WHAT´S
IMPORTANT

WE HAVE DEDICATED OUR SELVES
TO DELIVER WHAT´S
IMPORTANT TO YOU...

PEOPLE'S INSURANCE

ANNUAL REPORT 2012

GET TO KNOW US BETTER

ON A JOURNEY OF TRUST

PEOPLE'S INSURANCE

At a time when Sri Lanka is experiencing rapid financial progression, the insurance landscape is evolving. With underwriting, loss control and claims expertise, People's Insurance Limited is ready to take on the opportunities and challenges presented by new developments. Our core values of strength, stability and sustainability continue to drive our business.

People's Insurance is a fully owned subsidiary of People's Leasing & Finance PLC. The Company was incorporated as a limited liability company under the Companies Act No. 07 of 2007, Company No. PB 3754. We are registered with the Insurance Board of Sri Lanka as an insurer to carry on non-life (general) insurance business in December 2009. Accordingly, the Company commenced its commercial operations in January 2010.

People's Insurance has international reinsurers with standards approved by the Insurance Board of Sri Lanka. With our knowledge of local market conditions and the global resources we receive through our reinsurers, People's Insurance can guarantee professional service. When you talk to us, you will be dealing with a

subsidiary of one of Sri Lanka's financial giants, People's Bank. So you may rest assured that you will receive sound financial security.

We are committed to building long term relationships with our customers based on trust, mutual benefit and stability. Our dedicated staff embody this commitment. Whatever your personal, employee or business insurance needs, we are ready to assist you.

VISION

TO BE APPRECIATED FOR BUILDING LASTING TRUST BASED ON STRENGTH, STABILITY AND SUSTAINABILITY

MISSION

WE WILL

WORK WITH ALL OUR STAKEHOLDERS WITH INTEGRITY AND FAIRNESS

MAINTAIN HIGH STANDARDS IN SALES AND SERVICING

RESPECT CREATIVITY AND COMMITMENT OF OUR STAFF

OFFER SOUND INSURANCE SOLUTIONS TO OUR CLIENTS FOR A SUSTAINABLE FUTURE

PEOPLE'S INSURANCE


ROSHAN
SHARK
ATTACK
IROMI

ROSHAN AND IROMI JUST COMPLETED THEIR FIRST FAMILY HOME AND ARE EXCITED ABOUT RAISING THEIR SON DINESH THERE. IT WAS INDEED A LABOUR OF LOVE SINCE OWNING A HOME HAS BEEN ON THEIR WISH LIST FOR MANY YEARS.

"WHAT'S IMPORTANT TO US IS PEACE OF MIND AND KNOWING THAT THERE IS SOMEONE TO PROTECT WHAT WE HAVE CREATED."

IROMI

Kosala Jayarathne | Junior Executive | Non-motor Underwriting

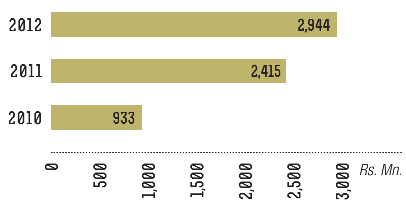
"What's important to us is delivering on our promise of security which is what every homeowner seeks. Therefore our home insurance covers a gamut of possibilities in one comprehensive policy."

HOME INSURANCE

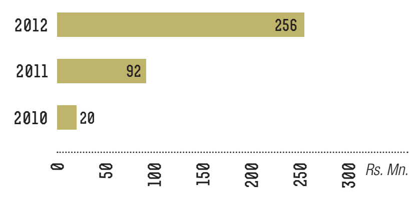
Our home insurance policy is especially designed to provide peace of mind for your home and family in a single policy. Basic cover includes loss or damage to the building and contents due to fire and lightning, domestic explosion, storm, flood, earthquake, tsunami, impact by vehicles and aircrafts, bursting of water pipes, apparatus, accidental breakage of glass and burglary, cost of alternative accommodation and loss of rents. This includes optional covers to safeguard your personalised needs.

FINANCIAL HIGHLIGHTS

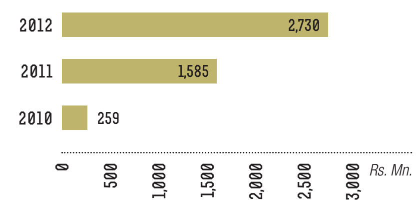
GROSS WRITTEN PREMIUM



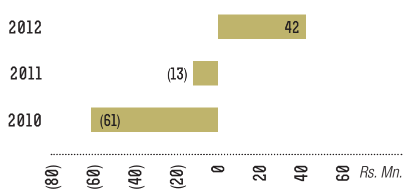
INVESTMENT INCOME



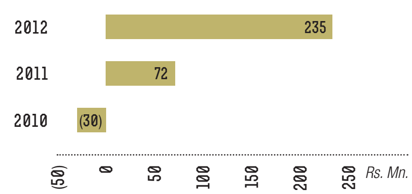
TOTAL REVENUE



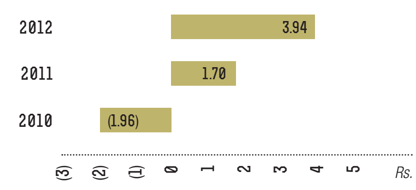
UNDERWRITING RESULTS



PROFIT AFTER TAX



EARNINGS PER SHARE



Making 2012 an exceptional year for People's Insurance, almost all the financial indicators including gross written premium, investment income, total revenue, underwriting results, profit after tax and earnings per share recorded outstanding growth.

Gross written premium increased by 22% from Rs. 2,415 million to Rs. 2,944 million which is above the growth rate of the non-life insurance industry, currently estimated at 20%. This enabled the Company to position itself in fifth place in the non-life insurance industry in terms of the market share, which is a shift from sixth position held in 2011. The Company's growth in the gross written premium was mainly driven by the motor segment.

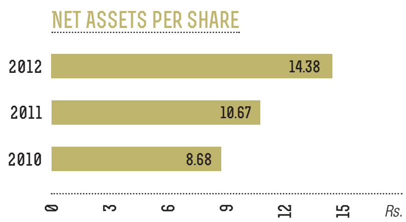
Investment income increased from Rs. 92 million to Rs. 256 million, recording a growth of 178%. This is mainly due to the increase of the investment portfolio and comparatively high interest rates experienced during the year under review.

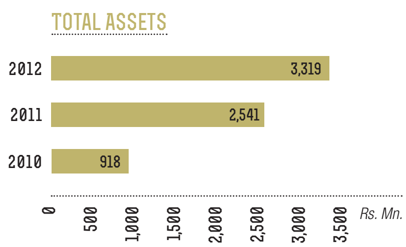
Total revenue grew by Rs. 1,145 million (72%) from Rs. 1,585 million to Rs. 2,730 million, which was mainly contributed by the significant increases in net earned premium by Rs. 970 million and investment income by Rs. 164 million.

The Company recorded an underwriting profit of Rs. 42 million compared with the underwriting loss of Rs. 13 million recorded in 2011. This was as a result of improved underwriting and claims management apart from the 66% increase in the net earned premium. The net combined ratio stood at 98% in 2012 compared with 101% recorded in 2011, reflecting this position.

Profit after tax increased significantly by 226% from Rs. 72 million to Rs. 235 million reflecting outstanding underwriting results and investment performance.

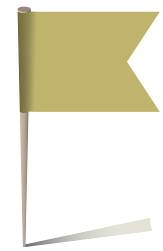
Earnings per share (EPS) increased by 132% from Rs. 1.70 to Rs. 3.94. This was due the increase of the profit after tax by Rs. 163 million, while the number of shares issued during the year remained relatively constant due to a limited number of new shares issued, compared with 2011.





Net assets per share improved from Rs. 10.67 to Rs. 14.38, reflecting a growth of 35%. This was mainly contributed by the exceptional profit after tax of Rs. 235 million recorded in 2012.

Total assets of the Company increased by Rs. 778 million (31%) from Rs. 2,541 million to Rs. 3,319 million. This was mainly contributed by the significant growth of the investment portfolio, especially fixed deposits with financial institutions which doubled in 2012 with the business growth and enhanced profitability.



22%

INCREASE IN GROSS WRITTEN PREMIUM FROM RS. 2,415 MILLION TO RS. 2,944 MILLION

226%

INCREASE IN PROFIT AFTER TAX FROM RS. 72 MILLION TO RS. 235 MILLION

MAKING 2012 AN EXCEPTIONAL YEAR FOR PEOPLE'S INSURANCE, ALMOST ALL THE FINANCIAL INDICATORS INCLUDING GROSS WRITTEN PREMIUM, INVESTMENT INCOME, TOTAL REVENUE, UNDERWRITING RESULTS, PROFIT AFTER TAX AND EARNINGS PER SHARE RECORDED OUTSTANDING GROWTH

WHAT'S IMPORTANT | CHAIRMAN'S MESSAGE

WE HAVE PROGRESSED WITHIN A SHORT SPAN OF THREE YEARS TO MARK OUR PRESENCE AS A TOP-TIER PLAYER IN THE NON-LIFE (GENERAL) INSURANCE SECTOR IN SRI LANKA. IN THIS BACKDROP, THE FINANCIAL YEAR 2012 WITNESSED OUR COMMITMENT TO CONSISTENT AND DECISIVE DELIVERY OF OPERATIONAL EXCELLENCE...

RS. 2,944 MN

GROSS WRITTEN PREMIUM GREW BY 22% FROM RS. 2,415 MILLION TO RS. 2,944 MILLION

JEHAN P. AMARATUNGA
CHAIRMAN

Dear Stakeholder,

We at People's Insurance have adopted and continue to focus on the overarching vision of building lasting trust in the domain of Sri Lanka's insurance industry. We have progressed within a short span of three years to mark our presence as a top-tier player in the non-life (general) insurance sector in Sri Lanka. In this backdrop, the financial year 2012 witnessed our commitment to consistent and decisive delivery of operational excellence, important to our valued customers which in turn proved to be the catalyst for a laudable performance. Indeed it is my honour, on behalf of the Board of Directors, to present our annual report for the year 2012 along with the financial statements which highlights our strides in the year that was and our plans for the future.

Economic Outlook

The world economy yet again in 2012, continued to grapple with the four-year running financial crisis. The year saw the end of a tight-run US presidential election followed by explosive implications from a near fiscal cliff that threatened to take the US back into recession. Some of the economies in the midst of the sovereign debt distress in the Eurozone experienced persisting downward spiraling dynamics of weak economic macro fundamentals whilst the emerging markets including China experienced economic inertia. The Arab Spring also presented wider geopolitical connotations to the Middle Eastern region and to the world at large. Amidst such adverse headwinds, the global economic recovery was modest with world GDP in 2012 estimated to grow at 2.3%, down from an earlier forecast of 2.5% (Global Economic Prospect Report, World Bank, January 2013).

The Sri Lankan economy, in the post conflict settings, continued even at a decelerated pace on its upward trajectory, spurred by large-scale reconstruction and development projects. As per the Monetary and Fiscal Policies, Roadmap 2013, recently published by the Central Bank of Sri Lanka, GDP growth in 2012 is estimated at 6.5%. Although this is below the outstanding levels of the preceding two years, the GDP growth is commendable, considering the global economic and geopolitical undercurrents, entwined with the domestic adverse weather patterns and macroeconomic uncertainties.

Chairman´s Message contd.

The challenges faced in the macroeconomic front however, were prudently managed to keep pace with the country's growth momentum. Inflation was maintained at single digit levels with pragmatic monetary and fiscal policy controls whilst the free fall of the exchange rate saw the depreciating Rupee stabilising at more realistic levels towards the end of the year. Unemployment was at its historic best in contrast to the world economic trends. The capital market, reversing its contractionary trends gathered momentum with greater degree of discipline and with increased foreign net inflows towards the latter part of the year. In this scenario, Sri Lanka maintained its sovereign credit rating and moved on in the right direction as necessitated by the Roadmap 2013 to transform Sri Lanka to a middle income economy with a per capita income of USD 4,000 by the year 2016.

Insurance Industry Trends

The insurance industry in the global arena weathered the economic and geopolitical pressures, maintaining relatively steady capacity, business volumes and prices. In Sri Lanka, amidst its development drive and rising per capita income, complemented by increasing literacy levels among the public on the benefits of insurance, the industry propelled forward with 21 companies currently in operation including 18 companies engaged in non-life insurance and twelve composite companies engaged in both non-life and life insurance.

During the year 2012, the insurance sector continued to grow, amidst the instabilities that were prevalent in the economy. Gross written premium of the non-life insurance industry is estimated to post a growth of 20% which however, is marginally below the performance achieved in 2011.

The motor segment, accounting for over 60% of non-life insurance came under increased pressure from volatile macro fundamentals - higher import duties, interest rates and weaker exchange rate coupled with an intensly competitive market. In this backdrop, the year witnessed a moderation in registrations of new motor vehicles, thereby plummeting the rate of growth in gross premium income from motor to 18% as against an outstanding 30% rate of growth recorded for the same period in 2011. Not withstanding the macro environment, the non-motor segment continued to deliver better results, fueled by the opportunities in a booming economic environment.

Regulatory Environment

On the regulatory front, the Insurance Board of Sri Lanka (IBSL) made creditable strides in bringing greater discipline and accountability to the industry. Specifically from 2013 to 2016, the industry will focus on the new regulatory requirements - segregation, listing in the Colombo Stock Exchange and implementation of risk based capital regime. Already, measures have been taken to integrate the industry to the new regulatory framework and a "Road Test" on the risk based capital regime has taken off ground as per the framework issued by IBSL in the year 2012.

OUR COMPANY IN THE YEAR UNDER REVIEW, RELENTLESSLY PURSED WHAT IS IMPORTANT FOR OUR CORE BUSINESS - CUSTOMER SERVICE

In view of these industry dynamics, our Company is determined to be proactive in conforming to the new regulatory requirements which will necessitate operational and structural changes. We have already taken the preliminary steps required to position our operations to be in line with the new regulations. We are currently participating in the "Road Test" under the risk based capital regime whilst studying and analysing the regime's implications on the Company which is crucial for successful transition and implementation. Our plans also include broad basing our Company on the Colombo Stock Exchange prior to the stipulated guideline of 2016. However, being a non-life insurance company, we will not be impacted by the regulatory requirement of segregation between life and non-life insurance businesses.

What is Important

Our Company in the year under review, relentlessly pursed what is important for our core business - customer service. We enhanced our services by introducing, revamping and streamlining our processes and systems, training human resources, bolting on group synergies and expanding our outreach which indeed led us to be ranked as the fifth largest non-life insurer in the industry in terms of the market share. Consequently, even in the face of intense competition and relatively weaker macroeconomic fundamentals, we were able to post an underwriting profit of Rs. 42 million, outperforming the industry trends. Our profit after tax for the year was Rs. 235 million, representing an outstanding increase of 226% vis à vis the preceding financial year.

Apart from our operations, we also concentrated on our most valued tenets - transparency, accountability and professionalism that underlined our success from the inception. During the year, we focused on moving towards complying with the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission and with the regulations stipulated by the IBSL. We also integrated our reporting to align with the revised Sri Lanka Accounting Standards which now correspond to the International Financial Reporting Standards (IFRS) and strengthened our risk management systems to make our decision making process effective. This is especially significant in the context of today's socio-economic realties. In this sense, we saw our mainstay strengthened, leading the Company on a sustainable path.

Future Outlook

The year under review was one of the most transformative years that laid out a solid foundation on which our operations could to soar in the future. We firmly believe that it is time to accelerate our operations to reach out to a wider network whilst being focused on customer responsiveness, professionalism, transparency and accountability. We plan to diversify our product mix to minimise our dependency on the motor segment in the medium term. We will aggressively seek to surmount intense competition in the industry by being a dependable and trustworthy insurance company, enjoying the confidence of our customer base to be one of the key players in the industry. Our aim is to maintain the levels of overall and underwriting profitability which we achieved in the year under review. Towards this end, we will further improve our fair claim payment scheme and customer service, processes and the technical and soft skills of our team. We also plan to further brace our operations on group synergies and on bancassurance.

Appreciations

In closing, I take this opportunity to acknowledge the demise of my predecessor Mr. W. Karunajeewa in January 2013. Mr. Karunajeewa who chaired our parent company, People's Leasing & Finance PLC and ultimate parent company, Peoples' Bank will be deeply missed but his legacy will sustain a culture of corporate best practices across our Group. I also take this opportunity to thank the Boards of our ultimate, immediate parent companies and other companies in the Group for the unstinted support extended to take our Company forward. My appreciation is extended to our Board of Directors and to the Managing Director for their visionary contribution towards taking People's Insurance to the next level. My heart-felt gratitude is with the Chief Operating Officer and the team at People's Insurance for their discipline, commitment and zealous efforts that underlined the Company's ultimate performance. I take this opportunity to commend the Insurance Board of Sri Lanka for their positive initiatives to bring clarity to the growing insurance industry. Finally to all our stakeholders for their confidence and trust placed on our Company to serve them better.

Jehan P. Amaratunga
Chairman

12th March 2013
Colombo

WHAT'S IMPORTANT | MANAGING DIRECTOR'S REVIEW

THROUGHOUT THE YEAR UNDER REVIEW, WE STRIVED TO POSITION OUR COMPANY TO REALISE THE FULL POTENTIAL OF OUR COMPETENCIES, FOUNDED ON A STRONG GROUP SUPPORT AND FUNDAMENTALS OF GOOD GOVERNANCE

RS. 235 MN

PROFIT AFTER TAX INCREASED BY 226% FROM RS. 72 MILLION TO RS. 235 MILLION

D. P. KUMARAGE
MANAGING DIRECTOR

In our journey, spreading across three years since inception, People's Insurance has established a strong base and acted resolutely to manage the dynamics prevalent in our present day economy. We have placed our operations on the right foundation, particularly in the financial year 2012, to deliver the goals envisioned for our Company in line with the long term strategy of our Group. In this light, it gives me great pleasure to look at our operations in retrospect and note the key milestones we were able to accomplish in the midst of a challenging environment whilst looking ahead at the opportunities we will seek to seize, mitigating the impending susceptibilities in the years ahead.

Outstanding Performance

Throughout the year under review, we strived to position our Company to realise the full potential of our competencies, founded on a strong group support and fundamentals of good governance. We focused on key strategic elements, especially significant areas to boost customer relationships in a price competitive scenario - our outreach, employees and information technology. In this backdrop, we marked an excellent operational year, notwithstanding the trials of a weakening global economy, volatility in the macroeconomic variables in the domestic arena and an intensely competitive industry. Our operations which were underlined by decisive and consistent action aligned to our strategic goals, took our Company to the league of the top-tier insurance companies in Sri Lanka - positioned as the fifth largest non-life insurance company in the industry in terms of the market share.

During the year, we expanded our network through the window offices located at the branches of our parent company, People's Leasing & Finance PLC and extended our full coverage to Galle through our first regional office which was opened in December 2012. We also invested considerably to train and develop skills of our employees and revamp our systems and processes by embracing the appropriate technology and streamlining our day to day operations. We completed the implementation of our enterprise resource planning (ERP) system built in-house which caters to our unique requirements. Further, we launched a state of the art call centre in September 2012, giving us a valuable platform to reinforce our passion for customer centricity.

Managing Director´s Review contd.

Our gross written premium touched Rs. 2,945 million, signifying a 22% growth as against the financial year 2011. Profit after tax, surpassing the budgeted levels, soared by Rs. 163 million in absolute terms vis à vis the preceding financial year, to post an outstanding profit of Rs. 235 million. We moved on from an underwriting loss of Rs. 13 million in 2011 to an underwriting profit of Rs. 42 million which is commendable, even in comparison to the industry trends. Our balance sheet was further propped and strengthened with increasing assets and investment base.

Our Future

We see immense potential for People's Insurance to continue in its upward course in the ensuing years. Overall, we believe that the environment is molded for a stable growth of the insurance sector in a booming economic setting in the post conflict period, despite the imminent mid-term challenges in the economy. In this backdrop, our Company is well placed to meet these challenges and seek opportunities to be one of the leading and best non-life insurers in the industry, thereby growing our market share and bolstering strong and sustainable returns. We are determined to be a more customer focused, responsive, efficient and responsible company which will be our ace to be price competitive. In meeting this end, we will adopt and consistently execute a six-point strategy revolving around - group synergy, product mix, expansion, people, processes and risk management and governance.

Group Synergy

We are fully aware that our forte vis à vis competitor companies in the industry lies with the solid foundation and support we get from our Group, particularly our parent company, People's Leasing & Finance PLC and our ultimate parent, People's Bank which stands as an epitome of stability, trust and integrity in the domain of finance in Sri Lanka. This coming year, we will aggressively look to further leverage on the strength of our Group, synergising on core competencies and resources to reach out to our vision of building lasting trust. Our synergies will open up new business opportunities routed through loans, leases, deposits and other financial products as well as extend and share the distribution network. We will also endeavour to take maximum advantage of the best practices across the Group through knowledge and skills sharing and transfer.

Product Diversification

We made great progress during the financial year under review, in managing our products to cater to the growing demand of our customers. However, in the medium term, we intend to reshape our product portfolio, dominated by motor insurance. This segment came under considerable pressure in a rising import duty, interest rates and weaker exchange rate scenario in the recent past which arrested the remarkable growth witnessed in the industry in 2011. It is therefore prudent and timely to diversify our product range, to cap our exposure and dependency on this segment which

WE SEE IMMENSE POTENTIAL FOR PEOPLE'S INSURANCE TO CONTINUE IN ITS UPWARD COURSE IN THE ENSUING YEARS

is currently above the industry average. Diversification is further warranted given the probable openings in the context of rising per capital income, targeted to increase up to USD 4,000 by 2016 along with the ongoing economic expansion. Our aim is to be geared to cater to increasing demand for existing products as well as to new demands for which the Company has the potential to develop customised products.

Expansion

Extending our customer base through market penetration into the peripheries of the country will be a priority during the forthcoming years. Whilst continuing to maintain window offices in the branch network of our Parent and Group companies, we will concentrate to establish regional offices in strategic locations to give wider coverage island wide.

In complementing our expansion plans, we will join hands with the industry and the Insurance Board of Sri Lanka to create awareness on the importance of insurance as a financial tool among the general public. We will look forward to the "positive word of mouth" to attract new customers and retain our existing and loyal customers by being the best and trustworthy in service.

People

Our commitment to our employees is paramount for we are well aware that it is their efforts that have set our Company apart as a trustworthy and a dependable insurer in the industry, growing our business to the next level. Hence, aligned to our Group's human resource policies, we will further reinforce our conviction on employee inclusivity, promoting a culture of equality of opportunity sans social prejudices in terms of recruitment and work ethics. We will continue to promote employee wellbeing and invest on structured training both internally and externally including foreign training opportunities. Our training will focus on professional development and skills including customer care, leadership, communication, teamwork and applications in information and communication technology.

Operational Processes

As mentioned above, our operational processes during the course of three years have been streamlined to facilitate a more agile and efficient organisation to be in the forefront of customer service. With the appropriate use of information technology, we will further simplify our processes to bring us on par with international best practices, in turn boosting the top line and cost efficiencies which are crucial to maintain our bottom line in a price sensitive environment.

Risk Management and Governance

We will be conservative and sensible in our efforts to take this Company forward, especially in an environment vulnerable to sudden shocks and volatilities. Therefore, creating a work environment embedded with a risk management and good governance is important in taking our Company on the path of sustainability. In this sense, as reiterated in our Chairman's Message, we intend to closely follow and comply with the best governance practices and regulations prescribed by the statutory bodies including the Insurance Board of Sri Lanka. Furthermore, our corporate decisions will be based on a structured risk management system, comprising recommendations of the enterprise risk management committee set up in the year under review, together with the Integrated Risk Management Committee (at the group level), Internal Audit and Board Audit Committee.

In Conclusion

It is with a deep sense of regret that we bid farewell to the former Chairman of our Group, Mr. W. Karunajeewa and place on record, on behalf of the management and staff of People's Insurance, our sincere appreciation for his invaluable guidance to the Company's way forward. My appreciation is extended to the Board of Directors of People's Bank and People's Leasing & Finance PLC and to our sister companies for the synergistic support extended to the success of our operations. I am also thankful to our Chairman and fellow Board Directors for their guidance and direction in taking the Company to the next plateau. I also take this opportunity to thank the Chief Operating Officer and the team at People's Insurance for their dedication in pursing the goals set out for the Company and hope to see the continued vitality in the ensuing year. To the Insurance Board of Sri Lanka for the direction and to all our stakeholders, thank you for your patronage.

D. P. Kumarage
Managing Director

12th March 2013
Colombo

WHAT'S IMPORTANT | CHIEF OPERATING OFFICER'S REVIEW

OUR PERFORMANCE IN THE YEAR WAS UNDERLINED BY OUR STEADFAST DRIVE TOWARDS GROWING OUR NON-LIFE INSURANCE PREMIUM, TARGETED TO OVER-PERFORM THE INDUSTRY AVERAGES WHILST DELIVERING HIGHER RETURNS

RS. 42 MN

AN UNDERWRITING PROFIT OF RS. 42 MILLION COMPARED WITH AN UNDERWRITING LOSS OF RS. 13 MILLION IN 2011

NIMAL PERERA
CHIEF OPERATING OFFICER

Commencing our operations in 2010 under the wings of our parent company, Peoples Leasing & Finance PLC, we have steadily progressed to the next phase of growth. With excellent results, as set out in the annual report 2012 herein, I am pleased to have this opportunity to share my perspective on the year that saw us make a successful transition to be among the top notch non-life insurance companies in Sri Lanka, ranking fifth in the industry in terms of the market share.

Financial Performance

In 2012, we delivered a stable performance despite a challenging economic environment, both globally and domestically. In the year under review, we held our ground and consolidated our position in contrast to the preceding year which witnessed unprecedented growth under a relatively more stable macro environment. Our motor segment which absorbs much of our portfolio was resilient to a regime of rising import duties, interest rates and a weaker exchange rate. The motor segment increased its premium income by 22% while the non-motor segment dealing mainly in fire insurance grew by 20%, representing a moderation in both segments in comparison to the performance of the year 2011.

Our overall premium income, in the year under review, grew from Rs. 2,415 million in 2011 to Rs. 2,944 million. This corresponds to a growth of 22% which is expected to surpass the industry growth rate. We also succeeded to post 66% growth in net earned premium, accounting for reinsurance outflows and unearned premium. Profit after tax touched Rs. 235 million in the year as compared to Rs. 72 million in 2011, mainly propped by underwriting profits of Rs. 42 million and investment income of Rs. 256 million.

We maintained a stable balance sheet with assets closely matching our liabilities. As at 31st December 2012, total assets touched Rs. 3,319 million whilst investments, largely in government securities, were at Rs. 2,609 million, reflecting an increased position of 30% and 48% respectively as against 31st December 2011.

Strategic Priorities

Our performance in the year was underlined by our steadfast drive towards growing our non-life insurance premium, targeted to over-perform the industry averages whilst delivering higher returns. Towards meeting this end, we strategically focused, executed and made excellent progress on a few but potent priorities; building on loyal customer relationships through gaining customer insight and high quality service, effectively managing our portfolio including claims, controlling costs through streamlined processes and harnessing the strengths of our employees to reap benefits of productivity and motivation.

Financial Discipline

During the year, we strived to uphold financial discipline which portends well in a highly competitive market. Our overriding concern was to price our products effectively to

Chief Operating Officer´s Review contd.

commensurate for the many risks present for our policy holders whilst managing claims resourcefully and rationalising expenses. The year, in fact, saw a significant escalation of motor claims - repair costs and third party claims, given the increased number of road accidents. Yet, combined with effective underwriting, our improved claims management which goes beyond merely processing claims, but focusing on client service, proper investigations and settlement at optimal cost enabled us to be resilient to the increasing trends in claims. Consequently, we managed to mitigate the impact on price competitiveness. We succeeded to improve the net combined ratio to 98% as compared to the previous year ratio of 101%, thereby upholding our profitability and solvency position.

Growing Our Market

Our Company, with a capability of covering a spectrum of non-life insurance products, which are tailored to both individuals and corporates, expanded its outreach into high potential markets across the island within the last three years. In the year under review, we were able to build on our market share, currently estimated at 5.7%, positioning us at the helm with the other top-runners in the industry.

