period that services are provided. The general model in the standard requires insurance contract liabilities to be measured using probability-weighted current estimates of future cash flows, an adjustment for risk and a contractual service margin representing the profit expected from fulfilling the contracts.

The main features of the new accounting model for insurance contracts are as follows:

- ▶ The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- ▶ A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profits of insurance contracts and is recognised in the statement of profit or loss over the service period (i.e. coverage period)
- ▶ Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in the statement of profit or loss over the remaining contractual service period

Notes to the Financial Statements

- ▶ The effect of changes in discount rates will be reported in either in the statement of profit or loss or other comprehensive income, determined by an accounting policy choice
- ▶ The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- ▶ Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of profit or loss, but are recognised directly on the statement of financial position.
- ▶ Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- ▶ Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

The Company has commenced and finalised preliminary work on implementation of IFRS 17 with the support of a consultant. Based on the initial work carried out, the Company believes significant portion of the Company's products will be qualified to be measured under the simplified Premium Allocation Approach. The Company is in a process of carrying out the second phase of impact assessment to assist key commercial and change decisions, with consideration of strategic aspirations with the approval of the Board.

5. OPERATING SEGMENTS

Basis of Segmentation

Operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same entity, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

For the management purposes, the Company has mainly classified overall business in to motor and non-motor segments and non-motor segment has been further classified in to three main segments based on their products and services.

The segmental information reported below is used by the chief operating decision maker for the allocation of resources and assessment of performance.

| Reportable Segments | Details of Operating Segments |
|-------------------------|--|
| Motor insurance | Provides cover for motor vehicles against loss or damage caused by accidents, fire and theft and legal liability to third parties in the event of physical injuries or property damage |
| Marine insurance | Provides the insured with indemnity and financial protection for loss of or damage to cargo during transit |
| Fire insurance | Provides property cover for damage and losses caused by fire and other incidents as applicable to property |
| Miscellaneous insurance | Provides cover for variety of risks mainly for personal accident and other general insurance which are not categorised under other segments |

Segment Results - 2020

| Description | Note | Operating Segments | | | | Total |
|--|------|--------------------|---------------|--------------|---------------|-----------------|
| | | Motor | Fire | Marine | Miscellaneous | |
| Gross written premium | 7 | 5,024,019,402 | 504,403,090 | 41,731,238 | 441,414,031 | 6,011,567,761 |
| Change in reserves for unearned insurance premium | 8 | 34,596,359 | (32,653,635) | (15,280,640) | (77,587,298) | (90,925,214) |
| Gross earned premium | | 5,058,615,761 | 471,749,455 | 26,450,598 | 363,826,733 | 5,920,642,547 |
| Reinsurance premium | 9 | (155,998,670) | (369,564,648) | (30,822,637) | (118,529,699) | (674,915,654) |
| Change in reserves for unearned reinsurance premium | 10 | - | 25,215,271 | 12,676,065 | 19,774,266 | 57,665,601 |
| Net earned premium | | 4,902,617,091 | 127,400,078 | 8,304,026 | 265,071,300 | 5,303,392,494 |
| Net claims | 11 | (2,348,469,637) | (69,463,130) | (1,248,913) | (280,371,709) | (2,699,553,389) |
| Underwriting and net acquisition costs | 12 | (588,658,620) | 28,616,963 | 2,934,347 | (2,423,176) | (559,530,485) |
| Underwriting results before other operating and administrative expenses | | 1,965,488,834 | 86,553,911 | 9,989,460 | (17,723,585) | 2,044,308,620 |
| Other operating and administrative expenses and finance cost | | | | | | (1,236,130,704) |
| Underwriting results | | | | | | 808,177,916 |
| Investment income | | | | | | 805,245,500 |
| Other income | | | | | | 54,097,852 |
| Profit before tax | | | | | | 1,667,521,268 |
| Income tax | | | | | | (472,206,916) |
| Profit for the year | | | | | | 1,195,314,352 |

Notes to the Financial Statements

5. OPERATING SEGMENTS (CONTD...)

Segment Results - 2019

| Description | Note | Operating Segments | | | | Total |
|--|------|--------------------|---------------|--------------|---------------|-----------------|
| | | Motor | Fire | Marine | Miscellaneous | |
| Gross written premium | 7 | 5,131,620,183 | 483,140,054 | 18,831,267 | 396,381,766 | 6,029,973,270 |
| Change in reserves for unearned insurance premium | 8 | (173,634,860) | (33,490,490) | (5,504,144) | (15,956,248) | (228,585,742) |
| Gross earned premium | | 4,957,985,323 | 449,649,564 | 13,327,123 | 380,425,518 | 5,801,387,528 |
| Reinsurance premium | 9 | (144,279,387) | (331,397,777) | (15,286,734) | (89,800,440) | (580,764,338) |
| Change in reserves for unearned reinsurance premium | 10 | - | 29,189,360 | 4,812,980 | 7,110,348 | 41,112,688 |
| Net earned premium | | 4,813,705,936 | 147,441,147 | 2,853,369 | 297,735,426 | 5,261,735,878 |
| Net claims | 11 | (3,142,530,455) | (66,738,039) | (1,676,530) | (341,630,165) | (3,552,575,189) |
| Underwriting and net acquisition costs | 12 | (546,296,278) | 26,750,818 | 1,865,865 | 528,548 | (517,151,047) |
| Underwriting results before operating and administrative expenses | | 1,124,879,203 | 107,453,926 | 3,042,704 | (43,366,191) | 1,192,009,642 |
| Other operating and administrative expenses and finance cost | | | | | | (1,126,769,976) |
| Underwriting results | | | | | | 65,239,666 |
| Investment income | | | | | | 781,354,286 |
| Other income | | | | | | 65,435,786 |
| Profit before tax | | | | | | 912,029,738 |
| Income tax | | | | | | (264,375,758) |
| Net for the year | | | | | | 647,653,980 |

Chief operating decision maker uses only operating segments' profit or loss in assessing segment performance and deciding how to allocate resources. Therefore, according to SLFRS 8 - Operating Segments, the Company discloses only operating segments' profit or loss in the financial statements.

The Company operates in Sri Lanka and the economic environment in which the Company operates is not subject to significant change in risk and rewards. Therefore, disclosures are not provided geography wise.

6. REVENUE

Accounting policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured.

| For the year ended | 31.12.2020 | 31.12.2019 |
|--------------------|---------------|---------------|
| | Rs. | Rs. |
| Net earned premium | 5,303,392,494 | 5,261,735,878 |
| Other revenue | 859,343,352 | 846,790,072 |
| | 6,162,735,846 | 6,108,525,950 |

7. GROSS WRITTEN PREMIUM

Accounting policy

Gross written premium (GWP) represents the premium charged by the Company to underwrite risks and accounted on accrual basis. Gross written premium comprises the total premiums received/receivable for the whole period of cover provided by contracts entered into during the accounting period and is recognised on the date on which the policy commences.

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

| For the year ended | 31.12.2020 | | | 31.12.2019 | | |
|--------------------|---------------|-----------------|---------------|---------------|-----------------|---------------|
| | Basic Rs. | *SRCC/TC Rs. | Total Rs. | Basic Rs. | *SRCC/TC Rs. | Total Rs. |
| Motor | 4,098,391,820 | 925,627,582 | 5,024,019,402 | 4,254,383,642 | 877,236,541 | 5,131,620,183 |
| Fire | 296,498,303 | 207,904,787 | 504,403,090 | 268,823,913 | 214,316,141 | 483,140,054 |
| Marine | 41,353,245 | 377,993 | 41,731,238 | 18,582,879 | 248,388 | 18,831,267 |
| Miscellaneous | 430,592,362 | 10,821,669 | 441,414,031 | 380,405,715 | 15,976,051 | 396,381,766 |
| | 4,866,835,730 | 1,144,732,031 | 6,011,567,761 | 4,922,196,149 | 1,107,777,121 | 6,029,973,270 |

*SRCC/TC - Strike, Riot and Civil Commotion Cover and Terrorism Cover; both ceded to the SRCC and TC Fund

8. CHANGE IN RESERVE FOR UNEARNED PREMIUM

Accounting policy

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premium is calculated on the 365 basis. Change in reserve for unearned insurance premium represents the net portion of the GWP transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------|-------------------|-------------------|
| Class-wise | | |
| Motor | 34,596,359 | (173,634,860) |
| Fire | (32,653,635) | (33,490,490) |
| Marine | (15,280,640) | (5,504,144) |
| Miscellaneous | (77,587,298) | (15,956,248) |
| | (90,925,214) | (228,585,742) |

Notes to the Financial Statements

9. PREMIUM CEDED TO REINSURERS

Accounting policy

Gross reinsurance premium written comprises the total reinsurance premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy commences. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts commencing in prior accounting periods.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|----------------------|----------------------|
| Class-wise | | |
| Motor | (155,998,670) | (144,279,387) |
| Fire | (369,564,648) | (331,397,777) |
| Marine | (30,822,637) | (15,286,734) |
| Miscellaneous | (118,529,699) | (89,800,440) |
| | (674,915,654) | (580,764,338) |
| Payee-wise | | |
| National Insurance Trust Fund | | |
| Compulsory reinsurance cessions | (103,420,769) | (73,486,612) |
| Strike, Riot, Civil Commotion and Terrorism cover | (330,179,759) | (335,808,965) |
| Foreign reinsurers | (241,315,127) | (171,468,761) |
| | (674,915,654) | (580,764,338) |

10. CHANGE IN RESERVE FOR UNEARNED REINSURANCE PREMIUM

Accounting policy

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies. Change in reserve for unearned reinsurance premium represents the net portion of the reinsurance premium transferred to the unearned reinsurance premium reserve during the year to cover the unexpired period of the policies.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------|-------------------|-------------------|
| Class-wise | | |
| Fire | 25,215,271 | 29,189,360 |
| Marine | 12,676,065 | 4,812,980 |
| Miscellaneous | 19,774,266 | 7,110,348 |
| | 57,665,601 | 41,112,688 |

11. NET CLAIMS

Accounting policy

Recognition of gross claims

Gross claims for non-life insurance include all claims occurring during the year, whether reported or not, related external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported (IBNR) claims and the anticipated direct and indirect costs of settling those claims. The provision in respect of IBNR is actuarially valued on a quarterly basis to ensure a more realistic estimation of the future liability based on past experience and trends.

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

Recognition of reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

| For the year ended | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|------------------------------------|------|------------------------|------------------------|
| Claims paid | 11.1 | (3,038,173,040) | (3,697,462,502) |
| Claims recovered from reinsurers | 11.2 | 297,604,366 | 163,183,073 |
| Net change in contract liabilities | 11.3 | 41,015,285 | (18,295,760) |
| | | <u>(2,699,553,389)</u> | <u>(3,552,575,189)</u> |

11.1 Claims paid

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------|------------------------|------------------------|
| Class-wise | | |
| Motor | (2,453,395,365) | (3,141,851,253) |
| Fire | (291,754,167) | (221,097,367) |
| Marine | (5,584,350) | (2,405,551) |
| Miscellaneous | (287,439,158) | (332,108,331) |
| | <u>(3,038,173,040)</u> | <u>(3,697,462,502)</u> |

Notes to the Financial Statements

11. NET CLAIMS (CONTD...)

11.2 Claims recovered from reinsurers

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------|-------------------|-------------------|
| Class-wise | | |
| Motor | 29,666,414 | 1,345,005 |
| Fire | 229,544,318 | 141,453,107 |
| Marine | 4,751,789 | 1,497,495 |
| Miscellaneous | 33,641,845 | 18,887,466 |
| | 297,604,366 | 163,183,073 |

11.3 Net change in contract liabilities

| For the year ended | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|--------|-------------------|-------------------|
| Gross change in insurance claims outstanding | 11.3.1 | 333,466,199 | (368,739,640) |
| Change in reinsurance recoverable on claims outstanding | 11.3.2 | (292,450,914) | 350,443,880 |
| | | 41,015,285 | (18,295,760) |

11.3.1 Gross change in insurance claim outstanding

| For the year ended | 31.12.2020 | | |
|--------------------|---|---|--------------|
| | Change in gross claims outstanding Rs. | Change in provision for IBNR Rs. | Total Rs. |
| Class-wise | | | |
| Motor | 42,080,187 | 64,029,308 | 106,109,495 |
| Fire | 254,210,532 | 21,677,639 | 275,888,171 |
| Marine | (692,850) | 625,174 | (67,676) |
| Miscellaneous | (33,961,633) | (14,502,158) | (48,463,791) |
| | 261,636,236 | 71,829,963 | 333,466,199 |

| For the year ended | 31.12.2019 | | |
|--------------------|------------------------------------|------------------------------|---------------|
| | Change in gross claims outstanding | Change in provision for IBNR | Total |
| | Rs. | Rs. | Rs. |
| Class-wise | | | |
| Motor | (26,023,013) | (4,590,401) | (30,613,414) |
| Fire | (235,008,122) | (57,168,507) | (292,176,629) |
| Marine | (1,147,519) | (1,575,367) | (2,722,886) |
| Miscellaneous | (24,470,687) | (18,756,024) | (43,226,711) |
| | (286,649,341) | (82,090,299) | (368,739,640) |

11.3.2 Change in reinsurance recoverable on claims outstanding

| For the year ended | 31.12.2020 | | |
|--------------------|--|--|---------------|
| | Change in reinsurance recovery on claims outstanding | Change in reinsurance recovery on provision for IBNR | Total |
| | Rs. | Rs. | Rs. |
| Class-wise | | | |
| Motor | (27,841,506) | (3,008,675) | (30,850,181) |
| Fire | (262,845,030) | (20,296,422) | (283,141,452) |
| Marine | 56,259 | (404,935) | (348,676) |
| Miscellaneous | 9,356,432 | 12,532,963 | 21,889,395 |
| | (281,273,845) | (11,177,069) | (292,450,914) |

| For the year ended | 31.12.2019 | | |
|--------------------|--|--|-------------|
| | Change in reinsurance recovery on claims outstanding | Change in reinsurance recovery on provision for IBNR | Total |
| | Rs. | Rs. | Rs. |
| Class-wise | | | |
| Motor | 43,811,006 | (15,221,799) | 28,589,207 |
| Fire | 245,040,629 | 60,042,221 | 305,082,850 |
| Marine | 712,477 | 1,241,935 | 1,954,412 |
| Miscellaneous | - | 14,817,411 | 14,817,411 |
| | 289,564,112 | 60,879,768 | 350,443,880 |

Notes to the Financial Statements

12. UNDERWRITING AND NET ACQUISITION COSTS

Accounting policy

Recognition of underwriting and deferred acquisition costs

Acquisition expenses, representing commissions which vary with and are directly related to the production of business are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

| For the year ended | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---------------------------------------|------|-------------------|-------------------|
| Acquisition costs | 12.1 | (636,352,378) | (622,263,850) |
| Change in deferred acquisition costs | | (5,419,648) | 31,832,439 |
| | | (641,772,026) | (590,431,411) |
| Reinsurance commission | 12.1 | 90,177,988 | 79,699,562 |
| Change in unearned commission reserve | | (7,936,447) | (6,419,198) |
| | | 82,241,541 | 73,280,364 |
| | | (559,530,485) | (517,151,047) |

12.1 Class-wise

| For the year ended | 31.12.2020 | | | | |
|--------------------|---------------------|--|---------------------------|--|---|
| | Acquisition cost | Change in deferred acquisition cost | Reinsurance commission | Change in unearned reinsurance commission | Total- underwriting and net acquisition cost |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Class-wise | | | | | |
| Motor | (573,175,571) | (15,483,049) | - | - | (588,658,620) |
| Fire | (42,445,652) | 2,208,409 | 71,934,163 | (3,079,957) | 28,616,963 |
| Marine | (3,023,309) | 450,852 | 8,071,966 | (2,565,162) | 2,934,347 |
| Miscellaneous | (17,707,847) | 7,404,138 | 10,171,859 | (2,291,326) | (2,423,176) |
| | (636,352,379) | (5,419,650) | 90,177,988 | (7,936,444) | (559,530,485) |

| For the year ended | 31.12.2019 | | | | |
|--------------------|------------------|-------------------------------------|------------------------|---|---|
| | Acquisition cost | Change in deferred acquisition cost | Reinsurance commission | Change in unearned reinsurance commission | Total-underwriting and net acquisition cost |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Class-wise | | | | | |
| Motor | (575,870,365) | 29,574,087 | - | - | (546,296,278) |
| Fire | (39,727,146) | 1,448,608 | 69,872,331 | (4,842,975) | 26,750,818 |
| Marine | (1,391,281) | 456,586 | 3,553,199 | (752,639) | 1,865,865 |
| Miscellaneous | (5,275,058) | 353,158 | 6,274,032 | (823,584) | 528,548 |
| | (622,263,850) | 31,832,439 | 79,699,562 | (6,419,198) | (517,151,047) |

13. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

Accounting policy

Other operating and administrative expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment are charged to the statement of profit or loss.

| For the year ended | Note | 31.12.2020 | 31.12.2019 |
|-------------------------------|------|-----------------|-----------------|
| | | Rs. | Rs. |
| Staff expenses | 13.1 | (557,376,483) | (496,237,244) |
| Administrative expenses | | (485,431,753) | (469,359,538) |
| Amortisation and depreciation | | (97,656,087) | (89,703,327) |
| Impairment loss | | (75,731,324) | (45,391,682) |
| | | (1,216,195,647) | (1,100,691,791) |

Notes to the Financial Statements

13. OTHER OPERATING AND ADMINISTRATIVE EXPENSES (CONTD...)

13.1 Staff expenses

Accounting policy

Short-term employee benefits

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

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company recognises the changes in the defined benefit obligations under staff expenses in the statement of profit or loss.

- (a) current service cost
- (b) interest cost

For more details please refer Note 38 on defined benefit obligations.

Defined contribution plans

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to the Employees' Provident Fund (EPF) under the Employees' Provident Fund Act No. 15 of 1958 as amended and Employees' Trust Fund under the Employees' Trust Fund Act No. 46 of 1980, covering all employees are recognised as an employee benefit expense in the statement of profit or loss when they are due. The Company contributes 12% and 3% of gross emoluments of employees' as employees' provident fund and trust fund contributions respectively.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-------------------------------|-------------------|-------------------|
| Wages and salaries | (358,061,836) | (313,694,775) |
| Staff benefit expenses | (150,013,822) | (136,038,238) |
| Contributions made to the EPF | (30,267,024) | (29,042,173) |
| Contributions made to the ETF | (7,566,966) | (7,262,289) |
| Defined benefit plan expenses | (11,466,835) | (10,199,769) |
| | (557,376,483) | (496,237,244) |

14. FINANCE COST

Accounting policy

Finance costs comprise interest expense on lease liability and recorded as it accrues using the effective interest rate (EIR) method. Accrued interest included within the carrying value of the interest bearing financial liability.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-------------------------------------|-------------------|-------------------|
| Interest expense on lease liability | 19,935,057 | 26,078,185 |

15. FEE INCOME

Accounting policy

Policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

| For the year ended | 31.12.2020 | 31.12.2019 |
|---------------------|------------|------------|
| | Rs. | Rs. |
| Policy fees | 35,064,225 | 35,767,385 |
| Administration fees | 18,021,873 | 18,226,324 |
| | 53,086,098 | 53,993,709 |

16. INTEREST AND DIVIDEND INCOME

Accounting policy

Interest income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate method. Under SLFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI are also recorded by using the EIR method under SLFRS 9. EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend income

Dividend income is recognised when the right to receive the dividend is established.

| For the year ended | Note | 31.12.2020 | 31.12.2019 |
|---------------------------------------|------|-------------|-------------|
| | | Rs. | Rs. |
| Interest income from debt instruments | 16.1 | 751,197,735 | 780,100,873 |
| Dividend income | 16.2 | 690,650 | 1,239,786 |
| | | 751,888,385 | 781,340,659 |

Notes to the Financial Statements

16. INTEREST AND DIVIDEND INCOME (CONTD...)

16.1 Interest income

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---------------------------------------|-------------------|-------------------|
| Interest income from FVOCI investment | | |
| Treasury bonds | 73,878,324 | 62,486,601 |
| Debt instruments at amortised cost | | |
| Treasury bills | 21,827,281 | 50,937,048 |
| Debentures | 309,210,884 | 256,330,519 |
| Fixed deposits | 316,190,992 | 382,321,264 |
| Reverse repurchase agreements | 6,516,776 | 10,232,511 |
| Staff loans | 8,728,867 | 8,356,306 |
| Others | 14,844,611 | 9,436,624 |
| | 751,197,735 | 780,100,873 |

16.2 Dividend income

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Dividend income from financial assets at fair value through profit or loss | | |
| Listed equity securities | 690,650 | 1,239,786 |

17. NET REALISED GAINS/(LOSSES)

Accounting policy

Net realised gains/(losses) comprise gains less losses related to financial instruments. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost which are recorded on occurrence of the sales, on de-recognition of investment classified as FVPL, the cumulative gain or loss previously recognised in OCI is recycled to the statement of profit or loss.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Net realised gains/(losses) from financial assets at fair value through profit or loss | | |
| Realised gains | | |
| Unit trusts | 7,228,534 | 233,699.46 |
| Treasury bonds/bills | 31,279,107 | 3,014,405.69 |
| Realised losses | | |
| Listed equity securities | (4,433,996) | (6,313,830) |
| | 34,073,644 | (3,065,725) |

18. NET FAIR VALUE GAINS/(LOSSES)

Accounting policy

Net fair value gains recorded in the statement of profit or loss on investment include fair value gains/(losses) on financial assets at FVPL.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Net fair value gains/(losses) from financial assets at fair value through profit or loss | | |
| Listed equity securities | 267,187 | (706,000) |
| Unit trusts | 19,016,284 | 3,785,351 |
| | 19,283,471 | 3,079,351 |

19. OTHER INCOME

Accounting policy

Other income includes disposal gains/(losses) on property, plant and equipment and miscellaneous income. Profit or loss on sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified under other income.

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Unclaimed other liabilities written back | - | 10,636,710 |
| Miscellaneous income | 1,011,754 | 805,367 |
| | 1,011,754 | 11,442,077 |

20. PROFIT BEFORE TAX

Profit before tax for the year is stated after charging following expenses;

| For the year ended | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|------|-------------------|-------------------|
| Auditors' remuneration - statutory audit services | | 2,477,458 | 2,878,806 |
| - other services | | 371,619 | 563,521 |
| Amortisation of intangible assets | 24 | 2,066,663 | 511,742 |
| Depreciation of property, plant and equipment | 25 | 95,449,341 | 89,191,583 |
| Loss from disposal of property, plant and equipment | | - | 43,602 |
| Directors' emoluments | | 2,150,107 | 6,850,000 |

Notes to the Financial Statements

21. INCOME TAX EXPENSE

Accounting policy

Recognition of income tax expenses

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

Major components of income tax expense are as follows;

| For the year ended | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|------|----------------------|----------------------|
| 21.1 Tax recognised in statement of profit or loss | | | |
| Current income tax | | | |
| Income tax on current year's profits | | (506,898,626) | (275,503,000) |
| Over/(under) provision for income tax in respect of previous year | | 5,016,333 | (562,300) |
| | | (501,882,293) | (276,065,300) |
| Deferred tax | | | |
| Reversal/(charge) of deferred tax liability | 26.3 | (7,197,769) | 2,731,716 |
| Origination of deferred tax asset | 26.3 | 36,873,147 | 8,957,827 |
| Deferred taxation charge/(reversal) | | 29,675,377 | 11,689,542 |
| Income tax expense | | (472,206,916) | (264,375,758) |
| 21.2 Tax recognised in statement of comprehensive income | | | |
| Change in deferred tax asset due to actuarial loss | 26.3 | (1,220,312) | (498,095) |
| Change in deferred tax asset due to fair value gains | 26.3 | 219,277 | (2,669,997) |
| | | (1,001,035) | (3,168,092) |

21.3 Reconciliation of effective tax rate

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Profit for the year | 1,195,314,352 | 647,653,980 |
| Income tax expense | 501,882,293 | 276,065,300 |
| Deferred taxation reversal | (29,675,377) | (11,689,542) |
| Profit before income tax | 1,667,521,268 | 912,029,738 |
| At the statutory income tax rate of 28% (2019 - 28%) | | |
| Income exempt from income tax | (2,474,139) | (7,982,713) |
| Aggregate allowable expenses | (116,248,203) | (26,966,002) |
| Aggregate disallowable expenses | 261,553,310 | 106,858,266 |
| | 1,810,352,236 | 983,939,289 |
| Statutory tax rate | 28% | 28% |
| Tax at applicable rate | (506,898,626) | (275,503,001) |
| Deferred taxation reversal | 29,675,377 | 11,689,542 |
| Over/(under) provision for income tax in respect of previous year | 5,016,333 | (562,300) |
| Income tax expense | (472,206,916) | (264,375,758) |

21.4 Income tax rate

Current tax is the expected tax payable on the taxable income for the year using tax rate enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of previous year. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of the previous period. The management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

The Company is liable for income tax at 28% (2019 - 28%) in terms of the Inland Revenue Act No. 24 of 2017 and amendments thereto.

As per the Bill presented to the Parliament on 26 March 2021, income tax rate applicable to the Company has been revised from 28% to 24%. However, the said Bill was not considered as substantially enacted as at 31 December 2020 and therefore rules and the rates proposed in the said Bill were not applied for the year ended 31 December 2020. Subsequent changes to the income tax is disclosed in Note 50 – Events after the reporting date on page 203.

22. BASIC EARNINGS PER SHARE (EPS)

Accounting policy

Recognition of Income tax expenses

Company presents basic and diluted Earnings Per Share (EPS) for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Notes to the Financial Statements

22. BASIC EARNINGS PER SHARE (EPS) (CONTD...)

| For the year ended | 31.12.2020 | 31.12.2019 |
|--------------------------------|---------------|-------------|
| Profit for the year (Rs.) | 1,195,660,610 | 647,653,980 |
| Number of shares | 200,000,000 | 200,000,000 |
| Basic earnings per share (Rs.) | 5.98 | 3.24 |

22.1 Diluted earnings per share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is same as the basic earnings per share stated above.

23. DIVIDENDS

Accounting policy

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are approved by the Board of Directors and deducted from equity when they are paid.

Dividends proposed by the Board of Directors after the reporting date is not recognised as a liability and is only disclosed as a note to the financial statements.

| For the year ended | 31.12.2020 | 31.12.2019 |
|--|-------------|-------------|
| Interim dividends | | |
| First interim dividend paid (Rs.) | - | 150,000,000 |
| Second interim dividend authorised (Rs.) | - | 220,000,000 |
| Number of ordinary shares | 200,000,000 | 200,000,000 |
| Interim dividend per share (Rs.) | - | 1.85 |
| Final dividend | | |
| Final dividend proposed (Rs.) | 600,000,000 | - |
| Number of ordinary shares | 200,000,000 | 200,000,000 |
| Final dividend per share (Rs.) | 3.00 | - |

Final dividend proposed

Subsequent to the reporting date, the Board of Directors of the Company has proposed a final dividend of Rs. 3.00 per share for the financial year ended 31 December 2020 to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard (LKAS) 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31 December 2020.

24. INTANGIBLE ASSETS

Accounting policy

The Company's intangible assets include the value of acquired computer software.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is initially measured at cost and subsequently stated at cost less accumulated amortisation and accumulated impairment losses, if any.

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

Amortisation

Intangible assets are amortised on a straight-line basis over the period of services to be rendered. Amortisation is recorded in the statement of profit or loss.

Intangible assets with finite lives are amortised over the useful economic life. Amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates.

Amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows;

| Asset Class | Useful Life | Amortisation Method |
|-------------------|-------------|----------------------|
| Computer software | 5 years | Straight-line method |

De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of such intangible assets is included in the statement of profit or loss when the item is de-recognised.

Impairment

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Notes to the Financial Statements

24. INTANGIBLE ASSETS (CONTD...)

| | Software Rs. |
|---------------------------------|-------------------|
| Cost | |
| As at 1 January 2019 | 66,579,892 |
| As at 31 December 2019 | 66,579,892 |
| Additions during the year | 11,159,919 |
| As at 31 December 2020 | 77,739,812 |
| Accumulated amortisation | |
| As at 1 January 2019 | 64,191,761 |
| Amortisation during the year | 511,742 |
| As at 31 December 2019 | 64,703,503 |
| Amortisation during the year | 2,066,663 |
| As at 31 December 2020 | 66,770,166 |
| Carrying amount | |
| As at 31 December 2019 | 1,876,389 |
| As at 31 December 2020 | 10,969,646 |

24.1 Fully amortised intangible assets in use

Intangible assets also includes fully amortised assets which are still in use of normal business activities.

Initial cost of fully amortised intangible assets which are still in use as at the reporting date is as follows;

| As at 31 December | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------------|-------------------|-------------------|
| Call handling software | 3,881,100 | 3,881,100 |
| General insurance system | 60,000,000 | 60,000,000 |
| | 63,881,100 | 63,881,100 |

24.2 Title restriction on intangible assets

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

24.3 Acquisition of intangible assets during the year

During the year intangible assets purchased amounting to Rs. 11,159,919 (2019 - Nil).

24.4 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year 31 December 2020 (2019 - Nil).

24.5 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment indicators of intangible assets as at 31 December 2020. Based on the assessment, no impairment indicators were identified and therefore no impairment provision is required to be made in the financial statements as at the reporting date with respect of intangible assets.

25. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Property, plant and equipment (PPE) are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year. Property, plant and equipment include computer hardware, office equipment, furniture and fittings and motor vehicles.

