PEOPLE'S INSURANCE

PEOPLE´S INSURANCE LIMITED | ANNUAL REPORT 2013

IN PROGRESS...

WE BELIEVE THAT CHANGE SHOULD HELP THINGS MOVE FORWARD AND AT PEOPLE'S INSURANCE, PROGRESSIVE CHANGE HAS HELPED US ACHIEVE OUR GOAL OF SUCCESS THIS YEAR. A STRONG FOCUS ON OUR VALUES AND A VISION OF OUR FUTURE IN THE INDUSTRY INSPIRED US TO GAIN MOMENTUM AND WE HOPE TO CONTINUE OUR JOURNEY, ALONG WITH YOU, OUR STAKEHOLDERS, INTO THE MANY SUCCESSFUL YEARS TO COME.

MANAGEMENT REPORTS

371MILLION

Profit for the year increased by 58% from Rs. 235 million to Rs. 371 million, recording an outstanding growth.

NUMBER OF EMPLOYEES

2012 - 165

2013 - 210

CHAIRMAN...

AS WE LOOK AT THE YEAR 2013 IN RETROSPECT, WHAT STRIKES US THE MOST IS THE CONFIDENCE AND THE FOCUS OF PEOPLE'S INSURANCE IN EXECUTING THE STRATEGY AND STEADFASTLY REACHING OUT TO THE IDEALS ASPIRED IN THE CORPORATE VISION.

MANAGING DIRECTOR...

OUR CORPORATE PERFORMANCE WAS OUTSTANDING AND WE TRANSCENDED THE EVER-CHANGING CHALLENGES INHERENT IN OUR BUSINESS WORLD TODAY.

ABOUT US

ESTABLISHED IN JANUARY 2010, PEOPLE'S INSURANCE LIMITED IS A FULLY-OWNED SUBSIDIARY OF PEOPLE'S LEASING & FINANCE PLC. WE ARE AFFILIATED WITH INTERNATIONAL REINSURERS WITH STANDARDS THAT ARE APPROVED BY THE INSURANCE BOARD OF SRI LANKA. WE ARE A HIGHLY PROFESSIONAL TEAM OF INDIVIDUALS WHO ASSURE PERSONALISED SERVICE AND SOUND FINANCIAL SECURITY. EXPERIENCED IN UNDERSTANDING LOCAL INDUSTRY CONDITIONS, YOU CAN BE SURE THAT YOU ARE PROTECTED BY THE BEST.

VISION

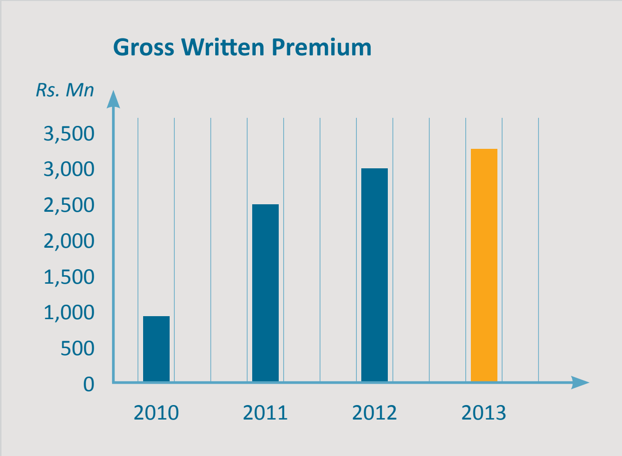
TO BE APPRECIATED FOR BUILDING LASTING TRUST BASED ON STRENGTH, STABILITY AND SUSTAINABILITY

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

UNITED AS A FOCUSED TEAM

MANAGEMENT DISCUSSION AND ANALYSIS



10%

Gross written premium grew by 10% from Rs. 2,944 million to Rs. 3,251 million.

TOTAL PREMIUM

TOTAL GROSS WRITTEN PREMIUM GREW BY 10% FROM RS. 2,944 MILLION TO RS. 3,251 MILLION IN 2013. THIS GROWTH WAS MAINLY DRIVEN BY THE MOTOR SEGMENT.