In our efforts to penetrate deeper into the market for more accessibility, we fully leveraged on our brand strength and utilised our distribution network which is mainly linked to our Group. This year, we set up 8 window offices taking the total to 45 which are located at the branches of our Group network spanning all provinces including the North and East. We also expanded our operations through our first regional office in a strategic location in Galle.

Customer Insight

During the year, we sought to improve our insight on customer needs and thereby, add value to the product range to secure and enhance our customer relationships. In the year, we initiated one of the most contemporary call centre solutions in Sri Lanka, "Avaya" which uses the latest technology in managing incoming and outgoing calls. The system is automated and interactive with facilities to capture historical and real time performance reporting. This call centre, with quality and cost effective solutions, has indeed given People's Insurance a competitive edge on customer relationships. The system greatly aids the Management and staff to ascertain timely and flexible reports, in turn facilitating the most appropriate solutions to address customer requirements as well as to redress customer complaints promptly and transparently.

Leveraging on IT

We are also conscious of the importance of using information technology to make our Company agile and responsive to emerging risks and opportunities. In 2012, we developed in-house customised solutions with the support of our parent company which aimed at automating and streamlining our operational processes.

In the year under review, we completed the implementation of a customised enterprise resource planning system (ERP), which has automated and integrated our key business processes - underwriting, claims and general ledger across the Company including the regional offices and window offices. Apart from improved delivery and flexible, accurate and efficient pricing and claims processing, this system facilitates versatile reporting, in turn leading to more receptive and transparent decision making in terms of pricing, claims and expenses.

THIS YEAR, WE SET UP 8 WINDOW OFFICES TAKING THE TOTAL TO 45 WHICH ARE LOCATED AT THE BRANCHES OF OUR GROUP NETWORK SPANNING ALL PROVINCES INCLUDING THE NORTH AND EAST

During the year, we also implemented a document management solution and integrated it to our ERP system which effectively enables scanning, storing and retrieving documents there by supporting our requirements for off-storage in disaster recovery. This solution has opened a path to a "paperless" office, overlaying our need to embrace the "go green" initiatives. In addition, we revamped our inventory management system to enhance the effectiveness of stationery maintenance.

Our Fundamentals

We are fully aware that it is absolutely critical to lead our Company on a path of long term sustainability. In our day to day operations, we ensure that due risk management controls and compliance to best work ethics are not compromised. In the year under review, we laid great emphasis on complying with the governance principles and practices that are stipulated by the regulatory institutions and they will be discussed at length in the corporate governance section of this annual report. We also advocate risk management culture where each and every employee is well aware of the importance of risk vs. short term gains. During the year, we set up an enterprise risk management committee to enhance our risk management mechanism which is steered by the Board Audit Committee, Internal Audit and Integrated Risk Management Committee at the group level.

In 2012, as stipulated, we embraced and executed the revised Sri Lanka Accounting Standards which are now aligned to the International Financial Reporting Standards (IFRS). Accordingly, our financial reporting including accounting policies and practices is in accordance with the latest accounting standards. We took the necessary steps to modify our accounting systems and train our staff to effectively support the revised reporting mechanism.

Our operations are further safeguarded by our reinsurance scheme which we placed in the hands of reinsurers with excellent reputation and security ratings on par and sometimes exceeding the minimum requirements specified by the Insurance Board of Sri Lanka. This is crucial for our long term sustainability as the reinsurance market is susceptible in today's context though not under complete duress, to the volatile international financial markets, geopolitical environment with frequent natural calamities and social unrest.

Our Team

Our team has been the underlining strength of the heights we have achieved with excellent operational performance and customer service within a short period of three years. Our focus is on attracting and retaining the "right" people with pertinent skills and talents whilst placing much emphasis on enhancing our team spirit and employee wellbeing. Aligned to our Group's philosophy, we engage our employees and obtain feedback through an "open dialogue". We encourage our management and staff to conduct informal departmental and one on one meetings on a regular basis to remedy any grievances at the earliest stages. We also have in place a structured performance appraisal mechanism to steer our team on the right career path, with proper training and rewards whilst meeting our corporate objectives. This year, we invested well on developing the skills of our employees - technical, financial and management with both internal and external training including foreign training.

Ensuing Years

We stayed focused on our strategic objectives in the year 2012. The ensuing years amidst the on-going uncertainties in the global economic and geopolitical landscape and the macroeconomic realities in Sri Lanka, are not to be faced with complacency. The future demands greater focus on pricing policies to be more proportionate to the risk present especially that of the motor and property classes whilst fastening on our cost effective distribution model without compromising on service standards.

To this end, we will aggressively seek to strengthen our underwriting and claims management discipline to be competitive in pricing. We plan to adopt a sales force on a variable cost structure to further streamline cost and thereby cushion our bottom-line, essential to be on our growth trajectory. We will also make the most of the synergistic opportunities present within our Group and strengthen ties on bancassurance. We will diversify our product portfolio to lessen the dependency on motor class whilst seeking to tailor our products to the needs of our customers especially utilising online solutions to promote as well as to sell our products. Therefore, we have already taken steps to revamp our website and to accommodate online processing in terms of sales.

In Closing

I wish to extend on behalf of my team, our appreciation to the Chairman, Managing Director and Board of Directors for their invaluable contribution and guidance to steer our operations towards meeting our corporate vision. Whilst applauding my team for a job well done in 2012, I hope each and every staff member will continue to give their best to achieve our corporate goals in the years ahead. I also wish to commend the Insurance Board of Sri Lanka for the supervision and regulatory framework which has given insurance companies a level playing field to grow our industry to take its due place in the financial sector of this country. Finally, I call upon all stakeholders to join and place their trust in our journey ahead where we are committed to optimise our insurance expertise whilst strengthening our fundamentals in risk management and governance, culminating in a responsible corporate.

Nimal Perera
Chief Operating Officer

12th March 2013
Colombo

BUILDING LASTING TRUST | BOARD OF DIRECTORS

MR. JEHAN P. AMARATUNGA

MRS. DHARMA N. GAMMAMPILA

Board of Directors contd.

Mr. Jehan P. Amaratunga

Chairman

Mr. Amaratunga assumed duties as the Chairman of People's Insurance Limited in July 2010. He presently serves as a Director of People's Bank. He is a Member of the Institute of Chartered Accountants of Sri Lanka and is a Fellow Chartered Management Accountant. He was awarded First in Order of Merit Prize at the final level examination of the Institute of Chartered Accountants of Sri Lanka.

Mr. Amaratunga currently serves as the Executive Deputy Chairman of MTD Walkers PLC Sri Lanka, which is a leading infrastructure development company that is listed on the main board of the Colombo Stock Exchange. He has over 25 years of extensive experience in finance and management and has been a Consultant and Director to a large number of Corporations and Private entities. Amongst his many achievements, he has presented a paper titled "Value for Money Accounting" at the National Conference of the Institute of Chartered Accountants of Sri Lanka in 1987. He was also a Member of the Governing Council of the Institute of Chartered Accountants of Sri Lanka.

Mrs. Dharma N. Gammampila

Director

Mrs. Gammampila was appointed to the Board of Directors of People's Insurance Limited in July 2010. She is an Attorney-at-Law, Notary Public, a registered Company Secretary of Sri Lanka and a Solicitor of England and Wales. She counts over thirty five years' experience in England and Sri Lanka. She held the position of Company Secretary of Forbes and Walker Limited and was the Director - Legal and HR of the subsidiary companies of the Forbes and Walker Group for a period of thirteen years.

Whilst being actively involved in the practice of corporate law, employment law and conveyancing, she serves as a Director on the Board of People's Bank. She also serves as a Director in a few private companies involved in plantations, travel, tourism and hospitality.

Mr. N. Vasantha Kumar

Director

Mr. N. Vasantha Kumar was appointed as a Director of People's Insurance Limited in May 2011. He presently serves as the CEO/GM of People's Bank and is a Director of People's Leasing & Finance PLC, People's Travels (Private) Limited, Credit Information Bureau and National Payment Council. He is a member of the Governing Board in the Institute of Bankers of Sri Lanka. He is currently the Chairman of Lanka Financial Services Bureau, Financial Ombudsman Sri Lanka (Guarantee) Limited and Sri Lanka Banker's Association (Guarantee) Limited.

He holds a Master's Degree in Business Administration and counts over 32 years experience in treasury management. He was the past president of the Association of Primary Dealers and of the Sri Lanka Forex Association and served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

Mr. D. P. Kumarage

Managing Director

Mr. Kumarage was appointed as the Managing Director of People's Insurance Limited in July 2009. He has been functioning as the CEO/GM of People's Leasing & Finance PLC since September 1997. He is also the Managing Director of People's Finance PLC, People's Leasing Fleet Management Limited, People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited and People's Microfinance Limited.

He has over 32 years experience in banking and finance at People's Bank and retired as a Deputy General Manager. He holds a Postgraduate Diploma in Modern Banking and is a passed finalist of the Chartered Institute of Management Accountants UK. He is the Vice President of the Asian Leasing and Finance Association and Chairman of the Leasing Association of Sri Lanka. In addition, he serves as a Non-Executive Director of SANASA Development Bank and Lanka Ashok Leyland PLC. He is also a Director of Financial Ombudsman Sri Lanka (Guarantee) Limited.

Mr. Rohan Pathirage

Company Secretary

Mr. Pathirage was appointed as the Company Secretary of People's Insurance Limited in July 2009. At present, he is the Secretary to the Board of Directors of People's Bank. He also serves as the Company Secretary of People's Leasing & Finance PLC, People's Leasing Fleet Management Limited, People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited, People's Microfinance Limited and People's Travels (Private) Limited.

He is an Attorney-at-Law with a Bachelor of Laws Degree from the University of Colombo. He holds an MBA in Bank Management from the Massey University in New Zealand.

BUILDING LASTING TRUST | CORPORATE MANAGEMENT

NIMAL PERERA

JEEVANI KARIYAWASAM

HAREENDRA DISSANAYAKA

KANTHI KEMPITIYA

NILUSHAN SOMARATHNA

SHALIKA DE SILVA

Nimal Perera

Chief Operating Officer

Nimal joined People's Insurance Limited in September 2009 as the Chief Operating Officer. Prior to his appointment, he served as General Manager - General at Asian Alliance Insurance PLC. He has over 40 years of extensive experience in the insurance industry, both in Sri Lanka and overseas. He was CEO/General Manager of the National Insurance Corporation Limited, HNB Assurance PLC and Fide´ Insurance Limited, Malawi. Nimal is a Fellow of the Chartered Insurance Institute, UK as well as the Insurance Institute of South Africa and a Member of the Asia-Pacific Risk and Insurance Association.

Jeevani Kariyawasam

Senior Manager - Operations

Jeevani joined People's Insurance in October 2009 and has been in charge of the operations of the Company since then. She counts over 16 years of experience in the insurance industry which includes the experience at National Insurance Corporation Limited and HNB Assurance PLC. Jeevani holds a BSc Degree in Bio Science (Honours) from the University of Colombo. She is an Associate of the Chartered Insurance Institute, UK.

Kanthi Kempitiya

Manager - Motor Underwriting

Kanthi joined People's Insurance in October 2009. She has more than 29 years of experience in the insurance industry including the areas of underwriting, claims, administration and business development. Kanthi holds a BSc Degree in Science from the University of Jaffna and a Post Graduate Diploma in Statistics from the University of Sri Jayewardenepura. She is an Associate of the Insurance Institute of India.

Shalika de Silva

Manager - Legal

Shalika joined People's Insurance in July 2012. She counts over 18 years of experience in the insurance and banking sectors including managerial experience at Union Assurance PLC and Amana Bank Limited. She is an Attorney-at-Law, Notary Public, registered Company Secretary and Commissioner for Oaths.

Nilushan Somarathna

Manager - Finance

Nilushan joined People's Insurance in August 2012 and has been heading the finance department since then. Prior to joining People's Insurance, he served as Manager - Finance at Union Assurance PLC. He has over 9 years of finance and audit experience at Union Assurance PLC and PricewaterhouseCoopers. Nilushan has a BSc Business Administration (Special) Degree from the University of Sri Jayewardenepura. He is a Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and a prize winner of the intermediate examination conducted by CA Sri Lanka. He holds a Master's Degree in Business Administration (MBA) from the University of Southern Queensland, Australia.

Hareendra Dissanayaka

Manager - Motor Claims

Hareendra joined People's Insurance in October 2009. He started his career at HNB Assurance PLC and counts over 9 years of experience in the insurance industry. He is an Associate of the Insurance Institute of India and holds a Diploma in Insurance from the Chartered Insurance Institute, UK.

Corporate Management contd.

Sumudu Bandara

Deputy Manager - Non-motor Claims

Sumudu joined People's Insurance in October 2009. She has over 14 years of experience in the insurance industry. Prior to joining the Company, she held the position of Assistant Manager - General Underwriting at Union Assurance PLC. She is an Associate of the Insurance Institute of India and has a Diploma in Insurance from the Chartered Insurance Institute, UK.

Dulip Dissanayake

Deputy Manager - Finance

Dulip joined People's Insurance in October 2009. He has over 15 years of finance and audit experience in the Company and Ernst & Young both in Sri Lanka and overseas. He is an Associate Member of the Institute of Professional Finance Managers, UK and a finalist of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Gemunu Vithanage

Assistant Manager - Marine

Gemunu joined the Company in October 2009. He started his carrier at Insurance Corporation of Sri Lanka Limited and has over 35 years of local as well as overseas insurance experience, specialised in marine insurance. He has served at Arab Orient Insurance Company, Dubai for 15 years.

Hiran Karunarathne

Motor Engineer

Hiran joined People's Insurance in September 2010. He has over 22 years of experience in insurance, over 14 years of experience in heavy construction and 10 years experience in the automobile industry. He served as a Motor Engineer at AIA Insurance Lanka PLC prior to his appointment at People's Insurance. Hiran is an Associate Member of the Institute of Automotive Engineers of Sri Lanka.

Channa Abeywickrema

Officer in Charge - Fire Underwriting

Channa joined People's Insurance in August 2010. He has five years of experience in the insurance industry, starting his career as a management trainee in 2007. He has a BSc Degree in Physical Science from the University of Peradeniya and a Diploma in Insurance from the Chartered Insurance Institute, UK.

Sashika Jayathilaka

Officer in Charge - Reinsurance

Sashika joined People's Insurance in February 2011. Prior to joining the Company, he served as Assistant Manager at National Insurance Trust Fund (NITF). He has over 5 years of experience in the insurance industry. He has a BSc Degree (General) from the Faculty of Science, University of Colombo.

BUILDING LASTING TRUST | SUPPORT SERVICE TEAM

PRABATH GUNASENA
FAZMIL MOWLANA
UDESH GUNAWARDENA
URESH JAYASEKARA

Uresh Jayasekara

Senior Manager - Human Resources (Group)

Uresh holds a Master's Degree in Business Administration (MBA) specialised in Human Resources from the University of Colombo and Bachelor's Degree of Science (Honours) from the University of Kelaniya. He obtained his Diploma in Management from the Open University and Postgraduate Diploma in Business Management from the University of Colombo. He has altogether more than 12 years of experience in the field of human resources including garments, hospital and financial sectors. He functions as the Senior Manager - Human Resources at People's Leasing & Finance PLC since August 2007.

Udesh Gunawardena

Chief Manager - Internal Audit (Group)

Udesh joined People's Leasing & Finance PLC in September 1999 as an Accountant and possesses over 12 years of experience at People's Leasing & Finance PLC. He is an Associate Member of the Institute of Professional Finance Managers (UK), Member of the Institute of Internal Auditors, Member of the Association of Corporate Treasures of Sri Lanka and Finalist of the Institute of Chartered Accountants of Sri Lanka. He holds a Diploma in Treasury, Investments and Risk Management from the Institute of Bankers of Sri Lanka and counts over 15 years experience in the field of finance. He is also a world prize winner of the Australian Computer Society. Currently he serves as the Secretary to the Board Audit Committees of People's Insurance Limited, People's Leasing & Finance PLC and People's Finance PLC as appointed by the respective Boards.

Prabath Gunasena

Chief Manager - ICT (Group)

Prabath joined People's Leasing & Finance PLC in May 1999 and has been the head of the ICT department for the past 13 years. He holds a Master's Degree in Business Administration (MBA) from the University of Western Sydney (UWS). He also holds a Diploma in Computer System Design at the National Institute of Business Management (NIBM) of Sri Lanka and is a member of the British Computer Society.

Fazmil Mowlana

Assistant Manager - ICT (Group)

Fazmil joined People's Leasing & Finance PLC in December 2009. He has over 14 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.


HIRAN

HIRAN IS A MOTOR FANATIC WHO LOVES NOTHING MORE THAN TO SPEND THE DAY TINKERING WITH HIS CAR. HE'S LOVED AUTOMOBILES SINCE HE WAS A CHILD AND IT'S A PASSION THAT HAS CONTINUED THROUGH HIS ENTIRE LIFE.

"WHAT'S IMPORTANT TO ME, IS KNOWING ALL THE DETAILS SO I DON'T HAVE TO WORRY ABOUT THE FINE PRINT WHEN IT COMES TO INSURING MY VEHICLE"

HIRAN

Safwan Passella | Insurance Officer | Motor Underwriting

"What's important to us is ensuring that we always know what our customers require and finding ways to make sure that those needs are met. That's why we're always there to assist and clarify with any issues or queries."

PEOPLE'S INSURANCE

MOTOR VEHICLE INSURANCE

Our motor vehicle insurance policy covers your motor vehicle against loss or damage caused by accidents, fire, theft and your legal liability to third party for bodily injury or property damage. Optional additional covers are available under comprehensive motor insurance policy.

OUR BUSINESS | MANAGEMENT DISCUSSION AND ANALYSIS

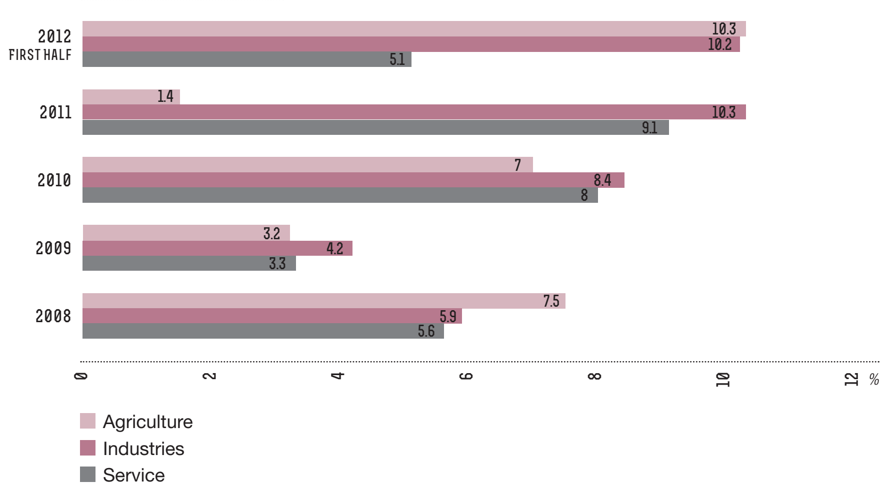
7.2%

ECONOMIC GROWTH DURING FIRST HALF OF 2012

6.5%

ESTIMATED ECONOMIC GROWTH IN 2012

SECTORIAL GDP GROWTH



THE ECONOMY CONTINUED TO MAINTAIN A HIGH GROWTH MOMENTUM DURING THE FIRST HALF OF THE YEAR, RECORDING A GROWTH OF 7.2% WHICH IS A COMMENDABLE ACHIEVEMENT DESPITE ADVERSE GLOBAL CONDITIONS...

ECONOMIC REVIEW

Economic Growth

The economy continued to maintain a high growth momentum during the first half of the year, recording a growth of 7.2% which is a commendable achievement despite adverse global conditions, following two consecutive years of robust growth of 8.0% in 2010 and 8.3% in 2011. The agriculture sector bounced back growing by 10.3% in contrast to 1.4%, the buoyancy of industry sector continued with a growth of 10.2% compared to 10.3% and service sector for which the insurance industry belongs, decelerated to 5.1% against 9.1% in the first half of 2012 compared to the corresponding period of 2011. However, economic growth is projected to moderate to 6.5% in 2012 due to changes in certain policy measures and adverse weather conditions experienced during the year, according to the Central Bank of Sri Lanka.

Inflation

Inflation continued to remain at a single digit level for over 3 years from 2009 declining on a year on year (YoY) basis to its lowest of 2.7% in February 2012. Inflation gradually edged up during the year to a peak of 9.8% in July 2012. This was mainly due to depreciation of the Rupee, supply disruptions on account of drought conditions that have prevailed in major cultivation areas and high monetary expansion. Inflation has since moderated to 9.2% by December 2012 on a YoY basis.

Interest Rates

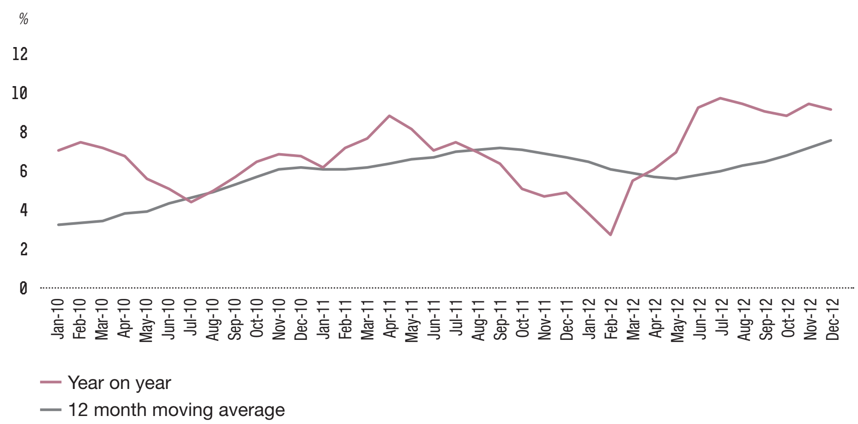
A tightened monetary policy stance was adopted by the regulator during the year by raising policy interest rates and imposing a ceiling on Rupee lending to rein in possible demand side inflationary pressures arising from high credit and monetary expansion. The regulator raised its policy rates twice during the year, once in February 2012 by increasing the repurchase rate and the reverse repurchase rate by 50 basis points each and again in April 2012 by raising the repurchase rate by 25 basis points and the reverse repurchase rate by 75 basis points. Market interest rates rose during the year in line with the increase in policy interest rates and tight monetary conditions. In response to policy measures adopted, money supply growth and growth of credit extended to the private sector have begun to decelerate. Towards the end of the year 2012, the repurchase rate and the reverse repurchase rate have reduced to 7.50% and 9.50%, respectively.

Trade Deficit and Gross Official Reserves

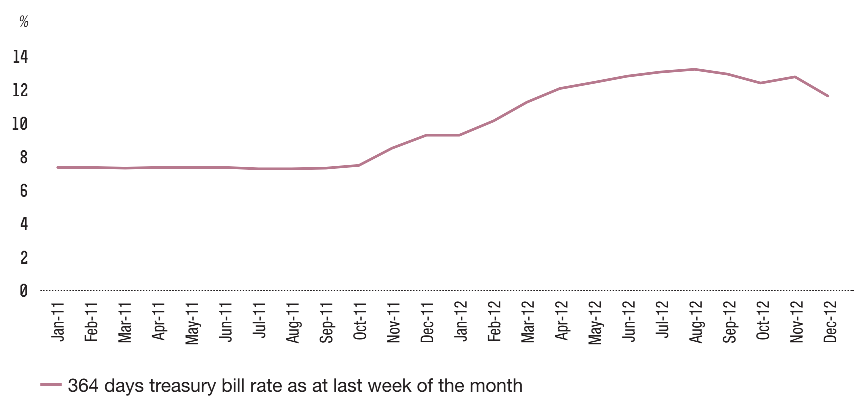
Policy reforms including the regulator allowing more flexibility in the determination of the exchange rate and limiting its intervention in the foreign exchange market were mainly aimed at reducing the widening trade deficit

A TIGHTENED MONETARY POLICY STANCE WAS ADOPTED BY THE REGULATOR DURING THE YEAR BY RAISING POLICY INTEREST RATES AND IMPOSING A CEILING ON RUPEE LENDING TO REIN IN POSSIBLE DEMAND SIDE INFLATIONARY PRESSURES ARISING FROM HIGH CREDIT AND MONETARY EXPANSION

INFLATION



INTEREST RATES



Management Discussion and Analysis contd.

ECONOMIC GROWTH	ECONOMIC GROWTH IS PROJECTED TO MODERATE TO 6.5% IN 2012 DUE TO CHANGES IN CERTAIN POLICY MASSEUSES AND ADVERSE WEATHER CONDITIONS EXPERIENCED DURING THE YEAR
INFLATION	INFLATION CONTINUED TO REMAIN AT A SINGLE DIGIT LEVEL FOR OVER 3 YEARS FROM 2009 DECLINING ON A YEAR ON YEAR (YOY) BASIS TO ITS LOWEST OF 2.7% IN FEBRUARY 2012
INTEREST RATES	A TIGHTENED MONETARY POLICY STANCE WAS ADOPTED BY THE REGULATOR DURING THE YEAR BY RAISING POLICY INTEREST RATES AND IMPOSING A CEILING ON RUPEE LENDING

by curtailing non-essential imports and improving export competitiveness. Despite the decline in exports due to weak external demand, a sharper deceleration in imports from the second quarter of 2012 in response to policy measures resulted in a substantial narrowing of the trade deficit during this period. The improvement in the trade deficit coupled with higher inflows to the capital and financial account as a result of enhanced investor confidence and the relaxation of exchange control regulations helped the balance of payment to record a surplus of USD 306 million by the end of August 2012. Accordingly, gross official reserves rose to USD 7.1 billion by August 2012, which was equivalent to 4.3 months of imports.

Other Economic Indicators

Nine months budget deficit reached Rs. 483 billion (+26.9% YoY and 6.4% of GDP) exceeding government 2012 target of 6.2% of GDP.

Unemployment continued to decline reflecting the sustained growth momentum across all sectors of the economy. During the first half of 2012, the unemployment rate declined further to 3.9% from 4.3% in the corresponding period of 2011.

The Colombo Stock Exchange (CSE) has taken a precipitous downward plunge. Bearish sentiments dominated the market dragging down share prices. The ramifications and repercussions of a bearish market were horrendous. CSE, one of the best performing markets during most of 2011 turned out to be one of the worst, if not the worst. The stock market was at its lowest in the last 22 months. It lost 17.5% during the year under review, though it started recovering in the latter part of 2012.

Prospects for 2013

According to the Central Bank, Sri Lankan economy is expected to return to its high growth trajectory, expanding by around 7.5% in 2013 and by over 8% in the medium term. Cautious monetary and fiscal policy measures together with envisaged improvements in domestic supply conditions are expected to help maintain inflation at mid-single digit levels in 2013. Current account deficit is projected to further narrow to below 4.7% of GDP in 2013 from 5.5% in 2012. Satisfactory performance in the services account in recent years is expected to continue in 2013 facilitated by higher earnings from tourism, port and airport related activities and information technology services. Expected gradual recovery in the global economy, improved infrastructure facilities, gradual liberalisation of capital account transactions and improved investor confidence with a stable macroeconomic environment are expected to improve capital inflows to the country in 2013. Consequently, the overall balance of payment is expected to record a surplus and accordingly, the gross official reserves are expected to rise in terms of equivalent months of imports to a more comfortable level in 2013. As envisaged in the medium term macro fiscal framework, the budget deficit is expected to reduce further in 2013 with continued consolidation in the fiscal sector.

RS. 51,989 MN

ESTIMATED NON-LIFE INSURANCE INDUSTRY GROSS WRITTEN PREMIUM

RS. 31,972 MN

ESTIMATED INDUSTRY GROSS WRITTEN PREMIUM FROM MOTOR SEGMENT

OPERATIONAL REVIEW

Industry Performance

There are 21 operating companies registered with the Insurance Board of Sri Lanka (IBSL) as insurers. Out of the operating insurers, 12 companies are operating as composite insurers (dealing with both life and non-life insurance) while 3 and 6 companies are operating as life insurers and non-life insurers respectively.

Penetration of insurance sector as a percentage of the gross domestic product (GDP) was 1.2% in 2011 (1.18% in 2010), while the non-life penetration as a percentage of GDP was 0.66% (0.63% in 2010).