Basis of recognition

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

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Company applies the cost model to plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Repairs and maintenance

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

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Depreciation charge begins when an assets is available for use. The estimated useful lives are as follows;

| Asset Class | Useful Life |
|------------------------|-------------|
| Computer hardware | 5 years |
| Office equipment | 5 years |
| Furniture and fittings | 5 years |
| Motor vehicles | 5 years |

De-recognition

Carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from it. Gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the statement of profit or loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

Notes to the Financial Statements

25. PROPERTY, PLANT AND EQUIPMENT (CONTD...)

| | Computer Hardware | Office Equipment | Furniture and Fittings | Motor Vehicles | Right-of-use Assets - Lands and Buildings | Total |
|---------------------------------|----------------------|---------------------|---------------------------|-------------------|---|--------------------|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Cost | | | | | | |
| As at 1 January 2019 | 49,193,310 | 52,291,950 | 43,337,658 | 18,004,201 | 316,175,771 | 479,002,890 |
| Additions during the year | 10,400,433 | 9,242,030 | 4,475,532 | - | - | 24,117,995 |
| Disposals during the year | (1,141,955) | (1,989,705) | - | - | - | (3,131,659) |
| As at 31 December 2019 | 58,451,788 | 59,544,275 | 47,813,190 | 18,004,201 | 316,175,771 | 499,989,226 |
| Additions during the year | 5,360,000 | 15,832,852 | 5,343,223 | - | 16,177,578 | 42,713,653 |
| As at 31 December 2020 | 63,811,790 | 75,377,129 | 53,156,414 | 18,004,200 | 332,353,349 | 542,702,882 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2019 | 30,178,317 | 32,177,870 | 13,364,263 | 5,097,742 | 94,852,731 | 175,670,923 |
| Depreciation during the year | 7,100,594 | 6,672,044 | 8,582,951 | 3,600,840 | 63,235,154 | 89,191,583 |
| Disposals during the year | (1,141,953) | (1,946,102) | - | - | - | (3,088,055) |
| As at 31 December 2019 | 36,136,958 | 36,903,812 | 21,947,214 | 8,698,582 | 158,087,885 | 261,774,451 |
| Depreciation during the year | 8,353,165 | 8,128,328 | 9,303,569 | 3,600,839 | 66,063,440 | 95,449,341 |
| As at 31 December 2020 | 44,490,123 | 45,032,140 | 31,250,783 | 12,299,421 | 224,151,325 | 357,223,792 |
| Carrying amount | | | | | | |
| As at 31 December 2019 | 22,314,830 | 22,640,463 | 25,865,976 | 9,305,619 | 158,087,886 | 238,214,775 |
| As at 31 December 2020 | 19,321,667 | 30,344,989 | 21,905,631 | 5,704,779 | 108,202,024 | 185,479,090 |

25.1 Fully depreciated property, plant and equipment in use

Property, plant and equipment also includes fully depreciated assets which are in the use of normal business activities. Initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows:

| As at 31 December | 31.12.2020 Rs. | 31.12.2019 Rs. |
|------------------------|-------------------|-------------------|
| Computer hardware | 23,636,455 | 20,601,055 |
| Office equipment | 25,498,597 | 22,519,554 |
| Furniture and fittings | 2,513,358 | 2,513,358 |
| | 51,648,410 | 45,633,967 |

25.2 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of property, plant and equipment of the Company as at the reporting date.

25.3 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment except for right-of-use assets amounting to Rs. 26,536,075 (2019 - Rs. 24,117,995). Cash payments amounting to Rs. 26,536,075 (2019 - Rs. 20,986,338) were made during the year to purchase property plant and equipment.

25.4 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at 31 December 2020 (2019 - Nil).

25.5 Capitalisation of borrowing cost

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year ended 31 December 2020 (2019 - Nil).

25.6 Temporarily idle property, plant and equipment

There were no temporarily idle property, plant and equipment as at 31 December 2020 (2019 - Nil).

25.7 Assessment of impairment of property, plant and equipment

The Board of Directors has assessed the potential impairment indicators of property, plant and equipment as at 31 December 2020. Based on the assessment, no impairment indicators were identified and therefore no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

25.8 Amount of contractual commitments for the acquisition of property, plant and equipment

There are no contractual commitments for the acquisition of property, plant and equipment as at the reporting date.

Notes to the Financial Statements

26. DEFERRED TAX ASSET

Accounting policy

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Valuation of deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions based on the tax laws and interpretations.

| As at | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------------|------|-------------------|-------------------|
| Deferred tax assets | 26.1 | 54,112,544 | 18,240,431 |
| Deferred tax liabilities | 26.2 | (13,910,679) | (6,712,909) |
| | | 40,201,865 | 11,527,522 |

| As at | Statement of financial position | | | |
|--|---------------------------------|--------------|----------------------|-------------|
| | 31.12.2020 | | 31.12.2019 | |
| | Temporary difference | Tax effect | Temporary difference | Tax effect |
| | Rs. | Rs. | Rs. | Rs. |
| 26.1 Deferred tax asset | | | | |
| Employee benefits | 46,645,096 | 13,060,627 | 36,716,667 | 8,812,000 |
| Debtors impairment recognised in statement of profit or loss | 155,173,477 | 43,448,573 | 45,100,225 | 10,824,054 |
| Actuarial loss recognised in other comprehensive income | (3,911,391) | (1,095,191) | 521,342 | 125,122 |
| Fair value gains recognised in other comprehensive income | (4,648,091) | (1,301,465) | (6,336,431) | (1,520,744) |
| | 193,259,091 | 54,112,544 | 76,001,803 | 18,240,431 |
| 26.2 Deferred tax liability | | | | |
| Property, plant and equipment | (49,680,995) | (13,910,679) | (27,970,454) | (6,712,909) |
| | (49,680,995) | (13,910,679) | (27,970,454) | (6,712,909) |
| Recognised net deferred tax asset | 143,578,096 | 40,201,865 | 48,031,349 | 11,527,522 |

26.3 Change in deferred tax asset/liability

| For the year ended 31 December | Statement of profit or loss | | Statement of comprehensive income | |
|--------------------------------|--|--|--|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Change in deferred tax asset/liability | Change in deferred tax asset/liability | Change in deferred tax asset/liability | Change in deferred tax asset/ liability |
| | Rs. | Rs. | Rs. | Rs. |
| Deferred tax asset | | | | |
| Employee benefits | 4,248,628 | 2,121,284 | - | - |
| Debtors impairment | 32,624,519 | 6,836,544 | - | - |
| Actuarial loss | - | - | (1,220,312) | (498,095) |
| Fair value gains | - | - | 219,277 | (2,669,997) |
| | 36,873,147 | 8,957,827 | (1,001,035) | (3,168,092) |
| Deferred tax liability | | | | |
| Property, plant and equipment | (7,197,769) | 2,731,716 | - | - |
| | (7,197,769) | 2,731,716 | - | - |
| Total | 29,675,378 | 11,689,543 | (1,001,035) | (3,168,092) |

Notes to the Financial Statements

26. DEFERRED TAX ASSET (CONTD...)

26.4 Reconciliation of deferred tax asset

| | 2020 Rs. | 2019 Rs. |
|---|-------------|-------------|
| Balance as at 1 January | 11,527,522 | 3,006,071 |
| Amounts recorded in the statement of profit or loss | 29,675,378 | 11,689,543 |
| Amounts recorded in other comprehensive income | (1,001,035) | (3,168,092) |
| Balance as at 31 December | 40,201,865 | 11,527,522 |

27. FINANCIAL INVESTMENTS

Financial investments

Accounting policy

Recognition and initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in business model assessment and the SPPI test below. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the day one profit or loss as described below.

Measurement categories of financial assets

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Fair value through profit or loss (FVPL) as explained in Note 27.1
- ▶ Debt instruments at amortised cost as explained in Note 27.2
- ▶ Fair value through other comprehensive income (FVOCI) as explained in Note 27.3

De-recognition and substantial modification

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when the rights to receive cash flows from the financial asset have expired. The Company also de-recognises the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

Offsetting of financial investments

Financial assets and liabilities are offset and net amount is presented in the statement of financial position when and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company's financial investments are summarised below based on measurement category.

Debt instruments at FVPL and debt instruments at FVOCI have been valued at fair value. Debt instruments at amortised cost has been valued at amortised cost.

| As at | Note | Carrying value | | Fair value | |
|------------------------------------|------|----------------|---------------|---------------|---------------|
| | | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| | | Rs. | Rs. | Rs. | Rs. |
| Financial assets at FVPL | 27.1 | 755,263,872 | 228,545,550 | 755,263,872 | 228,545,550 |
| Debt instruments at amortised cost | 27.2 | 7,551,686,443 | 6,746,534,203 | 7,710,947,226 | 6,842,990,618 |
| Debt instruments at FVOCI | 27.3 | 267,378,250 | 374,758,800 | 267,378,250 | 374,758,800 |
| | | 8,574,328,565 | 7,349,838,553 | 8,733,589,348 | 7,446,294,968 |

27.1 Fair value through profit or loss

Accounting policy

The Company classifies financial assets as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. FVPL assets are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised under 'Fair value gains/(losses)' in the statement of profit or loss. Dividend income is recorded in 'Interest and dividend income' when the right to payment has been established.

| As at | Note | 31.12.2020 | 31.12.2019 |
|---------------------------|--------|-------------|-------------|
| | | Rs. | Rs. |
| Equity securities at FVPL | 27.1.1 | - | 14,526,500 |
| Unit trusts | 27.1.2 | 755,263,872 | 214,019,050 |
| | | 755,263,872 | 228,545,550 |

27.1.1 Investments in listed equity securities

| As at | 31.12.2020 | | | | 31.12.2019 | | | |
|--|---------------|------------------------|--------------|------------------------|---------------|------------------------|--------------|------------------------|
| | No. of shares | Cost of the investment | Market Value | Fair value gain/(loss) | No. of shares | Cost of the investment | Market Value | Fair value gain/(loss) |
| Banks, finance and insurance | | | | | | | | |
| Commercial Bank of Ceylon PLC (Non-voting) | - | - | - | - | 95,000 | 9,832,500 | 9,025,000 | (807,500) |
| Sector total | - | - | - | - | 95,000 | 9,832,500 | 9,025,000 | (807,500) |
| Beverage, food and tobacco | | | | | | | | |
| Ceylon Tobacco Company PLC | - | - | - | - | 5,000 | 5,400,000 | 5,501,500 | 101,500 |
| Sector total | - | - | - | - | 5,000 | 5,400,000 | 5,501,500 | 101,500 |
| Total | - | - | - | - | 100,000 | 15,232,500 | 14,526,500 | (706,000) |

Notes to the Financial Statements

27. FINANCIAL INVESTMENTS (CONTD...)

27.1.2 Investments in listed unit trusts

| As at | 31.12.2020 | | | | 31.12.2019 | | | |
|-----------------------------------|--------------|------------------------|--------------|--------------------------|--------------|------------------------|--------------|--------------------------|
| | No. of Units | Cost of the investment | Market Value | Unrealised gain / (loss) | No. of Units | Cost of the investment | Market Value | Unrealised gain / (loss) |
| Guardian Acuity Money Market Fund | 17,489,404 | 346,247,586 | 353,530,817 | 7,283,230 | 11,301,396 | 210,233,699 | 214,019,050 | 3,785,351 |
| NDB Wealth Money Plus Fund | 17,130,816 | 390,000,000 | 401,733,055 | 11,733,055 | - | - | - | - |
| | 34,620,220 | 736,247,586 | 755,263,872 | 19,016,285 | 11,301,396 | 210,233,699 | 214,019,050 | 3,785,351 |

27.2 Debt instruments at amortised cost

Accounting policy

The Company only measures insurance receivables, reinsurance receivables and financial investments at amortised cost if both of the following conditions are met:

1. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below;

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- ▶ The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Accounting policy

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is to be measured at FVPL.

Impairment

The Company recognises loss allowances for ECL on assets subsequently measured at amortised cost. The Company measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date. Refer Note 3.4 for further details on ECL policy.

| As at | Note | Carrying value | | Fair value | |
|-----------------------|--------|-------------------|-------------------|-------------------|-------------------|
| | | 31.12.2020 Rs. | 31.12.2019 Rs. | 31.12.2020 Rs. | 31.12.2019 Rs. |
| Repurchase agreements | 27.2.1 | 12,599,341 | - | 12,599,341 | - |
| Staff loans | 27.2.2 | 80,646,605 | 66,152,462 | 88,844,324 | 77,554,126 |
| Rent deposits | | 68,471,543 | 59,561,103 | 68,471,543 | 59,561,102 |
| Fixed deposits | 27.2.3 | 3,691,697,960 | 3,110,744,201 | 3,792,192,810 | 3,239,436,462 |
| Savings accounts | | 53,541,804 | 35,470,950 | 53,541,804 | 35,470,943 |
| Treasury bills | 27.2.4 | 589,827,847 | 431,929,575 | 590,211,151 | 431,983,353 |
| Debentures | 27.2.5 | 2,472,362,454 | 2,611,052,531 | 2,473,932,901 | 2,551,701,771 |
| Treasury bonds | 27.2.4 | 430,211,957 | 431,623,381 | 478,826,421 | 447,282,861 |
| Commercial papers | | 152,326,932 | - | 152,326,932 | - |
| | | 7,551,686,443 | 6,746,534,203 | 7,710,947,226 | 6,842,990,618 |

27.2.1 Repurchase agreements

The Company invests in reverse repurchase agreements (REPO) with People's Bank and Commercial Bank which are fully secured against the assigned government securities with ISIN numbers. REPOs are held mainly to meet liquidity requirements and REPO rates during the year were in the range of 4.25% - 7.75% depending on the maturity period. No expected credit losses (ECL) are recognised for Government securities since those are rated as risk free investments. Balance existed as at 31 December 2020 was Rs. 12,599,341 (2019 - Rs. Nil).

Notes to the Financial Statements

27. FINANCIAL INVESTMENTS (CONTD...)

27.2.2 Staff loans

The Company grants vehicle loans and supporting loans for the employees of the Company. Terms of the staff loans and interest rate prevailing for the staff loans as follows.

| Loan Category | Interest Rate | Term |
|------------------|---------------|-------------------|
| Vehicle loans | 6% | 6 years (maximum) |
| Supporting loans | 0% | 3 years (maximum) |

The carrying value of the staff loans has been computed based on the market interest rates which prevailed at the time of granting the loan and the fair value of the same has been computed based on the interest rates prevailed at the reporting date.

Impairment of staff loans

No expected credit losses (ECL) were recognised for staff loans since those are fully pledged with securities and ability of deducting from the salary.

27.2.3 Fixed deposits

The Company has invested in fixed deposits on licensed commercial banks and registered finance companies during the period for a maximum term of two years. The interest rates for fixed deposits fluctuate between the range of 4.75% - 11.50% based on the tenures and the risk of institutions.

| As at | Note | Carrying value | |
|---|----------|-------------------|-------------------|
| | | 31.12.2020 Rs. | 31.12.2019 Rs. |
| Licensed commercial banks | 27.2.3.1 | 2,732,243,132 | 2,290,510,264 |
| Registered finance companies | 27.2.3.2 | 960,319,661 | 820,517,798 |
| | | 3,692,562,792 | 3,111,028,062 |
| Less : Allowance for expected credit losses | | (864,832) | (283,861) |
| | | 3,691,697,960 | 3,110,744,201 |

Total allowance for expected credit loss stemmed from 12 months ECL since all investments under this category are investment grade instruments.

27.2.3.1 Licensed commercial banks

| As at | Carrying value | |
|---------------|-------------------|-------------------|
| | 31.12.2020 Rs. | 31.12.2019 Rs. |
| People's Bank | 511,122,820 | 522,412,108 |
| Other banks | 2,221,120,312 | 1,768,098,156 |
| | 2,732,243,132 | 2,290,510,264 |

27.2.3.2 Registered finance companies

| As at | Carrying value | |
|--------------------------------|-------------------|-------------------|
| | 31.12.2020 Rs. | 31.12.2019 Rs. |
| People's Leasing & finance PLC | 445,389,414 | 396,079,553 |
| Other finance companies | 514,930,247 | 424,438,245 |
| | 960,319,661 | 820,517,798 |

27.2.4 Treasury bills/bonds

The Company has invested in treasury bills/bonds through People's Bank and Commercial Bank primary dealers. Treasury bill/bonds rates for the outstanding balances were in the range of 4.50% - 8.60% . No expected credit losses (ECL) are recognised for treasury bills/bonds since those are rated as risk free investments.

27.2.5 Debentures

| As at Institution | Carrying value | |
|---|-------------------|-------------------|
| | 31.12.2020 Rs. | 31.12.2019 Rs. |
| Listed debentures | | |
| People's Leasing & Finance PLC | | |
| 12.8% 1,257,800 debentures redeemable on 18.04.2023 | 136,910,732 | 136,959,358 |
| Sampath Bank PLC | | |
| 9.90% 500,000 debentures redeemable on 18.12.2020 | - | 50,594,661 |
| 12.50% 1,000,000 debentures redeemable on 20.03.2023 | 103,481,674 | 103,481,645 |
| 13.90% 1,000,000 debentures redeemable on 24.02.2024 | 111,600,609 | 111,521,333 |
| National Development Bank PLC | | |
| Zero coupon 282,800 debentures redeemable on 24.06.2020 | - | 25,561,824 |
| 13.95% 2,000,000 debentures redeemable on 30.03.2024 | 220,751,055 | 220,663,297 |
| DFCC Bank PLC | | |
| 9.40% 332,100 debentures redeemable on 10.06.2020 | - | 35,007,811 |
| 12.75% 1,000,000 debentures redeemable on 09.11.2023 | 101,776,259 | 101,812,018 |
| 13.00% 844,500 debentures redeemable on 29.03.2025 | 92,652,361 | 92,682,469 |
| 13.50% 1,000,000 debentures redeemable on 28.03.2024 | 110,115,890 | 110,113,528 |
| Seylan Bank PLC | | |
| 12.85% 750,000 debentures redeemable on 29.03.2023 | 77,418,066 | 77,445,288 |

Notes to the Financial Statements

| As at Institution | Carrying value | |
|--|-------------------|-------------------|
| | 31.12.2020 Rs. | 31.12.2019 Rs. |
| MTD Walkers PLC | | |
| 11.75% 254,624 debentures redeemable on 30.09.2019 | 26,954,137 | 26,954,137 |
| Commercial Credit & Finance PLC | | |
| 10.40% 1,000,000 debentures redeemable on 10.12.2020 | - | 100,614,225 |
| Sanasa Development Bank PLC | | |
| 10.30% 500,000 debentures redeemable on 31.12.2020 | - | 52,621,821 |
| Commercial Bank PLC | | |
| 10.75% 2,000,000 debentures redeemable on 08.03.2021 | 206,649,012 | 206,709,436 |
| 12.00% 421,900 debentures redeemable on 27.10.2021 | 43,060,988 | 43,075,258 |
| 12.00% 881,700 debentures redeemable on 22.07.2023 | 92,850,840 | 92,850,586 |
| Hatton National Bank PLC | | |
| 11.25% 2,000,000 debentures redeemable on 01.11.2023 | 216,916,868 | 217,131,630 |
| 13.00% 193,300 debentures redeemable on 01.11.2023 | 19,729,387 | 19,729,156 |
| 12.30% 413,300 debentures refeembale on 22.09.2024 | 42,663,418 | 42,663,135 |
| Nations Trust Bank PLC | | |
| 12.65% 2,000,000 debentures redeemable on 09.11.2023 | 203,596,028 | 203,667,260 |
| 12.80% 2,000,000 debentures redeemable on 23.12.2024 | 200,528,207 | 200,528,093 |
| Hayleys PLC | | |
| 12.50% 1,000,000 debentures redeemable on 31.07.2023 | 105,211,045 | 105,211,317 |
| Siyapath Finance PLC | | |
| 13.33% 1,500,000 debentures redeemable on 08.08.2024 | 157,696,356 | 157,636,334 |
| Unlisted debentures | | |
| DFCC Bank PLC | | |
| 11.00% 1,190,000 debentures redeemable on 12.06.2025 | 126,071,690 | - |
| National Savings Bank | | |
| 11.00% 1,000,000 debentures redeemable on 10.09.2022 | 103,251,419 | 103,250,768 |
| | 2,499,886,040 | 2,638,486,388 |
| Less : Allowance for expected credit losses | (27,523,586) | (27,433,857.36) |
| | 2,472,362,454 | 2,611,052,531 |

Total allowance for expected credit loss stemmed from 12 months ECL and Lifetime ECL.

27.3 Fair value through other comprehensive income (FVOCI)

Under SLFRS 9, debt instruments measured at FVOCI when both of the following conditions are met:

1. The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
2. The contractual terms of the financial asset meet the SPPI test

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest income is recognised in statement of profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 3.4.5. ECL calculation for debt instruments at FVOCI is explained in Note 3.4.5. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to statement of profit or loss.

| As at | Carrying value | | Fair value | |
|----------------|----------------|-------------|-------------|-------------|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| | Rs. | Rs. | Rs. | Rs. |
| Treasury bonds | 267,378,250 | 374,758,800 | 267,378,250 | 374,758,800 |

No expected credit losses (ECL) were recognised for government securities since those are rated as risk free investments.

27.4 Movement in financial investments

| As at | Equity instruments at FVPL | Debt instruments at amortised cost | Debt instruments at FVOCI | Total |
|--|----------------------------|------------------------------------|---------------------------|----------------------|
| | Rs. | Rs. | Rs. | Rs. |
| As at 1 January 2020 | 228,545,550 | 6,746,534,203 | 374,758,800 | 7,349,838,553 |
| Purchases/accrued interest | 1,368,218,695 | 6,546,026,103 | 376,788,327 | 8,291,033,125 |
| Maturities/sales | (842,943,163) | (5,754,697,305) | (482,480,539) | (7,080,121,007) |
| Fair value losses recorded in statement of profit or loss | 15,936,933 | - | - | 15,936,933 |
| Fair value gains recorded in statement of comprehensive income | - | - | 24,795,381 | 24,795,381 |
| Recycling due to disposal of investments | - | - | (26,483,719) | (26,483,719) |
| Allowance for expected credit losses | - | (670,701) | - | (670,701) |
| As at 31 December 2020 | 769,758,015 | 7,537,192,300 | 287,432,076 | 8,574,328,565 |

27.5 Determination of fair value

Methodologies and assumptions used to determine fair value of the financial investments are disclosed in Note 45 to the financial statements.

27.6 Disclosure of financial risk

The Company's exposure to credit, currency and interest rate risks related to investments are disclosed in Note 47 to the financial statements.

27.7 Financial investments pledged as security

The carrying value of financial assets pledged as security are disclosed in Note 49 to the financial statements.

Notes to the Financial Statements

28. REINSURANCE RECEIVABLES

Accounting policy

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

According to the characteristics relating to reinsurance receivables, the instruments qualify the contractual cash flow characteristic test (SPPI test) as the return solely represent capital and interest. Even though there were no interest charge for reinsurance receivables, they satisfy the SPPI test as they are considered to be short term and credit risk doesn't exist to charge interest. Upon completion of the SPPI test, the management elected the business model of hold to collect the contractual cash flows and measure the instrument at amortised cost as these are short term in nature. Since these are short term balances without a financing component, the amortised cost will be equal to carrying value.

Assessment of impairment of reinsurance receivables

Reinsurance receivables of the Company are not qualified for ECL model based on SLFRS 4 - Insurance Contracts, section 20. Impairment losses will be recognised on reinsurance receivables, if and only if, there is no objective evidence, as a result that occurred after initial recognition of the reinsurance assets, that the Company may not receive all amounts due to it under the terms of the contract; and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Reinsurance receivables on outstanding claims as at 1 January | 503,594,537 | 153,118,635 |
| Change during the year | (292,450,920) | 350,475,902 |
| Reinsurance receivables on outstanding claims as at 31 December | 211,143,617 | 503,594,537 |

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-------------------------------|-------------------|-------------------|
| Payee-wise | | |
| National Insurance Trust Fund | 63,343,085 | 151,078,361 |
| Foreign reinsurers | 147,800,532 | 352,516,176 |
| | 211,143,617 | 503,594,537 |

28.1 Reinsurance receivables on outstanding claims

This includes reinsurance reserve of claims that has not been paid yet.

28.2 Collateral details

The Company does not hold collateral as security against potential default by reinsurance counter parties.

28.3 Fair value of reinsurance receivables

The carrying value of reinsurance receivables approximates the fair value at the reporting date.

28.4 Risk management

Please refer Note 47.D.ii. for risk management measures taken relating to reinsurance.

29. INSURANCE RECEIVABLES

Accounting policy

Insurance receivables

Insurance receivables satisfy the contractual cash flow characteristic test (SPPI test) as the return solely represent capital and interest. Even though there were no interest charge for insurance receivables, they satisfy the SPPI test as they are considered to be short term and credit risk doesn't exist to charge interest. Upon completion of the SPPI test, the management elected the business model of hold to collect the contractual cash flows and measure the instrument at amortised cost as these are short term in nature. Since these are short term balances without a financing component, amortised cost will be equal to carrying value. Based on the three stages; performing (stage 1), under-performing (stage 2), non-performing (stage 3), the Company provides ECL on 12 months ECL and lifetime ECL weighted among several scenarios.

De-recognition due to substantial modification of terms and conditions

The Company de-recognises premium receivables, when the terms and conditions have been re-negotiated to the extent that, substantially, it becomes a new insurance contract, with the difference recognised as a separate asset or liability. The newly recognised insurance contracts are classified as stage 1 for ECL measurement purposes.

When assessing whether or not to de-recognise a insurance premium receivable, amongst others, the Company considers the following factors:

- ▶ Loss of insurable interest
- ▶ Change in counterparty

Assessment of impairment of insurance receivables

The Company assessed the impairment provision based on the ECL method. The analysis of the impairment provision under three categories is provided below.

| As at | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|------|-------------------|-------------------|
| Insurance receivables | | 1,259,487,975 | 1,033,606,659 |
| Less: Allowance for expected credit losses/impairment | 29.1 | (126,744,001) | (51,706,142) |
| Insurance receivables net of impairment | | 1,132,743,974 | 981,900,517 |

29.1 Impairment movement

| | 2020 Rs. | 2019 Rs. |
|---|-------------|-------------|
| Opening balance | 51,706,142 | 33,535,735 |
| Add: Allowance made during the year for expected credit losses/impairment | 75,037,859 | 18,170,407 |
| Closing balance | 126,744,001 | 51,706,142 |

The carrying value of insurance receivables approximates the fair value at the reporting date.

Notes to the Financial Statements

29. INSURANCE RECEIVABLES (CONTD...)

29.2 Analysis of impairment provision on insurance receivables

| As at | 31.12.2020 | | 31.12.2019 | |
|----------------------------|---------------|------------------------------|---------------|------------------------------|
| | Exposure | ECL allowance for impairment | Exposure | ECL allowance for impairment |
| | Rs. | Rs. | Rs. | Rs. |
| Performing (Stage 1) | 504,327,593 | 1,128,636 | 539,354,735 | 357,785 |
| Under-performing (Stage 2) | 324,266,806 | 7,761,571 | 324,116,458 | 2,040,413 |
| Non-performing (Stage 3) | 430,893,576 | 117,853,794 | 170,135,466 | 49,307,944 |
| | 1,259,487,975 | 126,744,001 | 1,033,606,659 | 51,706,142 |

29.3 Collateral details

The Company does not hold any collateral as security against potential default by policyholders.

29.4 Fair value of insurance receivables

The carrying amount disclosed above approximates the fair value at the reporting date.

29.5 Risk management

Please refer Note 47.(D) for risk management measures taken relating to insurance receivables.

30. DEFERRED EXPENSES

Accounting policy

Acquisition expenses

Costs of acquiring new businesses including commission, underwriting, marketing and policy issuance expenses which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, deferred acquisition costs (DAC) are amortised over the period on the basis unearned premium is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

DAC is de-recognised when the related contracts are either expired or cancelled.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

Reinsurance commissions

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

| | 2020 Rs. | 2019 Rs. |
|--|-------------|-------------|
| Reserve for deferred acquisition expenses | | |
| As at 1 January | 316,995,976 | 285,163,534 |
| Increase in deferred acquisition expenses | (5,419,646) | 31,832,442 |
| As at 31 December | 311,576,330 | 316,995,976 |
| Reserve for deferred reinsurance commission | | |
| As at 1 January | 27,420,549 | 21,001,348 |
| Increase in deferred reinsurance commission | 7,936,449 | 6,419,201 |
| As at 31 December | 35,356,998 | 27,420,549 |
| | 276,219,332 | 289,575,427 |

31. OTHER ASSETS

Accounting policy

Recognition of other assets

Other assets which consist of non-financial assets are recognised at cost less any impairment losses.

Tax receivable

Tax receivable of the Company consists of withholding tax (WHT) receivable.

Inventory

Inventory includes all consumable items which are stated at lower of cost and net realisable value.

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|------------------------------------|-------------------|-------------------|
| Non-financial assets | | |
| Advances, deposits and prepayments | 53,183,956 | 68,098,351 |
| Inventory | 4,166,995 | 4,083,344 |
| Tax receivable | 41,355 | 287 |
| Other receivables | 56,412,528 | 3,018,243 |
| | 113,804,834 | 75,200,225 |

Notes to the Financial Statements

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand with a maturity of three months or less which are subject to an insignificant risk of changes in value.

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Cash in hand | 227,809 | 250,864 |
| Balances at bank | 50,749,684 | 128,521,645 |
| | 50,977,493 | 128,772,509 |
| Less: Allowance for expected credit losses | 5,377 | 1,186 |
| | 50,972,116 | 128,771,323 |

Total allowance for expected credit loss is applicable to balances at bank and it stemmed from 12 months ECL since all investments under this category are investment grade instruments.

32.1 Bank overdrafts, which form an integral part of cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows. In the statement of financial position, overdrafts are included under liabilities. Cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

| As at | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-----------------------------------|------|-------------------|-------------------|
| Cash in hand and balances at bank | | 50,972,116 | 128,771,323 |
| Saving accounts | | 53,541,814 | 35,470,950 |
| Cash and cash equivalents | | 104,513,930 | 164,242,273 |
| Bank overdrafts | 43 | (18,625,541) | (150,616,554) |
| | | 85,888,389 | 13,625,719 |

33. STATED CAPITAL

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

| | 2020 | | 2019 | |
|---------------------------|---------------|---------------|---------------|---------------|
| | No. of shares | Rs. | No. of shares | Rs. |
| Balance as at 1 January | 200,000,000 | 1,350,000,000 | 200,000,000 | 1,350,000,000 |
| Balance as at 31 December | 200,000,000 | 1,350,000,000 | 200,000,000 | 1,350,000,000 |

33.1 Rights of ordinary shareholders

All issued shares are fully paid and shares of the Company are listed on the Colombo Stock Exchange. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the Company.

34. RETAINED EARNINGS

| | 2020 Rs. | 2019 Rs. |
|---|---------------|---------------|
| Balance as at 1 January | 2,295,700,987 | 2,034,950,758 |
| Adjustment on initial application of SLFRS 16 | - | (16,903,751) |
| Profit for the year | 1,195,314,352 | 647,653,980 |
| Dividends paid | (220,000,000) | (370,000,000) |
| Balance as at 31 December | 3,271,015,339 | 2,295,700,987 |

35. FAIR VALUE RESERVE

Accounting policy

Fair value reserve comprises the cumulative net change in the fair value of debt instruments at FVOCI and is carried forward until the respective assets are de-recognised or impaired.

| | 2020 Rs. | 2019 Rs. |
|---|-------------|-------------|
| Balance as at 1 January | 4,257,285 | (3,513,627) |
| Other comprehensive income for the year | (1,469,061) | 7,770,912 |
| Balance as at 31 December | 2,788,224 | 4,257,285 |

36. OTHER RESERVES

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

| | 2020 Rs. | 2019 Rs. |
|---|-------------|-------------|
| Balance as at 1 January | (7,309,300) | (6,289,863) |
| Other comprehensive income for the year | 2,691,079 | (1,019,437) |
| Balance as at 31 December | (4,618,221) | (7,309,300) |

Notes to the Financial Statements

37. INSURANCE CONTRACT LIABILITIES

Accounting policy

Provision for net unearned premium

Provision for unearned premium represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income. At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy.