Continuing its growth momentum, the insurance industry is estimated to grow by 13% in 2012. Similar to 2011, the non-life insurance industry is expected to outperform the life insurance industry in 2012. The non-life insurance industry is estimated to grow by 20% from Rs. 43,331 million in 2011 to Rs. 51,989 million in 2012, compared with the estimated growth of 5% in the life insurance industry.

Premium income of the industry from the motor segment continued to represent the largest share of the non-life business with an estimated gross written premium (GWP) of Rs. 31,972 million in 2012 (2011 - Rs. 27,138 million) and this represented 61% (2011 - 63%) of the total non-life insurance business. This indicates a growth of 18% compared with the previous year. However, this class which achieved an outstanding growth of 30% in 2011 came under pressure during the year due to the decline in the motor vehicle registrations affected by the high motor vehicle tariff structure, high interest rates, weak exchange rate, etc.

THE NON-LIFE INSURANCE INDUSTRY IS ESTIMATED TO GROW BY 20% FROM RS. 43,331 MILLION IN 2011 TO RS. 51,989 MILLION IN 2012, COMPARED WITH THE ESTIMATED GROWTH OF 5% IN THE LIFE INSURANCE INDUSTRY.

PREMIUM INCOME OF THE INDUSTRY FROM THE MOTOR SEGMENT CONTINUED TO REPRESENT THE LARGEST SHARE OF THE NON-LIFE BUSINESS WITH AN ESTIMATED GROSS WRITTEN PREMIUM (GWP) OF RS. 31,972 MILLION IN 2012 (2011 - RS. 27,138 MILLION).

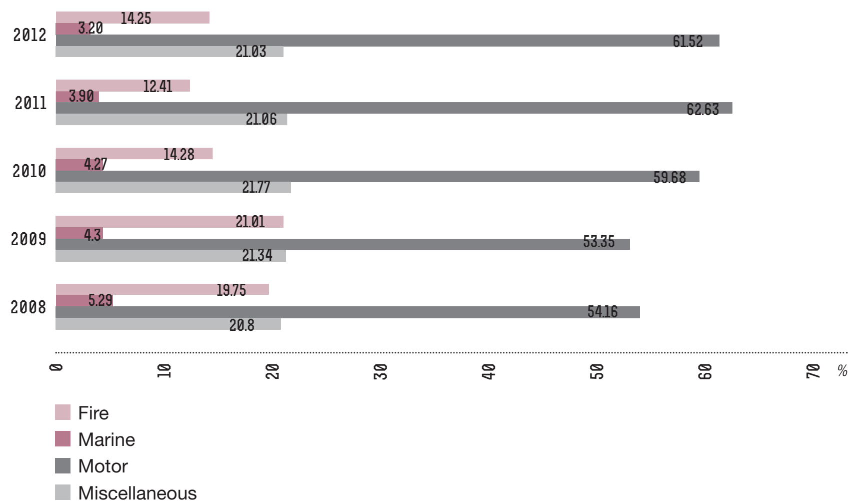
Management Discussion and Analysis contd.

Details related to class-wise distribution of the business and motor vehicle registrations are depicted in the tables below.

Class-wise Distribution of Business

Business Class (%)	2008	2009	2010	2011	2012 (e)
Fire	19.75	21.01	14.28	12.41	14.25
Marine	5.29	4.30	4.27	3.90	3.20
Motor	54.16	53.35	59.68	62.63	61.52
Miscellaneous	20.80	21.34	21.77	21.06	21.03
Total	100.00	100.00	100.00	100.00	100.00

CLASS WISE COMPOSITION OF GWP - INDUSTRY

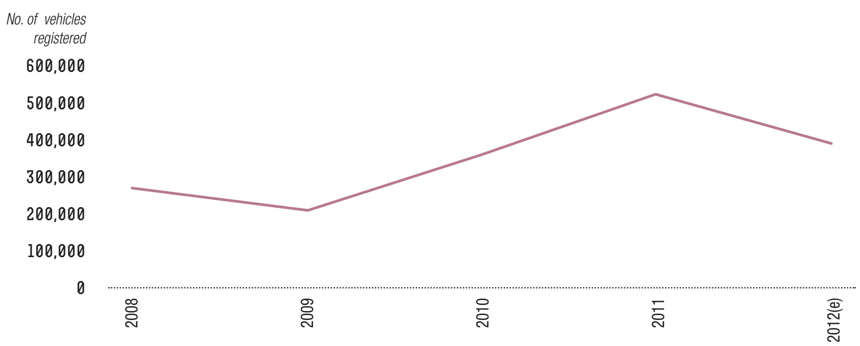


Motor Vehicle Registrations

Description	2008	2009	2010	2011	2012(e)
Number of new vehicles registered	265,199	204,075	359,243	525,421	389,023
Growth %	(11)	(23)	76	46	(26)

MOTOR CLASS WHICH ACHIEVED AN OUTSTANDING GROWTH OF 30% IN 2011 CAME UNDER PRESSURE DURING THE YEAR DUE TO THE DECLINE IN THE MOTOR VEHICLE REGISTRATIONS AFFECTED BY THE HIGH MOTOR VEHICLE TARIFF STRUCTURE, HIGH INTEREST RATES, WEAK EXCHANGE RATE, ETC.

MOTOR VEHICLE REGISTRATIONS



Regulatory Environment

The regulatory environment affecting the insurance industry has changed dramatically during the recent past and posed new challenges to the industry. The need for segregation of composite insurance companies into two separate life and general companies, listing of all insurance companies in a stock exchange and implementation of risk based capital (RBC) are the key regulatory requirements introduced by the insurance industry regulator, Insurance Board of Sri Lanka (IBSL). It is expected that need for segregation of companies and implementation of RBC will have a significant impact to the industry.

Company

People's Leasing & Finance PLC, realising the potential in the insurance industry, registered Peoples Insurance in 2009 as the sole shareholder. Accordingly, the Company commenced its commercial operations in 2010 and was able to become the fifth largest non-life insurer in terms of the market share in its third year of operation.

With the strategic focus towards potential priorities of building on loyal customer relationships through gaining customer insight and high quality service, effectively managing business portfolio including claims, controlling cost through streamlined processes and harnessing the strengths of the employees to reap benefits of productivity and motivation, People's Insurance drew towards achieving its objectives within a shorter period of time in the midst of all internal and external challenges and capitalising on opportunities and strengths.

THE REGULATORY ENVIRONMENT AFFECTING THE INSURANCE INDUSTRY HAS CHANGED DRAMATICALLY DURING THE RECENT PAST AND POSED NEW CHALLENGES TO THE INDUSTRY

Management Discussion and Analysis contd.

Products

Being an insurer operating in the non-life sector, the Company has developed products for both individual and corporate clients. People's Insurance groups its main products under two categories, namely lifestyle products and business products, based on the characteristics of the products. Lifestyle products cater to needs of individuals and insurance covers include dwelling fire, home insurance, personal accident and motor vehicle insurance. Business products cater to requirements of corporate clients and insurance covers which include commercial fire, business interruption (consequential loss), plate glass, burglary, fidelity guarantee, machinery/electronic equipment, contractor's all risks, workmen's compensation, public liability, motor vehicle, marine (cargo) and goods in transit insurance.

Distribution Network

The Company has extended its operations across the island within the wings of the distribution channel of its group, People's Leasing Group. Currently, People's Insurance operates with two regional offices at Galle and Negombo opened recently and 45 window offices covering all the provinces of the island at Peoples Leasing & Finance PLC and People's Finance PLC branch network. Out of 45 window offices, 8 offices were newly added to the distribution network during the year under review. The Company is also planning to expand its business through other channels including bancassurance and its own network in the years to come.

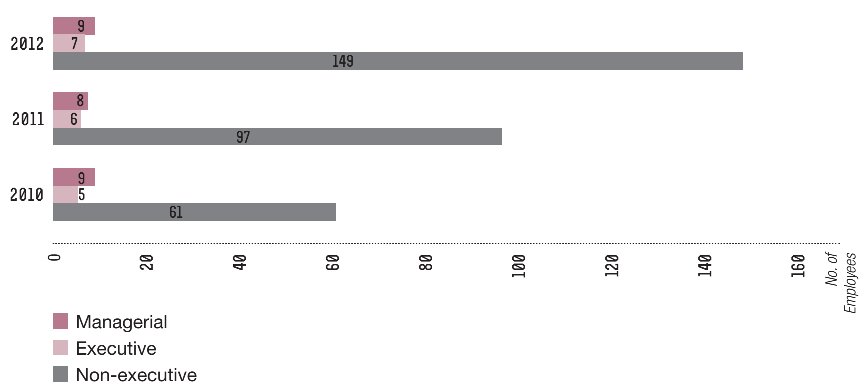
Employees

The Company focuses on attracting and retaining the "right" people with pertinent skills and talents whilst placing much emphasis on enhancing team spirit and employee wellbeing. The Company was formed in 2009 with three employees and today employs 165 employees in different capacities. The following tables depict distribution of employees and employee productivity.

Distribution of Employees

Designation	2010	2011	2012
Managerial	9	8	9
Executive	5	6	7
Non-executive	61	97	149
Grand total	75	111	165

DISTRIBUTION OF EMPLOYEES



Employee Productivity

Indicator	2010	2011	2012
Revenue per employee (Rs.'000)	3,457	14,278	16,547
Gross written premium per employee (Rs.'000)	12,442	21,755	17,845
Profit/(loss) per employee (Rs.'000)	(397)	648	1,422
Number of employees	75	111	165

FINANCIAL REVIEW

Gross Written Premium

Gross written premium of the Company grew at 22%, exceeding the non-life insurance industry estimated growth of 20% to achieve the fifth position in terms of the market share in 2012. Motor and fire classes were the largest contributors for the Company's growth with growth rates of 22% and 25% respectively. Data related to non-life insurance market size (measured in terms of gross written premium), market share and growth rates are illustrated below.

Non-life Insurance	2010	2011	2012 (e)
Market size (Rs. Mn)	35,101	43,331	51,989
Company size (Rs. Mn)	933	2,415	2,944
Company's market share (%)	2.66	5.57	5.66
Market growth (%)	5	23	20
Company's growth (%)	-	159	22
Company's market position	10	6	5

Underwriting Results

Underwriting results improved remarkably from an underwriting loss of Rs. 13 million in 2011 to an underwriting profit of Rs. 42 million in 2012. This was mainly due to improved underwriting and claims management apart from the growth of 22% in GWP followed by 66% increase in the net earned premium due to favourable impact from the net change in reserves for unearned premiums. The net combined ratio also improved to 98% in 2012 from 101% in 2011, reflecting this position. The following table illustrates data with regard to the underwriting results.

Results Overview	2012 (Rs. Mn)	2011 (Rs. Mn)	Change	
			(Rs. Mn)	(%)
Gross written premium	2,944	2,415	529	22
Net earned premium	2,448	1,478	970	66
Net benefits and claims	(1,970)	(1,235)	735	60
Other expenses	(436)	(256)	180	70
Underwriting profit/(loss)	**42**	**(13)**	**55**	**423**

22%

GROSS WRITTEN PREMIUM GREW BY 22% EXCEEDING THE NON-LIFE INSURANCE INDUSTRY ESTIMATED GROWTH OF 20%

5TH

POSITION IN TERMS OF THE ESTIMATED NON-LIFE INSURANCE MARKET SHARE

UNDERWRITING RESULTS IMPROVED REMARKABLY FROM AN UNDERWRITING LOSS OF RS. 13 MILLION IN 2011 TO AN UNDERWRITING PROFIT OF RS. 42 MILLION IN 2012

Management Discussion and Analysis contd.

Profit after Tax

The Company recorded a growth of 226% in the profit after tax from Rs. 72 million to Rs. 235 million. This was mainly contributed by the underwriting profit of Rs. 42 million and other revenue which is largely represented by the investment income of Rs. 256 million. The following table depicts the data with regard to profit after tax.

Results Overview	2012 (Rs. Mn)	2011 (Rs. Mn)	Change (Rs. Mn)	Change (%)
Underwriting profit/(loss)	42	(13)	55	423
Other revenue	282	107	175	164
Profit before tax	324	94	230	245
Tax	(89)	(22)	67	305
Profit after tax	235	72	163	226

Earnings per Share

Earnings per share (EPS) increased significantly during the year recording a growth of 132% from Rs. 1.70 to Rs. 3.94. This remarkable growth was mainly attributable to the exceptional profit after tax recorded during the year under review.

Indicator	2012	2011	Change Rs.	Change %
Earnings per share (Rs.)	3.94	1.70	2.24	132

Dividends

A distribution of a portion of a company's earnings, decided by the Board of Directors is crucial to a company. The Company should maintain a trade-off between the Company's growth and investor satisfaction through investment returns by way of dividends. People's Insurance has been able to keep the shareholders satisfied and maintain the growth required by balancing both pay out and retention ratios. The Board of Directors has authorised Rs. 1.00 dividend per share for the year ended 31st December 2012 which is a growth of 400% compared with 2011. Dividend per share, dividend pay-out ratio and retention ratio are tabulated below.

Indicator	2012	2011
Dividend per share (DPS)	Rs. 1.00	Rs. 0.20
DPS growth rate	400%	100%
Dividend pay-out ratio	26%	17%
Retention ratio	74%	83%

Return on Equity

Return on equity (ROE) measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The amount of net income returned as a percentage of shareholders equity is referred as ROE and expressed as a percentage. The Company's ROE, taking other comprehensive income also into account of net income improved from 11.88% to 27.60% in 2012 as depicted in the table below.

Indicator	2012	2011	Growth
Return on equity (%)	27.60	11.88	132

The growth of 132% is primarily due to the exceptional improvement in the profitability despite the increase in the equity during 2012.

Assets

Asset management plays a key role in financing the Company, thereby profit growth. Even though the external shocks have dampened growth of assets in businesses, People's Insurance achieved a substantial increase of 31% in total asset during the year under review. A growing asset base is required to ensure the regulatory minimum requirements and to strongly absorb the internal and external shocks. The Company continues to maintain a strong financial position with a sound asset base which stemmed from business growth and capital infused by shareholders. The main contributory factors for the asset growth in 2012 are the business growth and improvement in profitability.

Capital

Strong capital backing from its shareholders creates a good foundation for the Company to stand strong in the market and the continuous infusion of capital to the Company from the shareholders has contributed to bring the stated capital up to Rs. 600 million in 2012 starting from Rs. 115 million in 2009. This has enabled the Company to maintain its stated capital well above the minimum capital requirements as per the current regulations. In addition, the Company's stated capital will meet the minimum capital requirement of Rs. 500 million under the proposed risk based capital regime which is to be implemented with effect from 2016.

Insurance Provisions

The Company has taken necessary action to ensure that the required insurance provisions are maintained at any given point of time as stipulated by the insurance regulator, the Insurance Board of Sri Lanka (IBSL). The Company has obtained a certification from a professional actuarial firm, NMG Financial Services Consulting on the adequacy of incurred but not reported claims (IBNR) provision in relation to the claim liabilities of People's Insurance Limited as at 31st December 2012. This IBNR provision, together with the case reserves held by the Company is expected to be adequate to meet the future liabilities in respect of the claims obligations as at 31st December 2012.

At the end of each reporting period, companies are required to carry out a liability adequacy test (LAT) according to SLFRS 4, Insurance Contracts. LAT is performed to assess the adequacy of the carrying amount of the unearned premium reserve (UPR). NMG Financial Services Consulting has certified that UPR is adequate in relation to the unexpired risks of the Company as at 31st December 2012.

Solvency Margin

Solvency Margin (General Insurance) Rules - 2004 and amendments thereto require the insurers to maintain minimum solvency margins. The Company was in compliance with the required solvency margin throughout the year under review. The Company recorded an improvement of 29% in the solvency ratio from 1.12 to 1.45 in 2012. Details of the solvency position as at the end of year are provided below.

			Change	
Indicator	2012	2011	Absolute	%
Net admissible assets (Rs. Mn)	767	485	282	58
Required solvency margin (Rs. Mn)	528	434	94	22
Excess over required solvency margin (Rs. Mn)	239	51	188	369
Solvency ratio (%)	1.45	1.12	0.33	29

Investments

The Company uses a balanced approach in managing investments, maintaining risk return trade off within its investment strategy. The risk return trade-off is an effort to achieve a balance between the desire for the lowest possible risk and the highest possible return. The Company always adhered to the stipulated regulated framework when making investment decisions. Statistics of the investments and returns of investments are tabulated below.

			Change	
Indicator	2012	2011	Absolute	%
Investment portfolio (Rs. Mn)	2,609	1,763	846	48
Investment income and fair value gains (Rs. Mn)	268	85	183	215
Investment income as a percentage of average investments (%)	12.26	7.50	4.78	64

Management Discussion and Analysis contd.

The total investment portfolio increased by 48% compared to 2011 due to the growth of the business, profitability and capital infused during the year under review.

The growth of 215% in investment income and fair value gains was mainly attributable to the increase in the investment portfolio by 48% and comparatively high interest rates experienced in 2012, apart from the improved management of investments.

The Company invests a significant proportion of investments in government securities which are considered as risk free. Accordingly, investments in government securities accounted for 48% of the total investment portfolio as at 31st December 2012 representing the largest share. Fixed deposits represent the second largest proportion with 42% of the total investment portfolio. Investment in listed shares was only 4% in keeping with the Company's investment strategy. Details with regard to investment composition are provided below.

	2012		2011		
Investment Instrument	Value (Rs. Mn)	Composition (%)	Value (Rs. Mn)	Composition (%)	Growth (%)
Government securities	1,251	48	1,208	69	4
Fixed deposits	1,104	42	538	30	105
Listed shares	96	4	14	1	586
Corporate debts	149	6	-	-	100
Other financial assets	9	-	4	-	125
Total	2,609	100	1,763	100	48

Based on the expected financial market behaviour, the Company is planning to increase its investment returns in the years to come while meeting the stipulated regulatory requirements of the IBSL. By capitalising on the financial market opportunities, People's Insurance is planning to extend its diversification to the other asset categories such as listed corporate debentures to enjoy tax benefits introduced by the Government's Budget for 2013. The Company is also looking forward to a more strategic focus on investment and quick responses to financial market changes to enhance investment returns in the years to come.

Impact from Revised Sri Lanka Accounting Standards

The Institute of Chartered Accountants of Sri Lanka issued a new volume of Sri Lanka Accounting Standards which were effective from financial periods beginning on or after 1st January 2012. These accounting standards which are commonly referred as SLFRS comprise of accounting standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS).

Accordingly, the Company adopted the revised Sri Lanka Accounting Standards (SLFRS/LKAS) with effect from 1st January 2012 and presents its first set of financial statements in compliance with SLFRS/LKAS, with this annual report. The following standards had a material impact on the Company's financial statements.

SLFRS 1 - First-time Adoption of International Financial Reporting Standards

SLFRS 4 - Insurance Contracts

SLFRS 7 - Financial Instruments: Disclosures

LKAS 32 - Financial Instruments: Presentation

LKAS 39 - Financial Instruments: Recognition and Measurement

INFORMATION AND COMMUNICATION TECHNOLOGY REVIEW

Overview

The insurance industry is largely information oriented and hence, accurate and timely information has become the cornerstone of competitive advantage of an insurer within today's dynamic business environment. People's Insurance is fully equipped with the latest technology and state of the art systems and has synchronised all the functions to align with the corporate strategies.

The Company's Information and Communication Technology (ICT) operation is managed centrally by its group, People's Leasing Group.

Esteemed Recognition

The ICT arm of the People's Leasing Group (to which People's Insurance belongs) has conformed to the prestigious global benchmark of ISO/IEC 27001:2005 Information Security Management System (ISMS) standard and was awarded the certificate by Det Norske Veritas (DNV).

The ISO 27001:2005 standard is an internationally recognised standard that governs design, implementation, monitoring, maintenance, improvements and certification in the area of information security management system (ISMS).

PEOPLE'S INSURANCE IS FULLY EQUIPPED WITH THE LATEST TECHNOLOGY AND STATE OF THE ART SYSTEMS AND HAS SYNCHRONISED ALL THE FUNCTIONS TO ALIGN WITH THE CORPORATE STRATEGIES

Professional ICT Team

The ICT team is enriched with a professional and experienced team of individuals and has been pioneering system developers to improve the effectiveness of the system thus, improving the Company's image. The ICT team has continued to maintain a good rapport with external vendors in outsourcing system developments and acquiring external hardware systems. Training is conducted for ICT staff members on a continuous basis to keep abreast with the latest technology and systems.

Year at a Glance

A number of key initiatives were taken, with the intention of introducing innovative technology to the business process and subsequently increase the efficiency and effectiveness of operations, thus creating value for the customers. Improvements have been made continuously, ensuring the integrity, availability and confidentiality of information. The Company continuously strives to improve the ICT infrastructure in terms of redundancy systems and equipment.

Insurance System

The Company's insurance system is an in-house developed comprehensive product which has automated all insurance related business processes across the Company. Accordingly, the functions of the Company are fully computerised with a centralised processing system with all business

Management Discussion and Analysis contd.

activities including motor and non-motor underwriting, motor and non-motor claims and reinsurance which are linked to an online general ledger.

A separate call centre module was developed with all call centre functionalities. Functions in relation to non-core operations such as, human resource management, payroll process and inventory management are also computerised.

The system contains a separate report centre and information centre from which users can obtain any reports for various purposes. The system also contains a security module with audit trials which enables dual authorities when executing some functions of the system. The system has the capacity to automatically send SMSs and emails to customers with regard to claims and marine policy schedule issuance respectively.

All branches and window offices are connected and fully computerised, enabling real time transaction processing. These systems work at an operational level and the staff at operational level on a routine basis feed detailed information. The Company's system is considered to be highly efficient and secure and it has improved the delivery process of transactions, facilitating the Company to capitalise on its core competency of providing the fastest service to its customers.

Document Management System

Document management is the process of managing the entire lifecycle of paper based documents. Document management provides a simple and efficient way to input, retrieve, manage revisions (managing multiple versions of a document), collaborate, track and retain all of the other supporting documents in one location which eases the decision making process.

People's Insurance considers the document management system as a vital implementation for the Company with a customer's past data easily retrievable within a few seconds, increasing the service level of the employee. Hence, swift customer service will ultimately increase customer satisfaction over the organisation, which will be beneficial in the long run. The document management solution enhances green IT concepts within the Company by reducing paper-based work. The document management system provides numerous benefits to the Company including reduced storage of documents, flexible retrieval of documents, flexible indexing, faster and more flexible search of documents, improved security, easy backup of documents for off storage and disaster recovery, elimination of lost files and environmental friendliness.

Management Information System

The Management Information System (MIS) is an internally generated system to optimise the collection of information throughout the organisation and it transforms data from an underlying internal transaction processing system into regular and ad-hoc reports through the MIS. This has improved the accuracy of the information and the speed of decision-making at the middle and top management level.

During the year under review, an MIS which enables management to track and make decisions on several functions as well as their performances at any time was implemented.

Disaster Recovery Plan

The disaster recovery system is centralised and is maintained both internally and externally to ensure the security of data backups. In the event of power failure, an SMS is delivered to the server administrators to ensure prompt recovery. Information availability and security is highly guaranteed with the establishment of a strong disaster recovery site. The intent of this disaster recovery plan is to ensure the continuous service of the system in the event of an interruption resulting from an unplanned and unexpected disaster.

A sophisticated network monitoring system has been implemented that can be used to identify issues in the networks in a very short period of time, which results in quick responses. Network health monitoring at regular periods have controlled administrative functions, which assists in eliminating unnecessary traffic and other issues in the network.

User Friendliness

The ICT team is relentlessly focused on improving the systems and procedures, thus ensuring the system is in par with the latest technology. Comprehensive training is provided in advance to ensure familiarity with the system, enhancing the efficiency and effectiveness of the flow of operations. During the year under review, general as well as specific training programs were conducted, in order to ensure that the staff is familiar with the system and its workings.

Looking Forward

The official web site (www. peoplesinsurance.lk) will be launched in the near future. The new web site will be more informative and provide facilities to customers by being able to directly be contacted by the Company by mere submission of a phone number.

The ICT team is working towards achieving a certification for the recently implemented data centre, which is a vital requirement for an insurance company.

Continuous improvements to the system are carried out, as and when the need arises, in order to improve time and cost efficiency. Consequently, the ICT team expects to evaluate all current processes to re-engineer and improve efficiency levels to facilitate a faster and more convenient service to external and internal customers.

FUTURE OUTLOOK

The Company continues to maintain a positive outlook in the non-life insurance sector. Though the fierce price competition continued in 2012, it is expected that this will slow down gradually due to pressure on achieving underwriting profits due to regulatory changes and volatility in the interest rates.

The insurance industry will go through a few major regulatory changes in the future, including segregation of composite insurers into two separate life and general companies, listing in a stock exchange and implementation of risk based capital (RBC).

People's Insurance was able to achieve an underwriting profit during the year despite the extensive price competition and will aggressively seek to strengthen the underwriting and claims management discipline to maintain this position in the future.

The segregation requirement does not affect People's Insurance as the Company is only a non-life insurer. The Company's stated capital has already met the minimum capital required under the proposed RBC regime and the Company will be working towards complying with the RBC regime while reaping the benefits of the regime. The Company is well positioned and plans to list the Company before the due date.


CHANDIMA

CHANDIMA HAS BEEN OPERATING HIS SHOP FOR THE PAST 5 YEARS AND IT HAS BEEN ONE OF HIS DREAMS SINCE HE COMPLETED SCHOOL. HE ENJOYS CATERING TO A DIVERSE RANGE OF PEOPLE AND HOPES TO EXPAND HIS SHOP ONE DAY.

"WHAT'S IMPORTANT TO ME, IS THE ASSURANCE THAT MY LIVELIHOOD IS PROTECTED AND THAT MY FAMILY IS SUPPORTED NO MATTER WHAT HAPPENS"

CHANDIMA

Gothamie Muthunayake | Insurance Officer | Non-motor Underwriting

"What's important to us is supporting businesses which in turn support the entire economy. So our range of commercial fire insurance covers provide customers with the peace of mind that their form of income is never compromised".

PEOPLE'S INSURANCE

COMMERCIAL FIRE INSURANCE

Our commercial fire insurance cover is a policy that deals with loss or damage to the property caused by fire or lightning and domestic explosion. This insurance is usually extended to cover loss or damage due to storm and flood, earthquake, tsunami, explosion, malicious acts, impact, burst pipes, strike, riot and terrorism, etc.

OUR FRAMEWORK | CORPORATE GOVERNANCE

Corporate governance is about the effective, transparent and accountable governance of the affairs of a company. The Board firmly believes that corporate governance is fundamental to the Company's competitiveness, growth and sustainability. Hence, the Board strives to discharge their duties with high ethical values and accountability in their commitment to good governance practices.

At People's Insurance, we are of the belief that high quality governance has a strong link not only with the creation of the long-term value of the shareholders, but also with the long-term value of all our stakeholders. In view of this, our corporate governance framework has been designed to protect the interests of all our stakeholders including shareholders, customers, employees, community and regulators.

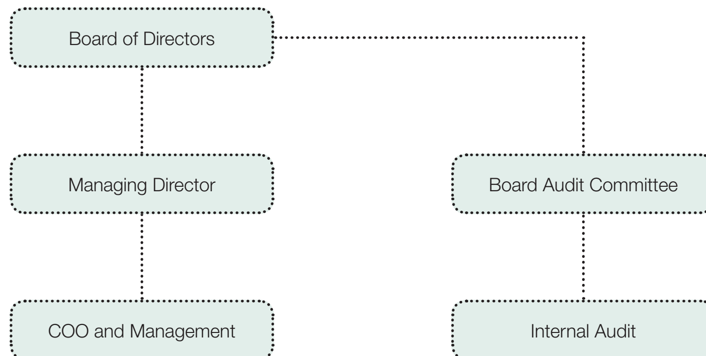
The following actions were taken by the Company during the year in view of strengthening the Company's governance framework.

- Successfully adopted the revised Sri Lanka Accounting Standards (SLFRS/LKAS) which are effective from 1st January 2012 in preparation and presentation of the Company's financial statements with effect from the financial year commenced from 1st January 2012.
- Revised the Board Audit Committee charter and Internal Audit charter to be in accordance with the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities and Exchange Commission (SEC).
- Implemented a whistle blower protection policy in view of encouraging employees to raise their concerns over illegal, improper or unethical practices adopted by the Company or individuals.
- Developed a formal internal audit plan including the areas to be covered in 2012 and the same was approved by the Board Audit Committee. Increased the frequency of the internal audits accordingly.
- Initiated an independent and comprehensive review of security and controls over core information technology (IT) system and other systems linked to the core system.
- Initiated an implementation of a comprehensive process and policy for related party transactions covering the requirements of accounting standards and other regulatory requirements.
- Developed a checklist of regulatory requirements which is signed off by the responsible officials on a monthly basis.
- Formed an enterprise risk management committee comprising the Management in view of strengthening risk management process.

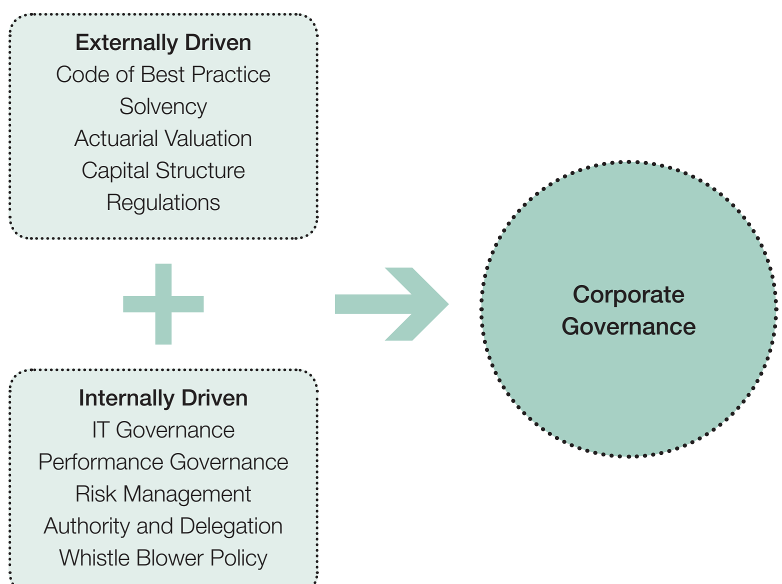
AT PEOPLE'S INSURANCE, WE ARE OF THE BELIEF THAT HIGH QUALITY GOVERNANCE HAS A STRONG LINK NOT ONLY WITH THE CREATION OF THE LONG-TERM VALUE OF THE SHAREHOLDERS, BUT ALSO WITH THE LONG-TERM VALUE OF ALL OUR STAKEHOLDERS

Governance Structure

The governance structure of People's Insurance is diagrammatically presented below.



Our corporate governance framework is strengthened by both externally and internally driven factors, which ultimately protects the interests of all our stakeholders. The following diagram depicts the manner in which the internally driven and externally driven factors strengthen our corporate governance framework.



Corporate Governance contd.

Externally Driven Factors

Code of Best Practice on Corporate Governance

We at People's Insurance commit ourselves to adhering to the highest level of governance practices. In view of this, the Company strives to follow the best practices recommended in the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities and Exchange Commission of Sri Lanka (SEC). The extent to which the Company has complied with the Code of Best Practice on Corporate Governance is summarised below.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
The Board should direct, lead and control the Company	A.1	The Board of Directors of the Company comprises four Directors, of whom three Directors function as Non-Executive Directors. The Company is managed by a team of professionals with expertise in respective areas headed by the Managing Director (MD) who functions as an Executive Director and is in charge of the overall management of the Company. The Board plays an active role in setting the direction for the Company and the process of implementation of strategies. The Board has given authority and responsibility to the Management to implement strategies. Annual budgets and corporate plans are the key tools in this process. The Company performance is reviewed periodically with the performance indicators, budgets, and necessary action is taken by the Board when deemed necessary.
Frequency of Board meetings and Directors' attendance at Board meetings	A.1.1	Board meetings are held on a monthly basis. Additional Board meetings are held based on the requirement to discuss specific matters. The attendance of each Director at these meetings is presented on page 61.
Formulation and implementation of a sound strategy	A.1.2	Based on the vision and mission of the Company, the Board sets short term, medium term and long term strategies. The corporate plan and budget are developed by the Management and approved by the Board on an annual basis. The Board has delegated authority and responsibility to the Management to develop and implement corporate plans, strategies, annual budgets and carry out daily operations of the Company.
Competency of the MD and the Management to implement the Company strategy	A.1.2	The MD and the Management team possess extensive knowledge and skills with wide spread experience in the industry in which the Company operates. The profiles of the Managing Director and the Management are presented on pages 20 to 27.
Effective succession planning for the MD and senior management	A.1.2	The structure of the Company facilitates subordinates to replace senior management positions where necessary. The Company also invests in human resources development plans which will enable employees to develop their career.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Effective systems to secure integrity of information, internal controls and risk management	A.1.2	The Company has implemented effective systems to secure integrity of information, internal controls and risk management. Effectiveness of such systems is monitored by the Management, internal and external auditors and independent expert consultants when necessary and appropriate improvements are implemented accordingly. Moreover, the Board has delegated its authority relating to internal control and risk management to the Board Audit Committee.
Compliance with laws, regulations and ethical standards	A.1.2	The Company is in compliance with all applicable laws and regulations. The Company also adheres to the highest level of ethical standards.
Consideration of stakeholder interests in corporate decision making	A.1.2	The Company's key stakeholder group includes shareholders, customers, employees, regulators, community and the environment. Strategic decisions are evaluated by paying due attention towards stakeholder group interests. The Board always makes an effort to minimise negative impacts on the stakeholders in the corporate decision making process.
Adoption of appropriate accounting policies and fostering compliance with financial regulations	A.1.2	Accounting policies of the Company are prepared based on the Sri Lanka Accounting Standards and industry best practices. Accounting policies are reviewed and updated annually in light of evolving international and local accounting standards, changing business requirements and industry best practice. Accordingly, the Company adopted revised Sri Lanka Accounting Standards (SLFRS/LKAS) which are effective from 1st January 2012 in preparation and presentation of with effect from the financial year commenced from 1st January 2012. Financial statements of the Company are prepared in compliance with the Companies Act No. 07 of 2007 and Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments.
Fulfilling the other Board functions relevant to the organisation	A.1.2	The Board makes every endeavor to fulfill their stewardship obligations on behalf of the stakeholders.
Act in accordance with the laws and regulations relevant to the organisation and procedures to obtain independent advice	A.1.3	The Board ensures that its members collectively and individually act to comply with the laws and regulations applicable to the Company. The Directors are entitled to seek professional advice as and when necessary and the same is coordinated by the Company Secretary and any expenses in that regard is borne by the Company.

Corporate Governance contd.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Access to the Company Secretary and functions of the Company Secretary	A.1.4	All Directors have access to the advice and services of the Company Secretary. The Secretary ensures that Board procedures are followed and that the provisions of the Companies Act No. 07 of 2007 and other applicable rules and regulations are complied with. Further, the Company Secretary possesses the required qualifications as stipulated in the Companies Act No. 07 of 2007. The Company Secretary is responsible for preparing the agenda for Board meetings, maintaining minutes of the Board meetings and ensuring that the proceedings at the Board meetings are recorded in sufficient detail.
Independent judgment to bear on issues of strategy, performance, resources and standards of business conduct	A.1.5	Independent judgment of each Director to bear on issues of strategy, performance, resources and standards of business conduct are discussed by the Board in order to evaluate matters effectively so that the correct decisions can be made for the benefit of the Company. However, the Board is conscious of avoiding conflict of interests.
Dedication of adequate time and effort for the matters of the Board and the Company	A.1.6	To ensure that the duties and responsibilities owed to the Company are satisfactorily discharged, the Directors attend monthly Board meetings and discuss the prevailing matters. Board papers are circulated amongst its members one week prior to each Board meeting date in order to enable the Directors to analyse and call for additional information and clarifications if required. Besides, the Board members hold meetings and discussions with the Management when required. Further, the Board follows up on issues arising from Board meetings. These indicate that the Board commits sufficient time to carry out their duties. The number of meetings attended by each Director is presented on page 61.
Training for Directors	A.1.7	The Chairman is responsible to ensure that the Directors possess sound knowledge to carry out their duties in an effective manner. The learning environment of the Company facilitates the Directors to enhance their knowledge on the insurance industry, general economic conditions, market developments and trends, etc.
Division of responsibilities between Chairman and MD	A.2, A.2.1	The positions of the MD and the Chairman are separated clearly to segregate the balance of power and responsibility. The Chairman serves as a Non-Executive Director while the MD serves as an Executive Director. There is a division of responsibility at the head of the Company.
Chairman's role	A.3	The Chairman provides leadership and facilitates effective discharge of Board functions. He is responsible for running the Board and ensuring effective participation of the Directors in the affairs of the Company.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Key responsibilities of Chairman	A.3.1	The Chairman encourages the effective participation of the Directors towards the strategic decision making process in order to make collective decisions. Different views of the Directors are evaluated to take strategically viable decisions and to ensure that stakeholders' interests are not adversely affected.
Availability of sufficient financial acumen and knowledge	A.4	The Chairman of the Company is a Chartered Accountant. In addition, members of the Board have extensive experience in various aspects of financial management. The profiles of the Board of Directors are set out on pages 20 to 23.
Board composition	A.5	The Board comprises three Non-Executive Directors and one Executive Director who also functions as the MD.
Balance of Executive and Non-Executive Directors	A.5.1	As mentioned above, the Board comprises three Non-Executive Directors so that their views carry significant weight in the decisions of the Board.
Independent Directors	A.5.2, A.5.3 A.5.4, A.5.5	Presently the Board does not have any Independent Directors.
Requirement to appointment Senior Independent Director (SID)	A.5.6, A.5.7	The requirement to appoint a Senior Independent Director does not arise as the roles of the Chairman and MD are separate.
Meetings to be held with Non-Executive Directors only	A.5.8	Even though the Managing Director is in charge of the overall management of the Company, the Chief Operating Officer functions as the apex executive in charge of the day-to-day management of the Company. Therefore, there has not been a necessity for the Non-Executive Directors to meet separately in addition to the monthly Board Meetings.
Recording of Directors' concerns in the Board minutes	A.5.9	The Directors' concerns pertaining to unresolved matters are discussed and recorded in the Board minutes and further discussions on these matters are pursued at the next Board meeting with a view to resolving them.
Management obligation for providing information in a timely manner	A.6.1	The Management provides accurate, timely, relevant and comprehensive financial and non-financial information to the Board to facilitate the decision making process. The Chairman ensures that all the Directors are adequately briefed on issues arising at Board meetings.
Preparation of minutes, agenda and Board papers	A.6.2	Agenda and Board papers to be tabled at Board meetings are prepared and circulated one week prior to Board meetings together with the minutes of the previous meetings.
Appointment of new Directors to the Board	A.7	Appointment of Directors takes place in terms of the Articles of Association of the Company.

Corporate Governance contd.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Requirement of a Nomination Committee	A.7.1, A.7.2	The Company has not appointed a Nomination Committee as at 31st December 2012. However, the Board annually assesses the Board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands faced by the Company.
Disclosure of profiles of the newly appointed Directors	A.7.3	Profiles of all Directors are presented on pages 20 to 23.
Re-election of Directors at regular intervals	A.8	The Articles of Association do not provide for the re-election of Directors as the Directors of the Company are nominated by the shareholders themselves and the shareholders have the discretion to remove any such director so appointed by them.
Appointments of Non-Executive Directors for specified terms, subject to re-election	A.8.1	The Non-Executive Directors have been appointed in terms of the Articles of Association of the Company.
All Directors including the Chairman to be subject to re-election by the shareholders at the first appointment and to re-election thereafter at intervals of no more than three years	A.8.2	There is no re-election of Directors as specified above.
Board appraisal	A.9, A.9.1, A.9.2, A.9.3	The Board carries out an annual review, headed by the Chairman. All the Directors actively participate in the review and proposals for improvements are implemented immediately. The Board has implemented a self-assessment exercise covering key functions under the following activities to assess the performance of the Board and carries out the evaluations annually. • Discharge of statutory/regulatory duties and Board responsibilities. • Risk monitoring. • Seeking and contributing views and opinions on strategic decision making. • Leveraging the skills, expertise, contacts of individual Board members in the furtherance of business. • Overall view of management of the business by the Board.
Information in relation to each Director	A.10, A.10.1	The profiles of all Board members are presented on pages 20 to 23. Details of related party transactions are presented on pages 129 to 131. Attendance of Directors at Board meetings is presented on page 61.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Assessing the performance of the MD	A.11	The Board sets financial and non-financial goals and objectives for the MD in line with the short, medium and long term goals of the Company and delegates appropriate authority to the Management to implement strategic objectives of the Company. The MD is entrusted with the management of the Company's operations with decision making authority and he is fully accountable to the Board. The main corporate goals and objectives emanating from the Company's corporate plan and the budget are incorporated as personal goals of the MD, whose performance is assessed by the Chairman regularly and the assessment is ratified by the Board.
Financial and non-financial targets	A.11.1	At the commencement of every financial period, the Board in consultation with the MD, sets the targets and objectives that should be achieved by the MD during the year.
Performance of the MD	A.11.2	The performance of the MD is evaluated by the Board at the end of each financial year by comparing with the set targets and objectives, as stated above.
Directors' remuneration	B.1	No Director is involved in deciding his own remuneration.
Remuneration Committee and determining remuneration of the Directors	B.1.1, B.1.2, B.1.3, B.1.4, B.1.5	The remuneration of the Directors is determined in accordance with the People's Leasing & Finance Group policy.
Level of remuneration and executive share options	B.2, B.2.1, B.2.2, B.2.3, B.2.4, B.2.5, B.2.6, B.2.7, B.2.8, B.2.9	The level of remuneration is decided upon the People's Leasing & Finance Group policy. The Company does not have an executive share option scheme.
Disclosure of remuneration	B.3, B.3.1	The Directors' fees and remuneration are disclosed on page 75.
Constructive use of AGM and conduct of General Meetings	C.1	Peoples Leasing & Finance PLC is the sole shareholder of the Company and the AGM is held with the participation of representatives of Peoples Leasing & Finance PLC and the Board of Directors of the Company.
Consideration of proxy votes	C.1.1	In terms of the Articles of Association of the Company, proxy votes together with the votes of the shareholders present at the AGM are considered for each resolution.
Separate resolutions on each substantially separate issues	C.1.2	The Company proposes separate resolutions on each substantially separate issue and the adoption of the reports and accounts is proposed as separate resolutions.
Availability of Board subcommittee Chairman to answer queries	C.1.3	The Chairman of the Audit Committee is the same as the Chairman of the Board and is available to answer questions at the AGM.

Corporate Governance contd.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Circulation of notice of AGM	C.1.4	The notice of meeting and related documents including other resolutions if any are circulated to the shareholders at least 15 working days prior to the AGM in compliance with the Companies Act.
Procedures governing voting at AGM	C.1.5	Instructions on appointing a proxy with regard to representation of shareholders at the General Meeting to ensure the voting right are sent to each shareholder. Further, at the AGM, the shareholders are advised on the manner in which voting will be conducted on resolutions proposed thereat.
Disclosure of major transactions	C.2	The Company has not entered into any major transactions which require the approval of the shareholders by way of a special resolution during the year under review.
Disclosure of major transactions which have a material impact on net assets	C.2.1	All transactions which have a material impact on the Company's net asset base are disclosed. However, no such transactions occurred in 2012.
Financial reporting	D.1	The financial statements present a balanced and understandable assessment of the Company. The Company's position, performance and prospects have been discussed in detail in the following reports. • Chairman's Message on pages 9 to 11. • Managing Director's Review on pages 13 to 15. • Chief Operating Officer's Review on pages 17 to 19. • Management Discussion and Analysis on pages 39 to 42.
Responsibility of the Board in respect of financial reporting	D.1.1	The responsibility of the Board in respect of financial reporting is stated in the Statement of Directors' Responsibility for Financial Reporting on pages 80 to 81.
Directors' Report	D.1.2	Directors' declaration on the Company's governance is discussed in the Annual Report of the Board of Directors on the Affairs of the Company on page 73.
Responsibilities of the Board and auditors for preparation of financial statements	D.1.3	Directors' responsibility in preparation and presentation of financial statements are disclosed in the Statement on Directors' Responsibility for Financial Reporting on pages 80 to 81. Auditor's responsibility over the financial statements is set out in the Independent Auditor's Report on page 82.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Inclusion of a "Management Discussion and Analysis" report	D.1.4	The requirements in detail are provided in the following reports.

Description	Reference
Industry structure and developments	Management Discussion and Analysis on pages 35 to 37.
Opportunities and threats	Management Discussion and Analysis on page 45.
Risks and concerns	Enterprises Risk Management on pages 63 to 70.
Internal control systems and their adequacy	• Enterprise Risk Management on pages 65 to 70. • Board Audit Committee Report on page 77.
Financial performance	Management Discussion and Analysis on pages 39 to 42.
Material developments in human resource/industrial relations	Management Discussion and Analysis on page 38.
Prospects for the future	• Chairman's Message on page 11. • Managing Director's Review on pages 14 to 15. • Chief Operating Officer's Review on page 19. • Management Discussion and Analysis on page 45.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Declaration of going concern by the Directors	D.1.5	This information is provided in the Annual Report of the Board of Directors on the Affairs of the Company on page 76.
Extraordinary General Meetings in the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds	D.1.6	This is not applicable as this type of a situation has not arisen.

Corporate Governance contd.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Implementation of sound system of internal control	D.2	The Board is ultimately responsible for the Company's internal controls. The Board has taken necessary steps to ensure the integrity of the Company's accounting and financial reporting systems and internal control systems. Although no system of internal controls can provide an absolute assurance against material misstatements or losses, the Board has constituted an effective and efficient system of internal controls which provides the Directors with reasonable assurance that assets are safeguarded, frauds and errors are either prevented or detected within a reasonable period of time, accounting records are accurate and completed and timely presentation of reliable financial information is carried out.
Review of effectiveness of internal control system	D.2.1	In order to ensure an effective system of internal control within the Company, the Board Audit Committee with the assistance of the Management, internal auditors, external auditors and other parties review the existing system continuously and implement necessary improvements as required. The Board Audit Committee reviews the internal audit programs and updates them periodically.
Need to have an internal audit function	D.2.2	The Company has an Internal audit function which is headed by an experienced and qualified professional. Reports on internal audits are submitted to the Board Audit Committee in a timely manner.
Availability of an Audit Committee with written terms of reference	D.3	The Board of Directors has delegated their responsibility on selection and application of accounting policies, financial reporting and internal control principles to the Audit Committee whose functions are carried out in accordance with documented terms of reference. The Board Audit Committee maintains an appropriate relationship with the Company's Auditors.
Composition of the Audit Committee	D.3.1	The Board Audit Committee comprises two Non-Executive Directors of the Company.
Independency and objectivity of the auditors	D.3.2	The independence of the auditors is monitored by the Board Audit Committee in order to ensure that the Company receives a good service and the work of the external auditors is not impaired due to lack of independence. The Board Audit Committee also reviews the nature and extent of non-audit services which are provided by the external auditors in view of maintaining the balance of objectivity, independence and value for money.
Written terms of reference	D.3.3	This is presented in the Board Audit Committee Report on page 77.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Name of Directors on the Audit Committee and basis of determination of independence of external auditors	D.3.4	The names of the Directors on the Board Audit Committee and its functions and meetings are disclosed in the Board Audit Committee Report on pages 77 to 78. The basis of determination of independence of the auditors is provided in the Annual Report of the Board of Directors on the Affairs of the Company on page 76.
Disclosure of code of business conduct and ethics	D.4	The Company believes that ethics are an integral part of good corporate governance. Therefore, it practices established business ethics across all sections of the Company. There was no material violation of the code of business conduct and ethics during the year under review.
Corporate governance disclosure	D.5	This report sets out the manner in and extent to which the company has complied with the Code of Best Practice on Corporate Governance jointly issued by CA Sri Lanka and SEC.
Encourage institutional shareholders to translate their voting intentions into practice	E.1	People's Leasing & Finance PLC is the only institutional shareholder of the Company and the authorised representative of People's Leasing & Finance PLC participates at general meetings to cast their votes.
Regular and structured dialogue with shareholders	E.1.1	The Company conducts regular dialogues with its sole shareholder, People's Leasing & Finance PLC.
Evaluation of governance structure	E.2	The governance structure which is presented on page 49 is regularly reviewed at the Board level where the major shareholder is represented.
Independent advice with regard to investing and divesting decisions	F.1	This is not applicable as People's Leasing & Finance PLC is the sole shareholder and it is represented at all shareholder meetings and Board meetings of the Company.
Encourage individual shareholders to participate in general meetings	F.2	The Company's sole shareholder is People's Leasing & Finance PLC and the Company circulates the notice of the meeting giving adequate time to consider the matters to be taken up at all meetings.

Corporate Governance contd.

Solvency Position

The ability of an insurer to meet policyholders' obligations is measured by the solvency margin which is computed as per the solvency margin rules stipulated by the Insurance Board of Sri Lanka (IBSL). The solvency margin computation determines the amount of assets the Company has in excess of the required level needed to meet the total liabilities of policyholders. The Company maintained its solvency margin above the stipulated solvency margin throughout the year. As presented on page 62, total admissible assets and total liabilities including required solvency margin were Rs. 2,962 million and Rs. 2,723 million respectively, resulting an excess of Rs. 239 million above the required solvency margin as at 31st December 2012.

Actuarial Valuation of Insurance Liabilities

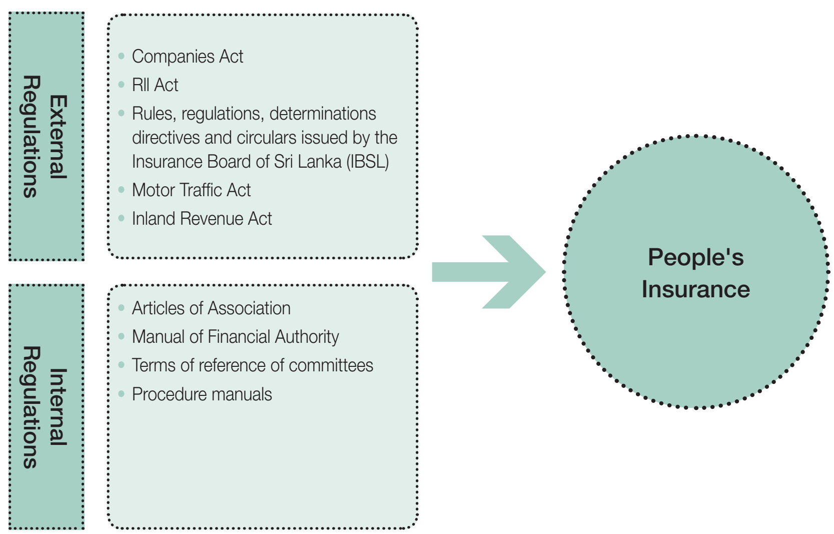
The Company obtains an actuarial valuation of its claim and premium liabilities from an independent professional firm on a quarterly basis. Since claims reserves and measurement of sufficiency of premium liabilities to meet future obligations are based on judgement and estimates, an actuarial valuation provides a greater degree of comfort as to the accuracy of these liabilities. The certification of the actuary regarding the claims and premium liabilities is presented on page 79.

Capital Structure

The Company's stated capital of Rs. 600 million well meets the capital requirements of the Company and is well above the minimum capital requirements as per the current regulations. The Company's current stated capital will also be in line with minimum capital required under the proposed risk based capital regime which is to be implemented by the Insurance Board of Sri Lanka with effect from 2016.

Regulations

The Board is fully aware of its responsibility on ensuring that the business is conducted in accordance with relevant laws, rules and regulations. Main regulations affecting the Company are summarised in the following diagram.



In view of taking proactive measures to ensure the compliance with regulatory requirements, the Company developed a regulatory compliance checklist during the year. This checklist is circulated in advance on a monthly basis and signed off by the responsible officials upon compliance with such regulatory requirements. A separate Board paper is submitted with regard to compliance on a monthly basis.

Internally Driven Factors

IT Governance

The Company considers IT governance as an integral part of its corporate governance. The IT governance of our Company systematically gets the involvement of the Board, Management, staff and customers. We believe that it establishes the framework used by the Company to establish transparent accountability of individual decisions and ensures the traceability of decisions to assigned responsibilities. Our IT strategy has been aligned with the Company's strategy for effective governance. During the year, the

Company completed the implementation of its enterprise resource planning (ERP) system enabling the Company to enhance its operational efficiency, functionality and security among other benefits. The Board also took initiatives to conduct an independent review of IT application controls in view of enhancing IT governance.

Performance Governance

The Company maintains a performance based culture. The annual plan with revenue and profit targets is developed by the Management in advance which is approved by the Board upon a detailed analysis and discussion. The performance of the Company as a whole is measured against these targets set by the Company's annual plan on a regular basis by the Management and Board. Benefits and rewards to employees are also linked to their performance.

Risk Management

During the year, the Company formed an enterprise risk management committee which is responsible for the management of the risks of the Company. The risk management committee meets on a regular basis and takes necessary measures to manage the Company's risks effectively. Details of the Company's risk management are set out in the Enterprise Risk Management report on pages 63 to 70.

Authority and Delegation

The Board has delegated its financial authority to the Managing Director and the Management as comprehensively documented in the Manual of Financial Authority (MOFA). The MOFA indicates the responsibilities of all staff members who enter into financial transactions and commitments on behalf of the Company including persons responsible for recommendation, approval and payment. The MOFA is reviewed on an on-going basis in light of changing circumstances and amendments are made based on the Board of Directors' approval.

In addition, the Company has developed procedure manuals which are reviewed and updated on a timely basis.

Whistle Blower Protection Policy

During the year, the Company implemented a formal whistle blower protection policy in view of providing an opportunity for employees of the Company to notify the Board Audit Committee of any improper or illegal activity within the Company or any unethical practices adopted by the Company in conducting the business of the Company. Any such concerns raised are investigated as per the policy. The identity of a whistle blowing employee is kept confidential and the information disclosed by him or her is disclosed to another party strictly only on a "need to know" basis.

Directors' Attendance at Meetings

Board and Committee Composition and Attendance	Committee Memberships	Directorship Status	Directors' Meetings		Board Audit Committee Meetings	
Total number of meetings			12		4	
Meeting status			A	B	A	B
Mr. Jehan P. Amaratunga	Board Audit Committee	Non-Executive Director	12	12	4	4
Mrs. Dharma N. Gammampila	Board Audit Committee	Non-Executive Director	12	11	4	4
Mr. N. Vasantha Kumar		Non-Executive Director	12	10	-	-
Mr. D. P. Kumarage		Executive Director	12	12	-	-

A - Number of meetings held during the time the Director held office
B - Number of meetings attended

OUR FRAMEWORK | SOLVENCY POSITION AND APPROVED ASSETS

Solvency

The solvency position of the Company as at the end of the year that has been determined in accordance with the Solvency Margin (General Insurance) Rules - 2004 and amendments thereto is disclosed below.

As at 31st December	2012 Rs. '000	2011 Rs. '000
Value of admissible assets	2,962,212	2,143,830
Total liabilities including technical reserves	2,195,599	1,658,298
Net admissible assets	766,613	485,532
Required solvency margin	527,566	434,397
Excess over required solvency margin	239,275	51,135
Solvency ratio	1.45	1.12

Approved Assets and Investment in Government Securities

Approved assets and investment in government securities of the Company determined as per section 25(1) of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent Determinations made by the Insurance Board of Sri Lanka in terms of the said Act are given below.

As at 31st December	2012 Rs. '000	2011 Rs. '000
Approved Assets		
Approved assets maintained	2,591,156	1,751,841
Technical reserves	1,878,856	1,459,227
Approved assets in excess of the technical reserve	712,300	292,614
Investment in Government Securities		
Required investment in government securities (20% of the technical reserves)	375,771	291,845
Investment in government securities	1,251,471	1,207,703
Excess over required investment in government securities	875,700	915,858

OUR FRAMEWORK | ENTERPRISE RISK MANAGEMENT

Overview

All organisations face a number of risks that threaten the successful execution of their mission. These include choice of strategy, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity among others. Insurance companies also willingly assume the risks of their customers as their prime value creating function, which is the core of their business. Also demonstrated by recent natural and man-made catastrophes, there is no perfect way of measuring the potential impact on insured risks.