As required by SLFRS 4 - Insurance Contracts, the Company performs a Liability Adequacy Test (LAT) in respect of non-life contract liabilities with the assistance of an external actuary.

Provision for gross outstanding claims

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are de-recognised when the contract expires, is discharged or is cancelled.

Provision for gross incurred but not reported claims

Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder method, Bornheutter-Ferguson method and Frequency/Severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

| As at | Note | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|------|----------------------|----------------------|
| Provision for net unearned premium | 37.2 | 3,094,456,965 | 3,061,197,350 |
| Provision for gross outstanding claims | 37.3 | 964,975,606 | 1,226,611,838 |
| Provision for gross incurred but not reported (IBNR) claims | 37.4 | 564,002,707 | 635,832,678 |
| | | <u>4,623,435,278</u> | <u>4,923,641,866</u> |

37.1 Insurance contract liabilities

| As at | Note | 31.12.2020 | | | 31.12.2019 | | |
|---|------|--------------------------|----------------------|------------------------|--------------------------|----------------------|------------------------|
| | | Gross liabilities Rs. | Reinsurance Rs. | Net liabilities Rs. | Gross liabilities Rs. | Reinsurance Rs. | Net liabilities Rs. |
| Provision for net unearned premium | 37.2 | 3,296,049,615 | (201,592,650) | 3,094,456,965 | 3,205,124,401 | (143,927,051) | 3,061,197,350 |
| Outstanding claims provision for gross outstanding claims | 37.3 | 964,975,606 | (86,520,422) | 878,455,184 | 1,226,611,838 | (367,794,266) | 858,817,572 |
| Provision for gross IBNR claims | 37.4 | 564,002,707 | (124,623,201) | 439,379,506 | 635,832,678 | (135,800,271) | 500,032,407 |
| | | <u>4,825,027,928</u> | <u>(412,736,273)</u> | <u>4,412,291,655</u> | <u>5,067,568,917</u> | <u>(647,521,588)</u> | <u>4,420,047,329</u> |

37.2 Provision for net unearned premium

| | 2020 | | | 2019 | | |
|---------------------------------|--------------------------|----------------------|------------------------|--------------------------|----------------------|------------------------|
| | Gross liabilities Rs. | Reinsurance Rs. | Net liabilities Rs. | Gross liabilities Rs. | Reinsurance Rs. | Net liabilities Rs. |
| As at 1 January | 3,205,124,401 | (143,927,051) | 3,061,197,350 | 2,976,538,659 | (102,814,363) | 2,873,724,296 |
| Premium written during the year | 6,011,567,761 | (674,915,654) | 5,336,652,107 | 6,029,973,270 | (580,764,338) | 5,449,208,932 |
| Premium earned during the year | (5,920,642,547) | 617,250,053 | (5,303,392,493) | (5,801,387,528) | 539,651,650 | (5,261,735,878) |
| As at 31 December | <u>3,296,049,615</u> | <u>(201,592,650)</u> | <u>3,094,456,965</u> | <u>3,205,124,401</u> | <u>(143,927,051)</u> | <u>3,061,197,350</u> |

Notes to the Financial Statements

37. INSURANCE CONTRACT LIABILITIES (CONTD...)

37.3 Provision for gross outstanding claims

| | 2020 | | | 2019 | | |
|---------------------------------|-------------------|---------------|-----------------|-------------------|---------------|-----------------|
| | Gross liabilities | Reinsurance | Net liabilities | Gross liabilities | Reinsurance | Net liabilities |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| As at 1 January | 1,226,611,838 | (367,794,266) | 858,817,572 | 939,962,497 | (78,262,180) | 861,700,317 |
| Claims incurred during the year | 2,776,536,808 | (16,330,522) | 2,760,206,286 | 3,984,111,843 | (452,715,159) | 3,531,396,684 |
| Claims paid during the year | (3,038,173,040) | 297,604,366 | (2,740,568,674) | (3,697,462,502) | 163,183,073 | (3,534,279,429) |
| As at 31 December | 964,975,606 | (86,520,422) | 878,455,184 | 1,226,611,838 | (367,794,266) | 858,817,572 |

37.4 Provision for gross IBNR claims

| | 2020 | | | 2019 | | |
|---|-------------------|---------------|-----------------|-------------------|---------------|-----------------|
| | Gross liabilities | Reinsurance | Net liabilities | Gross liabilities | Reinsurance | Net liabilities |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| As at 1 January | 635,832,678 | (135,800,271) | 500,032,407 | 553,742,379 | (74,920,503) | 478,821,876 |
| Provision made/(reversed) during the year | (71,829,971) | 11,177,070 | (60,652,901) | 82,090,299 | (60,879,768) | 21,210,531 |
| As at 31 December | 564,002,707 | (124,623,201) | 439,379,506 | 635,832,678 | (135,800,271) | 500,032,407 |

37.5 Liability adequacy test

A liability adequacy test (LAT) was performed by NMG Financial Services Consulting Pte Limited, a firm of professional actuaries as at 31 December 2020 as required by SLFRS 4 - Insurance Contracts in order to assess the adequacy of the carrying amount of the provision for unearned premiums. The valuation is based on internationally accepted actuarial methods and is performed on a quarterly basis. According to the report issued by NMG Financial Services Consulting Pte Limited, the liability carried forward by the Company was adequate. Hence, no provision was made for premium deficiency for the year ended 31 December 2020 (2019 - Nil).

37.6 Valuation of IBNR and IBNER

The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting Pte Limited as at 31 December 2020.

This valuation exercise was carried out to determine the required claim liability reserve (in particular the IBNR reserve) in respect of Company's non-life insurance operations, net of reinsurance.

The central estimate of the net claim liability has been determined based upon the net analysis performed for People's Insurance as at 31 December 2020. This is a full review of the loss development factors, such that the value of the insurance liabilities is reflective of People's Insurance non-life insurance portfolio at 31 December 2020.

The volatility of the central estimate of net claim liability is then projected to secure an overall level of sufficiency of not less than 75% confidence. In assessing the claim liability at a 75% confidence level, the provision of risk margin for adverse deviation (PRAD) loading provided by the Insurance Regulatory Commission of Sri Lanka (IRCSL) is adopted. The 75th percentile is calculated for each line of business independently using the risk margin highlighted in Table 5 of the Regulation of Insurance Industry Act No. 43 of 2000, revised on 15 December 2015. During the analysis, classes of business in the Company portfolio were closely matched with the IRCSL prescribed business categories.

37.7 Changes in assumptions

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

37.8 Reconciliation between insurance provision and technical reserves

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------------------|-------------------|-------------------|
| Insurance contract liabilities | 4,623,435,278 | 4,923,641,866 |
| Reinsurance on case reserves | (86,520,422) | (367,794,266) |
| Reinsurance on IBNR provision | (124,623,201) | (135,800,271) |
| Deferred expenses | (276,219,332) | (289,575,427) |
| Technical reserves | 4,136,072,323 | 4,130,471,902 |

38. EMPLOYEE DEFINED BENEFIT OBLIGATIONS

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The value of defined benefit obligations is calculated by a qualified actuary as at the reporting date, using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - Employee Benefits. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long term nature of the plans, such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability which comprises actuarial gains and losses are charged or credited to the statement of comprehensive income in the period in which they arise. The assumptions based on which the results of the actuarial valuation was determined, are included in Note 38.2.4 to the financial statements.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for the Gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

The provision of the Company is not externally funded.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

38.1 Defined benefit plans - Provision for employee benefits

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------------------------|-------------------|-------------------|
| Present value of unfunded obligation | 42,733,705 | 37,238,009 |

Notes to the Financial Statements

38. EMPLOYEE DEFINED BENEFIT OBLIGATIONS (Contd...)

38.2 Movement in the present value of the employee benefits

| | Note | 2020 Rs. | 2019 Rs. |
|--|--------|-------------|-------------|
| As at 1 January | | 37,238,009 | 27,490,314 |
| Expenses recognised in statement of profit or loss | 38.2.1 | 11,467,035 | 10,232,872 |
| Payments during the year | | (2,059,948) | (1,006,522) |
| Actuarial loss recognised in statement of comprehensive income | 38.2.2 | (3,911,391) | 521,342 |
| As at 31 December | | 42,733,705 | 37,238,009 |

38.2.1 Expenses recognised in statement of profit or loss

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|----------------------|-------------------|-------------------|
| Interest cost | 3,723,801 | 3,298,838 |
| Current service cost | 7,743,234 | 6,934,034 |
| | 11,467,035 | 10,232,872 |

38.2.2 Expenses recognised in statement of comprehensive income

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-----------------------|-------------------|-------------------|
| Actuarial (gain)/loss | (3,911,391) | 521,342 |

38.2.3 Valuation of employee benefit obligations

As at 31 December 2020, gratuity liability was actuarially valued under the Projected Unit Credit method by Smiles Global (Private) Limited, a firm with actuarial expertise as required by LKAS 19 - Employee Benefits.

38.2.4 Principal actuarial assumptions used

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Actuarial information | | |
| (a) Discount rate | 7% | 10% |
| (b) Salary increase | 8% | 10% |
| (c) Incidence of withdrawal | 18% | 18% |
| (e) Mortality rates | A67/70 | A67/70 |
| (g) Disability rates | Standard RI rates | Standard RI rates |
| Employee information | | |
| (a) Average age | 29 | 29 |
| (b) Average service period (years) | 3.24 | 2.68 |
| (c) Expected future working life time (years) | 5.32 | 5.33 |
| (d) Number of employees | 622 | 607 |

38.3 Sensitivity analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment liability measurement.

| As at | 31.12.2020 | | 31.12.2019 | |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
| | Increase Rs. | Decrease Rs. | Increase Rs. | Decrease Rs. |
| Discount rate 1% | (2,110,483) | 2,336,768 | (1,574,165) | 1,733,484 |
| Future salary growth 1% | 2,487,787 | (2,288,438) | 1,894,763 | (1,752,178) |

Notes to the Financial Statements

39. OTHER FINANCIAL LIABILITIES

Recognition - financial liabilities

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument. A financial liability is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in the statement of profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in the statement of profit or loss. Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities except lease liabilities consist of amount due to related parties, other creditors including accruals and outstanding commission payable.

De-recognition of other financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

| As at | Note | 31.12.2020 | | 31.12.2019 | |
|--|------|-----------------------|-------------------|-----------------------|-------------------|
| | | Carrying value Rs. | Fair value Rs. | Carrying value Rs. | Fair value Rs. |
| Other creditors including accrued expenses | 39.1 | 379,329,450 | 379,329,450 | 278,121,249 | 278,121,249 |
| Lease liability | 46 | 128,867,196 | 128,867,196 | 180,214,976 | 180,214,976 |
| Commission payable | | 230,537,530 | 230,537,530 | 203,229,808 | 203,229,808 |
| Amounts due to related parties | 39.2 | 9,701,729 | 9,701,729 | 14,742,176 | 14,742,176 |
| | | 748,435,905 | 748,435,905 | 676,308,209 | 676,308,209 |

39.1 Other creditors including accrued expenses

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|------------------|-------------------|-------------------|
| Other creditors | 262,561,029 | 210,843,643 |
| Accrued expenses | 116,768,421 | 67,277,606 |
| | 379,329,450 | 278,121,249 |

39.2 Amounts due to related parties

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| People's Leasing & Finance PLC | 8,879,524 | 13,837,839 |
| People's Leasing Fleet Management Limited | 822,205 | 904,337 |
| | 9,701,729 | 14,742,176 |

40. OTHER LIABILITIES

Other liabilities include government levies payable other than income tax payable. These liabilities are recorded at amounts expected to be payable as at the reporting date.

| | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-----------------------------------|-------------------|-------------------|
| Value Added Tax (VAT) payable | 25,633,816 | 19,179,480 |
| CESS payable | 4,933,412 | 5,377,876 |
| Nation Building Tax (NBT) payable | - | 912,175 |
| Other government levies payable | 12,054,229 | 6,300,018 |
| | 42,621,457 | 31,769,549 |

41. REINSURANCE PAYABLES

Accounting policy

Recognition and measurement of reinsurance payables

Reinsurance liabilities represent balances due to insurance companies. Reinsurance assets or liabilities are de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Domestic reinsurer - National Insurance Trust Fund (NITF) | 34,571,077 | 15,483,940 |
| Foreign reinsurers | 30,927,095 | (7,956,531) |
| | 65,498,172 | 7,527,409 |

The carrying amount disclosed above approximates the fair value at the reporting date.

All amounts payable on reinsurance business are payable within one year.

42. INCOME TAX PAYABLE

Current income tax liabilities for the current period are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the statement of profit or loss. The management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

| | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Balance as at 1 January | 110,748,700 | 49,392,448 |
| Provision for the year | 506,898,626 | 275,503,000 |
| Under/(over) provision of taxes in respect of prior years | (5,016,333) | 562,300 |
| Self-assessment payments | (168,154,921) | (153,607,261) |
| Tax credits | (9,148,433) | (61,101,787) |
| Balance as at 31 December | 435,327,639 | 110,748,700 |

Notes to the Financial Statements

43. BANK OVERDRAFTS

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|-----------------|-------------------|-------------------|
| Bank overdrafts | 18,625,541 | 150,616,554 |

Bank overdraft facility amounting to Rs. 75,000,000 is subject to variable overdraft interest rate of People's Bank. The overdraft facility is secured by a fixed deposit of Rs. 75,000,000 and unused overdraft facility amounted to Rs. 75,000,000 as at the reporting date (2019 - Rs. 75,000,000).

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES BASED ON THE REMAINING MATURITIES AT THE REPORTING DATE

| As at | 31.12.2020 | | | 31.12.2019 | | |
|--------------------------------------|------------------------|----------------------------|----------------------------|------------------------|----------------------------|----------------------------|
| | Carrying amount Rs. | Less than 12 months Rs. | More than 12 months Rs. | Carrying amount Rs. | Less than 12 months Rs. | More than 12 months Rs. |
| Assets | | | | | | |
| Intangible assets | 10,969,646 | - | 10,969,646 | 1,876,389 | - | 1,876,389 |
| Property, plant and equipment | 185,479,090 | - | 185,479,090 | 238,214,775 | - | 238,214,775 |
| Deferred tax asset | 40,201,865 | - | 40,201,865 | 11,527,522 | - | 11,527,522 |
| Financial investments | 8,574,328,565 | 5,819,831,185 | 2,754,497,380 | 7,349,838,553 | 4,087,181,586 | 3,262,656,967 |
| Reinsurance receivables | 211,143,617 | 211,143,617 | - | 503,594,537 | 503,594,537 | - |
| Insurance receivables | 1,132,743,974 | 1,132,743,974 | - | 981,900,517 | 981,900,517 | - |
| Deferred expenses | 276,219,332 | 276,219,332 | - | 289,575,427 | 289,575,427 | - |
| Other assets | 113,804,834 | 113,804,834 | - | 75,200,225 | 75,200,225 | - |
| Cash and cash equivalents | 50,972,116 | 50,972,116 | - | 128,771,323 | 128,771,323 | - |
| Total assets | 10,595,863,039 | 7,604,715,058 | 2,991,147,981 | 9,580,499,268 | 6,066,223,615 | 3,514,275,653 |
| Liabilities | | | | | | |
| Insurance contract liabilities | 4,623,435,278 | 4,555,139,946 | 68,295,332 | 4,923,641,866 | 4,850,912,015 | 72,729,851 |
| Employee defined benefit obligations | 42,733,705 | - | 42,733,705 | 37,238,009 | - | 37,238,009 |
| Other financial liabilities | 748,435,905 | 696,759,918 | 51,675,987 | 676,308,209 | 676,308,209 | - |
| Other liabilities | 42,621,457 | 42,621,457 | - | 31,769,549 | 31,769,549 | - |
| Reinsurance payables | 65,498,172 | 65,498,172 | - | 7,527,409 | 7,527,409 | - |
| Income tax payable | 435,327,639 | 435,327,639 | - | 110,748,700 | 110,748,700 | - |
| Bank overdrafts | 18,625,541 | 18,625,541 | - | 150,616,554 | 150,616,554 | - |
| Total liabilities | 5,976,677,697 | 5,813,972,673 | 162,705,024 | 5,937,850,296 | 5,827,882,436 | 109,967,860 |

45. ACCOUNTING CLASSIFICATION AND FAIR VALUE

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either;

- ▶ In the principal market for the asset or liability or;
- ▶ In the absence of the principal market, in the most advantageous market for the asset or liability.

Fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. For units in unit trusts, fair value is determined by reference to published bid-values. If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique.

Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument i.e. without modification or re-packaging, or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the statement of profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable is not recognised in the statement of profit or loss immediately, but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Company believes a third-party market participant would take them into accounting pricing a transaction.

Notes to the Financial Statements

45. ACCOUNTING CLASSIFICATION AND FAIR VALUE (CONTD...)

Financial assets and liabilities based on the accounting classification with their carrying values and fair values are tabulated below.

| As at | Note | 31.12.2020 | | | | Fair value Rs. |
|--|------|--|---|---------------------------------------|------------------------------|-----------------------|
| | | Equity instruments through profit or loss Rs. | Debt instruments at amortised cost Rs. | Debt instruments through FVOCI Rs. | Total carrying amount Rs. | |
| Financial assets | | | | | | |
| Financial investments | 27 | | | | | |
| Measured at fair value | | 755,263,872 | - | 267,378,250 | 1,022,642,122 | 1,022,642,122 |
| Measured at amortised cost | | | 7,551,686,443 | | 7,551,686,443 | 7,710,947,226 |
| Reinsurance receivables | 28 | | 211,143,617 | | 211,143,617 | 211,143,617 |
| Insurance receivables | 29 | | 1,132,743,974 | | 1,132,743,974 | 1,132,743,974 |
| Cash and cash equivalents | 32 | | 50,972,116 | | 50,972,116 | 50,972,116 |
| Total | | 755,263,872 | 8,946,546,150 | 267,378,250 | 9,969,188,272 | 10,128,449,055 |
| Financial liabilities | | | | | | |
| Other financial liabilities (excluding government levies) | 39 | - | 748,435,905 | - | 748,435,905 | 748,435,905 |
| Reinsurance payables | 41 | - | 65,498,172 | - | 65,498,172 | 65,498,172 |
| Bank overdrafts | 43 | - | 18,625,541 | - | 18,625,541 | 18,625,541 |
| | | - | 832,559,618 | - | 832,559,618 | 832,559,618 |

| As at | 31.12.2019 | | | | | |
|--|------------|--|---|---------------------------------------|------------------------------|-------------------|
| | Note | Equity instruments through profit or loss Rs. | Debt instruments at amortised cost Rs. | Debt instruments through FVOCI Rs. | Total carrying amount Rs. | Fair value Rs. |
| Financial assets | | | | | | |
| Financial investments | 27 | | | | | |
| Measured at fair value | | 228,545,550 | - | 374,758,800 | 603,304,350 | 603,304,350 |
| Measured at amortised cost | | | 6,746,534,203 | | 6,746,534,203 | 6,842,990,618 |
| Reinsurance receivables | 28 | | 503,594,537 | | 503,594,537 | 503,594,537 |
| Insurance receivables | 29 | | 981,900,517 | | 981,900,517 | 981,900,517 |
| Cash and cash equivalents | 32 | | 128,771,323 | | 128,771,323 | 128,771,323 |
| Total | | 228,545,550 | 8,360,800,580 | 374,758,800 | 8,964,104,930 | 9,060,561,345 |
| Financial liabilities | | | | | | |
| Other financial liabilities (excluding government levies) | 39 | - | 676,308,209 | - | 676,308,209 | 676,308,209 |
| Reinsurance payables | 41 | - | 7,527,409 | - | 7,527,409 | 7,527,409 |
| Bank overdrafts | 43 | - | 150,616,554 | - | 150,616,554 | 150,616,554 |
| | | - | 834,452,172 | - | 834,452,172 | 834,452,172 |

45.1 Determination of fair value and fair value hierarchy

Valuation of fair value of financial instruments

Determination of fair values of financial assets and financial liabilities recorded in the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical techniques. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Listed/quoted (adjusted) prices in active markets for identical instruments are available. The Company measures the fair value of a financial instrument using active listed/quoted prices or dealer price quotations and managers buying price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Non-market observable input means that fair values are determined, in whole or in part, using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

Notes to the Financial Statements

45. ACCOUNTING CLASSIFICATION AND FAIR VALUE (CONTD...)

45.2 Fair value measurement

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

| As at 31 December | 2020 | | | Total |
|--|--------------------|----------------------|----------|----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets measured at fair value; | | | | |
| Equity instruments at fair value through profit or loss | | | | |
| Unit trusts | 755,263,872 | - | - | 755,263,872 |
| Debt instruments at FVOCI | | | | |
| Treasury bonds | - | 267,378,250 | - | 267,378,250 |
| Assets measured at amortised cost and fair values are disclosed*; | | | | |
| Debt instruments at amortised cost | | | | |
| Repurchase agreements | - | 12,599,341 | - | 12,599,341 |
| Staff loans | - | 88,844,324 | - | 88,844,324 |
| Rent deposits | - | 68,471,543 | - | 68,471,543 |
| Fixed deposits | - | 3,792,192,810 | - | 3,792,192,810 |
| Savings accounts | - | 53,541,804 | - | 53,541,804 |
| Treasury bills | - | 590,211,151 | - | 590,211,151 |
| Debentures | - | 2,473,932,901 | - | 2,473,932,901 |
| Treasury bonds | - | 478,826,421 | - | 478,826,421 |
| Commercial papers | - | 152,326,932 | - | 152,326,932 |
| Total financial assets | 755,263,872 | 7,978,325,476 | - | 8,733,589,348 |

| As at 31 December | 2019 | | | Total |
|--|--------------------|----------------------|----------|----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets measured at fair value; | | | | |
| Equity instruments at fair value through profit or loss | | | | |
| Listed equity securities | 14,526,500 | - | - | 14,526,500 |
| Unit trusts | 214,019,050 | - | - | 214,019,050 |
| Debt instruments at FVOCI | | | | |
| Treasury bonds | - | 374,758,800 | - | 374,758,800 |
| Assets measured at amortised cost and fair values are disclosed*; | | | | |
| Debt instruments at amortised cost | | | | |
| Repurchase agreements | - | - | - | - |
| Staff loans | - | 77,554,126 | - | 77,554,126 |
| Rent deposits | - | 59,561,102 | - | 59,561,102 |
| Fixed deposits | - | 3,239,436,462 | - | 3,239,436,462 |
| Savings accounts | - | 35,470,943 | - | 35,470,943 |
| Treasury bills | - | 431,983,353 | - | 431,983,353 |
| Debentures | - | 2,551,701,771 | - | 2,551,701,771 |
| Treasury bonds | - | 447,282,861 | - | 447,282,861 |
| Total financial assets | 228,545,550 | 7,217,749,418 | - | 7,446,294,968 |

*Fair values are determined based on the assumptions given in Note 45.1.

Financial instruments not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets/liabilities that have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair value due to their short term nature. This assumption is also applied to savings accounts without a specific maturity.

| Assets | Liabilities |
|---|--|
| Cash in hand and balances at bank | Bank overdraft |
| Repurchase agreements | Outstanding commission payable |
| Fixed deposits with less than three months remaining maturity | Amounts due to related parties |
| Savings accounts | Other creditors including accrued expenses |
| Insurance receivables | Reinsurance payables |
| Reinsurance receivables | |

Fixed deposits with more than three months remaining maturity

The fair values are estimated based on discounted cash flows using rates currently available for similar instruments on similar term, credit risk and remaining maturities.

Notes to the Financial Statements

45. ACCOUNTING CLASSIFICATION AND FAIR VALUE (CONTD...)

Debentures

The fair values of debentures are determined based on the last traded market price of the instrument published at the Colombo Stock Exchange.

Staff loans

Fair values are computed based on the interest rate that prevailed at reporting date.

46. LEASES

Accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

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

Right-of-use assets

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

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

Lease liabilities

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

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'Property, plant and equipment' and lease liabilities in 'Other financial liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

46.1 Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

| | 2020 Rs. | 2019 Rs. |
|---------------------------------------|--------------|--------------|
| Land and building | | |
| Balance as at 1 January | 158,087,886 | 221,323,040 |
| Depreciation charged for the year | (66,063,440) | (63,235,154) |
| Additions to right-of-use assets | 16,177,578 | - |
| De-recognition of right-of-use assets | - | - |
| Balance as at 31 December | 108,202,024 | 158,087,886 |

| | 2020 Rs. | 2019 Rs. |
|--|-------------|-------------|
|--|-------------|-------------|

46.2 Amounts recognised statement of profit or loss

| | | |
|-------------------------------|------------|------------|
| Interest on lease liabilities | 19,935,057 | 26,078,185 |
|-------------------------------|------------|------------|

| | 2020 Rs. | 2019 Rs. |
|--|-------------|-------------|
|--|-------------|-------------|

46.3 Lease liability

| | | |
|------------------------------------|--------------|--------------|
| Balance recognised as at 1 January | 180,214,976 | 238,226,791 |
| New lease agreements | 16,177,578 | - |
| Payments | (67,525,358) | (58,011,815) |
| Balance as at 31 December | 128,867,196 | 180,214,976 |

*Maturity analysis of lease liabilities is disclosed in Note 47.E on page 188.

| | 2020 Rs. | 2019 Rs. |
|--|-------------|-------------|
|--|-------------|-------------|

46.4 Amounts recognised in statement of cash flows

Total cash outflow for leases

| | | |
|------------------------------|------------|------------|
| Interest paid on leases | 19,935,057 | 26,078,185 |
| Payment on lease liabilities | 67,525,358 | 58,011,815 |
| | 87,460,415 | 84,090,000 |

46.5 Extension options

Extension and termination options are included in the lease agreements of the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The extension and termination options held are exercisable with the three months written consent by either party.

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK

The Company is exposed to various types of risks in carrying out its business activities. Thus the Company has implemented a proper system of risk and financial management framework to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The main types of risks to which the Company is exposed are given below.

| | | Page |
|---|---------------------------------|------|
| A | Risk management framework | 182 |
| B | Capital management framework | 182 |
| C | Regulatory framework | 183 |
| D | Credit risk | 183 |
| | i) Insurance receivables | 184 |
| | ii) Reinsurance receivables | 185 |
| | iii) Financial investments | 188 |
| E | Liquidity risk | 188 |
| F | Market risk | 189 |
| | i) Interest rate risk | 190 |
| | ii) Currency risk | 192 |
| | iii) Equity price risk | 192 |
| G | Strategic risk | 194 |
| H | Operational risk | 194 |
| I | General insurance business risk | 194 |

A. Risk management framework

The Board of Directors has the overall responsibility and the oversight of the risk management framework of the Company. The Board oversees risk management process through the Board Audit Committee and Internal Audit department. The Board has delegated its authorities and responsibilities to the management to establish the Company's risk management policy and to manage overall risk framework of the Company.

At the group level, Enterprises Risk Management Committee operates to strengthen the Group's risk management process. Members from the management are invited to the Group Risk Management Committee and the Company's risk management framework and the risks are monitored by this Group Committee.

Risk governance, risk management framework and risk management strategies are described in detail on pages 54 to 61 in the Risk Management Report.

B. Capital management framework

The Company's capital management framework forms the basis for activity managing capital within the Company and seeks to optimise the structure and source of capital to ensure that it consistently maximises returns to the shareholders and policyholders while complying with the regulatory requirements

The Company has established the following capital management objectives, policies and approaches in managing the risks that affect its capital position.

- ▶ To maintain the robust level of stability of the Company thereby providing a degree of security to policyholders
- ▶ To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders.

- ▶ To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- ▶ To align the profile of assets and liabilities taking account of risks inherent in the business
- ▶ To maintain financial strength to support new business growth and to satisfy the requirement of the policyholders, regulators and stakeholders
- ▶ To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value

Operations of the Company are also subject to regulatory requirements of the Insurance Regulatory Commission of Sri Lanka (IRCSL). The regulations imposed, not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy under the risk-based capital regime) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseeable liabilities as they arise.

The Company has complied with all these regulatory requirements during the financial year.

The primary source of capital used by the Company is equity which includes stated capital and the retained earnings.

Capital requirements are measured on the risk based capital regime which is calculated in a periodic basis and assessed against the available capital and determined by the capital adequacy ratio. The process is ultimately subject to the approval of the Board.

The Company has made no significant changes from previous years to its policies and processes of its capital structure.

Available capital resources based on risk based capital;

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|----------------------|----------------------|
| Total shareholders' funds as per financial statements | 4,612,116,159 | 3,642,648,972 |
| Adjustments based on regulatory requirements | 8,081,176 | (1,587,382) |
| Deductions based on regulatory requirements | (448,497,354) | (619,912,282) |
| Total available capital | 4,171,699,981 | 3,021,149,308 |

C. Regulatory Framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs to provide policyholders' benefits.

The Insurance Regulatory Commission of Sri Lanka (IRCSL) safeguards policyholders through supervisory control of insurance companies in line with the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments. The Company has adopted the Risk Based Capital (RBC) framework on solvency margin as required by the IRCSL. The Company was able to maintain the Total Available Capital (TAC) and Risk Based Capital Adequacy Ratio (CAR) as at 31 December 2020 at Rs. 4,171,699,980 (2019 - Rs. 3,141,245,536) and 304% in 2020 (2019 - 248%) respectively. The regulatory minimum capital requirement is Rs. 500,000,000 and regulatory minimum Capital Adequacy Ratio (CAR) ratio is 120%.

In addition to the IRCSL monitoring, the Company is also subject to control by various regulators such as the Colombo Stock Exchange (CSE), Security and Exchange Commission of Sri Lanka (SEC), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue (DIR) and Company Registrar.

D. Credit risk

Credit risk is the risk that associates with a loss or potential loss from customer or counter-party failing to meet its contractual obligation in accordance with agreed terms.

The Company's credit risk exposure analysis is provided in Note 47.D.iii.