We at People's Insurance believe that risk management is a proactive process rather than a reactive process. Our risk management framework encompasses the strategic risks that we share with the rest of our industry, assumed risks and the operational risks that are a part of running any business. We identify and categorise risks in terms of their source, their impact to the Company and the preferred strategies for dealing with them. We take an integrated approach, because it is impossible to manage any of these risks in isolation and it needs to fit the size, nature and complexity of our business. It is a process whereby there is constant scrutinising of the internal and external environment to identify elements which may have an impact on the Company achieving its objectives, so that mitigating action can be worked out. Therefore risk management, which plays a crucial role for the Company, is considered an integral component of the Company's enterprise governance system.

The general risk exposure of People's Insurance as an insurance company is diagrammatically presented below.

Enterprise Risk Management contd.

Risk Governance

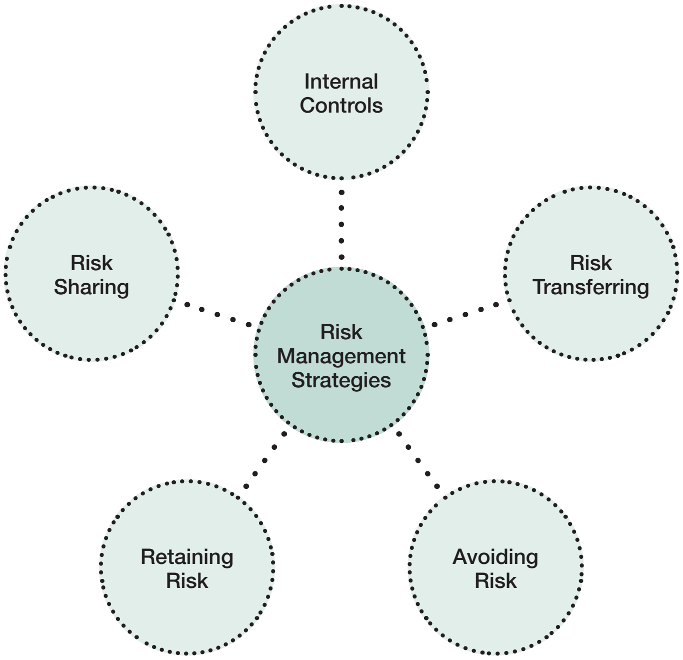
Ultimate responsibility for setting the risk appetite for effective management of risks rests with the Board. In line with the delegations granted by the Board, the Board Audit Committee reviews specific risks and receive regular reports on risk management, which include the Company's policies, standards, soundness of internal controls, infrastructure, and regulatory compliance.

The Company has an internal audit function which focuses on providing an independent oversight to the Board of Directors and Board Audit Committee on the processes and controls to mitigate major risks.

The enterprise risk management committee which consists of the Management was formed during the year to strengthen the risk management process. This committee meets regularly to assess, measure and manage the risk exposure of the Company. In addition, the Company's risks are assessed and monitored at the group level by the Integrated Risk Management Committee of its immediate parent company, People's Leasing & Finance PLC. Meetings of Integrated Risk Management Committee are held on a quarterly basis and a report on discussed matters is forwarded to the Company's Board for their review and action.

The Company follows various types of strategies to manage its risks.

- Reducing risks through strong internal controls
- Risk transferring
- Risk sharing
- Avoiding risks by being selective in choosing options where possible
- Retaining risks either to minimise cost on reducing risks or gain a higher profit by taking on more risk

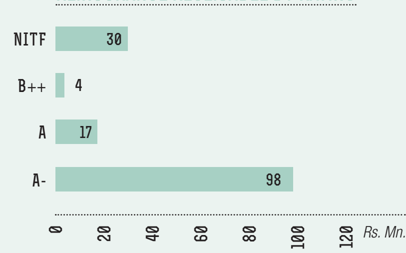


THE ENTERPRISE RISK MANAGEMENT COMMITTEE WHICH CONSISTS OF THE MANAGEMENT WAS FORMED DURING THE YEAR TO STRENGTHEN THE RISK MANAGEMENT PROCESS

A summary of the controls that People's Insurance has implemented to manage risks that are generally faced by insurance companies are given below.

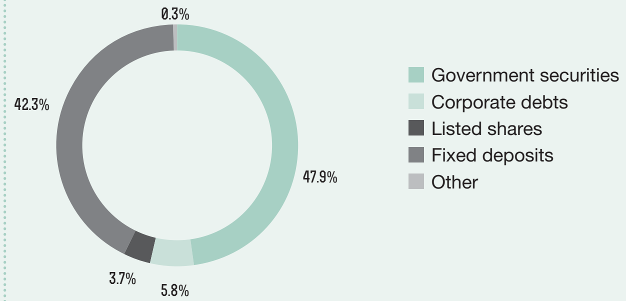
Risk	Controls
Strategic Risks	
Business Risk Business risk is the risk of a loss arising from a poor strategic business decision. Business risk may arise if the Company's strategy is not compatible with the market and customer expectations or with socio economic/ political parameters.	• The Company's strategic corporate plan is approved by the Board on an annual basis. • Strategic plans are reviewed by the Board on an on-going basis.
Regulatory Risk Regulatory risk is the risk that the Company may not be able to comply with regulatory requirements which are subject to change from time to time.	• The Management reviews changes in regulations and assesses the business impact of such proposals. • A comprehensive regulatory compliance checklist has been developed, which is signed off by responsible officials on a monthly basis. • A separate Board paper is presented to the Board on compliance on a monthly basis. • Company officials closely work with regulators, other insurance companies, etc. to ensure that regulatory requirements are fully understood and complied with.
Underwriting Risks	
Exposure risk This is the risk that an underwriter accepts a risk for a price which is not sufficient to meet the cost of claims.	• Profitability, pricing and terms and conditions of the policies are reviewed by the Management on an on-going basis. • Underwriting staff have been instructed to scrutinise all relevant information and documents before granting covers. • Underwriter training process is in place to train them before they commence duties. • Underwriters work within a formally documented limit of authority including segregation of duties. • In case of need for reinsurance support, cover is not confirmed until the reinsurance cover is confirmed by the reinsurer.

Enterprise Risk Management contd.

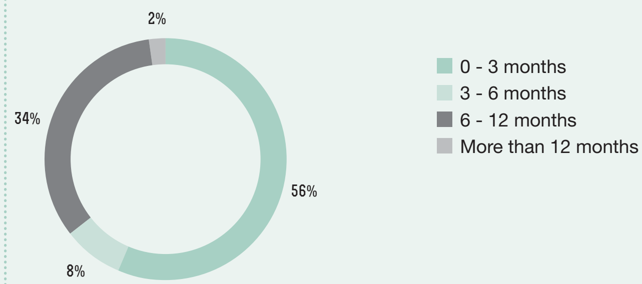
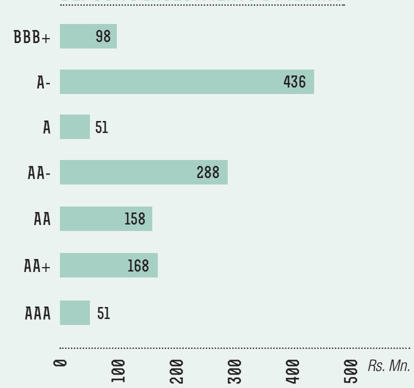
Risk	Controls
Claims Settlement Risk This refers to the risk of possible disputes which may arise at the time of settling claims.	• Customers are advised on adequacy of sum insured and covers, deductibles, special terms and conditions, etc. • Claims manuals are available and updated on a periodic basis. • Claims handling staff cross check policy conditions, covers, sum insured and other underwriting details with available information on the claim. • Segregation of duties is in place with regard to claims payment function. • Claim payments are recommended and approved based on predefined authority limits. • Information is cross checked from various sources.
Reserving Risk This risk refers to unexpected or unbudgeted increase in claims emanating from business written prior to the current underwriting year.	• Claims handling staff creates necessary reserves as soon as information is received. • Reserves are updated as and when further information is received. • Reserves are reviewed periodically. • The Company has appointed an independent, professional actuary for valuation of incurred but not reported (IBNR) and incurred but not enough reported (IBNER) claims provision and valuations are obtained from the actuary on a quarterly basis.
Reinsurance risk Reinsurance risk refers to the risk of inadequate transfer of underwriting risks to reinsurers and the inability to meet their commitments due to insufficient financial stability.	• 97% of the Company's reinsurance receivables was due from reinsurers with a rating of "A" or better and from the National Insurance Trust Fund (NITF). • The reinsurance panel is approved by the Board on an annual basis. • Reinsurer ratings are reviewed on a periodic basis and appropriate measures are taken accordingly. Reinsurance receivable by ratings is illustrated below. REINSURANCE RECEIVABLE BY RATING 

Risk	Controls
Credit risk This is the risk that customers or intermediaries not settling their dues to the Company.	• Customers are informed on a regular basis regarding the premium warranty clause. • Credit is granted as per the Board approved credit policy. • Outstanding premiums are followed up on an on-going basis. Policies which are not settled within a reasonable time period are cancelled on a regular basis. • Outstanding premiums are checked before settling claims. • A provisioning policy has been implemented for long outstanding policies.
Investment Risks	
Concentration Risk This refers to the risk that the Company will suffer from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.	• The Board reviews the Company's investments portfolio on a monthly basis. • A stringent process is in place to comply with the single investment exposure limits prescribed by the Insurance Board of Sri Lanka. • A significant amount of total investments are made in government securities which are risk free. • A careful analysis is done before investing in equity investments. • The composition of the Company's investments as at 31st December 2012 is given below.

INVESTMENT COMPOSITION



Enterprise Risk Management contd.

Risk	Controls
Liquidity Risk Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent or minimise a loss.	• Investment durations are diversified depending on the cash flow needs of the Company. • Cash flow analysis is done prior to investments being made. • Maturity periods of the investments are regularly reviewed. Maturity analysis of government securities, corporate debts and term deposits as at 31st December 2012 are given below. MATURITY ANALYSIS OF GOVERNMENT SECURITIES, CORPORATE DEBTS AND FIXED DEPOSITS 
Credit Risk Credit risk refers to the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.	• Credit rating of the respective investee or issue is evaluated prior to investing. • A stringent process is in place to comply with the single investment exposure limits prescribed by the Insurance Board of Sri Lanka. Analysis of investments with credit ratings of the investees as at 31st December 2012 is given below. CORPORATE DEBTS AND FIXED DEPOSITS INVESTMENTS BY RATING 

Risk	Controls
Market risk This refers to the risk of losing value of investments due to adverse movement in asset prices.	• Investment decisions are made based on fundamentals rather than on speculative basis. • The equity investment portfolio is monitored by the Managing Director on a regular basis. • The investment portfolio is reviewed by the Board on a monthly basis.
Operational Risks	
Socio-economic and political risk This refers to the risk that the Company will be negatively impacted due to changes in the socio economic environment, political environment and the investment climate.	• The severity of the socio-economic and political variables is evaluated during the corporate planning sessions held on an annual basis. • Review pricing in light of inflation and current trends. • Constantly improve underwriting and claims management processes to monitor issues arising from fraudulent claims, under insurance, etc.
Information and Communication Technology (ICT) Risk This refers to the risk of failures or breakdowns of systems resulting in interruption to operations and loss or exploitation of data.	• Maintain a "back up" system where separate backups maintained at an off-site location in order to overcome data loss. • A password/access control policy is in place. • Necessary validation and verification functions are in place at the information entry level. • Logical controls such as Unified Threat Management (UTM) and Sophos Endpoint Security and Control are in place.
Human Resource Risk This is the risk of losing competent staff or shortage of qualified personnel.	• Conduct periodic performance appraisals of staff and reward accordingly. • Bonus payments are made based on performance and years of experience/service. • Provide financial assistance to staff for their higher studies. • Employees have been given the opportunity to meet their senior managers at any time, to discuss work related matters. • Employees are provided with in-house or external training in view of improving their skills.

Enterprise Risk Management contd.

Risk	Controls
Reputational Risk Reputation risk is the risk that an event or incident could damage the image of the Company.	• Internal controls are in place, which are regularly reviewed by the internal and external auditors. Any shortcomings are reported and followed up by the Board Audit Committee. • Company officials closely work with regulators, other insurance companies, etc. to ensure that regulatory requirements are fully understood and complied with. • A process is in place to ensure the compliance with relevant laws and regulations.
Fraud Risk This refers to the risk of not having a sound internal control system to avoid misappropriation of assets or fraudulent financial reports.	• Internal audits are regularly carried out in the areas which are susceptible to fraud. • Authority limits, segregation of duties and access controls have been implemented for all critical functions of the Company. • A whistle blowing procedure was implemented during the year under which any employee who suspects wrongdoing at work can report his or her concerns directly to the Board Audit Committee. • Remedial actions are immediately taken once a fraud is detected. • Zero tolerance policy is in place with regard to frauds and misappropriation.

FINANCIAL INFORMATION

OTHER INFORMATION

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 Report of the Board of Directors on the Affairs of the Company and are guided by recommended best accounting practices.

General

The Board of Directors of People's Insurance Limited (the Company) have pleasure in presenting this report to the shareholders together with the audited financial statements for the year ended 31st December 2012 of the Company and the Auditor's Report thereon in compliance with the requirements of the Companies Act. People's Insurance Limited is an insurance company registered under the Regulation of Insurance Industry Act No. 43 of 2000 and is a public limited liability company incorporated in Sri Lanka on 22nd July 2009 under the Companies Act.

Principal Activities

There were no significant changes in the nature of principal activities of the company during the financial year under review. The principal activity of the Company, which is non-life insurance, remained unchanged. The Company has not engaged in any activities, which contravene laws and relevant regulations.

Review of Business

A review of the financial and operational performance and future business developments of the Company is contained in the Chairman's Message (pages 10 to 11), Managing Director's Review (pages 13 to 15), Chief Operating Officer's Review (pages 17 to 19) and Management Discussion and Analysis (pages 35 to 42). These reports form an integral part of the report of the Directors and together with the audited financial statements reflect the state of the affairs of the Company.

Financial Statements and Auditor's Report

The financial statements duly signed by the Directors are provided on pages 83 to 131 and Auditor's Report on the financial statements is provided on page 82.

Future Developments

An overview of the future developments of the Company is presented in the Chairman's Message (page 11), Managing Director's Review (pages 14 to 15), Chief Operating Officer's Review (page 19) and Management Discussion and Analysis (page 45).

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 the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the 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 assigned the internal audit function to the Group Internal Audit of the parent company, which therein reviews and reports on the effectiveness of financial, operational and compliance controls to the Board Audit Committee. An enterprise risk management initiative has been implemented in 2012, in addition to group level risk management committee.

Corporate Governance

The Directors declare that:

a) The Company has not engaged in any activity which contravenes laws and regulations.

b) 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.

c) The Company has made all endeavours to ensure the equitable treatment of shareholders.

d) The business is a going concern.

e) 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.

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A fuller report on corporate governance is provided on pages 48 to 61.

Human Resources

The Company continued to implement appropriate human resource management policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees.

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

Board Audit Committee

All the members of the Board Audit Committee are Non-Executive Directors. Managing Director, Chief Operating Officer and Manager - Finance attend the meetings by invitation. The report of the Board Audit Committee is given on pages 77 to 78.

Vision, Mission and Corporate Conduct

The Company's vision and mission are provided on page 3. In achieving its vision and mission, all Directors and employees conduct their activities with the highest level of ethical standards and integrity.

Risk Management

The Board and executive management of the Company have put in place a comprehensive risk identification, measurement and mitigation process. The risk management process is an integral part of the annual strategic planning cycle. A detailed overview of the process is outlined in the Enterprise Risk Management report on pages 63 to 70.

Auditor's Report

Auditor's Report on the financial statements is given on page 82.

Accounting Policies

The accounting policies adopted in preparation of the financial statements are given on pages 89 to 98. There have been changes in the accounting policies adopted by the Company during the year under review due to adoption of revised Sri Lanka Accounting Standards (SLFRS/ LKAS) with effect from 1st January 2012.

The effect of the transition to SLFRS/LKAS on the previously reported financial positions and financial performance of the Company is provided in the notes to these financial statements.

Turnover

The Company underwrote an amount of Rs. 2,944 million in 2012 (Rs. 2,415 million in 2011) as gross written premium.

Financial Results

The Company recorded a net profit of Rs. 235 million for the year. A synopsis of the Company's performance is presented below.

	2012 Rs. '000	2011 Rs. '000
Profit after taxation	**234,657**	71,956
Profit/(loss) brought forward from previous year	**39,195**	(32,761)
Profit available for appropriation	**273,852**	39,195
Appropriations		
Dividend paid in respect of previous year	**(12,000)**	-
Unappropriated profit carried forward	**261,852**	39,195

Dividends

A dividend of Rs. 1.00 per share was authorised for the financial year ended 31st December 2012. The Board of Directors were satisfied that the Company would satisfy the solvency test upon the distribution of dividends in terms of Section 56 (3) of the Companies Act.

Provision for Taxation

The tax position of the Company is disclosed in note 12 (pages 107 to 108) to the financial statements.

Property, Plant and Equipment

The details of property, plant and equipment are shown in note 16 (page 110).

Reserves

The movement in reserves during the year is set out in the statement of changes in equity on page 86.

Investments

Details of investments held by the Company are disclosed in note 17 (pages 111 to 113) to the financial statements.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the financial statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The total capital and reserves amounted to Rs. 863 million as at 31st December 2012 (Rs. 587 million as at 31st December 2011), details of which are provided in note 24 (page 116) to the financial statements.

Share Information

Information relating to earnings, dividends and net assets per share is given in the Three Year Summary on page 134.

Substantial Shareholdings

All shares of the Company are held by one shareholder, People's Leasing & Finance PLC. The details of the shareholding are given on page 132 of this report.

Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published materials.

Directors

As at 31st December 2012, the Board of Directors of People's Insurance Limited consisted of four Directors with wide financial knowledge and experience. The qualifications and experience of the Directors are given on pages 22 to 23. The following persons were Directors of the Company as at 31st December 2012.

Jehan P. Amaratunga - Chairman
(Non-Executive Director)
Appointed to the Board on 30th July 2010
Appointed as the Chairman on 30th July 2010

Dharma N. Gammampila
(Non-Executive Director)
Appointed to the Board on 30th July 2010

N. Vasantha Kumar
(Non-Executive Director)
Appointed to the Board on 27th May 2011

D. P. Kumarage - Managing Director
(Executive Director)
Appointed to the Board on 20th July 2009

Interests Register

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

Directors' Interests in Transactions

The Directors of the Company have made general declarations as provided for in section 192 (2) of the Companies Act No. 07 of 2007. Arising from this, details of contracts in which they have an interest are found in note 31 on pages 129 to 131, under related party transactions.

Share Dealings

There have been no share dealings by the Directors during the year ended 31st December 2012.

Directors' Interests in Shares

The Directors do not own any shares in the Company.

Remuneration to Directors

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

	2012 Rs. '000	2011 Rs. '000
Executive Director's fees and emoluments	110	100
Non-Executive Directors' fees and emoluments	190	180
Total	300	280

Directors' Meetings

Details of Directors' meetings are presented on page 61.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Company to reflect a 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 the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto.

The Statement of Directors' Responsibility for Financial Reporting provided on pages 80 to 81 forms an integral part of this report.

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

Related Party Transactions

There are no related party transactions which exceeds the lower of 10% of equity or 5% of the total assets of the Company. However the Directors have disclosed the transactions that could be classified as related party transactions in terms of the Sri Lanka Accounting Standards (LKAS) 24, Related Party Disclosures which is adopted in the presentation of the financial statements and accordingly given in note 31 on pages 129 to 131 to the financial statements.

Donations

No donations were granted during the year.

Compliance with Laws and Regulations

The Company has complied with all applicable laws and regulations. A compliance checklist is signed on a monthly basis by responsible officers and any violations are reported to the Board Audit Committee. A separate paper on regulatory compliance report is submitted to the Board on a monthly basis.

Environment

The Company has not engaged in any activity that is harmful to the environment.

Statutory Payments

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

Outstanding Litigation

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.

Events after the Reporting Date

Details of events after the reporting date are provided in note 33 (page 131) to the financial statements.

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 Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

The Company's auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. A sum of Rs. 901,800 (2011 - Rs. 729,000) was paid to them as audit fees during the year under review and a sum of Rs. 536,654 (2011 - Rs. 272,841) was paid by the Company for tax related services and other non-audit work performed. Based on the declaration from Messrs Ernst & Young, and as far as the Directors are aware, the auditors do not have any relationship or interest in the Company other than those disclosed in this paragraph.

Appointment of Auditors

The retiring auditors, Messrs Ernst & Young, Chartered Accountants have intimated their willingness to continue in office and a resolution to re-appoint them as auditors and authorising the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the Board Room of People's Leasing & Finance PLC, No. 1161, Maradana Road, Colombo 08 on 5th April 2013 at 10.00 a.m. The Notice of the Meeting relating to the 4th Annual General Meeting is given on page 140.

By order of the Board of Directors - Section 168 (1) (k) of the Companies Act No. 07 of 2007.

Jehan P. Amaratunga
Chairman

D. P. Kumarage
Managing Director

Rohan Pathirage
Company Secretary

12th March 2013
Colombo

BOARD AUDIT COMMITTEE REPORT

In accordance with the corporate governance guidelines, the Board Audit Committee was duly constituted by the Board of Directors. The Committee is empowered by the Board of Directors to oversee the financial reporting, internal controls, internal audit, whistle blowing and assessment of independence and performance of external auditors. The Committee comprises of two Non-Executive Directors chaired by the Chairman of the Company, who is a Chartered Accountant. Presently, the members of the Board Audit Committee are as follows:
Mr. Jehan P. Amaratunga - Chairman
Mrs. Dharma N. Gammampila

Mr. Udesh Gunawardena, Chief Manager - Internal Audit of the parent company, People's Leasing & Finance PLC acts as the secretary to the Committee.

Role of the Board Audit Committee

The main objective of the Board Audit Committee is to assist the Board of Directors to carry out its responsibilities by:

- Ensuring that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information to the management, regulatory authorities and shareholders in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), Regulation of Insurance Industry Act, Companies Act and other financial reporting related regulations and requirements.
- Keeping under review the Company's internal controls and risk management systems and ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards.
- Ensuring that the conduct of the business is in compliance with the applicable laws and regulations and policies of the company.
- Assessing the independence and monitoring the performance and functions of internal and external auditors.
- Assessing the Company's ability to continue as a going concern in the foreseeable future.

Financial Reporting

The Committee reviews the financial information with the objective of monitoring the accuracy of the financial statements prepared by the Company, assessing compliance with regulatory requirements and considering the ability of the Company to continue as a going concern. The Committee scrutinises the major variations against the previous periods the budget and industry statistics in order to substantiate such variations.

Internal Controls and Internal Audit

Internal audit process is carried out by the Parent Company's internal audit department which functions under the policies established by the Board and the Board Audit Committee. If the necessity demands, special audit assignments are outsourced. Internal auditors are empowered with necessary authority to perform the job independently, including free access to any records and to receive explanations from the Company's employees which are necessary for the proper conduct of the audit assignments.

External Audit

The Committee reviewed the management letter submitted by the external auditors with the management response. The recommendations are being implemented by the management which is followed up by the Board Audit Committee.

Whistleblowing

The Committee introduced a whistleblower protection policy for the Company with a view of providing the Company's employees with an opportunity to raise concerns in confidence, about possible improprieties in financial reporting, internal control and other matters.

Meetings and Activities

The Committee held 4 meetings during the year. The Managing Director, Chief Operating Officer and Manager - Finance attended the meetings by invitation. The Committee paid its special attention to the following areas during the year.

- Significant audit observations in the internal audit report and the management responses thereto.
- Directions and advice to the internal auditors on the areas that need specific attention.

Board Audit Committee Report contd.

- Review and approval of annual internal audit plan.
- Discussion and advice to the internal auditors for the fine tuning of audit strategy-in house as well as outsourced.
- Review of the preliminary operational risk assessment presented by internal auditors.
- Advice the internal auditors in assessing the opinions of experts, such as actuaries in order to avoid conflict of interests.
- Review and approval of the guidelines issued by the internal auditors in relation to capturing, authorising, recording and disclosing related party transactions and instructing the Company to implement related party process in line with the said guidelines.
- Review and approval of the whistleblower protection policy for nurturing a good control culture.
- Review of the soundness of security and controls over the Company's core information technology (IT) system and other systems linked to it and decision to conduct an independent review on the same.
- The Board Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants be re-appointed as external auditors subject to the approval of the shareholders.

Jehan P. Amaratunga
Chairman - Board Audit Committee

Udesh Gunawardena
Secretary - Board Audit Committee

12th March 2013
Colombo

INCURRED BUT NOT REPORTED CLAIMS (IBNR) AND LIABILITY ADEQUACY TEST (LAT) CERTIFICATION

nmg CONSULTING

We hereby certify that the IBNR provision of Rs. 17,564,991 is adequate in relation to the claim liabilities of People's Insurance Ltd as at 31 December 2012, net of reinsurance. This provision applies to claims from accident years 2010 to 2012. This IBNR provision, together with the case reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2012, in many but not all scenarios of future experience.

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). We hereby certify that the UPR of Rs. 1,413,026,454 is adequate in relation to the unexpired risks of People's Insurance Ltd as at 31 December 2012, net of reinsurance.

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

We have relied upon information and data provided by the management of the above company and we have not independently verified the data supplied, beyond applying checks to satisfy ourselves as to the reasonability of the data.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting

25th January 2013

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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 Report of the Independent Auditor given on page 82.

As per sections 150 (1) and 151 of the Companies Act, the Directors of the Company have 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 balance sheet date and of the profit or loss 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 2012, 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 2012; and
2. The profit or loss of the Company for the financial year then ended.

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.

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 sections 150(1) (b) of the Companies Act. In addition, the financial statements of the Company have been signed by two Directors on 12th March 2013 as required by Sections 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 assists 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 2012 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 No. 07 of 2007 and Regulation of Insurance Industry Act No. 43 of 2000 and 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.

The Board of Directors having been satisfied that the Company would satisfy the solvency test immediately after the dividends are paid, authorised the distribution of a first and final dividend in respect of the financial year ended 31st December 2012.

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 in time and ensured that a copy thereof is sent to the shareholders within the stipulated period of time. The Directors also wish to confirm that all shareholders in each category have been treated in an equitable manner in accordance with the original terms of issue.

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 balance sheet date have been paid or, where relevant provided for.

By order of the Board

Rohan Pathirage
Company Secretary

12th March 2013
Colombo

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
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Tax : +94 11 5578180
eysl@lk.ey.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEOPLE'S INSURANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of People's Insurance Limited ("Company"), which comprise the statement of financial position as at 31 December 2012, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the Company's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

1. These financial statements also comply with the requirements of Sections 151(2) of the Companies Act No. 07 of 2007.
2. The accounting records of People's Insurance Limited have also been maintained by the management in the manner required by the rules made by the Insurance Board of Sri Lanka established under Regulation of Insurance Industry Act No. 43 of 2000 and Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 so as to clearly indicate the true and fair view of the financial position of the insurer.

12th March 2013
Colombo.