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK (CONTD...)

| Types of credit risk | Risk response | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|-----------|-------------------|--------|----------------|-------------------------------|----------|----|---------|---------|----|---|---------|-------------------------|-----|---|---------|--------------------|-----------|---|---------|--|-------|-----|---------|--------|--------|---|---------|-------------------------------|-----------|-----|-------|---------------------|-------|-----|---------|-----------------------------|----------|----|---------|------------------|--------|----|-------|
| ▶ Insurance receivables | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk of customers failing to settle their outstanding dues. | <ul style="list-style-type: none"> ▶ Regular and rigorous follow ups for premium outstanding ▶ Periodic policy cancellation for not settling within the given credit period ▶ Check the status of outstanding premium before settling claims ▶ Periodic review of the premium receivables to provide adequate impairment provisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ▶ Reinsurance Receivables | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk of not receiving reinsurance receivables. | <ul style="list-style-type: none"> ▶ Assessment of credit worthiness of reinsurers in selection and periodic review of their ratings ▶ Review of outstanding balances on a monthly basis and ensure that all dues are collected or set-off against payables <p>List of reinsurers with the ratings issued by the agency as at 31 December 2020.</p> <table border="1"> <thead> <tr> <th>Reinsurer</th> <th>Country of Origin</th> <th>Rating</th> <th>Issuing Agency</th> </tr> </thead> <tbody> <tr> <td>Asian Reinsurance Corporation</td> <td>Thailand</td> <td>B+</td> <td>AM Best</td> </tr> <tr> <td>Beazley</td> <td>UK</td> <td>A</td> <td>AM Best</td> </tr> <tr> <td>Best Meridian Insurance</td> <td>USA</td> <td>A</td> <td>AM Best</td> </tr> <tr> <td>China Re Singapore</td> <td>Singapore</td> <td>A</td> <td>AM Best</td> </tr> <tr> <td>General Insurance Corporation of India</td> <td>India</td> <td>B++</td> <td>AM Best</td> </tr> <tr> <td>Llyods</td> <td>Sweden</td> <td>A</td> <td>AM Best</td> </tr> <tr> <td>National Insurance Trust Fund</td> <td>Sri Lanka</td> <td>AA-</td> <td>Fitch</td> </tr> <tr> <td>New India Assurance</td> <td>India</td> <td>B++</td> <td>AM Best</td> </tr> <tr> <td>Ocean International Re. Co.</td> <td>Barbados</td> <td>A-</td> <td>AM Best</td> </tr> <tr> <td>Santam/Munich Re</td> <td>Africa</td> <td>A-</td> <td>S & P</td> </tr> </tbody> </table> | Reinsurer | Country of Origin | Rating | Issuing Agency | Asian Reinsurance Corporation | Thailand | B+ | AM Best | Beazley | UK | A | AM Best | Best Meridian Insurance | USA | A | AM Best | China Re Singapore | Singapore | A | AM Best | General Insurance Corporation of India | India | B++ | AM Best | Llyods | Sweden | A | AM Best | National Insurance Trust Fund | Sri Lanka | AA- | Fitch | New India Assurance | India | B++ | AM Best | Ocean International Re. Co. | Barbados | A- | AM Best | Santam/Munich Re | Africa | A- | S & P |
| Reinsurer | Country of Origin | Rating | Issuing Agency | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asian Reinsurance Corporation | Thailand | B+ | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Beazley | UK | A | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Best Meridian Insurance | USA | A | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| China Re Singapore | Singapore | A | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| General Insurance Corporation of India | India | B++ | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Llyods | Sweden | A | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| National Insurance Trust Fund | Sri Lanka | AA- | Fitch | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| New India Assurance | India | B++ | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ocean International Re. Co. | Barbados | A- | AM Best | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Santam/Munich Re | Africa | A- | S & P | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ▶ Financial investments | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk of borrowers failing to repay or meet contractual obligation. | <ul style="list-style-type: none"> ▶ Assess the credit worthiness of the financial institute/instruments using credit ratings before investing ▶ Assess on tolerable levels, concentration risk and portfolio monitoring in line with the Company's risk appetite level documented in the investment operations manual ▶ Obtain adequate collateral to secure the investment where necessary. Regularly review its market value to ensure the adequacy of such collateral and request additional collateral in accordance with the underlying agreement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Credit quality analysis

The table below sets out information about the credit quality of financial assets held by the Company net allowances for impairment/expected credit losses against those assets.

D.i. Expected credit losses

According to the SLFRS 9 - Financial Instruments, the Company manages credit quality using a three stage approach which is in line with the standard requirements.

Stage one (performing) : 12-month expected credit losses

Stage two (under-performing) : Lifetime expected credit losses - Not-credit impaired

Stage three (non-performing): Lifetime expected credit losses - Credit impaired

Table below shows the classification of assets based on the above-mentioned three stage model.

| | 12-month ECL Rs. | Lifetime ECL-Not credit impaired Rs. | Lifetime ECL - credit impaired Rs. | Unclassified Rs. | Total Rs. |
|-------------------------------|------------------------|---|---|----------------------|-----------------------|
| As at 31 December 2020 | | | | | |
| Cash and cash equivalents | - | - | - | 50,972,116 | 50,972,116 |
| Financial investments | 7,792,110,556 | - | 26,954,137 | 755,263,872 | 8,574,328,565 |
| Reinsurance receivables | - | - | - | 211,143,617 | 211,143,617 |
| Insurance receivables | 503,198,955 | 629,545,019 | - | - | 1,132,743,974 |
| Other non-financial assets | - | - | - | 626,674,767 | 626,674,767 |
| Total assets | 8,295,309,511 | 629,545,019 | 26,954,137 | 1,644,054,372 | 10,595,863,039 |
| As at 31 December 2019 | | | | | |
| Cash and cash equivalents | - | - | - | 128,771,323 | 128,771,323 |
| Financial investments | 7,094,338,865 | - | 26,954,137 | 228,545,551 | 7,349,838,553 |
| Reinsurance receivables | - | - | - | 503,594,537 | 503,594,537 |
| Insurance receivables | 539,052,393 | 442,848,124 | - | - | 981,900,517 |
| Other non-financial assets | - | - | - | 616,394,338 | 616,394,338 |
| Total assets | 7,633,391,258 | 442,848,124 | 26,954,137 | 1,477,305,749 | 9,580,499,268 |

D.ii. Amount arising from expected credit losses

This note highlights inputs, assumptions, and techniques used for estimating expected credit losses (ECL) as per SLFRS 9 – Financial Instruments.

a) Significant increase in credit risk

When determining whether the risk of default on a financial assets has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company historical experience and expert credit assessment and including forward-looking information.

b) Credit risk

Assessment of credit risk is based on a variety of data by applying experienced credit judgement. Credit risk is evaluated using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of financial assets.

Each exposure is assessed at initial recognition based on available information about the financial assets. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade based on 3 stage model. The monitoring typically involves change in investment credit ratings of counter parties and instruments and number of days over due in terms of insurance and reinsurance receivables.

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK (CONTD...)

c) Generating the term structure of probability of default (PD)

Date past due has been taken as the primary input into the determination of the term structure of PD for insurance receivables. The Company collects performance and default information about its credit risk exposures analysed by customer segments. For investment portfolio, information gathered from external credit agencies is used (debt instruments).

The Company employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors.

Using variety of external actual and forecasted information, the Company formulates a base case view of the future direction of relevant economic variables (GDP growth and effect) as well as a representative range (best case and worst case) of other possible forecast scenarios. The Company then uses these forecasts to adjust its estimates of PDs.

d) Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Using variety of external actual and forecasted information, the Company formulates a base case view of the future direction of relevant economic variables as well as a representative range (best case and worst case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD)

PD estimates are estimates at a certain date which are calculated based on statistical models and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

Loss given default (LGD)

PD estimates are estimates at a certain date which are calculated based on statistical models and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

f) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in 47.D.i.

Movements in allowance for expected credit losses (stage transition)

| Company | 2020 | | | |
|---|---------------------------------|--|--|------------------|
| | Stage 1: 12 month ECL Rs. | Stage 2: Lifetime ECL non-credit- impaired Rs. | Stage 3: Lifetime ECL credit- impaired Rs. | Total ECL Rs. |
| Balance as at the beginning of the year | 7,633,391,258 | 442,848,124 | 26,954,137 | 8,103,193,519 |
| Change during the year | 661,918,253 | 186,696,895 | - | 848,615,148 |
| Balance as at the end of the year | 8,295,309,511 | 629,545,019 | 26,954,137 | 8,951,808,667 |

| Company | 2019 | | | |
|---|---------------------------------|--|--|------------------|
| | Stage 1: 12 month ECL Rs. | Stage 2: Lifetime ECL non-credit- impaired Rs. | Stage 3: Lifetime ECL credit- impaired Rs. | Total ECL Rs. |
| Balance as at the beginning of the year | 7,440,123,059 | 445,506,632 | - | 7,885,629,691 |
| Change during the year | 193,268,199 | (2,658,508) | 26,954,137 | 217,563,828 |
| Balance as at the end of the year | 7,633,391,258 | 442,848,124 | 26,954,137 | 8,103,193,519 |

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK (CONTD...)

D.iii. Credit ratings of financial instruments

Table below sets out the credit quality of financial investments based on the instruments' credit ratings.

| | Risk Free Rs. | AAA to AA- Rs. | A+ to A- Rs. | BBB+ to BB- Rs. | Non-rated Rs. | Total Rs. |
|------------------------------------|----------------------|----------------------|----------------------|--------------------|----------------------|----------------------|
| Financial investments | | | | | | |
| Debt instruments at FVOCI | | | | | | |
| Treasury bonds | 267,378,250 | - | - | - | - | 267,378,250 |
| Debt instruments at amortised cost | | | | | | |
| Treasury bonds | 430,211,958 | - | - | - | - | 430,211,958 |
| Repurchase agreements | 12,599,341 | - | - | - | - | 12,599,341 |
| Staff loans | - | - | - | - | 66,152,462 | 66,152,462 |
| Rent deposits | - | - | - | - | 59,561,102 | 59,561,102 |
| Fixed deposits | - | 1,573,757,874 | 2,117,940,086 | - | - | 3,691,697,960 |
| Savings accounts | - | 2,786,979 | 35,273,202 | 15,481,623 | - | 53,541,804 |
| Treasury bills | 589,827,847 | - | - | - | - | 589,827,847 |
| Listed debentures | - | 691,300,314 | 1,316,789,854 | 234,961,696 | - | 2,243,051,864 |
| Unlisted debentures | - | 103,238,900 | 126,071,690 | - | - | 229,310,590 |
| Commercial papers | - | - | - | - | 152,326,932 | 152,326,932 |
| Unit trusts at FVPL | - | - | - | - | 755,263,870 | 755,263,870 |
| Reinsurance receivables | - | 68,266,673 | 36,034,034 | 106,842,910 | - | 211,143,617 |
| Insurance receivables | - | - | - | - | 1,132,743,974 | 1,132,743,974 |
| Cash and cash equivalents | - | 41,276,027 | 9,468,280 | - | 227,809 | 50,972,116 |
| Total | 1,300,017,397 | 2,480,626,767 | 3,641,577,146 | 357,286,229 | 2,166,276,149 | 9,945,783,688 |

E. Liquidity Risk

Generally, liquidity risk is the risk that a company may not be able to meet short term financial demands. This occurs when financial resources are insufficient to meet the Company's obligation when they fall due and the timing difference between gross claim cash out flows and expected reinsurance recoveries.

Risk response

- ▶ Regular review of cash flow projections and ensure sufficient funds are available to meet claims and operational payments
- ▶ Maintain a portfolio of readily marketable securities to strengthen the liquidity position
- ▶ Maintain diversified durations of investments and regular review of maturity periods based on the cash flow requirements
- ▶ Agreements with the reinsurers to immediate draw funds to meet claim payments which exceed the certain agreed level
- ▶ Availability of a stand-by overdraft facility to use in the event of an emergency
- ▶ Determining the maturity profiles of insurance contract liabilities and reinsurance assets based on the estimated timing of net cash flows from recognised insurance liabilities
- ▶ Planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows

Maturity profile

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseeable interruption of cash flows. The Company also has committed lines of credit that it can access when meeting liquidity needs.

Following table summarises the maturity profile of the financial assets, financial liabilities and insurance contract liabilities. Unearned premiums have been excluded from the analysis as they are not considered as contractual obligations.

Contractual maturities of undiscounted cash flows of financial assets and liabilities are provided below.

| As at 31 December 2020 | 0-6 months Rs. | 7-12 months Rs. | 1-2 years Rs. | Over 2 years Rs. | No stated maturity Rs. | Total Rs. |
|------------------------------------|----------------------|-----------------------|---------------------|------------------------|------------------------------|----------------------|
| Financial Assets | | | | | | |
| Financial assets at FVPL | | | | | | |
| Unit trusts | - | - | - | - | 755,263,872 | 755,263,872 |
| Debt instruments at FVOCI | - | 106,388,900 | - | 160,989,350 | - | 267,378,250 |
| Debt instruments at amortised cost | | | | | | |
| Treasury bonds | - | 51,430,281 | - | 378,781,676 | - | 430,211,957 |
| Fixed deposits | 3,271,247,926 | 133,073,821 | 287,376,213 | - | - | 3,691,697,960 |
| Staff loans and rent deposits | 15,540,467 | 8,533,593 | 14,408,599 | 110,635,491 | - | 149,118,150 |
| Savings accounts | - | - | - | - | 53,541,804 | 53,541,804 |
| Treasury bills | 348,058,028 | 241,769,819 | - | - | - | 589,827,847 |
| Listed debentures | 423,534,096 | 246,522,295 | - | 1,572,995,473 | - | 2,243,051,864 |
| Unlisted debentures | - | - | 103,251,419 | 126,059,171 | - | 229,310,590 |
| Insurance receivables | 1,132,743,974 | - | - | - | - | 1,132,743,974 |
| Reinsurance receivables | 211,143,617 | - | - | - | - | 211,143,617 |
| Cash and cash equivalents | 50,972,116 | - | - | - | - | 50,972,116 |
| Total | 5,453,240,224 | 787,718,709 | 405,036,231 | 2,349,461,161 | 808,805,676 | 9,804,262,002 |
| Financial liabilities | | | | | | |
| Insurance contract liabilities | 3,749,861,831 | 805,278,114 | 17,697,319 | 50,598,014 | - | 4,623,435,278 |
| Reinsurance payables | 65,498,172 | - | - | - | - | 65,498,172 |
| Other financial liabilities | 346,435,334 | 273,133,378 | - | - | - | 619,568,712 |
| Lease liabilities | 37,424,572 | 39,766,634 | 44,220,767 | 7,455,220 | - | 128,867,196 |
| Bank overdrafts | 18,625,541 | - | - | - | - | 18,625,541 |
| Total | 4,217,845,450 | 1,118,178,126 | 61,918,086 | 58,053,233 | - | 5,455,994,896 |

F. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in market variables. Market risk comprises three types of risks: market interest rates (interest rate risk), foreign exchange rate (currency risk) and market prices (price risk). The Company has imposed following policies and procedures to manage the market risks.

Market risk mitigating strategies

- ▶ Overall market risk impact is closely monitored by the management and Investment Committee and the Integrated Risk Committee at group level on a regular basis.
- ▶ Investment portfolio and the fluctuation of macro-economic indicators are reviewed by the top management regularly.
- ▶ Set limits for investments and portfolio allocations in the investment operation manual to ensure that risk exposure is at the desired risk tolerance limit of the Company.

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK (CONTD...)

F.i. Interest Rate Risk

Interest rate risk is the risk of fluctuation of value of the future cash flows of financial instrument due to changes in market interest rates. Floating rate instruments typically expose the Company to cash flow interest risk whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

Interest rate risk mitigating strategies

- ▶ The management follows the guidelines set out in the investment policy and investment operations manual which are regularly reviewed by the Investment Committee.
- ▶ Preferred investment horizon for the investment portfolio is limited to a maximum of ten years from the time of the investment.
- ▶ Forecasting and monitoring future cash flows when formulating investment strategies.
- ▶ Relative amount of each portfolio is determined by the Company's liquidity position, availability of market value and individual securities' risk/return profiles.

The Company has no significant concentration of interest rate risk.

Following table describes the Company's sensitivity to interest rate risks. The sensitivity of reported fair value of financial instruments is monitored by assessing the projected changes in the fair value of financial instrument held by the portfolios in response to assumed parallel shift in the yield curve by +/- 100 basis points and +/- 200 basis points.

| Change in Variables | 2020 | | 2019 | |
|---------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Impact on PBT* Rs. | Impact on equity Rs. | Impact on PBT* Rs. | Impact on equity Rs. |
| + 100 base points | (3,549,850) | (3,549,850) | (9,361,600) | (9,361,600) |
| - 100 base points | 3,621,450 | 3,621,450 | 9,703,150 | 9,703,150 |
| + 200 base points | (7,029,550) | (7,029,550) | (18,396,600) | (18,396,600) |
| - 200 base points | 7,316,600 | 7,316,600 | 19,762,950 | 19,762,950 |

* PBT - Profit before tax

Following table summarises the exposure to the interest rate risks by the Company.

| As at 31 December 2020 | Variable Interest Rs. | Fixed Interest Rs. | Non-interest bearing Rs. | Total Rs. |
|------------------------------------|-----------------------------|--------------------------|--------------------------------|---------------|
| Financial assets | | | | |
| Financial assets at FVPL | - | - | 755,263,872 | 755,263,872 |
| Debt instruments at FVOCI | - | 267,378,250 | - | 267,378,250 |
| Debt instruments at amortised cost | | | | |
| Repurchase agreements | - | 12,599,341 | - | 12,599,341 |
| Treasury bonds | - | 430,211,957 | - | 430,211,957 |
| Staff loans | - | 69,886,293 | 10,760,312 | 80,646,605 |
| Rent deposits | - | - | 68,471,543 | 68,471,543 |
| Fixed deposits | - | 3,691,697,960 | - | 3,691,697,960 |
| Savings accounts | - | 53,541,804 | - | 53,541,804 |
| Treasury bills | - | 589,827,847 | - | 589,827,847 |
| Listed debentures | - | 2,243,051,864 | - | 2,243,051,864 |
| Unlisted debentures | - | 229,310,590 | - | 229,310,590 |
| Commercial papers | - | 152,326,932 | - | 152,326,932 |
| Total | - | 7,739,832,838 | 834,495,727 | 8,574,328,565 |

| As at 31 December 2019 | Variable Interest Rs. | Fixed Interest Rs. | Non-interest bearing Rs. | Total Rs. |
|------------------------------------|-----------------------------|--------------------------|--------------------------------|---------------|
| Financial assets | | | | |
| Financial assets at FVPL | - | - | 228,545,551 | 228,545,551 |
| Debt instruments at FVOCI | - | 374,758,800 | - | 374,758,800 |
| Debt instruments at amortised cost | | | | |
| Treasury bonds | - | 431,623,381 | - | 431,623,381 |
| Staff loans | - | 60,777,951 | 5,374,511 | 66,152,463 |
| Rent deposits | - | - | 59,561,102 | 59,561,102 |
| Fixed deposits | - | 3,110,744,201 | - | 3,110,744,201 |
| Savings accounts | - | 35,470,949 | - | 35,470,949 |
| Treasury bills | - | 431,929,575 | - | 431,929,575 |
| Listed debentures | - | 2,243,051,864 | - | 2,243,051,864 |
| Unlisted debentures | - | 229,310,590 | - | 229,310,590 |
| Total | - | 6,917,667,312 | 293,481,164 | 7,211,148,477 |

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK (CONTD...)

F.ii. Currency risk

Interest rate risk is the risk of fluctuation of value of the future cash flows of financial instruments due to changes in foreign exchange rates.

The Company's principal transactions are carried out in Sri Lankan Rupees (Rs.). The Company's exposure to foreign exchange risk arises primarily with respect to US Dollar denominated assets maintained in order to honor liabilities of foreign currency denominated reinsurance policies.

However, no material foreign currency denominated liability was reported during the financial year ended 31 December 2020.

| | 2020 | | 2019 | |
|------------------|----------------|-------------------|----------------|-------------------|
| | Amount in USD | Amount in Rs. | Amount in USD | Amount in Rs. |
| Fixed deposits | 183,932 | 33,789,768 | 166,497 | 29,887,562 |
| Savings accounts | 29,753 | 5,465,944 | 70,486 | 12,995,521 |
| Total | 213,686 | 39,255,712 | 236,983 | 42,883,084 |

| | Impact on PBT Rs. | Impact on equity Rs. | Impact on PBT Rs. | Impact on equity Rs. |
|---------------------------|-------------------|----------------------|-------------------|----------------------|
| 5% strengthening of Rupee | (1,962,348) | (1,962,348) | (2,238,968) | (2,238,968) |
| 5% weakening of Rupee | 1,963,269 | 1,963,269 | 2,025,733 | 2,025,733 |

F.iii. Equity price risk

Equity price risk arises due to fair value or future cash flows of a financial instrument fluctuates due to changes in equity prices other than those arising from interest rate or foreign exchange rate risk.

The Company's investment policy and investment operation manual guides the management on setting and monitoring objectives and constrains on investments, diversification plans as well as limits on each investment under each investment instrument. This policy is regularly reviewed to ensure that it suits with the prevailing market and risk environment. Further, the Company manages its equity price risk by investing in relatively less volatile sectors and in spreading the risk in different sectors.

The Company has no significant concentration of equity price risk.

Following tables show the Company's equity portfolio diversification and sensitivity analysis performed for reasonably possible movements in All Share Price Index (ASPI) with all other variables held constant, showing the impact on profit before tax. However as at 31 December 2020, the Company did not have any equity investments.

Equity Portfolio Diversification

| As at 31 December | 2020 | | 2019 | |
|-------------------------------|------|---|------------|--------|
| | Rs. | % | Rs. | % |
| Sector | | | | |
| Bank, finance and insurance | - | - | 9,025,000 | 62.13 |
| Diversified holdings | - | - | - | - |
| Chemicals and pharmaceuticals | - | - | - | - |
| Motors | - | - | - | - |
| Manufacturing | - | - | - | - |
| Beverage, food and tobacco | - | - | 5,501,500 | 37.87 |
| Land and property | - | - | - | - |
| Total | - | - | 14,526,500 | 100.00 |

Percentage change in benchmark index (ASPI)

| As at 31 December | 2020 | | 2019 | |
|-------------------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Impact on PBT Rs. | Impact on equity Rs. | Impact on PBT Rs. | Impact on equity Rs. |
| 10% increase in equity market price | - | - | 1,452,650 | 5,817,050 |
| 10% decrease in equity market price | - | - | (1,452,650) | (5,817,050) |
| 20% increase in equity market price | - | - | 2,905,300 | 11,634,099 |
| 20% decrease in equity market price | - | - | (2,905,300) | (11,634,099) |

Concentration of other financial investments

The Company manages its credit exposure to a single investment security by regularly reviewing the investment portfolio. This analysis includes all the financial investments classified under financial assets measured at FVPL, debt instruments at amortised cost and FVOCI.

| As at 31 December | 2020 | | 2019 | |
|-------------------------------|----------------------|---------------|----------------------|---------------|
| | Rs. Mn | % | Rs. Mn | % |
| Treasury bonds | 697,590,207 | 8.3 | 806,382,181 | 11.2 |
| Treasury bills | 589,827,847 | 7.0 | 431,929,575 | 6.0 |
| Repurchase agreements | 12,599,341 | 0.2 | - | - |
| Listed equity securities | - | - | 14,526,500 | 0.2 |
| Listed corporate debentures | 2,243,051,864 | 26.8 | 2,507,801,762 | 34.9 |
| Unquoted corporate debentures | 229,310,590 | 2.7 | 103,250,768 | 1.4 |
| Unit trusts | 755,263,872 | 9.0 | 214,019,051 | 3.0 |
| Fixed deposits | 3,691,697,960 | 44.1 | 3,110,744,201 | 43.3 |
| Commercial papers | 152,326,932 | 1.8 | - | - |
| Total | 8,371,668,613 | 100.00 | 7,188,654,039 | 100.00 |

Notes to the Financial Statements

47. RISK MANAGEMENT FRAMEWORK (CONTD...)

G. Strategic Risk

Strategic risk addressing business risk and regulatory risk is described in detail along with risk mitigation strategies on page 54 in the Risk Management Report.

H. Operational Risk

Operational risk comprise socio/economic/political risk, environmental risk, technology risk, human resources risk, reputational risk and fraud risk and are described in detail along with risk mitigation strategies on page 40 in the Risk Management Report.

I. General Insurance Business Risk

General insurance business risk arising from product design, underwriting, claims settlement, reserving, reinsurance and credit risk is described in detail along with risk mitigation strategies on page 40 in the Risk Management Report.

The table below sets out the concentration of insurance claim liabilities by type of the contract.

| As at | 31.12.2020 | | | 31.12.2019 | | |
|---------------|------------------------|--------------------------------|------------------------|------------------------|-------------------------------|------------------------|
| | Gross liability Rs. | Reinsurance receivables Rs. | Net liabilities Rs. | Gross liability Rs. | Reinsurance receivable Rs. | Net liabilities Rs. |
| Motor | 664,192,180 | 21,946,347 | 642,245,833 | 1,142,291,966 | 52,796,529 | 1,089,495,437 |
| Marine | 3,015,300 | 2,941,487 | 73,813 | 4,400,574 | 3,290,165 | 1,110,409 |
| Fire | 133,151,811 | 134,058,697 | (906,886) | 496,500,507 | 415,940,965 | 80,559,542 |
| Miscellaneous | 164,616,313 | 53,456,273 | 111,160,040 | 219,251,472 | 31,566,880 | 187,684,592 |
| Total | 964,975,604 | 212,402,804 | 752,572,800 | 1,862,444,518 | 503,594,539 | 1,358,849,979 |

Claim development table

The following tables show the estimate of cumulative incurred claims for each year, together with cumulative payment to date.

Gross non-life insurance outstanding claims provision for 2020

(All figures are in Rupees thousands unless otherwise stated)

| Accident period | Current estimate of cumulative claims incurred | | | | | | | | | | | |
|---|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| 2020 | 193 | 10,771 | 2,942 | 1,485 | 705 | 2,602 | 7,258 | 7,573 | 32,132 | (27,248) | 2,738,130 | |
| 2019 | - | 42,085 | 5,515 | 1,591 | 1,014 | 2,662 | 4,183 | 31,282 | 92,881 | 3,803,005 | | |
| 2018 | (120) | 11,385 | 51 | (8,584) | 4,918 | (9,647) | 21,099 | 73,912 | 3,165,480 | | | |
| 2017 | (844) | 4,738 | (608) | 8,298 | 5,704 | 21,071 | 33,255 | 2,792,805 | | | | |
| 2016 | (945) | (113) | (17,006) | (8,555) | 5,397 | 50,267 | 2,635,203 | | | | | |
| 2015 | 1,703 | 6,377 | (5,165) | 35,874 | 31,044 | 2,182,704 | | | | | | |
| 2014 | 1,465 | 1,577 | 28,391 | (15,126) | 2,040,473 | | | | | | | |
| 2013 | 3,148 | 50,297 | (167,837) | 2,042,094 | | | | | | | | |
| 2012 | 4,224 | (58,704) | 2,042,934 | | | | | | | | | |
| 2011 | 2,762 | 1,396,938 | | | | | | | | | | |
| 2010 | 213,653 | | | | | | | | | | | |
| Current estimate of cumulative claims incurred | 225,239 | 1,465,352 | 1,889,216 | 2,057,077 | 2,089,256 | 2,249,660 | 2,700,998 | 2,905,573 | 3,290,492 | 3,775,757 | 2,738,130 | 22,648,619 |

| Accident period | Cumulative payments to date | | | | | | | | | | | Total |
|---------------------------------------|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| 2020 | (193) | (3,154) | (7,835) | (4,584) | (6,434) | (10,697) | (11,924) | (12,594) | (29,128) | (737,058) | (2,214,578) | |
| 2019 | - | (84,791) | (9,222) | (4,101) | (13,820) | (21,259) | (15,975) | (39,809) | (551,787) | (2,956,804) | | |
| 2018 | - | (16,329) | (5,532) | (14,079) | (15,396) | (26,780) | (26,927) | (515,478) | (2,646,682) | | | |
| 2017 | (2,129) | (8,627) | (10,057) | (10,447) | (13,186) | (30,768) | (468,923) | (2,267,584) | | | | |
| 2016 | (390) | (8,262) | (16,478) | (12,958) | (23,979) | (389,878) | (2,129,944) | | | | | |
| 2015 | (1,718) | (16,664) | (53,691) | (28,525) | (395,617) | (1,743,315) | | | | | | |
| 2014 | (2,329) | (19,215) | (29,760) | (329,993) | (1,586,379) | | | | | | | |
| 2013 | (3,495) | (57,574) | (252,384) | (1,621,312) | | | | | | | | |
| 2012 | (5,154) | (311,763) | (1,465,582) | | | | | | | | | |
| 2011 | (72,227) | (893,615) | | | | | | | | | | |
| 2010 | (134,902) | | | | | | | | | | | |
| Cumulative payments to date | (222,537) | (1,419,994) | (1,850,540) | (2,026,000) | (2,054,812) | (2,222,696) | (2,653,693) | (2,835,465) | (3,227,597) | (3,693,862) | (2,214,578) | (22,207,195) |
| Total Gross claims outstanding | 2,703 | 45,357 | 38,676 | 31,077 | 34,444 | 26,963 | 47,305 | 70,108 | 62,896 | 81,894 | 523,552 | 964,976 |

Net non-life insurance outstanding claims provision for 2020

(All figures are in Rupees thousands unless otherwise stated)

| Accident period | Current estimate of cumulative claims incurred | | | | | | | | | | | Total |
|---|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| 2020 | 193 | 10,793 | 2,942 | 1,485 | 705 | 2,602 | 6,735 | 8,961 | 33,117 | 58,000 | 2,601,103 | |
| 2019 | - | 321 | 5,515 | 1,591 | 1,014 | 2,667 | 4,325 | 37,666 | 79,873 | 3,398,413 | | |
| 2018 | (120) | 11,400 | 51 | (11,575) | 5,037 | (3,500) | 24,501 | 77,270 | 3,106,289 | | | |
| 2017 | (844) | 9,001 | (608) | 14,290 | 5,742 | 15,721 | 37,716 | 2,692,279 | | | | |
| 2016 | (945) | (128) | (16,949) | (10,511) | 6,864 | 59,287 | 2,549,666 | | | | | |
| 2015 | 1,599 | 6,454 | (3,982) | 34,203 | 16,076 | 2,100,737 | | | | | | |
| 2014 | 1,465 | 2,382 | 28,151 | (15,127) | 2,023,094 | | | | | | | |
| 2013 | 3,157 | 51,344 | (158,485) | 2,034,121 | | | | | | | | |
| 2012 | 4,239 | (15,515) | 1,976,422 | | | | | | | | | |
| 2011 | 4,621 | 1,224,086 | | | | | | | | | | |
| 2010 | 209,132 | | | | | | | | | | | |
| Current estimate of cumulative claims incurred | 222,497 | 1,300,139 | 1,833,056 | 2,048,476 | 2,058,532 | 2,177,514 | 2,622,943 | 2,816,177 | 3,219,279 | 3,456,414 | 2,601,103 | 24,356,131 |

Notes to the Financial Statements

| Accident period | Cumulative payments to date | | | | | | | | | | | Total |
|-------------------------------------|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| 2020 | (193) | (3,154) | (7,835) | (4,584) | (6,434) | (10,697) | (11,371) | (12,311) | (15,045) | (487,549) | (2,149,086) | |
| 2019 | - | (13,201) | (9,222) | (4,101) | (13,820) | (21,259) | (15,969) | (32,630) | (521,977) | (2,902,120) | | |
| 2018 | - | (16,329) | (5,532) | (11,079) | (15,396) | (26,799) | (25,385) | (492,761) | (2,619,040) | | | |
| 2017 | (2,129) | (8,627) | (10,057) | (10,432) | (13,132) | (30,608) | (446,918) | (2,209,836) | | | | |
| 2016 | (390) | (8,244) | (16,282) | (12,833) | (23,866) | (387,579) | (2,075,965) | | | | | |
| 2015 | (1,614) | (16,664) | (31,860) | (27,883) | (369,486) | (1,756,890) | | | | | | |
| 2014 | (2,329) | (17,417) | (29,152) | (329,883) | (1,564,956) | | | | | | | |
| 2013 | (3,495) | (32,280) | (226,969) | (1,593,260) | | | | | | | | |
| 2012 | (5,123) | (248,760) | (1,424,239) | | | | | | | | | |
| 2011 | (71,904) | (881,711) | | | | | | | | | | |
| 2010 | (131,282) | | | | | | | | | | | |
| Cumulative payments to date | (218,459) | (1,246,387) | (1,761,147) | (1,994,055) | (2,007,090) | (2,233,832) | (2,575,608) | (2,747,539) | (3,156,063) | (3,389,669) | (2,149,086) | (23,478,935) |
| Total net claims outstanding | 4,039 | 53,752 | 71,909 | 54,421 | 51,442 | (56,318) | 47,335 | 68,638 | 63,216 | 66,744 | 452,018 | 877,196 |

Sensitivity analysis on claim handling expenses, loss development factors and provision for adverse deviation.

Table 1: Impact on claim liability to changes in key variables

| Variable | Change in variable | 75% claim liabilities | Change in 75% claim liabilities |
|--|--------------------|-----------------------|---------------------------------|
| | | Rs. | Rs. |
| Original | | 1,288,367,818 | - |
| Claim handling expenses (CHE) | +10% | 1,292,844,771 | 4,476,954 |
| Claim handling expenses (CHE) | -10% | 1,283,890,864 | (4,476,954) |
| Accident year-2020 ultimate loss ratio (ULR) | +10% | 1,601,077,729 | 312,709,911 |
| Accident year-2020 ultimate loss ratio (ULR) | -10% | 975,657,906 | (312,709,911) |
| Provision for adverse deviation (PRAD) | Double | 1,418,013,410 | 129,645,592 |
| Provision for adverse deviation (PRAD) | Halve | 1,223,545,022 | (64,822,796) |

Table 2: Impact on premium liability to changes in key variables

| Variable | Change in variable | URR at 75% confidence level | Premium liabilities (PL) | Change in premium liabilities |
|--|--------------------|-----------------------------|--------------------------|-------------------------------|
| | | Rs. | Rs. | |
| Original | | 2,532,019,078 | 3,094,456,965 | - |
| Unexpired risk reserves (URR) | +10% | 2,779,911,906 | 3,094,456,965 | - |
| Unexpired risk reserves (URR) | -10% | 2,284,126,250 | 3,094,456,965 | - |
| Claim handling expenses (CHE) | +10% | 2,545,942,195 | 3,094,456,965 | - |
| Claim handling expenses (CHE) | -10% | 2,518,095,962 | 3,094,456,965 | - |
| Provision for adverse deviation (PRAD) | Double | 2,854,481,730 | 3,094,456,965 | - |
| Provision for adverse deviation (PRAD) | Halve | 2,330,479,921 | 3,094,456,965 | - |

48. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of its business on an arm's length with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosures.

Details of the related party transactions are reported below.

48.1 Transactions and outstanding balances with the ultimate parent - People's Bank

Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Insurance premium in respect of their own policies | 243,488,072 | 252,607,859 |
| Insurance premium in respect of customers introduced | 113,798,655 | 108,011,557 |
| Service charge expense | 14,810,845 | 14,432,151 |
| Claims expense | 77,192,590 | 160,001,118 |
| Investment in repurchase agreements (including reinvestments made during the year) | 2,838,942,758 | 9,092,794,474 |
| Settlement of repurchase agreements (including settlement for reinvestments) | 4,011,610,596 | 8,857,540,650 |
| Investment income from overnight repurchase agreements | 4,075,706 | 2,168,514 |
| Treasury bills purchased | 230,440,300 | 286,728,734 |
| Treasury bills matured | 161,824,900 | 1,122,941,800 |
| Interest income from fixed deposits | 42,900,178 | 57,774,705 |
| Interest income from special foreign currency savings account | 221,335 | 223,874 |
| Building rent expense | 900,000 | 900,000 |

Outstanding balances

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Insurance premium receivable in respect of their own policies | 6,372,616 | 237,494 |
| Insurance premium receivable in respect of customers introduced | 26,575,253 | 38,848,964 |
| Service charge expense payable | 1,660,056 | 1,107,789 |
| Claims outstanding | 164,763,609 | 143,887,511 |
| Fixed deposits | 511,122,820 | 522,963,177 |
| Special foreign currency savings account | 4,674,393 | 12,995,521 |
| Building rent expenses payable | 525,000 | 75,000 |
| Cash at bank | 62,044,235 | 148,232,619 |
| Bank overdraft | 39,388,174 | 126,968,403 |
| | 817,126,155 | 995,316,478 |

Notes to the Financial Statements

48. RELATED PARTY TRANSACTIONS (CONTD...)

48.1 Transactions and outstanding balances with the immediate parent - Peoples' Leasing & Finance PLC

Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Insurance premium in respect of their own policies | 159,969,651 | 141,269,870 |
| Insurance premium in respect of customers introduced | 3,254,628,172 | 3,567,151,542 |
| Service charges | 541,614,832 | 565,577,108 |
| Support service expense ^{Note} | 9,171,633 | 9,311,304 |
| Computer maintenance expense | 53,507,364 | 46,476,906 |
| Debenture interest | 16,051,214 | 16,193,261 |
| Interest income from savings accounts | 2,714,600 | 1,381,145 |
| Interest income from fixed deposits | 46,618,647 | 52,441,878 |
| Building rent expenses | 19,988,404 | 16,532,560 |
| Vehicle yard expenses | 5,870,775 | 4,252,082 |
| Claims expense | 132,757,995 | 113,354,531 |
| Accommodation income on Negombo branch | - | 89,286 |
| Dividends paid | 165,000,000 | 277,500,000 |

Outstanding balances

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Insurance premium receivable in respect of their own policies | 27,938,528 | 4,413,873 |
| Insurance premium receivable in respect of customers introduced | 679,723,737 | 621,939,996 |
| Service charges payable | 224,608,550 | 208,233,791 |
| Claims outstanding | 30,901,417 | 10,740,630 |
| Support service charges payable | 760,423 | 1,551,884 |
| Computer maintenance expense payable | 4,569,904 | 8,252,152 |
| Debentures | 136,910,732 | 136,959,358 |
| Savings accounts | 35,277,077 | 2,048,739 |
| Fixed deposits | 445,389,414 | 396,079,553 |
| Building rent expenses payable | 2,962,468 | 2,354,267 |
| Inter-company current account payable | 5,355,805 | 13,837,839 |
| Vehicle yard expense receivable | - | 298,050 |
| | 1,594,398,056 | 1,406,710,132 |

Note: Support service expenses mainly include amounts payable in respect of information and communication technology and management services provided to the Company

48.2 Transactions and outstanding balances with the key management personnel

According to the LKAS 24 - Related Party Disclosures, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity.

People's Insurance PLC considers its Board of Directors and Chief Executive Officer as key management personnel of the Company.

a) Key management personnel compensation

Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------------------|-------------------|-------------------|
| Short-term employment benefits | 19,171,815 | 24,716,208 |

b) Other transactions with key management personnel

Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------|-------------------|-------------------|
| Insurance premium | 402,440 | - |
| Claim expense | - | 25,961 |

48.3 Transactions and outstanding balances with other related companies

People's Leasing Fleet Management Limited

Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Insurance premium in respect of their own policies | 11,023,235 | 7,851,899 |
| Vehicle hiring expenses | 2,088,882 | 4,476,520 |
| Claims expences | 3,352,264 | 6,801,136 |
| Assessor's fees | 11,911,215 | 15,187,468 |

Outstanding balances

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---------------------------------------|-------------------|-------------------|
| Insurance premium receivable | 486,123 | 452,939 |
| Inter company current account payable | 822,205 | 910,105 |
| Claims expenses | 515,000 | 914,999 |
| | 1,823,328 | 2,278,043 |

Notes to the Financial Statements

48. RELATED PARTY TRANSACTIONS (CONTD...)

People's Leasing Property Development Limited Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Insurance premium in respect of their own policies | 2,230,941 | 2,327,394 |
| Claims expense | 215,045 | 191,011 |

Outstanding balances

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Insurance premium receivable in respect of their own policies | 987,932 | 446,119 |
| | 987,932 | 446,119 |

People's Micro-commerce Limited Transactions

| For the year ended | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Insurance premium in respect of their own policies | 6,432,156 | 6,152,317 |
| Insurance premium in respect of customers introduced | 125,536,245 | 140,590,238 |
| Service charges | 18,125,778 | 19,202,526 |
| Rent income from Galle branch | - | 698,497 |

Outstanding balances

| As at | 31.12.2020 Rs. | 31.12.2019 Rs. |
|---|-------------------|-------------------|
| Insurance premium receivable in respect of their own policies | 2,385,557 | 755,512 |
| Insurance premium receivable in respect of customers introduced | 36,386,708 | 35,524,018 |
| Service charges payable | 6,864,635 | 5,155,934 |
| Rent income receivable from Galle branch | - | 78,186 |
| | 45,636,900 | 41,513,650 |

People's Merchant Finance PLC
Transactions

| For the year ended | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| | Rs. | Rs. |
| Insurance premium in respect of their own policies | 795,410 | 591,237 |
| Insurance premium in respect of customers introduced | 5,635,514 | 4,420,892 |
| Service charges | 728,008 | 571,069 |

Outstanding balances

| As at | 31.12.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| | Rs. | Rs. |
| Insurance premium receivable in respect of their own policies | 1,925,349 | 1,480,813 |
| Insurance premium receivable in respect of customers introduced | 164,571 | 761,364 |
| Service charges payable | 41,639 | 42,414 |
| | 2,131,559 | 2,284,591 |

People's Leasing Havelock Properties Limited
Transactions

| For the year ended | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| | Rs. | Rs. |
| Insurance premium in respect of their own policies | 1,777,349 | 2,149,629 |
| Building rent expenses | 88,692,060 | 85,806,120 |

Outstanding balances

| As at | 31.12.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| | Rs. | Rs. |
| Insurance premium receivable in respect of their own policies | 94,998 | - |
| Rent paid in advance | 87,000,000 | 87,000,000 |
| | 87,094,998 | 87,000,000 |

Notes to the Financial Statements

48. RELATED PARTY TRANSACTIONS (CONTD...)

48.4 Transactions with other related parties

Other related entities are those which are controlled or significantly influenced, directly or indirectly by key management personnel of the Company.

| Name of the company | Control, joint control or significant influence by key management personnel | Nature of transaction | 2020 Rs. | 2019 Rs. |
|-----------------------------|---|--------------------------------------|-------------|-------------|
| Sanasa Development Bank PLC | Mr. Lakshman Abeysekera | Interest income from debentures | 5,124,344 | 4,698,834 |
| | | Amount invested and accrued interest | - | 52,621,821 |

Investment made in debentures of Sanasa Development Bank PLC matured on 31 December 2020.

48.5 Transactions with the Government of Sri Lanka and its related entities

Transactions with the Government of Sri Lanka and entities controlled and jointly controlled, significantly influenced by the Government of Sri Lanka are provided below.

The Government of Sri Lanka has the right to directly control the ultimate parent company People's Bank at 31 December 2020 and thereby holds an indirect control over the Company. Accordingly, the Company has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government related entities) as related parties according to LKAS 24 - Related Party Disclosures.

| Name of the company/entity | Nature of transaction | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--------------------------------|-----------------------|-------------------|-------------------|
| Government of Sri Lanka | Investment balance | 1,300,017,398 | 1,244,046,123 |
| | Investment income | 102,222,381 | 9,377,782 |
| Other Government related banks | Investment balance | 511,122,820 | 522,963,177 |
| | Investment income | 42,900,178 | 57,774,705 |

Apart from the transactions listed above, the Company has carried out transactions with other Government related entities in the form of premium income, reinsurance premium, claims, taxes, utility bills, regulatory charges, etc. The total of such payments made during the year are as follows:

| Nature of transaction | 31.12.2020 Rs. | 31.12.2019 Rs. |
|--|-------------------|-------------------|
| Premium income from the Government and other Government related entities | 68,450,536 | 133,064,585 |
| Claims paid to the Government and other Government related entities | 32,270,023 | 46,683,807 |
| Reinsurance premium (net of commission) | 115,696,920 | 477,012,566 |
| Taxes paid | 547,461,131 | 1,039,961,233 |
| Regulatory charges | 29,926,965 | 35,095,775 |
| Utility expenses | 507,863 | 569,724 |

49. ASSETS PLEDGED

The following assets have been pledged as a security for liabilities.

| Nature of asset | Nature of liability | Carrying value | | Classification |
|--------------------------------|-------------------------|-------------------|-------------------|-----------------------|
| | | 31.12.2020 Rs. | 31.12.2019 Rs. | |
| Fixed deposit at People's Bank | Bank overdraft facility | 75,000,000 | 75,000,000 | Loans and receivables |
| Fixed deposit at People's Bank | Bank guarantee | 24,613,625 | 24,613,625 | Loans and receivables |
| Nations Trust Bank PLC | Bank guarantee | - | 2,000,000 | Loans and receivables |

50. EVENTS AFTER THE REPORTING DATE

Accounting policy

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

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

Except for the following mentioned post balance events, there have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

50.1 Dividends

The Board of Directors of the Company has proposed a final dividend of Rs. 3.00 per share for the financial year ended 31 December 2020 to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard (LKAS) 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31 December 2020.

50.2 Changes in Directorate

Mr. Shamindra Marcelline and Mr. Rohan Tennakoon have been appointed as Non-independent, Non-executive Directors to the Board of the Company with effect from 17 March 2021.

50.3 Changes in taxation

A Bill was presented to the Parliament on 26 March 2021 for the first reading to amend the Inland Revenue Act No. 24 of 2017, including the change of income tax rate applicable to the Company from 28% to 24% with effect from 1 January 2020.

According to the 'Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12' issued by the Institute of Chartered Accountants of Sri Lanka on 23 April 2021, only financial statements having a period end only after 26 March 2021 should use such proposed tax rules and rates in the Bill for determination of current tax and deferred tax.

Accordingly, the said Bill was not considered as substantially enacted as at 31 December 2020 and therefore rules and the rates proposed in the said Bill were not applied for the year ended 31 December 2020.

Notes to the Financial Statements

51. CAPITAL COMMITMENTS AND CONTINGENCIES

Accounting policy

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

51.1 Capital commitments

There were no significant capital commitments as at the reporting date (2019 - Nil).

51.2 Contingencies

In the opinion of the Directors and the Company's lawyers, pending litigations against the Company will not have a material impact on the reported financial results or future operations of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in the financial statements.

51.3 Assessment on VAT and NBT on Financial Services

The Company has received Notice of Assessments on VAT and NBT on Financial Services (FS) for the taxable period from 01.01.2016 to 31.12.2016 from the Department of Inland Revenue (DIR). The Company has dully appealed for the assessments as the Company's stance is that it is in the business of insurance hence is not liable for VAT or NBT on FS. Other insurers have also received similar assessments and have appealed against them. The status of assessments is provided in the table below.

| Tax period | Status of assessment | Tax type | Measurement of impact to the Company | | |
|-------------------------|---------------------------|----------|--------------------------------------|------------------|-------------------|
| | | | Tax in Default Rs. | Penalty Rs. | Total Rs. |
| 01.01.2016 - 31.12.2016 | Pending decision from DIR | VAT | 9,928,843 | 5,560,152 | 15,488,995 |
| 01.01.2016 - 31.12.2016 | Pending decision from DIR | NBT | 1,600,046 | 800,023 | 2,400,069 |
| Total | | | 11,528,889 | 6,360,175 | 17,889,064 |

51.4 Assessment on income tax

The Department of Inland Revenue has raised an assessment on income tax for the year of assessment 2017/2018, assessing the Company to pay an additional income tax liability of Rs. 19.2 million along with a penalty, totaling to Rs. 29.1 million. The Company has lodged an appeal in consultation with the Company's Tax Consultant with the Commissioner General of Inland Revenue against the said assessment.

52. COMPARATIVE INFORMATION

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



WINNERS, CLINCHING THE TITLE WITH A SIMPLE FORMULA OF STRENGTH, STABILITY AND INNOVATION

SUPPLEMENTARY INFORMATION

| | |
|---|-----|
| Annex i – Code of Best Practice on Corporate Governance | 206 |
| Annex ii – Listing Rules of the Colombo Stock Exchange | 221 |
| Annex iii – Carbon Conscious Certificate | 225 |
| Annex iv – GRI Content Index – ‘In Accordance’ - Core | 226 |
| Shareholder Information | 229 |
| Quarterly Analysis 2020 | 234 |
| Quarterly Analysis 2019 | 235 |
| Five Year Summary | 236 |

| | |
|-----------------------------|-----|
| Glossary of Insurance Terms | 237 |
| Distribution Network | 241 |
| Corporate Information | 242 |
| Notice of Meeting | 243 |
| Notes | 244 |
| Form of Proxy | 245 |
| Investor Feedback Form | 247 |

Annex i – Code of Best Practice on Corporate Governance

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE 2017 (THE CODE) ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA)

In its continued commitment to foster and maintain the highest standards of governance in all operational aspects, the Company voluntarily adheres to the Code, issued in 2008 and last revised and updated in 2017. The Company's adherence to the updated Code is tabulated below.

| Reference to the Code | Principle | Status and Manner of Compliance |
|---|---|--|
| Section 1 – The Company | | |
| A. Directors | | |
| Principle A.1 - The Board | | |
| The Company to be headed by an effective Board that directs, leads and controls it | | |
| As at the annual report date, the Board comprised seven experienced and influential individuals with diverse backgrounds and expertise as reflected in their profiles on pages 26 to 30. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees. | | |
| Board provides leadership and strategic guidance to safeguard stakeholder value creation within a framework of prudent and effective controls and has ultimate accountability and responsibility for the performance and affairs of the Company. | | |
| A.1.1 | Regular Board Meetings | <p>Unless the business exigencies demand the convening of additional special meetings, the Board of Directors meets at least on a monthly basis to discharge their responsibilities. The frequency of Board meetings and the structure and process of submitting the information to the Board at these meetings have been agreed. The details of meetings of the Board and attendance of the members thereat are given on page 93.</p> <p>During 2020, a total of 10 Board meetings were held and the Board devoted a substantial time in evaluating the information provided to it at these meetings, including the information required to be reported under this Section A.1.1 thereby ensuring that appropriate and prompt action was taken to align the strategies and operations of the Company and the Group with the interests and expectations of all stakeholders.</p> |
| A.1.2 | Responsibilities of the Board | <p>The Board being the highest decision-making body in the Company, is charged with the responsibility for overseeing the Company's operations and providing effective governance over its key affairs, setting the Company's vision and mission, approving of business strategies and objectives, evaluation of performance and assessment of major risks facing the Company and ensuring compliance with related laws and regulations as well as the Company's Articles of Association.</p> |
| | (i) Ensure formulation and implementation of a sound business strategy | <p>The Board sets the strategic objectives of the Company, determines its operational policies and performance criteria and delegates to the management the detailed planning and implementation thereof within appropriate risk parameters. The corporate plan and the budgets prepared by the Management are approved and regularly reviewed by the Board and achievement of the objectives set out therein is closely monitored through monthly Board meetings and the Board sub-committees. Board Strategic Plan Review Committee was established during the year under review to strengthen the strategic focus of the Board.</p> |
| | (ii) Ensure CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy | <p>The CEO and the Senior Management team possess extensive knowledge and skills with widespread experience in the industry in which the Company operates.</p> <p>The profiles of the CEO and the Corporate Management are presented on page 31.</p> <p>The Board actively oversees the recruitment of the senior management to ensure that it continues to have the right balance and capability of skills, experience and knowledge to accomplish their responsibilities.</p> |

| Reference to the Code | Principle | Status and Manner of Compliance |
|-----------------------|---|--|
| | (iii) Adopt effective CEO and senior management succession strategy | In terms of the policy decisions made by the Board, succession for the key managerial positions primarily focuses on developing and grooming people internally and the structure of the Company facilitates subordinates to replace senior management positions where necessary. Human resources development is a key focus area of the Board and the Company makes a significant investment therein to ensure that employees acquire the necessary expertise and skills to develop their careers. |
| | (iv) Ensure that effective systems are in place to secure integrity of information, internal controls, business continuity and risk management | <p>The Company has adopted a set of internal control policies approved by the Board to evaluate the methods and procedures for risk management, implementation of the Company's corporate governance framework and compliance with related laws and regulations. This internal control framework also aims to safeguard shareholders' investment and the Company's assets and to ensure the reliability and integrity of information.</p> <p>With the assistance of the Board Audit Committee, the Board regularly reviews and monitors the risks and control framework for its relevance and effectiveness.</p> <p>Director's Statement on Internal Controls on page 101 provides further details on the above.</p> |
| | (v) Compliance with laws, regulations and ethical standards | The Company is in compliance with all laws and regulations applicable to it and ensures the highest levels of ethical standards. The Company has a strong organisational culture of entrenched values which forms the cornerstone of its behaviour towards all stakeholders. These values are embodied in a written statement of values which serves as the Company's Code of Business Conduct and Ethics and is continually reinforced. |
| | (vi) Ensure that all stakeholder interests are considered in corporate decisions | All charters and policies of the Company have been developed to ensure that responsibilities to shareholders and other stakeholders are timely and appropriately discharged. Particular emphasis is given by the Board to the framework of these charters and policies in the decision making process. |
| | (vii) Recognise sustainable business development in corporate strategy, decisions and activities | Sustainable business development is an integral part of the Company's corporate strategy, decisions and activities. Accordingly, due emphasis is given to the stakeholders of the Company and the community and the environment within which the Company operates when business strategies are formulated, decisions are made and business activities are carried out. |
| | (viii) Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations | <p>The Board Audit Committee reviews accounting policies annually to ensure that they are in line with the business model of the Company and developments of international and local accounting standards and industry best practice. The Board ensures that the approved accounting standards and financial regulations are complied with when financial statements are being prepared.</p> <p>An affirmation that the Company's financial statements are in line with the applicable standards and regulations is contained in the 'Directors' Statement on Internal Controls' on page 101 and the 'Independent Auditor's Report' on page 114.</p> |
| | (ix) Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation | During the year, every endeavor was made by the Board to fulfill its obligations towards all stakeholders and the same is reflected in the performance of the Company. The Board is committed to fulfilling their functions in line with laws, regulations and good governance practices adopted by the Company. |

Annex i – Code of Best Practice on Corporate Governance

| Reference to the Code | Principle | Status and Manner of Compliance |
|-----------------------|--|--|
| A.1.3 | Compliance with laws and access to independent professional advice | <p>There is significant emphasis across the Company to ensure compliance with applicable laws and regulations. The Board collectively as well as individually complied with the laws of the country that are applicable to the Company.</p> <p>The Directors are permitted to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of the Company. However, no such advice was sought during the year 2020.</p> |
| A.1.4 | Access to advice and services of the Company Secretary | <p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</p> <p>All Directors have access to the services of the Company Secretary who possesses the required qualifications as set out in the Companies Act No. 7 of 2007. The appointment and removal of the Company Secretary is a matter to be considered by the Board as a whole.</p> |
| A.1.5 | Independent judgment of Directors | <p>All Directors bring their independent judgment to matters discussed at Board meetings. Details of Directors' deliberation are contained in the minutes maintained by the Company Secretary.</p> |
| A.1.6 | Dedication of adequate time and effort by the Board and Board Committees | <p>Dates of regular Board meetings and regular Board Sub-committee meetings are scheduled well in advance as far as possible and the relevant papers are circulated ensuring that the Directors are given adequate time to review the same and seek additional information or clarifications, if required.</p> <p>The Board is aware of the other commitments of its' Directors and is satisfied that all Directors allocate sufficient time so as to be able to discharge their responsibilities effectively.</p> <p>The number of Board and Board Committee meetings held during 2020 and the attendance of each Director thereat is presented on page 93 whilst the manner in which the Board dedicated its' time to the affairs of the Company is set out on page 92 of this Report.</p> |
| A.1.7 | Director's right to call for resolutions | <p>The Directors are permitted to call for a resolution to be presented to the Board whenever they deem it is in the interest of the Company. However, no such instance occurred during the period under review.</p> |
| A.1.8 | Training for new and existing Directors | <p>On their first appointment to the Board, Directors are apprised comprehensively on the general aspects of directorship and matters specific to the industry. Regular updates on changes to relevant legislations, regulations and corporate governance as well as sector developments that could affect the Company and its operations covering a wide spectrum of topics including economic, social and environmental aspects are provided to the Board Committees at each meeting and, as appropriate, to the full Board.</p> <p>The Board recognises the importance of continuous training and expansion of the knowledge and skills to effectively perform their duties as Directors. The Board regularly reviews and agrees on their training and development needs.</p> <p>Accordingly, during the year 2020, a session focusing on the National Audit Act was conducted for the Directors.</p> |

| Reference to the Code | Principle | Status and Manner of Compliance |
|---|---|---|
| Principle A.2 - Chairman and the Chief Executive Officer (CEO) | | |
| The roles of the Chairman and the Chief Executive Officer of the Company are to be distinct and separate, ensuring the balance of power and authority | | |
| A.2.1 | Divisions of responsibilities between the Chairman and CEO | The roles of the Chairman and the CEO are clearly defined and are separated in line with best practices in order to maintain a balance of power and authority. |
| Principle A.3 - Chairman's Role | | |
| The Chairman is responsible for providing leadership to the Board and preserving order and facilitating the effective discharge of duties of the Board. | | |
| A.3.1 | Role of the Chairman in conducting Board proceedings in a proper manner | The Chairman is a Non-executive, Non-independent Director and is responsible for preserving good corporate governance and running the Board in an orderly and effective manner. He encourages Directors to share their views on matters discussed and ensures the participation of Directors thereby maintaining a balance of power among directors. The Chairman ensures that the agenda for each meeting was developed in consultation with the CEO and the Company Secretary and that all Board proceedings were conducted in a proper manner. |
| Principle A.4 - Financial Acumen | | |
| The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance | | |
| A.4 | Availability of sufficient financial acumen and knowledge | One Director of the Board is a Fellow Member of CA Sri Lanka ensuring sufficient financial acumen within the Board on matters of finance. In addition, all members of the Board possess experience in various aspects of financial management. The knowledge and skills of each member along with profiles of Directors are set out on pages 26 to 30. |
| Principle A.5 - Board Balance | | |
| Board to have a balance of Executive and Non-executive Directors such that no individual or small group of individuals can dominate the Board's decision-making | | |
| A.5.1 | Presence of Non-executive Directors | The Board comprises only Non-executive Directors who bring a wealth of knowledge and experience covering a wide spectrum of topics and their views carry a significant weight in the Board's decisions. |
| A.5.2 | Presence of Independent, Non-executive Directors | 3 out of the 7 Non-executive Directors are independent thus complying with the requirement of this Section A.5.2 that two or one-third of the Non-executive Directors should be independent. |
| A.5.3 | Independence of Non-executive Directors | All of the three Independent, Non-executive Directors met the criteria for independence as set out in the applicable rules and regulations and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment. |
| A.5.4 | Annual declarations by Non-executive Directors of their independence or Non-independence | Self-declarations were submitted by each Non-executive Director declaring his status of independence in terms of the applicable rules and regulations in 2020. |
| A.5.5 | Determination of the independence or non-independence of Non-executive Directors | Based on the self-declarations submitted by the Directors of their independence, the Board determined that the following Directors who were in office as at annual report date were independent, (i) Mr. Lakshman Abeysekera (ii) Mr. Johnson Fernando (iii) Dr. Kasun Wijetilleke |
| A.5.6 | Alternate Directors to meet the criteria for independency/executive status of the appointer | No alternate Directors were appointed during the year 2020. |