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva FCA W R H Fernando FCA FCMA W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

STATEMENT OF INCOME

For the year ended 31 December	Notes	2012 Rs.	2011 Rs.
Gross written premium	3	**2,944,487,069**	2,414,788,213
Less: Premium ceded to reinsurers		**(306,657,434)**	(242,802,340)
		2,637,829,635	2,171,985,873
Change in reserve for unearned premium		**(189,588,504)**	(694,014,787)
Net earned premiums		**2,448,241,131**	1,477,971,086
Fee income	4	**15,176,732**	17,839,962
Investment income	5	**255,621,379**	91,730,940
Fair value gains and losses	6	**11,195,815**	(2,792,936)
Other operating revenue	7	**74,714**	64,325
Other revenue		**282,068,640**	106,842,291
Total revenue		**2,730,309,771**	1,584,813,377
Benefits, claims and expenses			
Gross claims and benefits paid	8.1	**(1,782,048,628)**	(965,045,576)
Claims ceded to reinsurers	8.2	**71,175,814**	3,495,337
Gross change in contract liabilities	8.3	**(210,717,691)**	(441,420,250)
Change in contract liabilities ceded to reinsurers	8.4	**(48,458,027)**	167,756,739
Net benefits and claims		**(1,970,048,532)**	(1,235,213,750)
Underwriting and net acquisition costs	9	**(243,880,865)**	(145,402,538)
Other operating and administrative expenses	10	**(192,384,167)**	(110,079,326)
Other expenses		**(436,265,032)**	(255,481,864)
Total benefits, claims and other expenses		**(2,406,313,564)**	(1,490,695,614)
Profit before taxation		**323,996,207**	94,117,763
Income tax expense	12	**(89,338,958)**	(22,161,958)
Profit for the year		**234,657,249**	71,955,805
Basic earnings per share	13	**3.94**	1.70
Dividend per share	14	**1.00**	0.20

The accounting policies and notes on pages 89 through 131 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2012 Rs.	2011 Rs.
Profit for the year		**234,657,249**	71,955,805
Other comprehensive income			
Actuarial losses on retirement benefit obligations	26	**(214,718)**	154,966
Available-for-sale financial assets			
Fair value gains	17.4	**1,679,666**	(3,580,959)
Fair value gains transferred		**3,580,959**	198,367
Tax effect	12	**(1,472,975)**	1,002,669
		3,787,650	(2,379,923)
Other comprehensive income, net of tax		**3,572,932**	(2,224,957)
Total comprehensive income for the year, net of tax		**238,230,181**	69,730,848

The accounting policies and notes on pages 89 through 131 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Assets				
Intangible assets	15	**3,492,990**	95,060	123,076
Property, plant and equipment	16	**25,529,408**	17,602,003	15,797,326
Financial assets				
Financial assets at fair value through profit or loss	17.1	**95,966,334**	14,138,302	-
Loans and receivables	17.2	**1,523,712,492**	840,003,599	64,152,625
Available-for-sale financial assets	17.3	**989,687,593**	909,134,592	449,731,164
Reinsurance receivables	18	**148,407,599**	169,994,608	2,237,869
Insurance receivables	19	**361,282,931**	405,837,925	317,537,952
Income tax receivable		**-**	23,665,612	10,737,789
Deferred expenses	20	**155,523,082**	126,387,783	50,288,890
Other assets	21	**14,948,847**	6,922,319	2,949,813
Deferred tax asset	22	**-**	842,914	3,809,412
Cash and cash equivalents	23	**391,104**	26,667,959	748,571
Total assets		**3,318,942,380**	2,541,292,676	918,114,487
Liabilities and shareholders' equity				
Shareholders' equity				
Stated capital	24	**600,000,000**	550,000,000	250,000,000
Revenue reserves		**263,001,884**	36,771,703	(32,959,145)
Total shareholders' equity		**863,001,884**	586,771,703	217,040,855
Liabilities				
Insurance liabilities	25	**2,171,701,475**	1,755,609,548	620,174,513
Retirement benefit obligations	26	**1,386,394**	793,063	569,791
Other financial liabilities	27	**143,262,617**	119,322,663	44,850,732
Other liabilities	28	**37,179,053**	37,851,485	23,894,528
Reinsurance payable		**45,239,822**	40,944,214	11,584,068
Income tax payable		**38,276,578**	-	-
Deferred tax liability	22	**1,313,153**	-	-
Bank overdraft	29	**17,581,404**	-	-
Total liabilities		**2,455,940,496**	1,954,520,973	701,073,632
Total liabilities and shareholders' equity		**3,318,942,380**	2,541,292,676	918,114,487

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

Chief Financial Officer

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

Chairman

Managing Director

The accounting policies and notes on pages 89 through 131 form an integral part of the financial statements.

12 March 2013
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated capital Rs.	Retained earnings Rs.	Acturial gain/(loss) Rs.	Available-for-sale financial assets Rs.	Total revenue reserves Rs.	Total Rs.
Balance as at 1 January 2011	250,000,000	(32,760,778)	-	(198,367)	(32,959,145)	217,040,855
Issue of ordinary shares	300,000,000	-	-	-	-	300,000,000
Profit for the year	-	71,955,805	-	-	71,955,805	71,955,805
Other comprehensive income	-	-	154,966	(2,379,923)	(2,224,957)	(2,224,957)
Balance as at 31 December 2011	550,000,000	39,195,027	154,966	(2,578,290)	36,771,703	586,771,703
Issue of ordinary shares	50,000,000	-	-	-	-	50,000,000
Profit for the year	-	234,657,249	-	-	234,657,249	234,657,249
Other comprehensive income	-	-	(214,718)	3,787,650	3,572,932	3,572,932
Dividend paid during the year	-	(12,000,000)	-	-	(12,000,000)	(12,000,000)
Balance as at 31 December 2012	600,000,000	261,852,276	(59,752)	1,209,360	263,001,884	863,001,884

The accounting policies and notes on pages 89 through 131 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2012 Rs.	2011 Rs.
Operating activities			
Premium received from customers		3,433,413,335	2,697,089,000
Reinsurance premium paid		(302,316,819)	(182,369,918)
Claims paid	8.1	(1,782,048,628)	(965,045,576)
Reinsurance receipts in respect of claims		48,146,697	3,059,257
Interest received		224,206,056	48,132,620
Dividends received		1,418,929	248,512
Other operating cash flows		(1,100,420,186)	(639,579,785)
Net cash flows from operating activities	A	522,399,384	961,534,110
Economic service charges paid		(12,805,951)	(20,013,249)
Net cash flows generated by operating activities		509,593,433	941,520,861
Investing activities			
Purchase of liquid investments		(12,050,983,770)	(3,680,835,352)
Purchase of other investments		(2,138,251,990)	(2,084,877,212)
Sale of liquid investments		12,228,794,644	3,432,546,928
Sale of other investments		1,386,429,010	1,123,872,093
Purchase of property, plant and equipment		(13,558,486)	(6,307,930)
Purchase of intangible assets		(3,881,100)	-
Net cash flows used in investing activities		(591,451,692)	(1,215,601,473)
Net cash flows before financing activities		(81,858,259)	(274,080,612)
Financing activities			
Proceeds from issue of ordinary shares		50,000,000	300,000,000
Ordinary dividend paid		(12,000,000)	-
Net cash flows from financing activities		38,000,000	300,000,000
Net increase/(decrease) in cash and cash equivalents	B	(43,858,259)	25,919,388

The accounting policies and notes on pages 89 through 131 form an integral part of the financial statements.

Statement of Cash Flows contd.

Notes to the Statement of Cash Flows

For the year ended 31 December	Notes	2012 Rs.	2011 Rs.
A. Cash flow from operating activities			
Profit before taxation		**323,996,207**	94,117,763
Unrealised loss/(gain) on quoted equities at market value	6	**(11,195,815)**	2,792,936
Provision for retirement benefit obligations	26	**378,614**	378,239
Impairment - intangible assets		**95,060**	-
Depreciation and amortisation expenses	10	**6,019,191**	4,531,269
Provision/(reversal of provision) for impairment - Insurance receivables		**(2,583,532)**	2,907,920
Changes in working capital			
(Increase)/decrease in reinsurance assets		**21,587,009**	(167,756,739)
Increase in insurance receivables and other assets		**(180,037,817)**	(152,562,450)
Increase in insurance liabilities		**416,091,927**	1,146,538,853
Increase/(decrease) in creditors		**(28,816,947)**	117,789,030
Increase in deferred expenses		**(23,134,513)**	(87,202,710)
Net cash flow from operating activities		**522,399,384**	961,534,110
B. Increase/(decrease) in cash and cash equivalents			
Cash in hand and balance at bank		**391,104**	26,667,959
Bank overdrafts		**(17,581,404)**	-
Net cash and cash equivalents at the end of the year		**(17,190,300)**	26,667,959
Net cash and cash equivalents at the beginning of the year		**26,667,959**	748,571
Increase/(decrease) in cash and cash equivalents during the year		**(43,858,259)**	25,919,388

The accounting policies and notes on pages 89 through 131 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting entity

People's Insurance Limited is a public limited liability company incorporated on 22 July 2009 and domiciled in Sri Lanka. The registered office of the Company is situated at No. 1161, Maradana Road, Colombo 08 and the principal place of business is situated at No. 53, Dharmapala Mawatha, Colombo 3.

1.2 Parent entity and ultimate parent entity

The Company's parent entity is People's Leasing & Finance Company PLC. The Company's ultimate parent undertaking and controlling party is People's Bank, which is incorporated in Sri Lanka.

1.3 Principal activities and nature of operations

The principal activity of the Company is carrying out non-life insurance business.

1.4 Date of authorisation for issue

The financial statements of People's Insurance Limited for the period ended 31 December 2012 were authorised for issue on 12 March 2013.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of People's Insurance Limited (the Company) are presented in Sri Lankan Rupees on the historical cost basis except available- for-sale investments and financial assets at fair value through profit or loss, all of which have been measured at fair value. No adjustments have been made for inflationary fact.

2.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka and the preparation and presentation of these financial statements is in compliance with the Companies Act No. 07 of 2007.

For all periods up to and including the year ended 31 December 2012, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLASs). The financial statements for the year ended 31 December 2012 are the first financial statements, the Company has prepared and presented in accordance with SLFRSs/LKASs. Refer Note 2.7 for information on how the Company adopted SLFRSs/LKASs.

2.3 Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and do not intend either to liquidate or to cease trading.

2.4 Summary of significant accounting policies

a) Product classification

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

b) Revenue recognition

Gross written premium

Non-life insurance gross written premium comprises the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Reinsurance premium

Non-life gross reinsurance premium written comprises the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies

Notes to the Financial Statements contd.

for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unearned premium reserve
Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 365 basis.

Investment income
Interest income is recognised in the statement of income as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Realised gains and losses
Realised gains and losses recorded in the statement of income on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

c) Benefits, claims and expenses recognition

Gross benefits and claims
Gross benefits and claims for non-life insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims 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 claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claim. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

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

d) Taxes

Current income tax
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

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 income. 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.

Deferred tax
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.

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

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

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

Deferred tax assets 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.

e) 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 retranslated at the functional currency rate of exchange ruling at the reporting date.

All differences are taken to the statement of income.

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.

f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life. The 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. The amortisation expense on intangible assets with finite lives is recognised in the statement of income 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

Notes to the Financial Statements contd.

g) 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 unit's (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 subsidiaries 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. 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 income.

h) Property plant and equipment

Property, plant and equipment is stated at cost excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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. Land is not depreciated. 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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is recognised in the statement of income in the year the asset is derecognised.

i) Financial assets

Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available-for-sale financial assets as appropriate. The Company determines the classification of its financial assets at initial recognition.

However, the Company did not have any held to maturity investments during the year.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated.

The financial assets are recorded based on the trade date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading.

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

Loans and other receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. These investments are initially recorded at fair value. After initial measurement, available-for-sale financial assets are measured at fair value. Fair value gains and losses are reported as a separate component in other comprehensive income until the investment is derecognised or the investment is determined to be impaired.

On de-recognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the statement of income.

Fair value of financial instruments
The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market prices.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable prices exist.

Impairment of financial assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

- **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Notes to the Financial Statements contd.

- **Available-for-sale financial investments**

If an available-for-sale financial asset is impaired, an amount comprising the difference between its costs (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in other comprehensive income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income.

Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the statement of income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of income.

- **Financial assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed.

De-recognition of financial assets

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

- The rights to receive cash flows from the asset have expired, or
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- The Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Offsetting of financial instruments

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

j) Reinsurance

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

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

k) Reinsurance receivables

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

l) Insurance receivables

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

m) Deferred expenses

Deferred acquisition costs

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue 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) for non-life insurance is amortised over the period on the basis unearned premium reserve (UPR) 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 are derecognised when the related contracts are either expired or cancelled.

Reinsurance commissions

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

n) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, deemed deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdraft.

o) Insurance contract liabilities

Non-life insurance contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered 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. 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. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums 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

Notes to the Financial Statements contd.

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 income by setting up a provision for liability adequacy.

p) De-recognition of financial liabilities and insurance payable

Financial liabilities and insurance payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

q) Post employment benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; and discounting that benefit to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit (PUC) method as recommended by LKAS 16, Employee Benefits.

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 26 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 is not externally funded.

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 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 profit and loss when they are due. The Company contributes 12% and 3% of gross emoluments of employees as provident fund and trust fund contribution respectively.

r) 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. The expense relating to any provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounting 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.

s) Equity movements

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.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved as per the Articles of Association. Interim dividends are deducted from equity when they are paid.

2.5 Significant accounting estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Non-life insurance contract liabilities

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 at the reporting date (IBNR). 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 and Bornheutter-Ferguson methods 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 periods and significant business lines, but can also be further analysed by geographical area and claim types. Large claims may be 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. Judgment is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

The carrying value at the reporting date of non-life insurance net contract liabilities was Rs. 616,001,346 (2011 - Rs. 356,825,628).

Defined benefit plan

The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the projected unit credit method.

Income taxation and other taxes

The Company is subject to income taxes and other taxes. Significant judgement is required to determine the total provision for current and deferred taxes, pending the issue of tax guidelines on the treatment for the adoption of SLFRSs/LKASs in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

Notes to the Financial Statements contd.

2.6 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the financial statements are set out below. The Company will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimable as at the date of publication of these financial statements.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement

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

(ii) SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 9 will be effective for financial periods beginning on or after 1 January 2015 whilst SLFRS 13 will be effective for financial periods beginning on or after 1 January 2014.

2.7 First time adoption of SLFRSs/LKASs

a) Reconciliation of shareholders' equity as at 1 January 2011 (date of transition to SLFRSs/LKASs)

	Notes	1 January 2011 Previous SLAS Rs.	Adjustments Rs.	SLFRSs/ LKASs Rs.
Assets				
Intangible assets		123,076	-	123,076
Property, plant and equipment		15,797,326	-	15,797,326
Financial assets		513,451,993	(513,451,993)	-
Loans and receivables	b	-	64,152,625	64,152,625
Available-for-sale financial assets	c	-	449,731,164	449,731,164
Reinsurance receivables		2,237,869	-	2,237,869
Insurance receivables	d	319,655,048	(2,117,096)	317,537,952
Income tax receivable	h	-	10,737,789	10,737,789
Deferred expenses	g	-	50,288,890	50,288,890
Other assets	h	14,317,763	(11,367,950)	2,949,813
Deferred tax asset		3,809,412	-	3,809,412
Cash and cash equivalents		748,571	-	748,571
Total assets		870,141,058	47,973,429	918,114,487
Liabilities and shareholders' equity				
Shareholders' equity				
Stated capital		250,000,000	-	250,000,000
Revenue reserves		(30,643,684)	(2,315,462)	(32,959,146)
Total shareholders' equity		219,356,316	(2,315,462)	217,040,854
Liabilities				
Insurance liabilities	g	569,885,621	50,288,892	620,174,513
Retirement benefit obligations		569,791	-	569,791
Other financial liabilities	h	-	44,850,732	44,850,732
Other liabilities	h	68,745,261	(44,850,733)	23,894,528
Reinsurance payable		11,584,069	-	11,584,069
Total liabilities		650,784,742	50,288,891	701,073,633
Total liabilities and shareholders' equity		870,141,058	47,973,429	918,114,487

Notes to the Financial Statements contd.

2.7 First time adoption of SLFRSs/LKASs (Contd.)

b) Reconciliation of shareholders' equity as at 31 December 2011

	Notes	As at 31 December 2011 Previous SLAS Rs.	Adjustments Rs.	SLFRSs/ LKASs Rs.
Assets				
Intangible assets		95,060	-	95,060
Property, plant and equipment		17,602,003	-	17,602,003
Financial assets		1,755,227,500	(1,755,227,500)	-
Financial assets at fair value through profit or loss	a	-	14,138,302	14,138,302
Loans and receivables	b	-	840,003,599	840,003,599
Available-for-sale financial assets	c	-	909,134,592	909,134,592
Reinsurance receivables		169,994,608	-	169,994,608
Insurance receivables	d	410,862,940	(5,025,015)	405,837,925
Income tax receivable	h	-	23,665,612	23,665,612
Deferred expenses	g	-	126,387,783	126,387,783
Other assets	b, h	41,402,268	(34,479,949)	6,922,319
Deferred tax asset	f	-	842,914	842,914
Cash and cash equivalents	b, h	27,642,885	(974,926)	26,667,959
Total assets		2,422,827,264	118,465,412	2,541,292,676
Liabilities and shareholders' equity				
Shareholders' equity				
Stated capital		550,000,000	-	550,000,000
Revenue reserves		44,534,309	(7,762,607)	36,771,702
Total shareholders' equity		594,534,309	(7,762,607)	586,771,702
Liabilities				
Insurance liabilities	g	1,629,221,764	126,387,784	1,755,609,548
Retirement benefit obligations		793,063	-	793,063
Other financial liabilities	h	-	119,322,663	119,322,663
Other liabilities	h	157,174,159	(119,322,674)	37,851,485
Reinsurance payable		40,944,215	-	40,944,215
Deferred tax liability	f	159,754	(159,754)	-
Total liabilities		1,828,292,955	126,228,019	1,954,520,974
Total liabilities and shareholders' equity		2,422,827,264	118,465,412	2,541,292,676

c) Reconciliation of statement of income for the year ended 31 December 2011

	Notes	For the year ended 31 December 2011 Previous SLAS Rs.	Adjustments Rs.	SLFRSs/ LKASs Rs.
Gross written premium		2,414,788,213	-	2,414,788,213
Less: Premium ceded to reinsurers		(242,802,340)	-	(242,802,340)
		2,171,985,873	-	2,171,985,873
Change in reserve for unearned premiums		(694,014,787)	-	(694,014,787)
Net earned premium		1,477,971,086	-	1,477,971,086
Other revenue				
Fee income	i	-	17,839,962	17,839,962
Investment income	a, c	88,855,809	2,875,131	91,730,940
Fair value gains and losses	b	-	(2,792,936)	(2,792,936)
Other income	a, c, i	17,969,382	(17,905,057)	64,325
		106,825,191	17,100	106,842,291
Total revenue		1,584,796,277	17,100	1,584,813,377
Benefits and claims				
Insurance claims and benefits (net)	i	(1,235,213,750)	1,235,213,750	-
Underwriting and net acquisition costs (including reinsurance)	i	(145,402,537)	145,402,537	-
Gross claims and benefits paid	i	-	(965,045,576)	(965,045,576)
Claims ceded to reinsurers	i	-	3,495,337	3,495,337
Gross change in contract liabilities	i	-	(441,420,250)	(441,420,250)
Change in contract liabilities ceded to reinsurers	i	-	167,756,739	167,756,739
Net benefits and claims		(1,380,616,287)	145,402,537	(1,235,213,750)
Acquisition cost	i	-	(145,402,538)	(145,402,538)
Other operating and administrative expenses	e, i	(102,336,786)	(7,742,540)	(110,079,326)
Depreciation on property, plant and equipment	i	(4,503,253)	4,503,253	-
		(106,840,039)	(148,641,825)	(255,481,864)
Total benefits, claims and other expenses		(1,487,456,326)	(3,239,288)	(1,490,695,614)
Profit before taxation		97,339,951	(3,222,188)	94,117,763
Income tax expense		(22,161,958)	-	(22,161,958)
Profit for the year		75,177,993	(3,222,188)	71,955,805

Notes to the Financial Statements contd.

2.7 First time adoption of SLFRSs/LKASs (Contd.)

d) Reconciliation of statement of comprehensive income for the year ended 31 December 2011

	For the year ended 31 December 2011		
	Previous SLAS Rs.	Adjustments Rs.	SLFRSs/ LKASs Rs.
Profit for the year	75,177,993	(3,222,188)	71,955,805
Other comprehensive income			
Actuarial losses on retirement benefit obligations	-	154,966	154,966
Investments classified as available-for-sale			
Fair value gains	-	(3,580,959)	(3,580,959)
Fair value gains transferred to profit on disposals	-	198,367	198,367
Tax effect	-	1,002,669	1,002,669
	-	(2,379,923)	(2,379,923)
Other comprehensive income, net of tax	-	(2,224,957)	(2,224,957)
Total comprehensive income for the year, net of tax	75,177,993	(5,447,145)	69,730,848

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011 and total comprehensive income for the year ended 31 December 2011.

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

Investments in listed shares were categorised as financial assets at fair value through profit or loss. They have been recognised at market value and no transitional impact from SLASs to SLFRSs/LKASs.

(b) Loans and receivables

Under SLASs, commercial papers, fixed deposits, repurchase agreements and savings account have been accounted as investments and measured at cost with accrued interest on straight line basis. The Company reclassified the aforesaid investments under loans and receivables. SLFRSs/LKASs require to initially recognise them at fair value and subsequently at amortised cost. Interest accrual is required to be done on effective interest rate method. Staff loans given to employees and refundable deposits have been reclassified as loans and receivables and measured on the same basis as other investments. Amortised cost of loans and receivables were Rs. 64,152,625 as at 1 January 2011 and Rs. 840,003,599 as at 31 December 2011. The difference of interest accrued based on straight-line and effective interest rates was adjusted through retained earnings amounting to Rs. 159,300 at the date of transition.

(c) Available-for-sale financial assets

Under SLASs, the Company accounted for treasury bills as investments and measured at historical cost with accruing interest on straight line basis. Under SLFRSs/LKASs, the Company reclassified the same as available-for-sale financial assets and measured at fair value as required by SLFRSs/LKASs. The fair value of these assets was Rs. 449,731,164 as at 1 January 2011 and Rs. 909,134,592 as at 31 December 2011 and their previous SLASs carrying amounts were Rs. 449,929,530 and Rs. 912,715,551 respectively . The difference of Rs. 198,366 and Rs. 3,580,959 between the instruments fair value and SLAS carrying amount has been recognised as a separate component of equity, in the available-for-sale reserve, net of related deferred taxes.

(d) Insurance receivables

Under SLASs, no bad debt provision was recognised on insurance receivables by the Company and as per SLFRSs/LKASs, the provision for impairment was recognised based on the incurred losses. As a result of this Rs. 2,117,095 was recognised in retained earnings at 1 January 2011 and Rs. 2,907,920 was recognised in the statement of income for the year ended 31 December 2011.

(e) Retirement benefit obligations

Under SLASs, the Company recognised actuarial gains/losses in the statement of income in the period in which they arose. Under SLFRSs/LKASs, actuarial gains and losses are charged or credited to the other comprehensive income in the period in which they arise. Accordingly, Rs. 154,966 was recognised in the other comprehensive income for the year ended 31 December 2011.

(f) Deferred tax

Transitional adjustment on available-for-sale financial assets led to temporary differences. Accordingly, the Company has accounted for such differences. Deferred tax adjustment recognised under other comprehensive income in correlation to the fair valuation of available-for-financial assets amounted to Rs. 1,002,669 for the year ended 31 December 2011.

(g) Insurance liabilities

Under SLASs, the Company has set-off deferred acquisition costs with insurance liabilities and as per SLFRS 4, deferred acquisition costs have been reclassified as an asset in the statement of financial position. The reclassified deferred acquisition cost as at 1 January 2011 was Rs. 50,288,892 and Rs. 126,387,784 as at 31 December 2011.

(h) Other assets and other liabilities

Balances in other assets and other liabilities have been reclassified as necessary for enhanced presentation of the statement of financial position.

(i) Other revenue, benefits and claims and other expenses

Balances in other revenue, benefits and claims and other expenses have been reclassified as necessary for enhanced presentation of the statement of income.

Notes to the Financial Statements contd.

3. GROSS WRITTEN PREMIUM

3.1 Gross written premium

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

For the year ended 31 December	2012 Rs.	2011 Rs.
Non-life insurance		
Motor	2,448,517,833	2,002,473,706
Fire	297,675,437	238,767,390
Marine	8,147,522	14,938,586
Miscellaneous	190,146,277	158,608,531
	2,944,487,069	2,414,788,213

4. FEE INCOME

For the year ended 31 December	2012 Rs.	2011 Rs.
Policy fee	6,270,119	10,009,198
Administration fee	8,906,613	7,830,764
	15,176,732	17,839,962

5. INVESTMENT INCOME

For the year ended 31 December	2012 Rs.	2011 Rs.
Financial assets at fair value through profit or loss		
Dividend income	1,418,929	248,512
Available-for-sale financial assets		
Interest income	90,615,508	69,665,985
Loans and receivables		
Interest income	163,586,942	21,816,443
	255,621,379	91,730,940

6. FAIR VALUE GAINS AND LOSSES

For the year ended 31 December	2012 Rs.	2011 Rs.
Fair value gains on financial assets at fair value through profit or loss	**11,195,815**	(2,792,936)

7. OTHER OPERATING REVENUE

For the year ended 31 December	2012 Rs.	2011 Rs.
Other income	**74,714**	6,143
Amortisation of refundable rent deposit	**-**	58,182
	74,714	64,325

8. BENEFITS AND CLAIMS

For the year ended 31 December	2012 Rs.	2011 Rs.
8.1 Gross benefits and claims paid		
Non-life insurance contracts	**(1,782,048,628)**	(965,045,576)
8.2 Claims ceded to reinsurers		
Non-life insurance contracts	**71,175,814**	3,495,337
8.3 Gross change in contract liabilities		
Change in non-life insurance contract liabilities	**(210,717,691)**	(436,068,888)
Change in liability adequacy provision	**-**	(5,351,362)
	(210,717,691)	(441,420,250)
8.4 Change in contract liabilities ceded to reinsurers		
Change in non-life insurance contract liabilities	**(48,458,027)**	167,756,739
Net benefits and claims	**(1,970,048,532)**	(1,235,213,750)

Notes to the Financial Statements contd.

9. UNDERWRITING AND NET ACQUISITION COSTS

For the year ended 31 December	2012 Rs.	2011 Rs.
Acquisition cost	(303,503,171)	(249,079,374)
Change in deferred acquisition cost	25,934,863	78,277,534
	(277,568,308)	(170,801,840)
Reinsurance commission	31,416,719	27,577,943
Change in unearned commission reserve	2,270,724	(2,178,641)
	33,687,443	25,399,302
Underwriting and net acquisition costs	(243,880,865)	(145,402,538)

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

For the year ended 31 December	Notes	2012 Rs.	2011 Rs.
Staff expenses	10.1	(43,498,553)	(31,261,467)
Administrative expenses		(143,766,609)	(71,378,670)
Depreciation and amortisation		(6,019,191)	(4,531,269)
Net impairment gain/(loss)		900,186	(2,907,920)
		(192,384,167)	(110,079,326)

10.1 Staff expenses

Wages and salaries	(38,032,917)	(27,243,542)
Contribution to defined benefit plan	(378,614)	(378,239)
Staff benefit expense	(427,351)	(118,219)
Contributions made to the provident and trust fund	(4,659,671)	(3,521,467)
	(43,498,553)	(31,261,467)

11. PROFIT FROM OPERATIONS

For the year ended 31 December	2012 Rs.	2011 Rs.
Auditors' remuneration (fees and expenses)	1,585,000	900,000
Legal fees	86,391	-
Depreciation	5,631,081	4,531,253
Directors' emoluments	330,000	120,000

12. INCOME TAX EXPENSE

For the year ended 31 December	Notes	2012 Rs.	2011 Rs.
Current Tax			
Current tax charge		87,086,926	18,192,791
Under provision in respect of previous year		1,568,940	-
		88,655,866	18,192,791
Deferred tax			
Deferred tax charge	12.3	683,092	3,969,167
Income tax expense recorded in statement of income		89,338,958	22,161,958
Tax recorded in other comprehensive income	12.1	1,472,975	(1,002,669)
Total tax expense		90,811,933	21,159,289

12.1 Tax recorded in other comprehensive income

Current tax	-	-
Deferred tax	1,472,975	(1,002,669)
Total tax charge/(reversal) recognised in other comprehensive income	1,472,975	(1,002,669)

12.2 Numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate

Accounting profit before tax	323,996,207	94,117,763
Aggregate allowable expenditure	(21,622,000)	(4,404,657)
Aggregate disallowable expenditure	8,650,530	9,476,727
Tax losses brought forward and utilised	-	(34,215,580)
	311,024,737	64,974,253
Statutory rate	28.00%	28.00%
Tax at applicable rate	87,086,926	18,192,791
Under provision in respect of previous year	1,568,940	-
Deferred taxation charged	683,092	3,969,167
Income tax expense reported	89,338,958	22,161,958

Notes to the Financial Statements contd.