Annex i – Code of Best Practice on Corporate Governance

| Reference to the Code | Principle | Status and Manner of Compliance |
|---|---|--|
| A.5.7 & A.5.8 | Appointment of Senior Independent Director | The Company has designated Mr. Lashman Abeyssekera as the Senior Independent Director. Page 91 contains details of the role of the Senior Independent Director. |
| A.5.9 | Chairman to hold meetings with the Non-executive Directors without the presence of Executive Directors | The Board comprises only Non-executive Directors and therefore the necessity to hold meetings only with the Non-executive Directors has not arisen. |
| A.5.10 | Recording in Board Minutes Directors' concerns that cannot be unanimously resolved | The Directors' concerns pertaining to unresolved matters are discussed and recorded by the Company Secretary in the Board Minutes in sufficient detail. Further discussions on these matters are pursued at the next Board meeting with a view to resolving them. However, no such issues arose during the year under review. |
| Principle A.6- Supply of Information | | |
| The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties. | | |
| A.6.1 | Management's obligation to provide the Board with appropriate and timely information | The Management ensures that the Board is provided with accurate, relevant and comprehensive information including both quantitative and qualitative information before the Board meeting every month with adequate time for them to review the same and prepare for discussions. The Board makes inquiries for additional information from the Management where necessary. Further, the Chairman ensures that all Directors are adequately briefed on issues arising at Board meetings. |
| A.6.2 | Board papers and Agenda to be circulated seven days prior to meetings | The agenda and Board papers are circulated prior to Board meetings thus providing the Directors with adequate time to study the papers and prepare themselves for constructive discussions at Board meetings. Directors who are unable to attend a meeting is apprised of the proceedings of such meeting through formally documented minutes, which are also discussed at the next meeting and minutes of a meeting is circulated prior to Board meetings. |
| Principle A.7 - Appointments to the Board | | |
| There should be a formal and transparent procedure for the appointment of new Directors to the Board | | |
| A.7.1 | Availability of a formal and transparent procedure for new appointments through an established Nomination Committee | The Human Resources, Remuneration and Nomination Committee makes recommendations to the Board on all new appointments of Directors. The composition of the Committee is given on page 105. |
| A.7.2 | Annual assessment of the Board composition by the Nomination Committee | During the annual self-evaluation process, the Board as a whole assesses its own composition to ascertain whether the experience and the exposure of the Board members are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken into consideration in the appointment of new Directors. |
| A.7.3 | Disclosure of information to shareholders upon appointment of new Directors | All appointments of new Directors are informed to the shareholders with sufficient details, via immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report. Approval for appointment of new Directors is obtained from the IRCSL in terms of the applicable regulations. |

| Reference to the Code | Principle | Status and Manner of Compliance |
|--|--|--|
| Principle A.8 - Re-election | | |
| All Directors should submit themselves for re-election at regular intervals | | |
| A.8.1 | Non-executive Directors are appointed for specified terms subject to re-election | Although the Non-executive Directors are not appointed for a specified time period, they are nevertheless subject to re-election at the Annual General Meeting in terms the Articles of Association of the Company and to the provisions of the Companies Act relating to the removal of a Director. |
| A.8.2 | All Directors including Chairman to be subject to re-election at first opportunity after appointment and re-election at least every three years thereafter | <p>In terms of the Articles of Association of the Company, all Directors, including the Chairman, are subject to re-election by shareholders at the first opportunity after their appointment and to retirement by rotation thereafter at intervals of no more than three years.</p> <p>In accordance with this provision, Mr. Shamindra Marcelline and Mr. Rohan Tennakoon who were appointed after the last Annual General Meeting have offered themselves for re-election and Mr. Lakshman Abeysekera who retires has offered himself for re-election by the Shareholders at the AGM.</p> |
| Principle A.9 - Appraisal of Board Performance | | |
| Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged | | |
| A.9.1 | Annual appraisal of Board performance | The Board annually assesses its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill a performance evaluation questionnaire in line with the provisions of the Code. The assessment focused, inter-alia, on the Board's contribution to the development, monitoring and implementation of the strategy; ensuring robust and effective risk management; quality of the relationships with the management, employees and shareholders; and ensuring proper functioning of Board Sub-committees. |
| A.9.2 | Annual appraisal of the Board Committees | The self-evaluation that is carried out by the Board includes an evaluation of the performance of the Board as a whole as well as of its committees. |
| A.9.3 | Review of Directors' contribution to and engagement with the Company at the time of their re-election | The Board has taken into account the overall contribution, participation and engagement of the individual Directors when considering their re-appointments. |
| A.9.4 | Disclosure of the method of appraisal of the Board and Board Sub Committee performance | The process of self-evaluation of the Board is carried out under guidance of the Chairman and is supported by the Company Secretary. Views of all Directors are canvassed in respect of the performance of the Board as a whole as well as of its committees by requiring the individual Directors to complete a confidential questionnaire. |
| Principle A.10 - Disclosure of Information in respect of Directors | | |
| Shareholders should be kept advised of relevant details in respect of Directors | | |
| A.10.1 | Annual Report to disclose specified information regarding Directors | <p>Name, qualifications, expertise, brief profiles are given on pages 26 to 30.</p> <p>Details of whether a Director is Executive or Non-executive, Independent or Non-independent are given on pages 26 to 30.</p> <p>Related party transactions and material business interests are given on page 199.</p> <p>Membership of Board Sub-committees and attendance at Board Meetings and Board Sub-committee meetings are given on page 93.</p> |

Annex i – Code of Best Practice on Corporate Governance

| Reference to the Code | Principle | Status and Manner of Compliance |
|--|---|---|
| Principle A.11 - Appraisal of Chief Executive Officer (CEO) | | |
| The Board should be required, at least annually to assess the performance of the CEO | | |
| A.11.1 | Set reasonable financial and non-financial targets to be met by the CEO | At the commencement of every financial period, the Board in consultation with the CEO, sets financial and non-financial targets that should be achieved by the CEO in line with the short, medium and long-term objectives of the Company. The main corporate goals and objectives emanating from the Company's Corporate Plan and the Budget are incorporated as personal goals of the CEO. |
| A.11.2 | Evaluate performance of the CEO with reference to targets | Assessment of the performance of the CEO by the Board is an on-going process. The performance of the CEO is evaluated by the Board quarterly and at the end of each financial year to ascertain if the financial and non-financial targets set at the beginning of the financial year have been achieved and if not, whether the reasons and circumstances justifies the failure to achieve same. |
| B. Director's Remuneration | | |
| Principle B.1 - Remuneration Procedure | | |
| The Company should establish a formal and transparent procedure for developing policy on both Executive and Non-executive Directors remuneration | | |
| B.1.1 | Appointment of a Remuneration Committee | The Board has established a Human Resources, Remuneration and Nomination Committee with written terms of reference and the Committee is responsible for overseeing of remuneration related policies and practices of the Company. The Committee makes recommendations to the Board within agreed terms of reference on the Company's framework of remunerating the Directors. |
| B.1.2 | Remuneration Committee to comprise exclusively of Non-executive Directors | As at the Annual Report date, the Board Human Resources, Remuneration and Nomination Committee comprises 5 Non-executive Directors 3 of whom are Independent Directors. |
| B.1.3 | Requirement to list the Chairman and members of the Remuneration Committee in the Annual Report | The composition of the Board Human Resources, Remuneration and Nomination Committee is given on page 105. |
| B.1.4 | Determination of remuneration of Non-executive Directors | Within the limits set out in the Articles of Association, the Board collectively decides the Remuneration of the Non-executive Directors, including the members of the Remuneration and Nomination Committee. The Non-executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-executive Directors are neither performance related nor pensionable. Page 97 provides for details of the remuneration paid to the Directors during the year under review. |
| B.1.5 | Access to professional advice | The Terms of Reference of the Board Human Resources, Remuneration and Nomination Committee empowers it to seek appropriate professional advice inside and outside the Company as and when it is deemed necessary by the Committee. |
| Principle B.2 - The level and make up of Remuneration | | |
| The remuneration of Executive and Non-executive Directors should be sufficient to attract and retain the services of Directors | | |
| B.2.1 & B.2.2 | Remuneration for Executive Directors should attract, retain and motivate | There were no Executive Directors on the Board of the Company during the year under review. Nevertheless, the Board is aware that the remuneration of Executive and Non-executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of personnel needed to run the Company. |

| Reference to the Code | Principle | Status and Manner of Compliance |
|-----------------------|--|--|
| B.2.3 | Positioning company remuneration levels relative to other companies | The Board Human Resources, Remuneration and Nomination Committee is aware that reward strategies and remuneration structure should be designed to attract, motivate and retain high-caliber people, at all levels of the organisation, in a highly competitive environment. Therefore, the remuneration structure of the Company is reviewed from time to time with comparison to that of peers in the industry. |
| B.2.4 | Positioning company remuneration levels relative to the Group | The Human Resources, Remuneration and Nomination Committee is sensitive to remuneration and employment conditions of other companies within the PLC Group. |
| B.2.5 | Performance related elements of remuneration for Executive Directors | There were no Executive Directors on the Board of the Company during the year under review. |
| B.2.6 | Executive share options | The Company does not have any executive share option schemes at present. |
| B.2.7 | Designing schemes of performance related remuneration | The Remuneration and Nomination Committee follows the provisions set out in Schedule E to the Code in designing schemes of performance related remuneration. |
| B.2.8 & B.2.9 | Compensation for early termination of employment of Directors | There were no Executive Directors on the Board of the Company during the year under review. |
| B.2.10 | Levels of remuneration for Non-Executive Directors | Non-Executive Directors are remunerated in line with market practices also taking into account the commitment and responsibilities of their role. However, they are not entitled to receive any performance based remuneration share options. |

Principle B.3 - Disclosure of Remuneration

The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole

| | | |
|-------|---|--|
| B.3.1 | Composition of the Remuneration Committee, remuneration policy and disclosure of aggregate remuneration paid to Directors | <p>The composition of the Board Human Resources, Remuneration and Nomination Committee is given on page 105.</p> <p>The aggregate remuneration of Non-executive Directors are given in Note 19 to the financial statements on page 141.</p> <p>The remuneration policy of the Company is given on page 93.</p> |
|-------|---|--|

C. Relations with Shareholders

Principle C.1 - Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings

The Board should use the AGM to communicate with shareholders

| | | |
|-------|---|---|
| C.1.1 | Notice of meeting | <p>The Annual Report including financial statements and the notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM in compliance with the applicable statutes.</p> <p>The Annual Report for the year 2019 was submitted to the Colombo Stock Exchange on 17th September 2020 and was dispatched to all shareholders on the same day. The AGM was held on 10th November 2020 thereby complying with the requirement.</p> |
| C.1.2 | Separate resolutions for each substantially separate issue and adoption of annual report and accounts | <p>The Company proposes separate resolutions on each substantially separate issue giving shareholders the opportunity to vote on each such issue separately.</p> <p>The adoption of the Annual Report of the Board of Directors, the financial statements of the Company and the Report of the Auditors thereon are considered as a separate resolution.</p> |
| C.1.3 | Count proxy votes lodged | <p>As a matter of practice, proxy votes together with the votes of the shareholders present at the AGM are considered by the Company for each resolution.</p> <p>The Company has a mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against such resolution.</p> |

Annex i – Code of Best Practice on Corporate Governance

| Reference to the Code | Principle | Status and Manner of Compliance |
|--|--|---|
| C.1.4 | Availability of Board Sub-committee Chairperson at AGM | The Chairman of the Board ensures that the Chairmen of Board sub-committees are present at the AGM to answer any query by shareholders. The Chairmen of the Board Sub committees were present at the previous years' AGM held on 10th November 2020 and no queries were raised by the shareholders to them. |
| C.1.5 | Summary of procedures governing voting at the AGM | A summary of the procedures governing voting at the AGM is provided in the Proxy Form which is circulated to shareholders 15 working days prior to the AGM. |
| Principle C.2 - Communication with Shareholders | | |
| The Board should implement effective communication with shareholders | | |
| C.2.1 | Channel to reach all shareholders of the Company | The Company reaches its shareholders through its website and the CSE in order to disseminate timely information. |
| C.2.2 | Policy and methodology for communication with shareholders | The Company implements communication through effective channels to reach all shareholders of the Company to build up strong relationships and to disseminate timely information. |
| C.2.3 | Implementation of the policy and methodology for communication with shareholders | Shareholders are provided with quarterly financial statements and the Annual Report which the Company considers as its principal communication with them and other stakeholders and are published through the CSE. |
| C.2.4 | Contact person in relation to shareholder matters | The Company Secretary and CEO will be the main contact persons with regard to any public disclosures. Further, the Chief Financial Officer can also be contacted with regard to any clarifications on financial information published. |
| C.2.5 | Process to make all Directors aware of major issues and concerns of shareholders | The Company Secretary maintains records of all correspondence received from shareholders and direct the same to appropriate channels for resolution. All major issues and concerns of shareholders are referred to the Board. Upon receipt of instructions from the Board or other relevant channel on issues/concerns referred to them as above, the Company Secretary revert to the respective shareholder with an appropriate response. |
| C.2.6 | Identification of a person to be contacted on shareholder matters | Shareholders can contact the Company Secretary whose details are given below, on matters relating them, Ms. Lakmini Kottegoda, The Company Secretary, People's Insurance PLC, No. 7, Havelock Road, Colombo 5, Sri Lanka. Tel: 011-2631103 Fax: 011-2631190 The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels. |
| C.2.7 | Process of responding to shareholder matters | The Chairman and the Directors answer all the queries raised by the shareholders at the AGM. The Company Secretary maintains a dialogue with the shareholders to answer and to attend to all the correspondences. |

| Reference to the Code | Principle | Status and Manner of Compliance |
|---|---|---|
| Principle C.3 - Major and Material Transactions | | |
| Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company and Group if entered into | | |
| C.3.1 | Need to disclose major and material transactions | During the year, there were no major or material transactions engaged in or committed to by the Company as prescribed by the Code that required disclosure to the shareholders. |
| C.3.2 | Compliance with disclosure and shareholder approval requirements under applicable rules and regulations | The Company will ensure compliance with all disclosure and shareholder approval requirements necessitated by various rules and regulations applicable to it if and when a major or material transaction is proposed to be entered into by the Company. |
| D. Accountability and Audit | | |
| Principle D.1 - Financial Reporting | | |
| The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects | | |
| D.1.1 & D.1.2 | Interim reports, price-sensitive public reports, regulatory reports and statutory information requirements | <p>The Board is aware that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be furnished by statutory requirements.</p> <p>Accordingly, the Company has complied with the requirements of the Companies Act No.7 of 2007 in the preparation and presentation of its annual and interim financial statements in conformity with Sri Lanka Accounting Standards.</p> <p>During 2020, the interim accounts and annual financial statements were published on a timely basis and regulatory reports were filed by the due dates. Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year</p> |
| D.1.3 | Declarations by CEO and CFO | <p>Prior to approving the financial statements covering a particular financial period, the Board obtains the declaration of the CEO and the CFO on their responsibility in respect of financial reporting.</p> <p>CEO's and CFO's Responsibility Statement is given on page 111.</p> |
| D.1.4 | Declarations by Directors in the Directors' Report | The declarations by the Directors as required by this section D.1.4. of the Code are included in the Annual Report of the Board of Directors on the Affairs of the Company on page 98. |
| D.1.5 | Responsibilities of the Board for the preparation and presentation of financial statements and statement by the Auditors about their reporting responsibilities | <p>Statement on Directors' Responsibility for Financial Reporting is set out on pages 109 to 110.</p> <p>Auditors' responsibility over financial statements is covered in the Independent Auditors' Report on page 115.</p> <p>Directors' Statement on Internal Controls is set out on page 101.</p> |
| D.1.6 | Inclusion of a Management Discussion and Analysis in the Annual Report | Performance and value creation is set out on pages 63 to 87. |
| D.1.7 | Notify shareholders in case net assets of the Company fall below 50% | This situation has not arisen during the year 2020 and the likelihood of such a situation is remote. However, should such a situation arises, an EGM would be convened to keep the shareholders informed thereof. |

Annex i – Code of Best Practice on Corporate Governance

| Reference to the Code | Principle | Status and Manner of Compliance |
|---|--|--|
| D.1.8 | Disclosure of related party transactions in the Annual Report | <p>The Company has a related party transactions policy in place. This policy provides detailed procedures on identification of related parties and related party transactions, review, approval or ratification of transactions and disclosures in financial statements.</p> <p>The Code of Business Conduct and Ethics (“the Code”) requires each member of the Board to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. The Code also requires Directors who have such a potential or actual conflict of interests to immediately disclose it to the Board of Directors as soon as he/she becomes aware of it and records thereof are maintained by the Company Secretary in the Interest Register.</p> <p>The Related Party Transactions Review Committee further strengthens the effective management and oversees related party transactions.</p> <p>Details of the Related Party Transactions Review Committee are disclosed in the Related Party Transactions Review Committee Report on page 104.</p> <p>Details on related party transactions during 2020 are disclosed under Note 48 on pages 197 to 202 in the financial statements.</p> |
| <p>Principle D.2 - Internal Controls The Company should have a process of risk management and a sound system of internal control to safeguard shareholders’ investments and the Company’s assets</p> | | |
| D.2.1 | Annual review of internal controls | <p>The Company’s internal controls are designed to support the identification, evaluation and management of risks affecting its overall operations. These cover financial, operational, compliance and information technology controls, as well as risk management policies and mechanisms.</p> <p>Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The Board Audit Committee assists the Board in this regard.</p> |
| D.2.2 | Directors’ assessment of the risks facing the Company | <p>Details of the risks facing the Company and the measures taken to mitigate same are explained in the Risk Management section on pages 56 to 61.</p> |
| D.2.3 | Need for an internal audit function | <p>The Company has its own internal audit function and also employs independent professional accounting firms to complement the work done by them as and when necessary.</p> <p>Details of the internal audit function are set out in the Board Audit Committee Report on page 103.</p> |
| D.2.4 | Audit Committee to review the process and effectiveness of risk management and internal controls | <p>The Board Audit Committee carries out reviews of the process and the effectiveness of risk management and internal controls and document to the Board and the Board takes responsibility for the disclosure on the Company’s system of internal controls.</p> <p>The functions of the Board Audit Committee are presented on page 102.</p> |
| D.2.5 | Responsibilities of Directors in maintaining a sound system of internal control and content of Statement of Internal Control | <p>Information on Directors’ responsibility for maintaining a sound system of internal control is disclosed in the Directors Statement on Internal Controls on page 101.</p> |

| Reference to the Code | Principle | Status and Manner of Compliance |
|---|---|--|
| Principle D.3 - Audit Committee | | |
| Board should establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles. | | |
| D.3.1 | Composition of the Audit Committee | <p>As at the annual report date, the Board Audit Committee comprises 3 Directors, all of whom are Non-executive. 2 Directors of the Committee, including the Chairman are Independent, Non-Executive Directors.</p> <p>The CEO and the CFO attend meetings whilst the Head of Internal Audit acts as the Secretary to the Committee.</p> <p>The input of the Statutory Auditors is obtained, where necessary. The Board Audit Committee supports the Company to achieve a balance between conformance and performance.</p> <p>The composition of the Board Audit Committee is disclosed on page 102.</p> |
| D.3.2 | Terms of Reference of the Audit Committee | <p>The Board Audit Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference are in line with the Code.</p> <p>The Terms of Reference of the Board Audit Committee is detailed in the Audit Committee Report on page 102.</p> |
| D.3.3 | Disclosures relating to the Audit Committee | The report of the Board Audit Committee covering the information referred to in this Section D.3.3. is given on pages 102 to 103. |
| Principle D.4 – Related Party Transactions Review Committee | | |
| Board should establish a procedure to ensure the proper management of related party transactions | | |
| D.4.1 | Definition of related parties and related party transactions | The Company follows the definition set out in LKAS 24 in determining the related parties and related party transactions. |
| D.4.2 | Related Party Transactions Review Committee | The Company has set up a Related Party Transactions Review Committee to oversee the related party transactions of the Company. |
| D.4.3 | Terms of Reference of the Related Party Transactions Review Committee | <p>The Related Party Transactions Review Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference are in line with the Code.</p> <p>The report of the Related Party Transactions Review Committee is given on page 104.</p> |
| Principle D.5 - Code of Business Conduct and Ethics | | |
| Companies must adopt a Code of Business Conduct and Ethics for Directors and Key Management Personnel (KMPs) and must promptly disclose any waivers of the Code for Directors or others | | |
| D.5.1 | Disclosures on the presence of a Code of Business Conduct and Ethics | The Corporate Governance report from pages 89 to 94 and pages 206 to 219 of this report serve this purpose. |
| D.5.2 | Identification and reporting of price sensitive information | The Company has in place an effective mechanism for identification of information that could be perceived as price sensitive information and prompt disclosure of same to the relevant regulatory authorities. |
| D.5.3 | Policy governing dealing in shares | The Code of Business Conduct and Ethics entails as part of it a comprehensive policy and processes governing dealings by the Directors, KMPs and employees in the shares of the Company. |
| D.5.4 | Chairman's affirmation on compliance with the Code of Business Conduct and Ethics | The required affirmation is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 98. |

Annex i – Code of Best Practice on Corporate Governance

| Reference to the Code | Principle | Status and Manner of Compliance |
|--|--|--|
| Principle D.6 - Corporate Governance Disclosures | | |
| The Directors should disclose the extent to which the Company adheres to established principles and practices of good corporate governance | | |
| D.6.1 | Inclusion of a Corporate Governance Report in the Annual Report | This report from pages 206 to 219 sets out the manner in and the extent to which the Company has complied with the Code. |
| Section 2 – Shareholders | | |
| E. Institutional Investors | | |
| Principle E.1 - Shareholder Voting | | |
| Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice | | |
| E.1.1 | Regular and structured dialogue with shareholders | <p>The Annual General Meeting (AGM) is used as a forum to have a structured and objective dialogue with shareholders on matters that are relevant to the general membership.</p> <p>From the Company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions of the Directors and to use their votes responsibly.</p> |
| Principle E.2 - Evaluation of Governance Disclosures | | |
| When evaluating the Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention. | | |
| E.2. | Encourage institutional investors to give due weight to relevant governance arrangements | Sufficient attention has been given to the interests of institutional investors and they are at liberty to give due weight when exercising their voting rights on resolutions relating to the Board structure and the composition |
| F. Other Investors | | |
| Principle F.1 - Investing/divesting Decisions | | |
| F.1 | Encourage individual shareholders to seek independent advice in investing or divesting decisions | Individual shareholders are at liberty to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. |
| Principle F.2 - Shareholder Voting | | |
| F.2 | Encourage individual shareholders to participate in General Meetings and exercise voting rights | Individual shareholders are encouraged to participate at general meetings and cast their votes. To achieve this purpose, the notices of meetings are dispatched to all shareholders within the prescribed time periods. |
| G. Internet of Things and Cybersecurity | | |
| Principle G.1 - Internet of Things | | |
| G.1 | Process to identify connections to the Company's network and cyber security risks | PLC Group's IT policies by which the Company is governed, comprehensively cover IT discipline, use of licensed software, closer monitoring of the usage of the internet, email and mail server and the use of antivirus and firewall servers and software. |
| Principle G.2 - Chief Information Security Officer | | |
| G.2 | Appointment of Chief Information Security Officer and cyber security risk management policy | The functions of the Chief Information Security Officer are delegated to the Head of IT of PLC Group. The details relating to the policy on cyber security risk management can be found in Risk Management section from page 61. |
| Principle G.3 - Cyber security Risk Management | | |
| G.3 | Board discussions on cyber security risk management | Risks relating to all IT matters including that arising from cyber security are discussed and assessed in detail by the Board Audit Committee. Board IT committee was formed to strengthen the Board focus on the same. |

| Reference to the Code | Principle | Status and Manner of Compliance |
|--|--|--|
| Principle G.4 - Independent Reviews and Assurance | | |
| G.4 | Independent reviews and assurances to be carried out to ensure effectiveness of cyber security risk management | Board Audit Committee engages the services of independent/outsourced information technology auditors whenever they deem that expert advice is required. Review of information security has been carried out by the External Auditors at the year-end audit as well. |
| Principle G.5 - Identification of Cyber security Risks | | |
| G.5 | Disclosure in the Annual Report of the process of identifying cyber security risks | The manner in which cyber security risks are identified and mitigated are disclosed in Risk Management section from page 61 of this report. |
| H. Sustainability Reporting | | |
| Principle H.1 - Environment, Society and Governance (ESG) | | |
| The Company's Annual Report should contain sufficient information on ESG risks and opportunities. | | |
| H.1.1 | Reporting on ESG relevance to business model and risks and opportunities | ESG principles are embedded in the Company's business operations and considered in formulating its business and operational strategy and reported with a holistic view. Information required by this section of the Code is given in the following sections: Performance and value creation on pages 63 to 87. Corporate Governance on pages 89 to 94 and Risk Management on pages 54 to 61. |
| Principle H.1.2 - Environmental Factors | | |
| H.1.2.1 | Reporting on environmental governance | Details on environmental governance measures are given on page 94 of this report. |
| Principle H.1.3 - Social Factors | | |
| H.1.3.1 | Reporting on social governance | Details on social governance practices of the Company are given on page 94 of this report. |
| Principle H.1.4 - Governance | | |
| H.1.4.1 | Reporting on governance structures | Details on governance structures of the Company are given on page 89 of this report. |
| Principle H.1.5 - Governance | | |
| H.1.5.1 | Board's role on ESG factors | Details Board's role on ESG factors are given on page 94 of this report. |

Annex i – Code of Best Practice on Corporate Governance

INSURANCE REGULATORY COMMISSION OF SRI LANKA'S DIRECTION ON CORPORATE GOVERNANCE FOR INSURERS

Insurance Regulatory Commission of Sri Lanka has issued Direction 17 on Corporate Governance for Insurance Companies under the Regulation of Insurance Industry Act No. 43 of 2000 and it is effective from 1st July 2019. The level of compliance of the Company is depicted below.

| | Aspects covered in Direction No. 17 | Level of Compliance |
|----------|---|--|
| A | Code of Best Practice on Corporate Governance 2017 | |
| | The Board is recommended to adhere the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka | This report on page 220 set out the manner in and extent to which the company has complied with the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka. |
| B | The Board | |
| 1 | Board composition | |
| | Minimum of 2 Directors who are citizens of Sri Lanka and also resident of Sri Lanka; | All Directors are citizens of Sri Lanka and residents of Sri Lanka. |
| 2 | Service period | |
| 2 (a) | Total period of service of a Director of an insurer (other than an Executive Director) shall not exceed 9 years and such period in office shall be inclusive of the total period of service served by such Director up to 1st July 2019. | Service period for all Directors are below 9 years. |
| 2(b) | Transitional Provisions: A Director who has completed 9 years as at 1st July 2019 or who completed such term at any time prior to June 30th 2020, may continue for a further maximum period of 2 years commencing from July 1st 2019. | Not applicable. |
| 3 | Age of a director | |
| 3(a) | Age of a Director who serves on the Board shall not exceed 70 years: | No Director is aged above 70 years. |
| 3(b) | Exemptions for 3(a) | |
| | If over 75 as at July 1st 2019, may continue up to June 30th 2020 and deemed vacated afterwards | Not applicable. |
| | If between 70 -75 years as at July 1st 2019, can continue up to June 30th 2021 and deemed vacated afterwards. | Not applicable. |
| | If 70 years is reached by July 1st 2019, can continue up to June 30th 2022 and deemed vacated afterwards | Not applicable. |
| 4 | CSE Listing Rule 7.10 | |
| | The Board must adhere to the CSE Corporate Governance Rules: | Please refer pages 221 to 224. |
| 5 | Appointments in other Boards | |
| | A Director cannot be on more than 20 companies/entities/institution including subsidiaries or associate companies of the insurer. | Compliant with the provision. |
| | A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the insurer of such 20 companies/entities/institution not more than 10 companies shall be those classified as specified business entities in terms of the Sri Lanka accounting and auditing standard Act, No.15 of 1995. | Compliant with the provision. |

Annex ii – Listing Rules of the Colombo Stock Exchange

REPORT ON COMPLIANCE WITH THE REQUIREMENTS ON THE CONTENT OF THE ANNUAL REPORT IN RULE 7.6 AND REQUIREMENTS ON CORPORATE GOVERNANCE IN RULE 7.10 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE (LISTING RULES)

The table below provides reference to the relevant sections in the Annual Report where the aforementioned reports and disclosures required can be found and the information on the level of compliance by the Company with the corporate governance rules.