12. INCOME TAX EXPENSE (CONTD.)

12.3 Deferred taxation

For the year ended 31 December	2012 Rs.	2011 Rs.
Movement in deferred tax asset		
Retirement benefit obligations	166,132	89,881
Tax losses carried forward	-	(4,094,498)
	166,132	(4,004,617)
Movement in deferred tax liability		
Capital allowances for tax purpose	(849,224)	35,450
	(849,224)	35,450
Deferred income tax expense	(683,092)	(3,969,167)

13. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding at the reporting date.

For the year ended 31 December	2012	2011	2010
Amount used as the numerator			
Net profit/(loss) attributable to ordinary shareholders (Rs.)	234,657,249	71,955,805	(29,762,833)
Number of ordinary shares used as denominator			
Weighted average number of ordinary shares in issue	59,583,333	42,291,667	15,187,600
Basic earnings per share (Rs.)	3.94	1.70	(1.96)

14. DIVIDENDS

The Board of Directors of the Company has declared a first and final dividend of Rs 1.00 per share for the financial year ended 31 December 2012, subsequent to the reporting date. In accordance with LKAS 10, Events after the Reporting Date , this dividend has not been recognised as a liability in the financial statements as at 31 December 2012.

	2012	2011
Dividend declared (Rs.)	**60,000,000**	60,000,000
Number of ordinary shares	**60,000,000**	60,000,000
Dividend per share (Rs.)	**1.00**	0.20

15. INTANGIBLE ASSETS

Cost	Software Rs.	Total Rs.
Balance as at 1 January 2011	140,080	140,080
Additions	-	-
Balance as at 31 December 2011	140,080	140,080
Additions	3,881,100	3,881,100
As at 31 December 2012	4,021,180	4,021,180
Amortisation and impairment losses		
Balance as at 1 January 2011	17,004	17,004
Amortisation charge for the year	28,016	28,016
Balance as at 31 December 2011	45,020	45,020
Amortisation charge for the year	388,110	388,110
Impairment charge for the year	95,060	95,060
As at 31 December 2012	528,190	528,190
Carrying amount		
As at 31 December 2012	3,492,990	3,492,990
As at 31 December 2011	95,060	95,060
As at 1 January 2011	123,076	123,076

Notes to the Financial Statements contd.

16. PROPERTY, PLANT AND EQUIPMENT

Cost or valuation	Computer hardware Rs.	Equipment Rs.	Furniture and fittings Rs.	Motor vehicles Rs.	Total Rs.
Balance as at 1 January 2011	4,003,710	9,202,764	3,987,050	315,965	17,509,488
Additions	4,040,000	1,410,997	746,178	110,754	6,307,930
Balance as at 1 January 2012	8,043,710	10,613,761	4,733,228	426,719	23,817,418
Additions	5,397,000	4,773,237	3,388,249	-	13,558,486
As at 31 December 2012	13,440,710	15,386,998	8,121,477	426,719	37,375,904
Depreciation					
Balance as at 1 January 2011	543,616	680,542	472,206	15,799	1,712,163
Depreciation charge for the year	1,456,825	2,076,535	899,316	70,576	4,503,253
Balance as at 1 January 2012	2,000,441	2,757,077	1,371,522	86,374	6,215,414
Depreciation charge for the year	1,859,692	2,488,831	1,197,214	85,344	5,631,081
As at 31 December 2012	3,860,133	5,245,908	2,568,736	171,719	11,846,496
Net book value					
As at 31 December 2012	9,580,577	10,141,090	5,552,741	255,000	25,529,408
As at 31 December 2011	6,043,269	7,856,684	3,361,706	340,344	17,602,003
As at 1 January 2011	3,460,094	8,522,222	3,514,844	300,166	15,797,326

17. FINANCIAL ASSETS

The Company's financial assets are summarised below by measurement category.

As at	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Financial assets at fair value through profit or loss	17.1	95,966,334	14,138,302	-
Loans and receivables	17.2	1,523,712,492	840,003,599	64,152,625
Available-for-sale financial assets	17.3	989,687,593	909,134,592	449,731,164
		2,609,366,419	1,763,276,493	513,883,789

17. FINANCIAL ASSETS (CONTD.)

A comparison of the fair values and carrying values of the financial assets is given below.

As at	Notes	31.12.2012 Carrying value	31.12.2012 Fair value	31.12.2011 Carrying value	31.12.2011 Fair value	01.01.2011 Carrying value	01.01.2011 Fair value
Financial assets at fair value through profit or loss	17.1	95,966,334	95,966,334	14,138,302	14,138,302	-	-
Loans and receivables	17.2	1,523,712,492	1,523,712,492	840,003,599	840,003,599	64,152,625	64,152,625
Available-for-sale financial assets	17.3	989,687,593	989,687,593	909,134,592	909,134,592	449,731,164	449,731,164
		2,609,366,419	2,609,366,419	1,763,276,493	1,763,276,493	513,883,789	513,883,789

17.1 Financial assets at fair value through profit or loss

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Fair value			
Listed shares	95,966,334	14,138,302	-
Total financial assets at fair value through profit or loss	95,966,334	14,138,302	-

17.2 Loans and receivables

	31.12.2012	31.12.2011	01.01.2011
Amortised cost			
Repurchase agreements	261,246,859	298,447,531	63,522,462
Staff loans	7,608,931	3,131,007	-
Rent deposit	1,113,810	640,000	581,818
Credit card account - People's Bank	-	326,848	48,345
Fixed deposits with financial institutions	1,099,999,242	536,483,286	-
Commercial papers	149,445,010	-	-
Savings account	4,298,640	974,927	-
Total loans and receivables at amortised cost	1,523,712,492	840,003,599	64,152,625
Fair value			
Repurchase agreements	261,246,859	298,447,531	63,522,462
Staff loans	7,608,931	3,131,007	-
Rent deposit	1,113,810	640,000	581,818
Credit card account - People's Bank	-	326,848	48,345
Fixed deposits with financial institutions	1,099,999,242	536,483,286	-
Commercial papers	149,445,010	-	-
Savings account	4,298,640	974,927	-
Total loans and receivables at fair value	1,523,712,492	840,003,599	64,152,625

Notes to the Financial Statements contd.

17. FINANCIAL ASSETS (CONTD.)

17.3 Available-for-sale financial assets

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Investment in government securities	**989,687,593**	909,134,592	449,731,164
Total available-for-sale financial assets at fair value	**989,687,593**	909,134,592	449,731,164

17.4 Financial Assets

	Financial assets at fair value through profit or loss Rs.	Loans and receivables Rs.	Available-for-sale financial assets Rs.
As at 1 January 2011	-	64,152,625	449,731,164
Purchases	16,931,238	5,120,010,454	1,509,851,722
Maturities	-	(4,344,058,362)	(1,046,867,335)
Fair value gains recorded in statement of income	(2,792,936)	(159,300)	-
Fair value gains recorded in other comprehensive income	-	-	(3,580,959)
Amortisation adjustment	-	58,182	-
As at 1 January 2012	14,138,302	840,003,599	909,134,592
Purchases	70,632,217	18,862,593,264	1,739,921,109
Maturities		(18,178,884,371)	(1,661,047,773)
Fair value gains recorded in the statement of income	11,195,815	-	-
Fair value gains recorded in other comprehensive income	-	-	1,679,666
As at 31 December 2012	95,966,334	1,523,712,492	989,687,594

17.5 Fair value of financial assets and liabilities 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 (i.e. held to maturity financial assets and loans and receivables.)

Assets for which fair value approximates carrying value

For financial assets that have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to savings account without a specific maturity.

Fixed rate financial instruments

Fair value of fixed rate financial assets carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

17. FINANCIAL ASSETS (CONTD.)

17.6 Determination of fair value and fair values hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted/listed (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes.

	Level 1 Rs.	Level 2 Rs.	Total fair value Rs.
As at 1 January 2011			
Available-for-sale financial assets			
Government securities	-	449,731,164	449,731,164
	-	449,731,164	449,731,164
As at 31 December 2011			
Financial assets at fair value through profit or loss			
Listed shares	14,138,302	-	14,138,302
Available-for-sale financial assets			
Government securities	-	909,134,592	909,134,592
	14,138,302	909,134,592	923,272,894
As at 31 December 2012			
Financial assets at fair value through profit or loss			
Listed shares	**95,966,334**	**-**	**95,966,334**
Available-for-sale financial assets			
Government securities	**-**	**989,687,593**	**989,687,593**
	95,966,334	**989,687,593**	**1,085,653,928**

Notes to the Financial Statements contd.

18. REINSURANCE RECEIVABLES

As at	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Reinsurance receivable on outstanding claims	25.1	**137,322,313**	169,994,608	2,237,869
Reinsurance receivable on paid claims of facultative and co-insurance		**11,085,286**	-	-
		148,407,599	169,994,608	2,237,869

19. INSURANCE RECEIVABLES

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Premium receivable from policy holders	**363,724,415**	410,862,940	319,655,047
Less: Provision for impairment	**(2,441,484)**	(5,025,015)	(2,117,095)
	361,282,931	405,837,925	317,537,952

20. DEFERRED EXPENSES

As at	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Deferred acquisition cost	20.1	**155,523,082**	126,387,783	50,288,890
		155,523,082	126,387,783	50,288,890

20.1 Deferred acquisition cost

	Rs.
Balance as at 1 January 2011	50,288,890
Change in commission reserves	78,277,534
Change in reinsurance commission reserve	(2,178,641)
Balance as at 31 December 2011	126,387,783
Change in commission reserves	26,864,576
Change in reinsurance commission reserve	2,270,723
Balance as at 31 December 2012	155,523,082

21. OTHER ASSETS

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Advances, deposits and prepayments	7,107,792	4,304,449	2,949,813
Other receivable	6,597,576	815,565	-
Inventory	1,243,479	1,802,305	-
	14,948,847	6,922,319	2,949,813

22. DEFERRED TAX ASSET/(LIABILITY)

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Recognised deferred tax asset			
Retirement benefit obligations	388,190	222,058	132,177
Brought forward tax losses	-	-	4,094,498
Fair value losses recognised in other comprehensive income	-	1,002,669	-
	388,190	1,224,727	4,226,675
Recognised deferred tax liability			
Property, plant and equipment	(1,231,037)	(381,813)	(417,263)
Fair value gains recognised in other comprehensive income	(470,306)	-	-
	(1,701,343)	(381,813)	(417,263)
Recognised net deferred tax asset/(liability) @ 28%	(1,313,153)	842,914	3,809,412

Notes to the Financial Statements contd.

23. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand and balance at bank and investments in money market instruments, net of outstanding bank overdrafts. Cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the statement of financial position as follows:

As at	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Favourable balance				
Cash in hand and bank		**391,104**	26,667,959	748,571
		391,104	26,667,959	748,571
Unfavourable balance				
Cash in hand and bank	29	**17,581,404**	-	-
		17,581,404	-	-
Total cash and cash equivalents		**(17,190,300)**	26,667,959	748,571

24. STATED CAPITAL

As at	31.12.2012	31.12.2011	01.01.2011
Stated capital (Rs.)	**600,000,000**	550,000,000	250,000,000
Allotted and fully paid number of ordinary shares	**60,000,000**	55,000,000	25,000,000

25. INSURANCE LIABILITIES

As at	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Outstanding claims provision	25.1	753,323,659	526,820,236	90,751,348
Provision for unearned premium (net)	25.1	1,413,026,454	1,223,437,950	529,423,165
Provision for liability adequacy	25.1	5,351,362	5,351,362	-
		2,171,701,475	1,755,609,548	620,174,513

25.1 Insurance provision

		31.12.2012				
		Gross liabilities		Reinsurance of liabilities		
	Notes	Insurance contracts Rs.	Total Rs.	Insurance contracts Rs.	Total Rs.	Net liability Rs.
Claims outstanding		718,559,155	718,559,155	(121,536,581)	(121,536,581)	597,022,574
Claims incurred but not reported (IBNR)		34,764,504	34,764,504	(15,785,732)	(15,785,732)	18,978,772
Total claims outstanding	25.2	753,323,659	753,323,659	(137,322,313)	(137,322,313)	616,001,346
Provision for unearned premium	25.3	1,464,673,554	1,464,673,554	(51,647,100)	(51,647,100)	1,413,026,454
Provision for liability adequacy		5,351,362	5,351,362	-	-	5,351,362
		2,223,348,575	2,223,348,575	(188,969,413)	(188,969,413)	2,034,379,162

		31.12.2011				
		Gross liabilities		Reinsurance of liabilities		
	Notes	Insurance contracts Rs.	Total Rs.	Insurance contracts Rs.	Total Rs.	Net liability Rs.
Claims outstanding		512,604,236	512,604,236	(169,994,608)	(169,994,608)	342,609,628
Claims incurred but not reported (IBNR)		14,216,000	14,216,000	-	-	14,216,000
Total claims outstanding	25.2	526,820,236	526,820,236	(169,994,608)	(169,994,608)	356,825,628
Provision for unearned premium	25.3	1,281,085,837	1,281,085,837	(57,647,886)	(57,647,886)	1,223,437,950
Provision for liability adequacy		5,351,362	5,351,362	-	-	5,351,362
		1,813,257,435	1,813,257,435	(227,642,494)	(227,642,494)	1,585,614,940

Notes to the Financial Statements contd.

25. INSURANCE LIABILITIES (CONTD.)

		01.01.2011				
		Gross liabilities		Reinsurance of liabilities		
	Notes	Insurance contracts Rs.	Total Rs.	Insurance contracts Rs.	Total Rs.	Net liability Rs.
Claims outstanding		78,751,348	78,751,348	(2,237,869)	(2,237,869)	76,513,479
Claims incurred but not reported (IBNR)		12,000,000	12,000,000	-	-	12,000,000
Total claims outstanding	25.2	90,751,348	90,751,348	(2,237,869)	(2,237,869)	88,513,479
Provision for unearned premium	25.3	575,967,234	575,967,234	(46,544,069)	(46,544,069)	529,423,165
Provision for liability adequacy		-	-	-	-	-
		666,718,582	666,718,582	(48,781,938)	(48,781,938)	617,936,644

25.2 Outstanding claims provision insurance contract liabilities

	2012			2011			2010		
	Gross liabilities Rs.	Reinsurance of liabilities Rs.	Net liability Rs.	Gross liabilities Rs.	Reinsurance of liabilities Rs.	Net liability Rs.	Gross liabilities Rs.	Reinsurance of liabilities Rs.	Net liability Rs.
As at 1 January	526,820,236	(169,994,608)	356,825,628	90,751,348	(2,237,869)	88,513,479	-	-	-
Claims incurred in the current accident year	2,008,552,051	(38,503,519)	1,970,048,532	1,401,114,464	(171,252,076)	1,229,862,388	230,999,528	(2,862,488)	228,137,040
Claims paid during the year	(1,782,048,628)	71,175,814	(1,710,872,814)	(965,045,576)	3,495,337	(961,550,239)	(140,248,180)	624,619	(139,623,561)
As at 31 December	753,323,659	(137,322,313)	616,001,346	526,820,236	(169,994,608)	356,825,628	90,751,348	(2,237,869)	88,513,479

25.3 Provision for unearned premium

As at	2012			2011			2010		
	Gross liabilities Rs.	Reinsurance Rs.	Net liability Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liability Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liability Rs.
As at 1 January	1,281,085,837	(57,647,886)	1,223,437,950	575,967,234	(46,544,069)	529,423,165	-	-	-
Premiums written during the year	2,944,487,069	(306,657,434)	2,637,829,635	2,414,788,213	(242,802,340)	2,171,985,873	933,152,132	(172,261,040)	760,891,092
Premiums earned during the year	(2,760,899,352)	312,658,220	(2,448,241,131)	(1,709,669,610)	231,698,523	(1,477,971,088)	(357,184,898)	125,716,971	(231,467,927)
As at 31 December	1,464,673,554	(51,647,100)	1,413,026,454	1,281,085,837	(57,647,886)	1,223,437,950	575,967,234	(46,544,069)	529,423,165

26. RETIREMENT BENEFIT OBLIGATIONS

	2012 Rs.	2011 Rs.	2010 Rs.
As at 1 January	793,063	569,791	97,732
Interest cost	125,107	84,970	11,728
Current service cost	253,506	524,867	373,682
Recognition of transitional liability	-	(231,599)	-
Actuarial (gain)/loss	214,718	(154,966)	86,649
As at 31 December	1,386,394	793,063	569,791

Liability recognised in the statement of financial position

As at	2012 Rs.	2011 Rs.	2010 Rs.
Present value of obligations	1,580,689	782,862	569,791
Unrecognised actuarial gain/(loss)	(194,295)	10,201	-
Net liability in the statement of financial position	1,386,394	793,063	569,791

Expense recognised in the statement of income

For the year ended 31 December	2012 Rs.	2011 Rs.	2010 Rs.
Interest cost	125,108	84,971	11,728
Current service cost	253,506	524,867	373,682
Recognition of transitional liability	-	(231,599)	-
Amount recognised in the statement of income	378,614	378,239	385,410
Net actuarial gain/(loss) recognised in other comprehensive income	(214,718)	154,966	(86,649)

Principal actuarial assumptions used

As at	31.12.2012	31.12.2011	01.01.2011
(a) Discount rate	12.0%	10.0%	12.0%
(b) Salary increase	10.0%	8.0%	5.0%
(c) Incidence of withdrawal			
20 Years	8.0%	8.0%	1.0%
25 Years	7.5%	7.5%	1.0%
30 Years	7.0%	7.0%	1.0%
35 Years	5.0%	5.0%	1.0%
40 Years	1.5%	1.5%	1.0%
45 Years	0.9%	0.9%	1.0%
50 Years	0.0%	0.0%	1.0%

Notes to the Financial Statements contd.

27. OTHER FINANCIAL LIABILITIES

As at	Notes	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Other creditors including accrued expenses		**25,964,570**	3,214,671	2,057,723
Outstanding commission payable		**114,662,196**	115,987,265	42,257,385
Amounts due to related parties	27.1	**2,635,851**	120,727	535,624
		143,262,617	119,322,663	44,850,732

27.1 Amounts due to related parties

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
People's Leasing Fleet Management Limited	**277,205**	82,035	535,624
People's Leasing & Finance PLC	**2,358,646**	38,692	-
	2,635,851	120,727	535,624

28. OTHER LIABILITIES

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Government levies payable	**37,179,053**	37,851,485	23,894,528
	37,179,053	37,851,485	23,894,528

29. BANK OVERDRAFT

As at	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Bank overdraft	**17,581,404**	-	-
	17,581,404	-	-

The Company's overdraft (overdraft facility is Rs. 9,000,000) is subject to variable over draft rate of the People's Bank. The overdraft facility is secured by a fixed deposit of Rs. 10,000,000 and as at the reporting date, unused overdraft facility amounted to Rs. 9,000,000.

30. RISK MANAGEMENT FRAMEWORK

(a) Governance framework

The Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board is ultimately responsible for monitoring compliance with the Company's risk management policies and procedures. The Board is assisted in these functions by the Internal Audit and the Board Audit Committee. The Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

An enterprise risk management committee which consists of the management was formed to strengthen the risk management process. In addition, the Company's risks are assessed and monitored at the group level by the Integrated Risk Management Committee of its immediate parent company, People's Leasing & Finance PLC.

(b) 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 for policyholders' benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

As an insurer, the operations of the Company are subject to regulatory supervision of the Insurance Board of Sri Lanka (IBSL). The Company has taken necessary action to comply with and complied with applicable regulations throughout the year.

(c) Insurance and financial risk

(i) Financial risks

Nature and extent of risk arising from financial instruments

The Company has exposure to the following risks from financial instruments.

- Credit risk
- Liquidity risk
- Market risk
- Concentration risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risks.

Notes to the Financial Statements contd.

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

- **Credit risk**

Credit risk is the risk of financial loss to the Company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations in accordance with agreed terms and arises principally from the Company's premium receivables, reinsurance receivables, investments in debt securities and deposits with financial institutions such as time deposits, demand deposits, etc.

Management of credit risk

The Company has developed a credit policy approved by the Board and credit is granted based on the said policy for the policyholders. The Company has taken the premium warranty clause which was imposed by IBSL into consideration when developing the aforementioned credit policy. As a result of rigorous follow up of outstanding premiums, the policies which are not settled within the approved credit periods are cancelled on a regular basis. The Company checks the status of the outstanding premium before settling claims to reduce the credit risk. The Company has implemented an impairment review for premium receivables periodically and provide for the same based on the results.

Credit risk with regard to reinsurance receivables is mitigated by selecting the reinsurers with higher credit ratings and reviewing their ratings periodically.

The Company evaluates the credit ratings of the respective investee and/or respective issue prior to the investment decision is made. In addition, the Company focuses on tolerable levels concentration risk and portfolio monitoring in line with the Company's risk appetite. A stringent process is in place to comply with the single investment exposure limits prescribed by the regulator, IBSL.

Credit exposure

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2011 and 2012 is the carrying amounts of respective financial instruments.

The table below provides information regarding the credit risk exposure of the Company's financial instruments by classifying them according to the credit ratings of counterparties, wherever applicable.

	2012 Rs.	2011 Rs.
Financial instruments		
Financial assets at fair value through profit or loss		
Listed share investments	95,966,334	14,138,302
Credit exposure from financial assets at fair value through profit or loss	95,966,334	14,138,302
Available-for-sale financial assets		
Investments in government securities	989,687,593	909,134,592
Credit exposure from available from available-for-sale financial assets	-	-

* The Company assumes that there is no credit risk exposure from the investments in government securities.

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

	2012 Rs.	2011 Rs.
Loans and receivables		
Commercial papers		
Credit risk exposure with regard to commercial papers based on their external institutional credit rating.		
A+ to A-	149,445,010	-
Fixed deposits and savings account		
Credit risk exposure with regard to deposits with financial institutions and savings account based on their external credit rating.		
AAA to AA-	665,009,708	281,989,388
A+ to A-	341,784,650	255,468,825
BBB+ to BB-	97,503,524	-
	1,104,297,882	537,458,213
Staff loans and rent deposits		
Non-impaired staff loans	7,608,931	3,131,007
Non-impaired rent deposits	1,113,810	640,000
Credit exposure from loans and receivables	1,262,465,633	541,229,220
Insurance receivables		
Non-impaired premium receivables from policyholders	361,282,931	405,837,925
Impaired premium receivables from policyholders	2,441,484	5,025,015
Credit exposure arising from insurance receivables	363,724,415	410,862,940
Reinsurance receivables		
Credit exposure with regard to reinsurance receivables based on their external credit rating.		
AAA to AA-	29,681,520	33,998,922
A+ to A-	114,838,795	132,751,166
BBB+ to B-	3,887,283	3,244,520
Credit exposure arising from reinsurance receivables	148,407,599	169,994,608
Cash in hand and balance at bank	391,104	26,667,959
Total credit exposure from financial instruments	1,870,955,086	1,162,893,029

Notes to the Financial Statements contd.

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

- **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk
The Company's approach to managing liquidity is to ensure that funds available are adequate to meet claim payments to its policyholders and to ensure operational expenses are paid when they are due.

The main sources of the Company's funding are capital and gross written premium. The Company also maintains a portfolio of readily marketable securities to strengthen its liquidity position. Investment durations are diversified depending on the cash flow needs of the Company and the maturity periods are regularly reviewed. Cash flow analysis is done prior to investments are made.

The Company's treaty agreements with reinsurers contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain agreed size.

Exposure to liquidity risk
The Company monitors the liquidity position of the Company to asses funding requirements. Liquid assets include cash and short term investments and bills purchased. The Company also monitors maturity profile of its assets and liabilities.
Maturity profile of the investments based on remaining maturity is given below.

Maturity Period	Investment Amount (Rs.)
0 - 3 months	1,402,658,138
4 - 6 months	210,215,133
7 - 12 months	836,975,275
More than 12 months	59,252,899

- **Market risk**

This refers to the risk of losing value of investments due to adverse movement in assets prices and possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets. This principally comprises of interest rate risk and price risks.

Management of market risk
The Company makes investment decisions based on the fundamentals rather than on speculative motive. Equity investment portfolio is monitored by the Managing Director on a regular basis and the overall investment portfolio is reviewed by the Board on a monthly basis. The interest rate risk is managed by maintaining the investment portfolio with a considerable investment in fixed income securities.

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

- Concentration risk

This refers to the risk that the Company will suffer from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.

Management of concentration risk
To comply with the risk tolerance and appetite of the Company, a significant amount of total investments are made in government securities which are risk free. A careful analysis is done before investing in equity investments. A stringent process is in place to comply with the single investment exposure limits prescribed by IBSL. In addition, the Board of Directors reviews the Company's investments portfolio on a monthly basis.

Composition of the Company's investments as at 31 December 2012 is given below.

Category	%	Rs.
Government securities	47.9	1,250,934,452
Corporate debts	5.8	149,445,010
Listed shares	3.7	95,966,334
Fixed deposits	42.3	1,104,297,882
Others	0.3	8,722,741
Total	100.0	2,609,366,419

(ii) Insurance risks
Nature and extent of risks arising from insurance contracts
Objectives, policies and processes for managing risks arising from insurance contracts
The Company willingly assumes risks of other organisations as the Company's prime value creation activity. This is the core of the insurance business and there is no perfect way of measuring the potential impact on insured risk. For non-life insurance business, most significant risks arise from climate changes, natural disasters and terrorist activities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The Company's risk management framework focuses on strategic risk, assumed risks and the potential risks. The Company identifies and categorises risks in terms of their source, their impact on the Company and preferred strategies for dealing with them.

Notes to the Financial Statements contd.

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

Method used to manage risks

Risk appetite and risk tolerance

The Company has made a strategic decision to maintain a risk appetite moderately above the average of the insurance market, since it allows the best potential for creating shareholder value at an acceptable risk level. The Company manages the volatility and potential downward risk through diversification.

Identification of shock losses

There are three areas of risk which have the potential to materially damage economic value that the Company identified at present as having the greatest potential for shock losses. They are catastrophe, reserving and equity investment risk. The Company manages the risk of shock losses by setting limits on the tolerance for specific risks and on the amount of capital that the Company is willing to expose.

The table below sets out the concentration of non-life insurance contract liabilities by the type of contract.

	31 December 2012			31 December 2011		
	Gross liabilities	Reinsurance receivable	Net liabilities	Gross liabilities	Reinsurance receivable	Net liabilities
Motor	434,572,224	6,097,170	428,475,054	269,681,980	-	269,681,980
Marine	14,123,678	1,625,396	12,498,282	1,348,555	86,978	1,261,577
Fire	119,481,360	71,755,384	47,725,976	180,819,902	164,055,145	16,764,757
Miscellaneous	185,146,397	57,844,363	127,302,034	74,969,799	5,852,485	69,117,314
Total	753,323,659	137,322,313	616,001,346	526,820,236	169,994,608	356,825,628

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

Claims development table

The following tables show the estimates of cumulative incurred claims for each quarter, together with cumulative payments to date.

Gross non-life insurance contract outstanding claims provision for 2012

(All figures are in Rupees thousands unless otherwise stated)

	Development Period												
Accident Period	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	Total
2012 Q4	(60)	67	1,023	940	(344)	61,976	(190)	5,720	(55,206)	(36,313)	(87,480)	664,924	
2012 Q3	50	(1,538)	(334)	(3,390)	(886)	(62,462)	(2,465)	(38,633)	11,266	(23,199)	673,686		
2012 Q2	-	1,659	(86)	5,476	1,480	2,945	361	(62,895)	74,405	428,668			
2012 Q1	(11)	177	(169)	420	2,851	(2,651)	(42,538)	79,027	392,184				
2011 Q4	30	(273)	619	1,278	2,360	(45,833)	67,234	439,598					
2011 Q3	141	273	(712)	6,604	(24,514)	(174,650)	335,263						
2011 Q2	(63)	(297)	(2,479)	(14,654)	33,484	585,381							
2011 Q1	50	445	(5,856)	17,655	178,613								
2010 Q4	92	(282)	(1,664)	111,155									
2010 Q3	94	(4,264)	72,186										
2010 Q2	(814)	33,388											
2010 Q1	3,762												
Current estimate of cumulative claims incurred	3,271	29,355	62,528	125,484	193,044	364,706	357,665	422,817	422,649	369,156	586,206	664,924	3,601,805

	Development Period												
Accident Period	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	Total
2012 Q4	-	(46)	(3)	(484)	(316)	(783)	(1,502)	(9,357)	(12,203)	(5,023)	(88,665)	(313,342)	
2012 Q3	-	(26)	(38)	(638)	(1,825)	(1,595)	(4,657)	(22,541)	(15,170)	(93,896)	(324,685)		
2012 Q2	-	(5)	(19)	(3,058)	(1,864)	(27,756)	616	(13,938)	(146,926)	(246,174)			
2012 Q1	(19)	(2)	(321)	(495)	(6,763)	(32,163)	(28,859)	(158,460)	(219,499)				
2011 Q4	-	(668)	(331)	2,694	(5,097)	(10,704)	(127,396)	(195,737)					
2011 Q3	(141)	(297)	(502)	(10,432)	(11,150)	(95,481)	(181,098)						
2011 Q2	-	(232)	(468)	(7,710)	(59,982)	(125,395)							
2011 Q1	(215)	(1,538)	(3,469)	(48,920)	(81,575)								
2010 Q4	(319)	(2,245)	(28,676)	(52,889)									
2010 Q3	(29)	(11,230)	(25,985)										
2010 Q2	(1,736)	(10,981)											
2010 Q1	(812)												
Cumulative payments to date	(3,271)	(27,270)	(59,812)	(121,932)	(168,572)	(293,877)	(342,896)	(400,033)	(393,798)	(345,093)	(413,350)	(313,342)	(2,883,246)
Total gross claims outstanding	-	2,085	2,716	3,552	24,472	70,829	14,769	22,784	28,851	24,063	172,856	351,582	718,559

Notes to the Financial Statements contd.

30. RISK MANAGEMENT FRAMEWORK (CONTD.)

Net non-life insurance contract outstanding claims provision for 2012

(All figures are in Rupees thousands unless otherwise stated)

Accident Period	Development Period												
	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	Total
2012 Q4	(60)	189	905	932	(412)	2,930	(139)	4,408	1,514	(34,491)	(86,842)	656,765	
2012 Q3	50	(1,662)	(217)	(3,361)	(810)	(1,900)	(4,028)	3,925	(46,215)	(23,560)	624,161		
2012 Q2	-	1,659	(82)	5,471	1,498	1,423	2,634	(63,125)	74,288	425,308			
2012 Q1	(11)	177	(176)	425	5,180	4,725	(42,396)	70,572	385,496				
2011 Q4	30	1,033	(685)	1,298	3,321	(52,215)	65,544	392,485					
2011 Q3	141	411	(624)	6,821	(24,839)	27,765	333,024						
2011 Q2	(63)	(388)	(844)	(14,715)	31,561	275,046							
2011 Q1	51	(1,044)	(5,014)	18,213	172,394								
2010 Q4	(68)	(634)	(3,256)	109,385									
2010 Q3	94	(4,113)	71,742										
2010 Q2	(814)	33,034											
2010 Q1	3,762												
Current estimate of cumulative claims incurred	3,112	28,662	61,749	124,469	187,893	257,774	354,639	408,265	415,083	367,257	537,319	656,765	3,402,987

Accident Period	Development Period												
	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	Total
2012 Q4	-	(46)	(3)	(484)	(313)	(783)	(1,502)	(8,018)	(12,033)	(5,023)	(88,308)	(312,489)	
2012 Q3	-	(22)	(38)	(618)	(1,825)	(1,593)	(4,643)	(10,031)	(14,962)	(93,878)	(322,749)		
2012 Q2	-	(5)	(19)	(3,058)	(1,864)	(2,740)	712	(13,656)	(146,659)	(244,350)			
2012 Q1	(19)	(2)	(314)	(495)	(6,782)	(10,429)	(26,833)	(158,460)	(217,021)				
2011 Q4	-	(668)	(331)	2,695	(5,077)	(10,468)	(126,800)	(195,489)					
2011 Q3	(141)	(297)	(502)	(10,431)	(11,149)	(95,174)	(180,867)						
2011 Q2	-	(232)	(468)	(7,710)	(59,843)	(124,942)							
2011 Q1	(215)	(1,217)	(3,469)	(48,920)	(80,276)								
2010 Q4	(159)	(2,081)	(28,348)	(51,904)									
2010 Q3	(30)	(11,216)	(25,541)										
2010 Q2	(1,736)	(10,791)											
2010 Q1	(812)												
Cumulative payments to date	(3,112)	(26,577)	(59,033)	(120,925)	(167,129)	(246,129)	(339,933)	(385,654)	(390,675)	(343,251)	(411,057)	(312,489)	(2,805,964)
Total net claims outstanding	-	2,085	2,716	3,544	20,764	11,645	14,706	22,611	24,408	24,006	126,262	344,276	597,023

31. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business 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.

31.1 Transactions with the ultimate parent - People's Bank

For the year ended 31 December	2012 Rs.	2011 Rs.
Nature of transaction		
Insurance premium received in respect of their own policies	247,189,627	228,389,718
Insurance premium received in respect of customers introduced	55,058,334	32,044,737
Service charges paid	5,926,989	4,802,298
Claims paid	78,117,133	29,391,942
Claims outstanding as at 31 December	214,626,719	227,973,393
Investments made under repurchase agreements with People's Bank		
Investment in repurchase agreements (Including reinvestments during the year)	15,790,817,807	3,667,398,103
Settlement of repurchase agreements (Including settlement for re-investment)	15,835,073,994	3,432,546,928
Investment income		
Overnight repurchase agreements	31,093,056	12,991,422
Treasury bills purchased through People's Bank	1,732,921,109	1,519,903,285

31.2 Transactions with the immediate parent - People's Leasing & Finance PLC

Insurance premium received in respect of their own policies	37,064,367	13,645,246
Insurance premium received in respect of customers introduced	2,242,328,174	1,593,548,750
Service charges paid	264,890,283	160,185,250
Shares issued	50,000,000	300,000,000

Shared Services

People's Leasing & Finance PLC has provided information and communication technology, human resources and logistics services to People's Insurance Limited during the year by charging Rs. 16,087,262 (2011 - Rs. 5,103,945).

Notes to the Financial Statements contd.

31.3 Transactions with key management personnel

According to the Sri Lanka Accounting Standard (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 Limited considers its Board of Directors and their immediate family members of the key management personal of the Company.

For the year ended 31 December	2012 Rs.	2011 Rs.
Directors' fees	330,000	120,000

31.4 Transactions with other related companies

For the year ended 31 December	2012 Rs.	2011 Rs.
People's Leasing Fleet Management Limited		
Nature of transaction		
Insurance premium received	3,042,861	254,605
Vehicle hiring expenses	3,300,250	2,563,707
People's Finance PLC		
Nature of transaction		
Insurance premium received in respect of their own policies	8,786,376	7,479,236
Service charges	30,131,232	13,067,659
Claims paid	-	78,126
People's Leasing Property Development Limited		
Nature of transaction		
Insurance premium received	1,967,930	41,853
People's Leasing Microfinance Limited		
Nature of transaction		
Insurance premium received	4,963,988	674,895
People's Merchant Finance PLC		
Nature of transaction		
Insurance premium received	507,534	181,044

31.5 Transactions with the Government of Sri Lanka and its related entities

Since the Government of Sri Lanka directly controls the Company's ultimate parent, 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 as Related Parties according to LKAS 24, Related Party Disclosures.

The Company enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities and significant transaction have been reported where applicable.

Further, transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefit - EPF and ETF
- Transactions with National Insurance Trust Fund on reinsurance arrangements

32. ASSETS PLEDGED

The following asset has been pledged as a security for liabilities

Nature of asset	Nature of liability	Amount 2012 Rs.	Amount 2011 Rs.	Classification
Fixed deposit - People's Bank	Bank overdraft facility	10,000,000	-	Loans and receivables

33. EVENTS AFTER THE REPORTING DATE

The Board of Directors of the Company has declared a first and final dividend of Rs. 1.00 per share for the financial year ended 31 December 2012.

In accordance with the LKAS 10, Events after the Reporting Period, the final dividend has not been recognised as a liability in the financial statements as at 31 December 2012.

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than disclosed above.

34. COMMITMENTS AND CONTINGENCIES

The Company does not have any significant capital commitments and contingencies as at the reporting date, which require disclosure in the financial statements.

SHAREHOLDER INFORMATION

Earnings per Share

The earnings per share (EPS) for the year ended 31st December 2012 increased by 132% from Rs. 1.70 in 2011 to Rs. 3.94 in 2012. This was due to increase of profit after tax by Rs. 163 million (226%) in 2012.

Dividends

The Directors have declared a first and final dividend of Rs. 1.00 per share amounted to Rs. 60 million based on the profits of 2012.

Net Assets per Share

Net assets per share increased by 35% from Rs. 10.67 in 2011 to Rs. 14.38 in 2012 mainly due to the profit after tax of Rs. 235 million recorded in 2012.

31 December	2012 (Rs.)	2011 (Rs.)
Earnings per share	3.94	1.70
Dividend per share	1.00	0.20
Net assets per share	14.38	10.67

Share Trading Information

The Company's shares are not listed in the Colombo Stock Exchange.

Shareholder Base

All shares of the Company are held by one shareholder, People's Leasing & Finance PLC.

Directors' Interests in Shares

The Directors' individual shareholdings in the Company are given below.

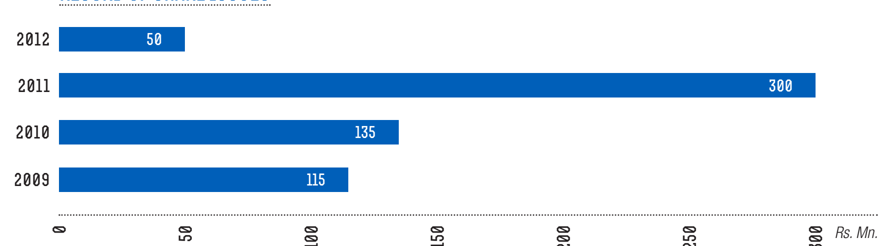
Name of Director	No. of Shares As at 31.12.2012	No. of Shares As at 31.12.2011
Jehan P. Amaratunga	Nil	Nil
Dharma N. Gammampila	Nil	Nil
N. Vasantha Kumar	Nil	Nil
D. P. Kumarage	Nil	Nil

Record of Share Issues

Details of the share issues done by the Company are given below.

Year	No. of Shares	Value of Shares Rs.
2009	11,500,000	115,000,000
2010	13,500,000	135,000,000
2011	30,000,000	300,000,000
2012	5,000,000	50,000,000
Total	60,000,000	600,000,000

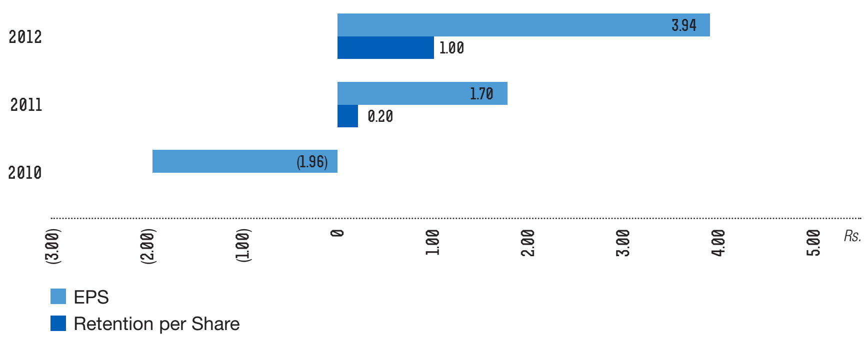
RECORD OF SHARE ISSUES



Earnings per Share (EPS) Vs. Dividend Payout Ratio

Year	EPS (Rs.)	DPS (Rs.)	Dividend Payout Ratio
2010	(1.96)	-	0%
2011	1.70	0.20	12%
2012	3.94	1.00	25%

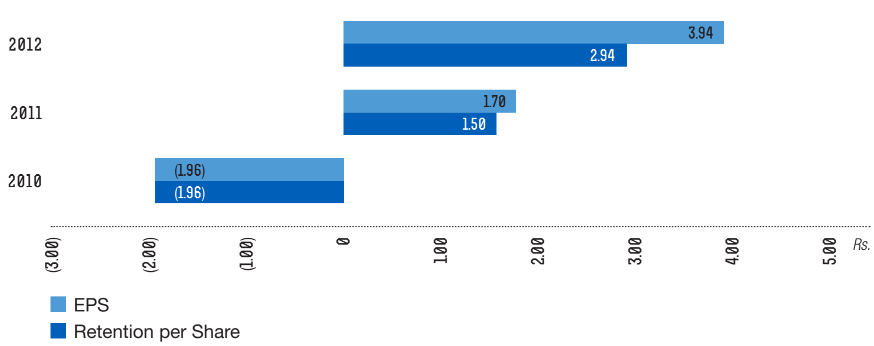
EARNINGS PER SHARE (EPS) VS DIVIDEND PER SHARE (DPS)



Earnings per Share (EPS) Vs. Retention Ratio

Year	EPS (Rs.)	Retention per Share (Rs.)	Retention Ratio
2010	(1.96)	(1.96)	100%
2011	1.70	1.50	88%
2012	3.94	2.94	75%

EARNINGS PER SHARE (EPS) VS RETENTION PER SHARE



THREE YEAR SUMMARY

	2012	2011	2010
Statement of Income (Rs.)			
Gross written premium	**2,944,487,069**	2,414,788,213	933,152,132
Net earned premiums	**2,448,241,131**	1,477,971,086	231,467,928
Other revenue	**282,068,640**	106,842,291	27,807,832
Total revenue	**2,730,309,771**	1,584,813,377	259,275,760
Net benefits and claims	**(1,970,048,532)**	(1,235,213,750)	(221,863,150)
Underwriting and net acquisition cost	**(243,880,865)**	(145,402,538)	(10,863,581)
Other operating and administrative expenses	**(192,384,167)**	(110,079,326)	(60,121,274)
Profit/(loss) before Taxation	**323,996,207**	94,117,763	(33,572,245)
Income tax expense	**(89,338,958)**	(22,161,958)	3,809,412
Profit/(loss) for the year	**234,657,249**	71,955,805	(29,762,833)
Statement of Financial Position (Rs.)			
Assets			
Intangible assets	**3,492,990**	95,060	123,076
Property, plant and equipment	**25,529,408**	17,602,003	15,797,326
Financial assets	**2,609,366,419**	1,763,276,493	513,883,789
Reinsurance and insurance receivables	**509,690,530**	575,832,533	319,775,821
Deferred expenses	**155,523,082**	126,387,783	50,288,890
Other assets	**14,948,847**	30,587,931	13,687,602
Deferred tax asset	**-**	842,914	3,809,412
Cash in hand and balance at bank	**391,104**	26,667,959	748,571
Total assets	**3,318,942,380**	2,541,292,676	918,114,487
Liabilities and shareholders' equity			
Shareholders' equity			
Stated capital	**600,000,000**	550,000,000	250,000,000
Revenue reserves	**263,001,884**	36,771,702	(32,959,146)
Total shareholders' equity	**863,001,884**	586,771,702	217,040,854
Liabilities			
Insurance liabilities	**2,171,701,475**	1,755,609,548	620,174,513
Retirement benefit obligations	**1,386,394**	793,063	569,791
Payable and other financial liabilities	**218,718,248**	157,174,148	68,745,260
Reinsurance payable	**45,239,822**	40,944,215	11,584,069
Deferred tax liability	**1,313,153**	-	-
Cash and bank	**17,581,404**	-	-
Total liabilities	**2,455,940,496**	1,954,520,974	701,073,633
Total liabilities and shareholders' equity	**3,318,942,380**	2,541,292,676	918,114,487
Investor information			
Return on net assets (%)	**27.19**	12.26	(13.71)
Earnings per share (Rs.)	**3.94**	1.70	(1.96)
Dividend per share (Rs.)	**1.00**	0.20	-
Net assets per share (Rs.)	**14.38**	10.67	8.68
Other information			
Number of employees	**165**	111	75
Number of shares	**60,000,000**	55,000,000	25,000,000

GLOSSARY OF INSURANCE TERMS

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. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto.

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.

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.

Claims handling expenses
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 gives to claims in the future.

Claims outstanding - Non-life
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.

Commissions
A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

Combined ratio
The claims and expenses of an insurer for a given period divided by its premium for the same period. It is normally expressed as a percentage with any figure in excess of 100% signifying a technical underwriting loss.

Cover note
A document issued by an insurers/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 (which incorporate a certificate of insurance) are usually of short duration.

Glossary of Insurance Terms contd.

Deferred acquisition costs - Non-life
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.

Earned premium
The proportion of premium that relates to a used period of cover.

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.

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). Compare deductible and retention. Excesses may either be compulsory or voluntary. An insured who accepts an increased excess in the form of a voluntary excess will 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.

Gross/net
The terms gross and net mean before and after deduction of the portion attributable to 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.

Facultative/obligatory treaty
A reinsurance contract which allows the reassured to select which risks of a given type are to be ceded to the reinsurer. The reinsurer is obliged to accept all the cessions made by the reassured provided they fall within the scope of the treaty.

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 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.

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 risk
Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

Insurance provision - Non-life
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.

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.

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.

Net premium
The amount of the premium that is left after the subtraction of some or all permitted deductions such as brokerage and (for certain types of business) profit commission.

Reinsurance inwards
The acceptance of risks under a contract of reinsurance.

Reinsurance outwards
The placing of risks under a contract of reinsurance.

Reinsurance commission
Commission received or receivable in respect of premiums paid or payable to a reinsurer.

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.

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. Compare deductible and excess. An insured or reassured may be able to insure its retention with another insurer/reinsurer.

Risk based capital
Capital 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.

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 - Non-life
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 amendments thereto made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto.

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.

DISTRIBUTION NETWORK

Regional Offices

Galle
No. 118, Samudra Mawatha, Galle.
Tel: 091-2235616, 091-2248671,
091-2248672
Fax: 091-2235615

Negombo
No. 159, Colombo Road, Negombo.
Tel: 031-2235514, 031-2235515
Fax: 031-2235516

Window Offices at People's Leasing & Finance PLC Network

Ambalantota
No. 172A, Tissa Road, Ambalantota.
Tel: 047-2225265
Fax: 047-2225266

Ampara
No. 149, Kumarasiri Building,
Nidahas Mawatha, Ampara.
Tel: 063-2222343, 063-2223680
Fax: 063-2224850

Anuradhapura
No. 387, Harischandra Mawatha,
Anuradhapura.
Tel: 025-2224902, 025-2224903

Awissawella
No. 15, Kudama Road, Awissawella.
Tel: 036-2233791, 036-2233792,
036-2233794
Fax: 036-2233793

Badulla
No. 33/9, Ground Floor, Modern Complex,
Cocowatta Road, Badulla.
Tel: 055-2223903, 055-2223904,
055-2224786

Bandarawela
No. 35/2 D, Weligama Road,
Bandarawela.
Tel: 057-2221146, 057-2221147
Fax: 057-2221149

Battaramulla
No. 261, Main Street, Battaramulla.
Tel: 0112-2886868, 0112-886822
Fax: 0112-2886824

Batticaloa
No. 26, New Kalmunai Road, Batticaloa.
Tel: 065-2226512, 065-2226537
Fax: 065-2226754

Chilaw
No. 10, Colombo Road, Chilaw.
Tel: 032-2224104,032-2224102
Fax: 032-2224103

Chunnakkam
No. 15, K.K.S. Road, Chunnakkam.
Tel: 021-2241105
Fax: 021-2242072

Custom Office
No. 40, Sri Lanka Custom Head Office,
Main Street, Colombo 11.
Tel: 011-2447020
Fax: 011-2447020

Dambulla
No. 513/1, Kadapaha,
Anuradhapura Road, Dambulla.
Tel: 066-2284855, 066-2284252
Fax: 066-2284158

Dehiwala
No. 119, Galle Road, Dehiwala.
Tel: 011-2725803, 011-2725804,
011-2725831, 011-2725834
Fax: 011-2725904, 011-2725891

Embilipitiya
No. 122, New Town Road, Embilipitiya.
Tel: 047-2261970, 047-2261971
Fax: 047-2261972

Gampaha
No. 65, Yakkala Road, Gampaha.
Tel: 033-2232732, 033-2233892,
033-2234656,
Fax: 032-2232733

Grandpass
No. 361, Grandpass Road, Colombo 14.
Tel: 011-2340013, 011-2340016
Fax: 011-2340025

Havelock City
No. 62, Havelock Road, Colombo 05.
Tel: 011-2592424,011-2592425
Fax: 011-2592445

Jaffna
No. 82, Kannathiddi Road, Jaffna.
Tel: 021-2228031

Kalutara
No. 314 1/1, Main Street, Kalutara South.
Tel: 034-2235336, 034-2235337,
034-2235799
Fax: 034-2235800

Kandy
No. 177, D. S. Senanayake Veediya,
Kandy.
Tel: 081-2236280, 081-2203912
Fax: 081-4471654

Kegalle
No. 345, Main Street, Kegalle.
Fax: 035-2230101, 035-2230195

Kelaniya
No. 965, Kandy Road,
Wedamulla, Kelaniya.
Tel: 011-2914112, 011-2914113
Fax: 011-2914114

Kuliyapitiya
No. 88, Kurunegala Road, Kuliyapitiya.
Tel: 037-2281353, 037-2281343
Fax: 037-2281525

Kurunegala
No. 103A, Colombo Road, Kurunegala.
Tel: 037-2222830, 037-2221582,
037-2225220
Fax: 037-2231505

Mahiyanganaya
No. 3, Kandy Road, Mahiyanganaya.
Tel: 055-2257738, 055-2257739
Fax: 055-2257737

Matale
No. 96/1/1, Kings, Matale.
Tel: 066-2226400, 066-2226401
Fax: 066-2226403

Matara
No. 45A, Anagarika Dharmapala Mawatha,
Matara.
Tel: 041-2222830, 041-2222850
Fax: 034-2235800

Metropolitan Branch
No. 67, Sir Chittapalam A. Gardiner
Mawatha, Colombo 02.
Tel: 011-2481000
Fax: 011-2481123

Nawalapitiya
No. 75, Ambagamuwa Road,
Nawalapitiya.
Tel: 054-2224483, 054-2224482
Fax: 054-2224485

Negombo
No. 29/1, Colombo Road, Negombo.
Tel: 031-2227775, 031-2223230
Fax: 031-2224882

Nugegoda
No. 290, High Level Road, Nugegoda.
Tel: 011-2813990, 011-2820464,
011-3181816, 011-3181817

Nuwara Eliya
No. 36, K. Ramanadan Complex,
Park Road, Nuwara Eliya.
Tel: 052-2224120, 052-2235866,
052-2235868

Pettah
No. 319, Main Street, Colombo 11.
Tel: 011-2437708, 011-2437709
Fax: 011-2437710

Polonnaruwa
No. 407, Main Street,
Kaduruwela, Polonnaruwa.
Tel: 027-2226718, 027-2226719
Fax: 027-2222961

Rathnapura
No. 102, Colombo Road, Ratnapura.
Tel: 045-2226668, 045-2224755,
045-2222981
Fax: 045-2230678

Tangalle
No. 138/A, Matara Road, Tangalle.
Tel: 047-2242501, 047-2242502
Fax: 047-2242503

Threewheeler Unit
No. 67, Sir Chittapalam A. Gardiner
Mawatha, Colombo 02.
Tel: 011-2481000
Fax: 011-2481123

Trincomalee
No. 445/1, Dockyard Road, Trincomalee.
Tel: 026-2226098, 026-2226099,
026-2225285

Vavunia
No. 28/30, Second Cross Street, Vavunia.
Tel: 024-2225485, 024-2225856,
024-2225857
Fax: 024-2225861

Ward Place
No. 24A, Ward Place, Colombo 07.
Tel: 011-2678691, 011-2678693

Window Offices at People's Finance PLC Network*

Head Office
No. 365, The Land Mark, Galle Road,
Colombo 03.
Tel: 011-23764776
Fax: 011-2376477

Islamic Finance
No. 167, Union Place, Colombo 02.
Tel: 011-2304460, 011-2304461
Fax: 011-2304463

Kandy
No. 26, Hill Street, Kandy.
Tel: 081-2205651
Fax: 081-2205651

Matara
No. 203, Anagarika Dharmapala Mawatha,
Matara.
Tel: 041-2234711
Fax: 041-2234711

** People's Finance PLC is due to be merged with People's Leasing & Finance PLC by 1st April 2013 as per the disclosures made by the respective companies to the Colombo Stock Exchange.*

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Fourth (4th) Annual General Meeting of People's Insurance Limited will be held on 5th April 2013 at 10.00 a.m. at the Board Room of People's Leasing & Finance PLC, 1161, Maradana Road, Colombo 08 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 2012 together with the report of the Auditors thereon.

2. To reappoint Messrs Ernst & Young, Chartered Accountants, as the External Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the financial statements of the Company for the ensuing financial year.

3. To authorise the Board of Directors to determine contributions to charities and other donations for the ensuing financial year.

By order of the Board,

Rohan Pathirage
Company Secretary

12th March 2013
Colombo

Notes
A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/ her stead and 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 Registered Office of the Company situated at No. 1161, Maradana Road, Colombo 8, no later than 48 hours prior to the time appointed for the holding of the meeting.

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FORM OF PROXY

I/ We ……… of ……being a member/s of People's Insurance Limited hereby appoint

1. J. P. Amaratunga failing him
2. D. N. W. N. Gammampila failing him
3. N. V. Kumar failing him
4. D. P. Kumarage failing him

Mr/Mrs/Miss ……

(holder of N.I.C. No. ……………………………….) of ……………………………………………………………………………………

as my/our Proxy to represent me/us and vote on my/our behalf at the Fourth Annual General Meeting of the Company to be held on 5th April 2013 at 10.00 a.m. at the Board Room of No. 1161, Maradana Road, Colombo 08 and at any adjournment thereof and at every poll which may be taken in consequence thereof to vote.

Please indicate your preference by placing a 'X' against the Resolution No.

	For	Against
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 2012 together with the report of the Auditors thereon.		
To reappoint Messrs Ernst & Young, Chartered Accountants, as the External Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the financial statements of the Company for the ensuing financial year.		
To authorize the Board of Directors to determine contributions to charities and other donations for the ensuing financial year.		

Signed this …………………… day of …………………… 2013

…………………………………………
Signature

…………………………………………
Shareholder's N.I.C./ P. P./ Co. Reg. No.

Instruction as to Completion of Proxy

1. The instrument appointing a proxy may be in writing under the hands of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation under its common seal or the hand of its attorney or duly authorised person.

2. The instrument appointing a proxy 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 will have to be deposited at the Company's Registered Address situated at No. 1161, Maradana Road, Colombo 08 not less than 48 hours before the time appointed for the holding of the meeting.

CORPORATE INFORMATION

Name of Company
People's Insurance Limited
(Fully owned 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

Tax Payer Identity Number (TIN)
134037547

VAT Registration Number
134037547 7000

SVAT Registration Number
SVAT004235

Accounting Year-end
December 31

Registered Office
People's Leasing & Finance PLC
Head Office
No. 1161, Maradana Road,
Colombo 08.

Head Office and Principle Place of Business
No. 53, Dharmapala Mawatha,
Colombo 03.
Telephone: +94 11 2206406
Fax: +94 11 2206436

Directors
Mr. Jehan P. Amaratunga - Chairman
Mrs. Dharma N. Gammampila
Mr. N. Vasantha Kumar
Mr. D. P. Kumarage - Managing Director

Company Secretary
Mr. Rohan Pathirage

Auditors
Ernst & Young
Chartered Accountants,
201, De Seram Place,
Colombo 10.

Consultant Actuaries
NMG Financial Services
Consulting Sdn Bhd
A-13A-5, Northpoint, Mid Valley City,
No. 1, Medan Syed Putra Utara,
Kuala Lumpur, Malaysia.

Bankers
People's Bank

Reinsurance Panel
Asia Capital Reinsurance Group
Asian Reinsurance Corporation, Thailand
BEST Reinsurance Company
General Insurance Corporation of India
Korean Reinsurance Company
Labuan Reinsurance (L) Ltd.
Malaysian Reinsurance Berhad
National Insurance Trust Fund
Trust International Insurance and Reinsurance Company
XL Insurance Ltd.

Investor Relations
Chief Operating Officer
People's Insurance Limited,
No. 53, Dharmapala Mawatha,
Colombo 03.
Telephone: +94 11 2206406
Fax: +94 11220643

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PEOPLE'S INSURANCE LIMITED
NO. 53, DHARMAPALA MAWATHA,
COLOMBO 03.