COMPLIANCE WITH REQUIREMENTS ON THE CONTENT OF THE ANNUAL REPORT IN RULE 7.6 OF THE LISTING RULES

| Rule Reference | Information Required to be Disclosed | Annual Report Section Reference | Page |
|----------------|--|---|---------------|
| 7.6(i) | Names of persons who during the financial year were directors of the Company | Please refer Report of the Board of Directors on the Affairs of the Company. | 96 to 97 |
| 7.6(ii) | Principal activities of the Company and any changes therein | Please refer Annual Report of the Board of Directors on the Affairs of the Company. Note 1 in Notes to the Financial Statements. | 95 122 |
| 7.6(iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held | Please refer Shareholder Information for the 20 largest holders of voting shares. The Company has not issued any non-voting shares. | 229 |
| 7.6(iv) | The public holding percentage | Please refer Shareholder Information | 230 |
| 7.6(v) | Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year | Please refer Annual Report of the Board of Directors on the Affairs of the Company. Shareholder Information. | 97 230 |
| 7.6(vi) | Information pertaining to material foreseeable risk factors of the Company | Please refer Risk Management report. | 56 to 61 |
| 7.6(vii) | Details of material issues pertaining to employees and industrial relations | During the year 2020, there we no material issues pertaining to employees and industrial relations of the Company. | 78 |
| 7.6(viii) | Extents, locations, valuations and the number of buildings of the land holdings and investment properties of the Company | The Company does not possess any land holding and investment properties. | |
| 7.6(ix) | Number of shares representing the stated capital | Please refer Note 33 to the Financial Statements on Stated Capital. | 164 |
| 7.6(x) | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings | Please refer Shareholder Information. | 231 to 232 |
| 7.6(xi) | Ratios and market price information on: Equity 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year) | Please refer Shareholder Information. | 232 |

Annex ii – Listing Rules of the Colombo Stock Exchange

| Rule Reference | Information Required to be Disclosed | Annual Report Section Reference | Page |
|----------------|---|---|------------|
| | Debt 1. Interest rate of comparable government security 2. Debt/equity ratio 3. Interest cover 4. Quick asset ratio 5. The market prices & yield during the year 6. Changes in credit rating | The Company does not have any listed debts. | |
| 7.6(xii) | Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value | Please refer Note 25 to the Financial Statements on Property, Plant & Equipment. | 147 to 149 |
| 7.6(xiii) | Details of funds raised through a public issue, Rights Issue and a private placement | Please refer Annual Report of the Board of Directors on the Affairs of the Company. | 96 |
| 7.6(xiv) | Information in respect of Employee Share Ownership or Stock Option Schemes | The Company does not have any Employee Share Ownership or Stock Option Schemes at present. | |
| 7.6(xv) | Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5c. and 7.10.6c. of Section 7 of the Listing Rules | This section provides the disclosures referred to in Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules. | 221 to 224 |
| 7.6(xvi) | Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower | The Company did not have any related party transaction exceeding this threshold during the year 2020. | 98 |

COMPLIANCE WITH REQUIREMENTS ON CORPORATE GOVERNANCE REQUIREMENTS IN RULE 7.10 OF THE LISTING RULES

| Rule Reference | Requirement | Details of Company's Action for compliance |
|----------------|---|---|
| 7.10.1 (a) | Two or one third of the Directors, whichever is higher, should be Non-Executive Directors | The Board of Directors as at annual report date of the Company comprises only Non-Executive Directors. |
| 7.10.1 (b) | The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting. | All of the Directors who were in office as at the conclusion of the immediately preceding Annual General Meeting were also Non-executive Directors. |
| 7.10.1 (c) | Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change. | <p>Pursuant to the resignation of Directors, Mr. Jehan P. Amaratunga, Mr. W. M. Abeyrathna Bandara, Mr. N. P. Karunaratne and Mr. Pavithra Fernando from the Board of the Company with effect 28th February 2020 and pursuant to the resignation of Director Mr. Rasitha Gunawardana with effect from 1st June 2020, the total number of Directors comprising the Board of Directors of the Company reduced to two (02). However, following Directors were appointed to the Board of the Company with effect from 8th June 2020:</p> <p>Mr. Isuru Balapatabendi Mr. Ranjith Kodituwakku Mr. Johnson Fernando Dr. Kasun Wijetilleke</p> <p>Accordingly, the Company is compliant with the Non-executive Director ratio.</p> |
| 7.10.2 (a) | Two or one third of Non-executive Directors, whichever is higher, should be independent | Of the seven Non-executive Directors of the Company as at annual report date, three were Independent Non-executive Directors. |

| Rule Reference | Requirement | Details of Company's Action for compliance |
|----------------|---|--|
| 7.10.2 (b) | Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format | All Non-executive Directors submitted the requisite declarations as at annual report date. |
| 7.10.3 (a) | Names of independent Directors should be disclosed in the annual report | Please refer profiles of the Directors on pages 26 to 30. |
| 7.10.3 (b) | In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report | No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria. |
| 7.10.3 (c) | A brief resume of each Director should be published in the annual report including the areas of expertise | Please refer pages 26 to 30 for the profiles of the members of the Board of Directors. |
| 7.10.3 (d) | A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public | Brief profiles of the Directors appointed to the Board were provided to the Exchange for dissemination to the public, along with the announcements for new appointments. |
| 7.10.4 (a-h) | Requirements for meeting criteria to be independent | All of the Independent Directors of the Company as at the annual report date met the criteria for independency specified in this rule. |
| 7.10.5 | A listed company shall have a Remuneration Committee | The Company has a Human Resources, Remuneration and Nomination Committee the details of which are provided on pages 105 to 106. |
| 7.10.5 (a) | The Remuneration Committee shall comprise a minimum of two Independent Non-executive Directors or a majority of Independent Non-executive Directors, whichever is higher | As at annual report date, Human Resources, Remuneration and Nomination Committee comprises three independent Directors. Please refer Human Resources, Remuneration and Nomination Committee Report on page 105 for the composition thereof. |
| | One Non-Executive Director shall be appointed as Chairman of the committee by the Board | Mr. Isuru Balapatabendi, Non-executive, Non-independent Director functioned as the Chairman of the Human Resources, Remuneration and Nomination Committee. Please refer Human Resources, Remuneration and Nomination Committee Report on pages 105 to 106 for further details on the above. |
| 7.10.5 (b) | Functions of the Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors | The functions of the Human Resources, Remuneration and Nomination Committee are set out in the Committee's Report on page 105. |
| 7.10.5 (c) | The annual report shall set out: The names of the Directors that comprise the Remuneration Committee | Please refer page 105 for the composition of the Human Resources, Remuneration and Nomination Committee. |
| | A statement of remuneration policy | Remuneration Policy of the Company is set out in the Human Resources, Remuneration and Nomination Committee Report on page 105. |
| | Aggregate remuneration paid to Executive and Non-executive Directors | The aggregate remuneration paid to Executive and Non-executive Directors is disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on page 97. |
| 7.10.6 | A listed company shall have an Audit Committee | The Company has an Audit Committee the details of which are provided on page 102 to 103. |

Annex ii – Listing Rules of the Colombo Stock Exchange

| Rule Reference | Requirement | Details of Company's Action for compliance |
|----------------|--|--|
| 7.10.6 (a) | The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher | The Audit Committee comprises a majority of Independent, Non-executive Directors representing with two member. Audit Committee Report on page 102 provides the details of the composition thereof. |
| | One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board | Mr. Lakshman Abeysekera, a Non-executive independent Director of the Company functioned as the Chairman of the Audit Committee. |
| | The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings | Both the Chief Executive Officer and the Chief Financial Officer attend the Audit Committee meetings by invitation. |
| | The Chairman or one member of the Committee should be a member of a recognised professional accounting body | The Chairman of the Committee, Mr. Lakshman Abeysekera is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Association of Accounting Technicians of Sri Lanka (AAT). |
| 7.10.6 (b) | The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules. | The Board Audit Committee Report on pages 102 to 103 provides a brief description of its functions. |
| 7.10.6 (c) | The annual report shall set out; The names of the Directors who comprise the Audit Committee | Please refer page 102 for the composition of the Audit Committee. |
| | The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination | Please refer the Board Audit Committee report on page 103 for the required disclosure. |
| | A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules | Please refer pages 102 to 103 for the Board Audit Committee Report. |

Annex iii – Carbon Conscious Certificate



ClimateSI

CARBON CONSCIOUS CERTIFICATE

Climate Smart Initiatives (Pvt) Ltd assures that GHG Inventory of

People's Insurance PLC

for the financial year 2020

has been measured and reported in accordance with the requirements of

ISO 14064-1: 2018 – Specification with guidance at the organizational level for the quantification and reporting of greenhouse gas emissions and removals.

Certificate No : ClimateSI/MRV/024
Date of Certification : 21. 05. 2021
Period of Assessment : 01. 01. 2020 to 31. 12. 2020
Scope of Certification : Financially controlled business activities belongs to People's Insurance PLC
Direct emissions : 22.3 tonnes of CO₂ equivalent
Indirect emissions : 506.5 tonnes of CO₂ equivalent
Total : 528.8 tonnes of CO₂ equivalent

Eng. H. M. Buddika Hemashantha
(BSc (Hons) Eng., M. Eng.)
Chief Executive Officer
Climate Smart Initiatives (Pvt) Ltd

Direct Emissions : Company owned vehicles, Rented vehicles

Indirect Emissions : Imported Energy (Grid connected), T & D loss, Employee commuting, Business air travels, Fire extinguishers, Municipal water, Refrigerant leakage, Waste disposal, Waste transport, Diesel generators, Hired vehicles

Exclusions : Emissions from the food waste in the head office and the branches, Waste disposal of branches, Transport locally purchased, Emissions from imported energy from the window offices, Emissions from the municipal water consumption from the window offices

Period of validity : 01. 01. 2021 to 31. 12. 2021

Annex iv – GRI Content Index – ‘In Accordance’ - Core

| GRI Standard | Disclosure | Page Number(s) | Remarks |
|---------------------------------|---|----------------|--|
| Universal Standards | | | |
| General Disclosures | | | |
| GRI 102: General Disclosures | 102-1 Name of the organisation | 242 | |
| | 102-2 Activities, brands, products, and services | 14 to 15 | |
| | 102-3 Location of Headquarters | 242 | |
| | 102-4 Location of operations | 242 | |
| | 102-5 Ownership and legal form | 242 | |
| | 102-6 Markets served | 14 to 15 | |
| | 102-7 Scale of the organisation | 14 to 15 | |
| | 102-8 Information on employees and other workers | 74 to 78 | |
| | 102-9 Supply chain | 81 to 84 | |
| | 102-10 Significant changes to the organisation and its supply chain | | There were no significant changes to the organisation or to the Company's supply Chain during the year. |
| | 102-11 Precautionary principle or approach | | Being an insurance service provider, our products do not have a direct impact on the environment and therefore, we do not assess the environment impact before launching products. |
| | 102-12 External initiatives | 6 | |
| | 102-14 Statement from senior decision-maker | 19 to 21 | |
| | 102-16 Values, principles, standards and norms of behaviour | 75 to 76 | |
| | 102-18 Governance structure | 89 | |
| | 102-40 List of stakeholder groups | 41 to 42 | |
| | 102-41 Collective bargaining agreements | 78 | |
| | 102-42 Identifying and selecting stakeholders | 41 to 42 | |
| | 102-43 Approach to stakeholder management | 41 to 42 | |
| | 102-44 Key topics and concerns raised | 41 to 42 | |
| | 102-45 Entities included in the consolidated financial statements | 122 | |
| | 102-46 Defining report content and report boundaries | 5 to 7 | |
| | 102-47 List of material topics | 44 to 45 | |
| | 102-48 Restatements of information | 43 | |
| | 102-49 Changes in reporting | 5 to 6 | |
| | 102-50 Reporting period | 5 | |
| | 102-51 Date of most recent report | 5 | |
| | 102-52 Reporting cycle | 5 | |
| | 102-53 Contact point for questions regarding the report | 7 | |
| | 102-54 Claims of reporting in accordance with the GRI standards | 6 | |
| | 102-55 GRI content index | 226 to 228 | |
| | 102-56 External assurance | 6 | |

| GRI Standard | Disclosure | Page Number(s) | Remarks |
|---|---|----------------|---|
| Economic Standards | | | |
| | 103-1 Explanation of the material topic and its boundary | 44 to 45 | |
| | 103-2 The management approach and its components | 43 to 46 | |
| | 103-3 Evaluation of the management approach | 43 to 46 | |
| GRI 201: Economic Performance | 201-1 Direct economic value generated and distributed | 15 | |
| | 201-3 Defined benefit plan obligations and other retirement plans | 169 to 171 | |
| GRI 204: Procurement Practices | 204-1 Proportion of spending on local suppliers | 84 | |
| GRI 205: Anti-corruption | 205-3 Confirmed incidents of corruption and actions taken | | No incidents of corruption reported during the year under review. |
| GRI 206: Anti-competitive behaviour | 206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices | 83 | |
| Environmental Standards | | | |
| | 103-1 Explanation of the material topic and its boundary | 44 to 45 | |
| | 103-2 The management approach and its components | 43 to 46 | |
| | 103-3 Evaluation of the management approach | 43 to 46 | |
| GRI 302: Energy | 302-1 Energy consumption within the organisation | 87 | |
| | 302-3 Energy intensity | 87 | |
| GRI 305: Emissions | 305-1 Direct (Scope 1) GHG Emissions | 87 | |
| | 305-2 Energy indirect (Scope 2) GHG Emissions | 87 | |
| | 305-3 Other indirect (Scope 3) GHG Emissions | 87 | |
| | 305-4 GHG Emissions Intensity | 85 | |
| GRI 306: Effluents & waste | 306-2 Waste by type and disposal methods | 86 to 87 | |
| GRI 307: Environmental Compliance | 307-1 Non-compliance with environmental laws and regulations | 86 | |
| Social Standards | | | |
| | 103-1 Explanation of the material topic and its boundary | 44 to 45 | |
| | 103-2 The management approach and its components | 43 to 46 | |
| | 103-3 Evaluation of the management approach | 43 to 46 | |
| GRI 401: Employment | 401-1 New employee hires and employee turnover | 76 | |
| | 401-2 Benefits provide to full-time employees that are not provided to temporary or part-time employees | 78 | |
| GRI 402: Labour/Management Relations | 402-1 Minimum notice periods regarding operational changes | 78 | |
| GRI 404: Training and Education | 404-1 Average hours of training per year per employee | 74 | |
| | 404-2 programmes for upgrading employee skills and transition assistance programmes | 77 | |
| | 404-3 Percentage of employees receiving regular performance and career development reviews | 76 | |

Annex iv – GRI Content Index – ‘In Accordance’ - Core

| GRI Standard | Disclosure | Page Number(s) | Remarks |
|--|--|-----------------|---------|
| GRI 405: Diversity and Equal Opportunity | 405-1 Diversity of governance bodies and employees | 75 to 76 and 89 | |
| GRI 406: Non-discrimination | 406-1 Incidents of discrimination and corrective actions taken | 75 | |
| GRI 417: Marketing & Labelling | 417-1 Requirements for product and service information and labeling | 83 | |
| | 417-2 Incidents of non-compliance concerning product and service information and labeling | 83 | |
| | 417-3 Incidents of non-compliance concerning marketing communications | 83 | |
| GRI 418: Customer Privacy | 418-1 Substantiated complaints concerning breach of customer privacy and losses of customer data | 83 | |
| GRI 419: Socioeconomic Compliance | 419-1 Non-compliance with laws and regulations in the social and economic area | 99 | |

Shareholder Information

COMPANY OVERVIEW

People's Insurance PLC was incorporated as a public limited liability company on 22nd July 2009 under the Companies Act No. 7 of 2007 and was registered as a non-life insurance provider under the Regulation of Insurance Industry Act No. 43 of 2000.

The Company commenced commercial operations in January 2010 with its main focus on motor insurance although many other non-life insurance products were also offered to its clients.

The information required by section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) in its annual report and accounts is disclosed below.

NAMES OF DIRECTORS

The names of persons who held the position of Directors during the financial year are given in the Annual Report of the Board of Directors on page 97.

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company during the year are given in the Annual Report of the Board of Directors on page 95 and Note 1.3 to the Financial Statements on page 122.

TOP 20 SHAREHOLDERS

The 20 largest shareholders as at 31st December 2020 and 31st December 2019 are given in the following table.

| Name of the shareholder | As at 31 December 2020 | | As at 31 December 2019 | |
|---|------------------------|---------------|------------------------|---------------|
| | No. of shares | % | No. of shares | % |
| People's Leasing & Finance PLC | 150,000,000 | 75.00 | 150,000,000 | 75.00 |
| Mr. Kulappu Arachchige Don Anurada Perera | 11,461,198 | 5.73 | 10,000,000 | 5.00 |
| Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund | 2,934,413 | 1.47 | 2,934,413 | 1.47 |
| J.B. Cocoshell (Pvt) Ltd. | 2,869,295 | 1.43 | 3,619,295 | 1.81 |
| Askold (Private) Limited | 2,400,000 | 1.20 | 2,422,600 | 1.21 |
| Employees Trust Fund Board | 1,545,400 | 0.77 | - | - |
| Mr. Divale Jayampathi Bandaranayake, Joint-Dr.Vasantha Bandaranayake/ Miss. Ishani Bandaranayake | 1,160,213 | 0.58 | 810,213 | 0.41 |
| Jafferjee Brothers (Exports) Limited | 1,159,300 | 0.58 | 1,159,300 | 0.58 |
| Mr. Divale Jayampathi Bandaranayake, Joint-Miss.Niluka Bandaranayake/ Dr. Vasantha Bandaranayake | 1,149,138 | 0.57 | 799,218 | 0.40 |
| Mr. Murtaza Ali Jafferjee | 1,025,467 | 0.51 | 1,025,467 | 0.51 |
| Bank of Ceylon A/C NDB Wealth Growth Fund | 775,000 | 0.39 | 775,000 | 0.39 |
| Mr. L. C. A. Lankeshwara/DFCC Bank PLC | 710,000 | 0.36 | - | - |
| Mr. Vishvanath Shamindre Peiris Wickramesooriya | 700,000 | 0.35 | - | - |
| Hallsville Trading Group Inc. | 626,500 | 0.31 | 626,500 | 0.31 |
| E. W. Balasuriya & Co. (Pvt) Ltd. | 626,500 | 0.31 | 626,500 | 0.31 |
| Alliance Finance Company PLC | 601,833 | 0.30 | - | - |
| ACL Plastics Ltd. | 585,500 | 0.29 | 585,500 | 0.29 |
| Maskeliya Tea Exports (Pvt) Ltd. | 572,841 | 0.29 | - | - |
| Mr. Palliya Guruge Nadeeshan Danidu Gunathilake | 450,000 | 0.23 | - | - |
| Mr. Panagodage Somadasa | 434,890 | 0.22 | - | - |
| | 181,787,488 | 90.89 | 175,384,006 | 87.69 |
| Others | 18,212,512 | 9.11 | 24,615,994 | 12.31 |
| Total | 200,000,000 | 100.00 | 200,000,000 | 100.00 |

Shareholder Information

PUBLIC SHAREHOLDING

The details of the public shareholding is given below.

| As at | 31st December 2020 | | 31st December 2019 | |
|------------------------|--------------------|--------------------------|--------------------|--------------------------|
| | No. of Shares | % on Total No. of Shares | No. of Shares | % on Total No. of Shares |
| Number of shareholders | 2,556 | 99.96 | 1,714 | 99.94 |
| Number of shares | 50,000,000 | 25.00 | 50,000,000 | 25.00 |

FLOAT ADJUSTED MARKET CAPITALISATION

As at 31 December 2020, the float adjusted market capitalisation is Rs. 1,410,000,000.

The Company complies with the minimum public holding requirement as at the reporting date based on the 'option 5' of rule 7.13.1 (a).

DIRECTORS' SHAREHOLDING

The details of the Directors' shareholding as at the end of the year are provided below.

| Name of the Director | No. of shares | |
|-------------------------------|------------------------|------------------------|
| | As at 31 December 2020 | As at 31 December 2019 |
| Mr. Isuru Balapatabendi | - | - |
| Mr. Lakshman Abeysekera | - | - |
| Mr. Johnson Fernando | - | - |
| Mr. Ranjith Kodituwakku | - | - |
| Dr. Kasun I. Wijetilleke | - | - |
| Mr. J. P. Amaratunga * | - | - |
| Mr. W. M. A. Bandara * | - | - |
| Mr. N. P. Karunaratne * | - | - |
| Mr. A. S. Ibrahim * | - | - |
| Mr. P. Fernando * | - | - |
| Mr. G. B. R. P. Gunawardana * | - | - |

* Resigned in 2020

CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

| | Number of Shares | |
|---------------------|--------------------------|--------------------------|
| | As at 31st December 2020 | As at 31st December 2019 |
| D. D. C. Abeysekera | - | - |

MATERIAL FORESEEABLE RISK FACTORS OF THE COMPANY

Information pertaining to material foreseeable risk factors is given on the Risk Management report on pages 54 to 61.

MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS TO THE COMPANY

There were no material issues pertaining to employees and industrial relations pertaining to the Company that occurred during the year under review which require disclosure as per Rule No. 7.6 (vii) of the Listing Rules of the CSE.

COMPANY'S LAND HOLDINGS AND INVESTMENT PROPERTIES

The Company does not hold any land or investment properties as of the reporting date.

STATED CAPITAL

The number of shares representing the Company's stated capital is given below.

| As at | 31st December 2020 | 31st December 2019 |
|----------------------|-----------------------------|-----------------------------|
| Stated capital (Rs.) | 1,350,000,000 | 1,350,000,000 |
| No. of shares | 200,000,000 | 200,000,000 |
| Class of shares | Ordinary shares | Ordinary shares |
| Voting rights | One vote per ordinary share | One vote per ordinary share |

SHAREHOLDINGS

a) Distribution and Composition of Shareholding

There were 2,557 registered shareholders as at 31 December 2020. The distribution and composition of shareholders are given as follows;

| Shareholding | Resident | | | Non-resident | | | Total | | |
|----------------------------|---------------------|--------------------|--------------------------|---------------------|------------------|--------------------------|---------------------|--------------------|--------------------------|
| | No. of Shareholders | No. of Shares | % on Total No. of Shares | No. of Shareholders | No. of Shares | % on Total No. of Shares | No. of Shareholders | No. of Shares | % on Total No. of Shares |
| 1 – 1,000 shares | 1,445 | 473,267 | 0.24 | 7 | 5,954 | 0.00 | 1,452 | 479,221 | 0.24 |
| 1,001 – 10,000 shares | 799 | 3,478,135 | 1.74 | 5 | 25,296 | 0.01 | 804 | 3,503,431 | 1.75 |
| 10,001 – 100,000 shares | 239 | 6,988,621 | 3.49 | 5 | 173,000 | 0.09 | 244 | 7,161,621 | 3.58 |
| 100,001 – 1,000,000 shares | 42 | 11,934,299 | 5.97 | 5 | 1,217,004 | 0.61 | 47 | 13,151,303 | 6.58 |
| Over 1,000,000 shares | 10 | 175,704,424 | 87.85 | - | - | - | 10 | 175,704,424 | 87.85 |
| Total | 2,535 | 198,578,746 | 99.29 | 22 | 1,421,254 | 0.71 | 2,557 | 200,000,000 | 100.00 |

b) Analysis of Shareholders

i. Resident/Non-resident

| Shareholding | 31st December 2020 | | |
|--------------|---------------------|--------------------|--------------------------|
| | No. of Shareholders | No. of Shares | % on Total No. of Shares |
| Resident | 2,535 | 198,578,746 | 99.29 |
| Non-resident | 22 | 1,421,254 | 0.71 |
| Total | 2,557 | 200,000,000 | 100.00 |

Shareholder Information

ii. Individual/Institutional

| Shareholding | 31st December 2020 | | |
|---------------|---------------------|--------------------|--------------------------|
| | No. of Shareholders | No. of Shares | % on Total No. of Shares |
| Individual | 2,447 | 31,381,923 | 15.69 |
| Institutional | 110 | 168,618,077 | 84.31 |
| Total | 2,557 | 200,000,000 | 100.00 |

INVESTOR RATIOS

| Year | Earnings Per Share (EPS) Rs. | Dividend Per Share (DPS) | | Dividend Pay-out Ratio % | Net Assets Per Share (NAPS) Rs. |
|------|---------------------------------|--------------------------|-------|-----------------------------|------------------------------------|
| | | Interim | Final | | |
| 2011 | 0.48 | - | 0.20 | 12 | 10.67 |
| 2012 | 1.56 | - | 1.00 | 25 | 14.38 |
| 2013 | 2.47 | 1.50 | 0.75 | 36 | 18.08 |
| 2014 | 3.00 | 1.50 | 2.00 | 47 | 23.50 |
| 2015 | 3.09 | 2.00 | 0.60 | 52 | 15.01 |
| 2016 | 3.29 | 1.50 | 0.25 | 53 | 13.14 |
| 2017 | 3.87 | 1.75 | 0.25 | 52 | 15.35 |
| 2018 | 3.65 | 0.75 | 1.10 | 51 | 16.88 |
| 2019 | 3.24 | 1.85 | - | 57 | 18.27 |
| 2020 | 5.98 | - | 3.00 | 50 | 23.10 |

SHARE PERFORMANCE

Details relating to the share performance are given below.

| | 2020 | | | |
|------------------------------|-------------|-------------|-------------|-------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| Number of transactions | 563 | 734 | 2735 | 6629 |
| Number of shares traded | 654,416 | 3,100,776 | 10,304,194 | 11,876,600 |
| Value of shares traded (Rs.) | 13,021,561 | 56,482,806 | 233,407,103 | 325,975,888 |
| Market price per share | | | | |
| - Highest (Rs.) | 22.50 | 20.00 | 25.40 | 30.00 |
| - Lowest (Rs.) | 17.00 | 16.50 | 18.00 | 21.10 |
| - Last traded price (Rs.) | 17.10 | 19.20 | 24.80 | 28.20 |
| P/E Ratio | 14.87 | 5.29 | 5.25 | 4.77 |

VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There were no significant changes in the Company's property, plant and equipment (PPE) and the Company did not own lands as assets. Details relating to the changes in the Company's PPE are given in Note 25 to the financial statements on pages 147 to 149.

EMPLOYEE SHARE OPTION SCHEME

There is no employee share ownership scheme in the Company.

INSURER FINANCIAL STRENGTH RATING

Fitch Ratings affirmed People's Insurance at 'A+(Ika)' with a stable outlook during the year under review.

DISCLOSURES PERTAINING TO THE CORPORATE GOVERNANCE

Disclosures pertaining to corporate governance practices in terms of Rules 7.10.3, 7.10.5 (c), and 7.10.6 (c) of section 7 of the rules are given in the on pages 221 to 224.

RELATED PARTY TRANSACTIONS

There were no non-recurring individual transactions exceeding the limit of 10% of the equity or 5% of the total assets during the year with any related party of the Company. The disclosure on aggregate related party transactions exceeding 10% of the gross revenue/income is given below. Further, all related party transactions at aggregate level have been disclosed in Note 48 to the financial statements on pages 197 to 202.

| Name of the Related Party | Relationship | Nature of the Transaction | Aggregate value of the Related Party Transactions entered into during the financial year (Rs.) | Aggregate value of Related Party Transactions as a % of Gross Written Premium | Terms and Conditions of the Related Party Transactions |
|--------------------------------|----------------|--|--|---|--|
| People's Leasing & Finance PLC | Parent company | Insurance premium income in respect of their own policies and customers introduced | 3,414,597,823 | 56% | Under the ordinary course of business on arms' length basis. |

Quarterly Analysis 2020

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|--|-----------------|---------------|-----------------|-----------------|-----------------|
| | Jan - Mar | Apr - Jun | Jul - Sep | Oct - Dec | |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Revenue | 1,573,581,135 | 1,548,650,471 | 1,523,702,963 | 1,516,801,277 | 6,162,735,846 |
| Gross written premium | 1,495,264,888 | 1,253,240,852 | 1,917,027,233 | 1,346,034,788 | 6,011,567,761 |
| Change in reserve for unearned insurance premium | 16,368,486 | 221,381,248 | (458,607,564) | 129,932,616 | (90,925,214) |
| Gross earned premium | 1,511,633,374 | 1,474,622,100 | 1,458,419,669 | 1,475,967,404 | 5,920,642,547 |
| Premium ceded to reinsurers | (116,378,264) | (138,971,158) | (308,027,591) | (111,538,641) | (674,915,654) |
| Change in reserve for unearned reinsurance premium | (36,619,569) | (4,372,180) | 149,632,372 | (50,975,022) | 57,665,601 |
| Net earned premium | 1,358,635,541 | 1,331,278,762 | 1,300,024,450 | 1,313,453,741 | 5,303,392,494 |
| Claims and expenses | | | | | |
| Net claims | (801,547,246) | (414,986,837) | (865,412,777) | (617,606,529) | (2,699,553,389) |
| Underwriting and net acquisition costs | (140,584,669) | (142,476,119) | (135,429,519) | (141,040,178) | (559,530,485) |
| Other operating, administrative and finance expenses | (304,225,985) | (325,736,994) | (232,509,989) | (373,657,736) | (1,236,130,704) |
| | (1,246,357,900) | (883,199,950) | (1,233,352,285) | (1,132,304,443) | (4,495,214,578) |
| Underwriting results | 112,277,641 | 448,078,812 | 66,672,165 | 181,149,298 | 808,177,916 |
| Other revenue | | | | | |
| Fee income | 13,887,614 | 10,733,477 | 15,726,284 | 12,738,723 | 53,086,098 |
| Interest and dividend income | 193,941,392 | 192,457,389 | 184,185,729 | 181,303,875 | 751,888,385 |
| Net fair value gains/(losses) | 5,211,557 | 13,996,421 | 24,198,257 | 9,950,880 | 53,357,115 |
| Other operating revenue | 1,905,031 | 184,433 | (431,757) | (645,953) | 1,011,754 |
| | 214,945,594 | 217,371,720 | 223,678,513 | 203,347,525 | 859,343,352 |
| Profit before tax | 327,223,235 | 665,450,532 | 290,350,678 | 384,496,823 | 1,667,521,268 |
| Income tax expense | (97,646,937) | (168,075,105) | (73,000,875) | (133,483,999) | (472,206,916) |
| Profit for the period | 229,576,298 | 497,375,427 | 217,349,803 | 251,012,824 | 1,195,314,352 |

| Share performance | Rs. | Rs. | Rs. | Rs. |
|--|-------|-------|-------|-------|
| Net asset value per share as at end of the quarter | 18.25 | 20.80 | 21.80 | 22.99 |
| Highest price per share for the interim period | 22.50 | 20.00 | 25.40 | 30.00 |
| Lowest price per share for the interim period | 17.00 | 16.50 | 18.00 | 21.10 |
| Last traded price per share as at end of the quarter | 17.10 | 19.20 | 24.80 | 28.20 |

Quarterly Analysis 2019

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Jan - Mar | Apr - Jun | Jul - Sep | Oct - Dec | |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Revenue | 1,453,708,430 | 1,512,847,006 | 1,564,039,101 | 1,577,931,412 | 6,108,525,950 |
| Gross written premium | 1,451,611,876 | 1,505,766,687 | 1,641,740,587 | 1,430,854,120 | 6,029,973,270 |
| Change in reserve for unearned insurance premium | (68,810,592) | (54,599,794) | (181,742,753) | 76,567,397 | (228,585,742) |
| Gross earned premium | 1,382,801,284 | 1,451,166,893 | 1,459,997,834 | 1,507,421,517 | 5,801,387,528 |
| Premium ceded to reinsurers | (106,861,063) | (272,675,932) | (114,842,381) | (86,384,962) | (580,764,338) |
| Change in reserve for unearned reinsurance premium | (13,529,234) | 131,834,342 | (14,648,435) | (62,543,985) | 41,112,688 |
| Net earned premium | 1,262,410,987 | 1,310,325,303 | 1,330,507,018 | 1,358,492,570 | 5,261,735,878 |
| Claims and expenses | | | | | |
| Net claims | (885,971,878) | (840,551,486) | (927,673,437) | (898,378,388) | (3,552,575,189) |
| Underwriting and net acquisition costs | (119,748,098) | (126,541,492) | (134,018,720) | (136,842,737) | (517,151,047) |
| Other operating, administrative and finance expenses | (252,715,500) | (271,072,748) | (284,438,416) | (318,543,312) | (1,126,769,976) |
| | (1,258,435,476) | (1,238,165,726) | (1,346,130,573) | (1,353,764,437) | (5,196,496,212) |
| Underwriting results | 3,975,511 | 72,159,577 | (15,623,555) | 4,728,133 | 65,239,666 |
| Other revenue | | | | | |
| Fee income | 13,043,593 | 12,402,174 | 14,653,533 | 13,894,409 | 53,993,709 |
| Interest and dividend income | 181,355,188 | 187,304,972 | 215,100,179 | 197,580,320 | 781,340,659 |
| Net fair value gains/(losses) | (3,396,881) | (1,572,797) | 933,836 | 4,049,468 | 13,626 |
| Other operating revenue | 295,543 | 4,387,354 | 2,844,535 | 3,914,645 | 11,442,077 |
| | 191,297,443 | 202,521,703 | 233,532,083 | 219,438,842 | 846,790,072 |
| Profit before tax | 195,272,954 | 274,681,280 | 217,908,528 | 224,166,976 | 912,029,738 |
| Income tax expense | (57,146,833) | (80,552,470) | (62,339,511) | (64,336,944) | (264,375,758) |
| Profit for the period | 138,126,121 | 194,128,810 | 155,569,017 | 159,830,032 | 647,653,980 |

| Share performance | Rs. | Rs. | Rs. | Rs. |
|--|-------|---------|-------|-------|
| Net asset value per share as at end of the quarter | 16.38 | 17.40 | 17.44 | 18.27 |
| Highest price per share for the interim period | 20.50 | 1910.00 | 22.50 | 23.00 |
| Lowest price per share for the interim period | 18.80 | 17.20 | 18.50 | 20.10 |
| Last traded price per share as at end of the quarter | 19.70 | 18.60 | 21.00 | 21.70 |

Five Year Summary

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-----------------------|----------------------|----------------------|----------------------|----------------------|
| Statement of Income (Rs.) | | | | | |
| Revenue | 6,162,735,846 | 6,108,525,950 | 5,432,668,375 | 4,791,413,814 | 4,250,108,228 |
| Gross written premium | 6,011,567,761 | 6,029,273,270 | 5,591,815,141 | 4,781,919,014 | 4,339,579,669 |
| Net earned premium | 5,303,392,494 | 5,261,735,878 | 4,709,485,620 | 4,097,182,435 | 3,723,232,913 |
| Net claims | (2,699,553,389) | (3,552,575,189) | (3,237,226,440) | (2,840,950,188) | (2,628,295,063) |
| Underwriting and net acquisition costs | (559,530,485) | (517,151,047) | (461,795,813) | (407,022,478) | (380,484,389) |
| Other operating and administrative expenses | (1,216,195,647) | (1,100,691,791) | (886,630,201) | (676,749,665) | (508,318,624) |
| Finance Cost | (19,935,057) | (26,078,185) | - | - | - |
| Underwriting results | 808,177,916 | 65,239,666 | 123,833,166 | 172,460,104 | 206,134,837 |
| Other revenue | 859,343,352 | 846,790,072 | 723,182,755 | 694,231,379 | 526,875,315 |
| Profit before tax | 1,667,521,268 | 912,029,738 | 847,015,921 | 866,691,483 | 733,010,152 |
| Income tax expense | (472,206,916) | (264,375,758) | (117,953,614) | (93,606,037) | (75,012,884) |
| Profit for the year | 1,195,314,352 | 647,653,980 | 729,062,307 | 773,085,446 | 657,997,268 |
| Statement of Financial Position (Rs.) | | | | | |
| Assets | | | | | |
| Intangible assets | 10,969,646 | 1,876,389 | 2,388,131 | 11,000,000 | 23,388,110 |
| Property, plant and equipment | 185,479,090 | 238,214,775 | 82,008,927 | 84,392,671 | 21,388,037 |
| Deferred tax asset | 40,201,865 | 11,527,522 | 3,006,071 | 28,484 | 1,871,693 |
| Financial investments | 8,574,328,565 | 7,349,838,553 | 6,658,264,189 | 6,136,594,446 | 5,469,881,112 |
| Reinsurance and insurance receivables | 1,343,887,591 | 1,485,495,054 | 1,116,394,654 | 1,088,633,562 | 828,695,737 |
| Deferred expenses | 276,219,332 | 289,575,427 | 264,162,186 | 238,256,786 | 220,580,020 |
| Other assets | 113,804,834 | 75,200,225 | 69,952,648 | 69,549,058 | 16,003,150 |
| Cash and cash equivalents | 50,972,116 | 128,771,323 | 221,391,043 | 116,659,642 | 138,335,984 |
| Total assets | 10,595,863,039 | 9,580,499,268 | 8,417,567,849 | 7,745,114,649 | 6,720,143,843 |
| Equity and liabilities | | | | | |
| Equity | | | | | |
| Stated capital | 1,350,000,000 | 1,350,000,000 | 1,350,000,000 | 1,350,000,000 | 1,350,000,000 |
| Reserves | 3,269,185,342 | 2,292,648,972 | 2,025,147,268 | 1,707,239,826 | 1,279,456,934 |
| Total equity | 4,619,185,342 | 3,642,648,972 | 3,375,147,268 | 3,057,239,826 | 2,629,456,934 |
| Liabilities | | | | | |
| Insurance contract liabilities | 4,623,435,278 | 4,923,641,866 | 4,367,565,525 | 4,073,554,521 | 3,557,794,382 |
| Retirement benefit obligations | 42,733,705 | 37,238,009 | 27,490,317 | 17,881,854 | 12,920,220 |
| Financial and other liabilities | 1,226,385,001 | 818,826,458 | 499,502,849 | 491,885,420 | 404,295,518 |
| Reinsurance payables | 65,498,172 | 7,527,409 | 61,807,635 | 35,715,836 | 41,432,353 |
| Bank overdrafts | 18,625,541 | 150,616,554 | 86,054,255 | 68,837,192 | 74,244,436 |
| Total liabilities | 5,976,677,697 | 5,937,850,296 | 5,042,420,581 | 4,687,874,823 | 4,090,686,909 |
| Total equity and liabilities | 10,595,863,039 | 9,580,499,268 | 8,417,567,849 | 7,745,114,649 | 6,720,143,843 |
| Investor Information | | | | | |
| Return on net assets (%) | 28.97 | 18.27 | 22.55 | 27.35 | 25.03 |
| Earnings per share (Rs.) | 5.98 | 3.24 | 3.65 | 3.87 | 3.29 |
| Dividend per share (Rs.) | 3.00 | 1.85 | 1.85 | 2.00 | 1.75 |
| Net assets per share (Rs.) | 23.10 | 18.21 | 16.88 | 15.29 | 17.52 |
| Last traded price per share as at end of the year (Rs.) | 28.20 | 21.70 | 19.10 | 23.00 | 19.00 |
| Other Information | | | | | |
| Number of employees | 622 | 607 | 554 | 385 | 330 |
| Number of shares | 200,000,000 | 200,000,000 | 200,000,000 | 200,000,000 | 200,000,000 |

Glossary of Insurance Terms

A

ACCUMULATION

The total combined risks that could be involved in a single loss event (involving one or more insured perils).

ACQUISITION EXPENSES

Direct costs an insurer incurs to 'acquire' the premium such as commissions paid to a broker. These costs are required to be expensed in the same ratio as the premiums to which they relate are earned. The amount to be expensed in future periods recorded as deferred acquisition costs (an asset) in the statement of financial position.

ACTUARY

A specialist in the mathematics of insurance who calculates rates, reserves, dividends and other statistics.

ADMINISTRATIVE EXPENSES

Costs of an administrative nature including those arising from premium collection, portfolio administration and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

ADMISSIBLE ASSETS

Assets that may be included in determining an insurer's statutory solvency position. Such assets are specified under the rules made by the Insurance Regulatory Commission of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

AGENT

An individual who is an independent contractor authorised to carry out transactions on behalf of another, such as the sale of insurance policies. Insurance agents usually earn commission or a fee on the sale of a policy. In Sri Lanka they are tied to a particular insurance company and offer a limited selection of products.

ALL RISKS

A property insurance which covers any accidental loss or damage that is not specifically excluded under the policy.

ANNUAL BASIS OF ACCOUNTING

A basis of accounting for non-life insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

AUTOMOBILE LIABILITY INSURANCE

Coverage for bodily injury and property damage incurred through ownership or operation of a vehicle.

B

BROKER

A firm that acts as an intermediary between a buyer and seller, usually charging commission or a fee. Insurance brokers arrange cover on behalf of their clients and represent the interests of the policyholder.

BURGLARY AND THEFT

Coverage for property taken or destroyed by breaking and entering the insured's premises, burglary or theft, forgery or counterfeiting, fraud, kidnap and ransom and off-premises exposure.

BODILY INJURY LIABILITY COVERAGE

Coverage for damages resulting in bodily injury or death sustained by others, including covered medical costs, that you become legally responsible for because of a covered auto accident.

C

CAPITAL ADEQUACY RATIO

A risk based Capital Adequacy Ratio (CAR) measures the relative adequacy of an insurer's capital. The CAR value reports on the adequacy of the Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk based Capital Required (RCR).

CAPTIVE AGENT

An individual who sells or services insurance contracts for a specific insurer or fleet of insurers.

CASUALTY INSURANCE

A form of liability insurance providing coverage for negligent acts and omissions such as workers compensation, errors and omissions, fidelity, crime, glass, boiler and various malpractices coverage.

CEDENT

A ceding insurer. A ceding insurer is an insurer that underwrites and issues an original, primary policy to an insured and contractually transfers (cedes) a portion of the risk to a reinsurer.

CESSION

A particular risk exposure that is transferred under a reinsurance treaty.

CLAIM HANDLING EXPENSES (CHE)

Expenses incurred while investigating and settling an insurance claim, over and above the cost of the claim itself. Can include legal and other professional fees. Also known as loss adjustment expenses.

CLAIMS INCURRED

Claims incurred include paid claims and movements in outstanding claims.

CLAIMS NOTIFICATION CLAUSE

A clause in an insurance or reinsurance contract which sets out the procedure that the insured or reassured must follow in order to make a claim under the contract. Such clauses frequently provide for prompt notification of claims and events which may give to claims in the future.

CLAIMS OUTSTANDING

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the balance sheet date, including Incurred But Not Reported (IBNR) claims and claims handling expenses, less amounts already paid in respect of those claims.

CO-INSURANCE

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

Glossary of Insurance Terms

COMBINED RATIO

The claims and expenses of an insurer for a given period divided by its net earned premium for the same period. It is normally expressed as a percentage with any figure in excess of 100%, signifying a technical underwriting loss.

COMMERCIAL PACKAGE POLICY

A broad package of property and liability coverage for commercial ventures other than those provided insurance through a business owner's policy.

COVER NOTE

A document issued by an insurer/broker, pending the issue of a policy which confirms the arrangement of cover for the named insured/reassured. Motor insurance cover notes that are issued in Sri Lanka are usually of short duration.

D

DEDUCTIBLE

Loss retention of the reinsured in non-proportional reinsurance. Limit above which the reinsurer becomes liable for losses up to the amount of the agreed cover limit.

DEFERRED ACQUISITION COSTS

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.

E

EARNED PREMIUM

The proportion of premium that relates to a used period of cover.

EXCESS

The amount or proportion of some or all losses arising under an insurance or reinsurance contract that is the insured or reassured must bear. If the loss is less than the amount of the excess then the insured/reassured must meet the cost of it (unless there is other insurance in place to cover the excess). Excesses may either be compulsory or voluntary. An insured who accepts an increased excess in the form of a voluntary excess will usually receive a reduction in premium.

EXCESS OF LOSS

A type of reinsurance that covers specified losses incurred by the reassured in excess of a stated amount (the excess) up to a higher amount. An excess of loss reinsurance is a form of non-proportional reinsurance.

EXCLUSION

A term in an insurance or reinsurance contract that excludes the insurer or reinsurer from liability for specified types of loss. An exclusion may apply throughout a policy or it may be limited to specific sections of it. In certain circumstances, an exclusion may be limited or removed altogether following the payment of an additional premium.

EX-GRATIA PAYMENT

A payment made by underwriters 'as a favour' or 'out of kindness' without an admission of liability so as to maintain goodwill.

F

FACULTATIVE REINSURANCE

Reinsurance for a single risk or a defined package of risks. The ceding company (the primary issuer) is not compelled to submit these risks to the reinsurer, but neither is the reinsurer compelled to provide reinsurance protection.

G

GENERAL AVERAGE

A loss that arises from the reasonable sacrifice at a time of peril of any part of a ship or its cargo for the purpose of preserving the ship and the remainder of its cargo together with any expenditure made for the same purpose. An example of a general average loss would include jettisoning cargo to keep a ship afloat and an example of general average expenditure would include towing a stricken vessel into port. An average adjuster calculates the value of each saved interest to each interested party which is then obliged to contribute towards the general average loss or expenditure proportionately. Subject to the terms of the policy, insurance will generally only apply if the loss was incurred to avoid or in connection with the avoidance of an insured peril.

GROSS WRITTEN PREMIUM

Original and additional inward premiums, plus any amount in respect of administration fees or policy expenses remitted with a premium but before the deduction of outward reinsurance premiums.

I

INCURRED BUT NOT REPORTED (IBNR) LOSSES

Estimated losses which an insurer or reinsurer, based on its knowledge or experience of underwriting similar contracts, believes have arisen or will arise under one or more contracts of insurance or reinsurance, but which have not been notified to an insurer or reinsurer at the time of their estimation.

INDEMNITY

The principle according to which a person who has suffered a loss is restored (so far as possible) to the same financial position that he was in immediately prior to the loss, subject in the case of insurance to any contractual limitation as to the amount payable (the loss may be greater than the policy limit). The application of this principle is called indemnification. Most contracts of insurance are contracts of indemnity. Life insurances and personal accident insurances are not contracts of indemnity as the payments due under those contracts for loss of life or bodily injury are not based on the principle of indemnity.

INSURANCE CONTRACT

A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.

INSURANCE PROVISION

Usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, which are deferred to subsequent accounting periods, as well as the gross claims outstanding.

INSURANCE RISK

Uncertainty over the likelihood of an insured event occurring, the quantum of the claim or the time when claims payments will fall due.

L

LAYER

Section of cover in a non-proportional reinsurance programme in which total coverage is divided into number of consecutive layers. Individual layers may be placed with different reinsurers.

LIABILITY ADEQUACY TEST (LAT)

A test that needs to be performed by an insurer to determine whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts as per the Sri Lanka Accounting Standards.

LOSS ADJUSTER

A person who is appointed to investigate the circumstances of a claim under an insurance policy and to advise on the amount that is payable to the policyholder in order to settle that claim.

LOSS DEVELOPMENT FACTORS (LDF)

There is a general upward trend in claim totals after the initial reporting period called 'loss development'. A common method of adjusting losses for the growth in claims and Incurred But Not Reported (IBNR) losses is to apply loss development factors.

N

NET EXPENSE RATIO

Expenses associated with running an insurance business, such as commission, professional fees and other administrative costs, expressed as a percentage of net earned premiums.

P

PREMIUM

The payment a policyholder makes in return for insurance cover. Usually paid annually.

PREMIUM LIABILITY

The amount required to be held in respect of the unexpired period of exposure and considers the unearned premium reserves held and estimate of unexpired risk reserves.

PROVISION OF RISK MARGIN FOR ADVERSE DEVIATION (PRAD)

The provision of risk margin for adverse deviation that relates to the inherent uncertainty in the central estimate value of both the premium and claim liabilities at a 75% level of sufficiency.

R

REINSURANCE

A form of insurance bought by insurance companies to protect themselves from the risk of large losses. One insurer pays to place part of an insured risk or an entire book of business with one or more other insurance companies, known as the reinsurers.

REINSURANCE COMMISSION

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

REINSURANCE INWARDS

The acceptance of risks under a contract of reinsurance.

REINSURANCE OUTWARDS

The placing of risks under a contract of reinsurance.

REINSURANCE PREMIUM

The premium payable to the reinsurer. Reinsurance is an arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

REINSURANCE PROFIT COMMISSION

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

RELATED PARTY

A related party is a person or an entity that is related to the reporting entity:

- ▶ A person or a close member of that person's family is related to a reporting entity if that person has control, joint control, or significant influence over the entity or is a member of its key management personnel.
- ▶ An entity is related to a Reporting entity if, among other circumstances, it is a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party.

RETENTION

The amount of any loss or combination of losses that would otherwise be payable under an insurance/reinsurance contract which the insured/reassured must bear itself before the insurer or reinsurer becomes liable to make any payment under that contract. An insured or reassured may be able to insure its retention with another insurer/reinsurer.

RISK BASED CAPITAL

Capital to be allocated by a company to cover risks arising from the nature of its business and the markets in which it operates, based on an assessment of those risks and the likelihood of adverse developments.

S

SHORT-PERIOD CANCELLATION

When an insurance contract is terminated prior to its expiry date by the insured any return premium that is payable will usually be calculated on a time on risk basis. The result is that the insured will receive less return premium than would be the case if the return premium was calculated on a pro-rata basis.

SOLVENCY MARGIN

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 and subsequent amendments thereto made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

Glossary of Insurance Terms

SUBROGATION

The right of an insurer which has paid a claim under a policy to step into the shoes of the insured so as to exercise in his name all rights he might have with regard to the recovery of the loss which was the subject of the relevant claim paid under the policy up to the amount of that paid claim. The insurer's subrogation rights may be qualified in the policy. In the context of insurance, subrogation is a feature of the principle of indemnity and therefore only applies to contracts of indemnity so that it does not apply to life assurance or personal accident policies. It is intended to prevent an insured recovering more than the indemnity he receives under his insurance (where that represents the full amount of his loss) and enables his insurer to recover or reduce its loss.

SUM INSURED

The maximum amount that an insurer will pay under a contract of insurance. The expression is usually used in the context of property and life insurance where (subject to the premium cost) the insured determines the amount of cover to be purchased.

SURPLUS TREATY OR SURPLUS LINES TREATY

A type of reinsurance under which bands of cover known as lines are granted above a given retention which is referred to as the cedant's line. Each line is of equivalent size and the capacity of the treaty is expressed as a multiple of the cedant's line. The reinsurer receives an equivalent proportion of the full risk premium. A surplus treaty is a form of proportional reinsurance.

T

TECHNICAL RESERVE

This comprises the claims reserve net of reinsurance, unearned premium reserve net of reinsurance and the deferred acquisition expenses.

TOTAL AVAILABLE CAPITAL

Measures the actual available capital held by an insurer eligible to calculate capital adequacy.

TREATY REINSURANCE

A reinsurance contract under which the reassured agrees to offer and the reinsurer agrees to accept all risks of certain size within a defined class.

U

UNDERINSURANCE

Insurance where the sum insured is less than the full value at risk and would not be adequate to meet a total loss.

UNDERWRITING

The process of selecting which risks an insurance company can cover and deciding the premiums and terms of acceptance.

UNDERWRITING PROFIT

The underwriting result generated by transacting non-life insurance business, without taking into account the investment income.

UNEARNED PREMIUM

The proportion of premium that relates to the unused period of cover.

UNEXPIRED RISK RESERVE (URR)

The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

Distribution Network

- WESTERN PROVINCE**
- Negombo
 - Metropolitan
 - Kalutara
 - Awissawella
 - Battaramulla
 - Divulapitiya
 - Gampaha
 - Grandpass
 - Hanwella
 - Havelock
 - Homagama
 - Horana
 - Ja-ela
 - Kadawatha
 - Kaduwela
 - Kelaniya
 - Kiribathgoda
 - Kirindiwela
 - Kollupitiya
 - Maharagama
 - Mathugama
 - Minuwangoda
 - Mirigama
 - Moratuwa
 - Mount Lavinia
 - Nittambuwa
 - Nugegoda
 - Panadura
 - Pettah
 - Piliyandala
 - Ragama
 - Union Place
 - Ward Place
 - Wattala
 - Wellawatte

- SOUTHERN PROVINCE**
- Galle
 - Matara
 - Ambalanthota
 - Akuressa
 - Ambalangoda
 - Benthota
 - Deniyaya
 - Elpitiya
 - Hambanthota
 - Kamburupitiya
 - Neluwa
 - Tangalle
 - Thissamaharama
 - Udugama
 - Urubokka
 - Walasmulla

- NORTHERN PROVINCE**
- Jaffna
 - Vavuniya
 - Chunnakam
 - Kilinochchi
 - Kodikamam
 - Mannar
 - Nelliady

- UVA PROVINCE**
- Badulla
 - Bandarawela
 - Mahiyanganaya
 - Monaragala
 - Welimada
 - Wellawaya


- CENTRAL PROVINCE**
- Kandy
 - Dambulla
 - Digana
 - Gampola
 - Hatton
 - Katugasthota
 - Matale
 - Nawalapitiya
 - Nuwara Eliya
 - Pilimathalawa

- NORTH CENTRAL PROVINCE**
- Anuradhapura
 - Polonnaruwa
 - Galenbindunuwewa
 - Hingurakgoda
 - Kekirawa
 - Medawachchiya
 - Thambuttegama

- EASTERN PROVINCE**
- Trincomalee
 - Ampara
 - Batticaloa
 - Kalawanchchikudy
 - Kalmunai
 - Kanthale
 - Kattankudy
 - Muthur

- NORTH WESTERN PROVINCE**
- Kurunegala
 - Anamaduwa
 - Chilaw
 - Giriulla
 - Kuliypitiya
 - Melsiripura
 - Narammala
 - Nattandiya
 - Puttalam
 - Wariyapola
 - Wennappuwa

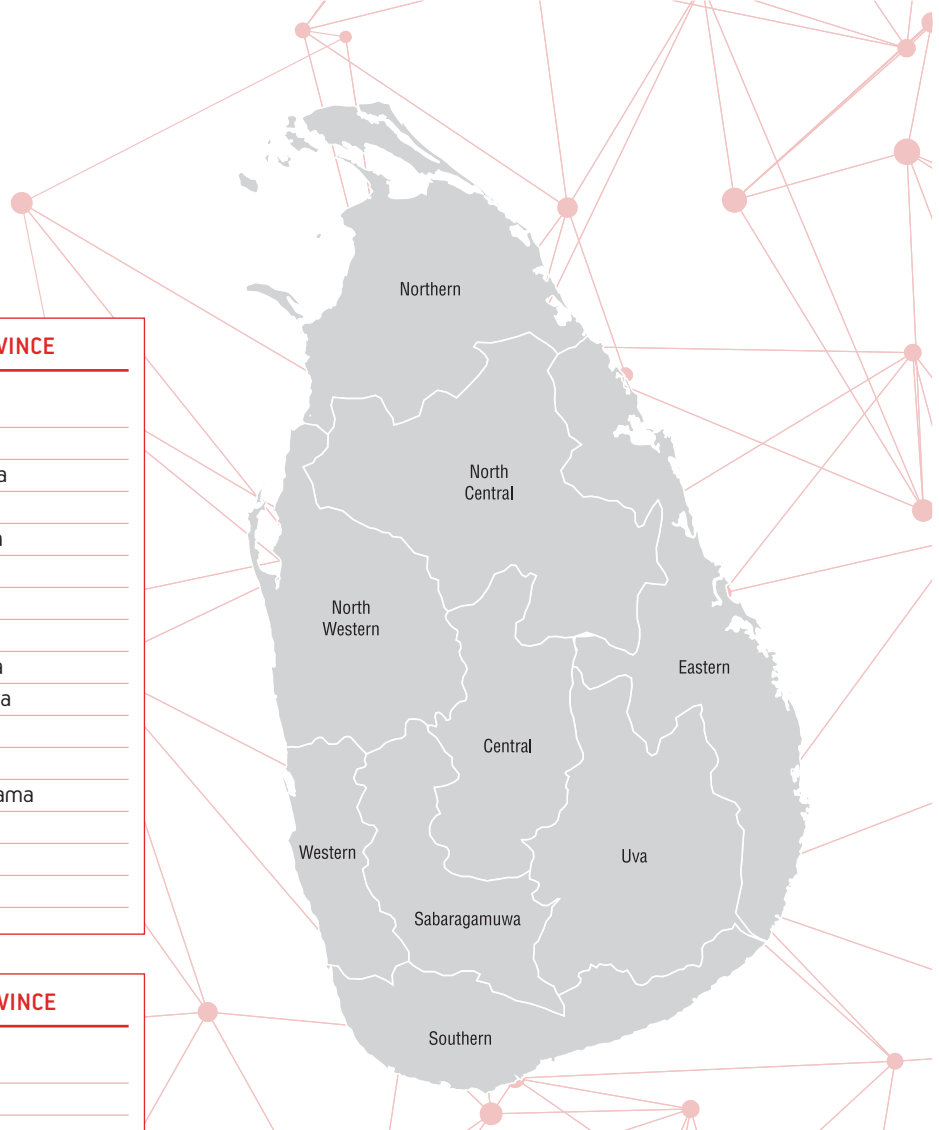
Details of our branch network can be found online



<http://www.peoplesinsurance.lk/locations>

- Regional office
- Window office at People's Leasing & Finance PLC branch network.

- SABARAGAMUWA PROVINCE**
- Rathnapura
 - Embilipitiya
 - Balangoda
 - Godakawela
 - Kalawana
 - Kegalle
 - Mawanella
 - Pelmadulla
 - Warakapola



Corporate Information

NAME OF COMPANY

People's Insurance PLC
(Subsidiary of People's Leasing & Finance PLC)

LEGAL FORM

Public Limited Liability Company
(Incorporated and domiciled in Sri Lanka)

DATE OF INCORPORATION

22nd July 2009

COMPANY REGISTRATION NUMBER

PB 3754 PQ

STOCK EXCHANGE LISTING

Ordinary shares of the Company are listed on the Main Board of the Colombo Stock Exchange

TAX PAYER IDENTIFICATION NUMBER (TIN)

134037547

VAT REGISTRATION NUMBER

134037547- 7000

SVAT REGISTRATION NUMBER

SVAT004235

PRINCIPAL ACTIVITY

Non-life (general) Insurance Business

ACCOUNTING YEAR-END

31st December

REGISTERED OFFICE

People's Insurance PLC
No. 07,
Havelock Road,
Colombo 05.

HEAD OFFICE (REGISTERED OFFICE) AND PRINCIPLE PLACE OF BUSINESS

People's Insurance PLC
No. 07,
Havelock Road,
Colombo 05.
Telephone : +94 11 2126126
Fax : +94 11 2126322
E-mail: pilassist@plc.lk
Web: www.peoplesinsurance.lk

BOARD OF DIRECTORS

Mr. Isuru Balapatabendi - Chairman
Mr. Ranjith Kodituwakku
Mr. Shamindra Marcelline
Mr. Lakshman Abeysekera
Mr. Johnson Fernando
Dr. Kasun Wijetilleke
Mr. Rohan Tennakoon

PRINCIPAL OFFICER

Mr. Deepal Abeysekera

COMPANY SECRETARY

Ms. Lakmini Kottegoda

REGISTRARS

SSP Corporate Services (Pvt) Ltd.
No. 101,
Inner Flower Road,
Colombo 03.

AUDITORS

Auditor General
Auditor General's Department,
No. 306/72, Polduwa Road,
Battaramulla.

CONSULTANT ACTUARIES

NMG Financial Services Consulting
Pte Limited
30, Hill Street,
#03-02A,
Singapore.

GRATUITY

Smiles Global (Pvt) Limited
14A, Boyd Place,
Colombo 03.

BANKERS

HDFC Bank
National Savings Bank
Nations Trust Bank PLC
People's Bank
Regional Development Bank
Sampath Bank PLC
Seylan Bank PLC

REINSURANCE PANEL

Asian Reinsurance Corporation
Beazley
Best Meridian Insurance Company
China Re Singapore
General Insurance Corporation of India
Lloyd's
National Insurance Trust Fund
New India Assurance
Ocean International Re. Co.
Santam/Munich Re

INSURER FINANCIAL STRENGTH RATING

'A+ (Ika)' by Fitch Ratings

Notice of Meeting

Notice is hereby given that the twelfth (12th) Annual General Meeting of People's Insurance PLC will be held on Monday, 28th June 2021 at 9.30 a.m.. Taking into account the current situation in the country due to the COVID-19 pandemic and the health and safety guidelines issued by the authorities with a view of protecting public health against the spread of the virus, the Board of Directors have proposed to hold the said Annual General Meeting (AGM) on 28th June 2021 via audio and visual technology means in the manner set forth below;

1. The AGM shall be held in compliance with the Companies Act, No. 07 of 2007, the Articles of Association of the Company, the Colombo Stock Exchange (CSE) Guidance Note on hosting of Annual General Meetings and guidelines published by the Ministry of Health.
2. Only the Board of Directors, Company Secretary, key management officials, representatives of the Auditors and Legal Counsel (and Scrutinisers where applicable) who are essential for the administration of the formalities of the meeting will be physically & Virtually present at the Board Room, People's Insurance PLC, No. 07, Havelock Road, Colombo 05, Sri Lanka. All others, including shareholders, will participate via an online meeting platform (i.e. Zoom Platform). These measures are being adopted to observe, "social distancing" requirements to mitigate the dangers of spreading the virus.

The said Annual General Meeting will be held for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors together with the financial statements of the Company for the year ended 31st December 2020 together with the Report of the Auditors thereon.
2. To declare a final dividend of Rupees 3.00 (Rs. 3.00) per Ordinary Share as recommended by the Board of Directors.
3. To re-elect as a Director, Mr. Lakshman Abeysekara, who retires in terms of Article 27 (8) of the Articles of Association of the Company
4. To re-elect as a Director, Mr. Shamindra Marcelline who having been appointed to the Board in terms of Article 27(2) of the Articles of Association of the Company, retires at this Annual General Meeting.
5. To re-elect as a Director, Mr. Rohan Tennakoon, who having been appointed to the Board in terms of Article 27(2) of the Articles of Association of the Company, retires at this Annual General Meeting.
6. To authorise the Board of Directors to determine contributions to charities and other donations for the ensuing financial year.

Auditors of the Company

According to Section 55 of the National Audit Act No. 19 of 2018, People's Insurance PLC falls under the definition of 'auditee entity' and the Auditor General or any person authorised by the Auditor General shall carry out the audit of the Company.

By order of the Board,



Lakmini Kottegoda
Company Secretary

Colombo
6th May 2021

Notes

Any member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her stead. A form of proxy is sent herewith for this purpose. A proxy need not be a member of the Company.

The completed form of proxy must be deposited at the at the office of the Company Secretary, People's Insurance PLC at No. 07, Havelock Road, Colombo 05 not less than forty eight (48) hours before the time appointed for the holding of the meeting.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. As provided for in Article 19(3) of the Articles of Association of the Company, the instrument appointing a proxy should be in writing.
2. The full name and address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and duly signed and dated.
3. The Proxy shall -
 - a. In case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the complete proxy if it has not already been registered with the company.
 - b. In case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of that company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.
 - c. In the case of joint-holder, be signed by the joint-holder whose name appears first in the Register of Members.
4. The completed form of Proxy, Virtual Meeting Online Registration Form and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority must be deposited at the office of the Company Secretary, People's Insurance PLC at No. 07, Havelock Road, Colombo 05 not less than forty eight (48) hours before the time appointed for the holding of the meeting.
5. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholders, signing the Proxy.

Investor Feedback Form

We welcome your valuable feedback on this Integrated Annual Report.

To request information or submit a comment/query to the Company, please complete and return this page to,

Chief Financial Officer
People's Insurance PLC,
No. 07, Havelock Road,
Colombo 05,
Sri Lanka.
Fax : 011-2126322
E-mail : nilushan@plc.lk

Name :

Mailing address :

Contact numbers - Tel. :

- Fax :

E-mail address :

Name of company :

(If applicable)

Designation :

(If applicable)

Company address :

(If applicable)

Comments/queries :

People's Insurance PLC
No. 07, Havelock Road, Colombo 05.
Telephone : +94 11 2126126 | Fax : +94 11 2126322
www.peoplesinsurance.lk