MOTOR

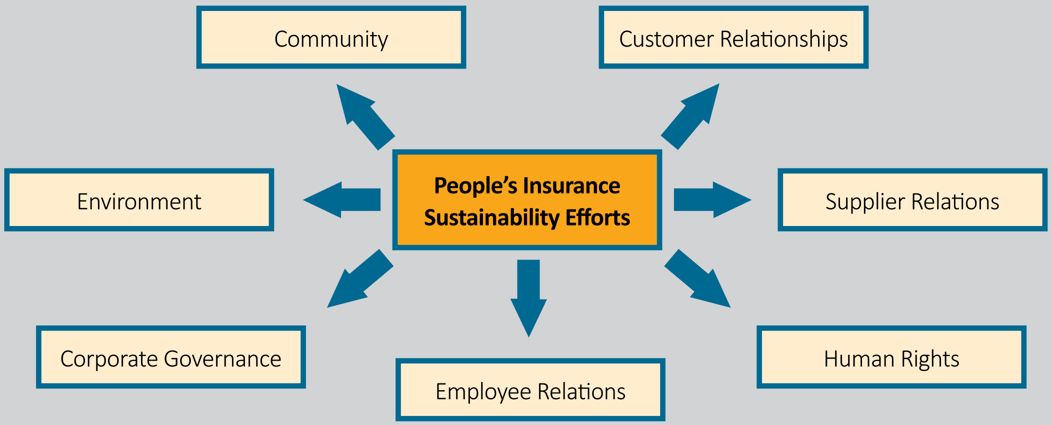
MOTOR PREMIUM GREW BY 11% DURING THE YEAR UNDER REVIEW DESPITE THE CHALLENGING MARKET CONDITIONS, INCLUDING DECELERATION OF MOTOR VEHICLE REGISTRATIONS AMIDST HIGH MOTOR VEHICLE TARIFF STRUCTURE COUPLED WITH SLOWLY RESPONDED LENDING INTEREST RATES AND SEVERE PRICE COMPETITION.

NON-MOTOR

NON-MOTOR PREMIUM GREW BY 8% DURING THE YEAR UNDER REVIEW. FIRE CLASS WAS THE MAIN CONTRIBUTOR FOR THE GROWTH OF THE NON-MOTOR PREMIUM WITH A GROWTH OF 10%. MISCELLANEOUS CLASS WHICH REPRESENTS THE SECOND LARGEST SHARE OF THE NON-MOTOR SEGMENT GREW BY 7%.

SUSTAINABILITY

Seven Dimensions of the Company's Sustainability Efforts

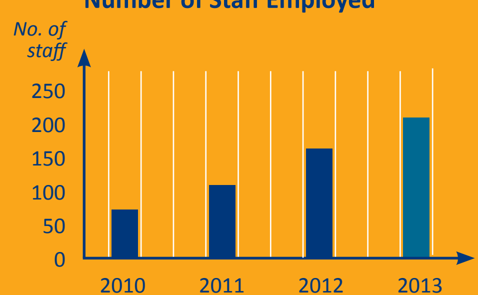


WE TAKE A HOLISTIC VIEW IN OUR SUSTAINABILITY EFFORTS AND IN OUR SUSTAINABILITY FRAMEWORK, WE HAVE IDENTIFIED CUSTOMERS, EMPLOYEES, COMMUNITY, ENVIRONMENT AND SHAREHOLDERS AS OUR KEY STAKEHOLDERS WHO MAY HAVE AN IMPACT FROM OUR BUSINESS ACTIVITIES. HENCE, WE AS A RESPONSIBLE CORPORATE CITIZEN ALWAYS STRIVE TO MINIMISE NEGATIVE IMPACTS WHILE MAKING OUR BEST EFFORT TO ADD VALUE TO OUR STAKEHOLDERS.

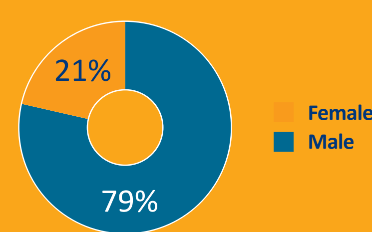
LONG TERM VALUE OF ALL OUR STAKEHOLDERS

OUR SUSTAINABILITY POLICY IS EMBEDDED IN OUR VISION. WE BELIEVE THAT FOLLOWING AN INTEGRATED APPROACH IS CRUCIAL IN TERMS OF SUSTAINABILITY, IRRESPECTIVE OF THE SIZE OR AGE OF AN ORGANISATION TO ENSURE THE CONTINUITY OF NOT ONLY THE ORGANISATION BUT ALSO THE CONTINUITY OF BOTH PEOPLE AND THE PLANET. IN VIEW OF THIS, WE ENDEAVOUR TO ADOPT SUSTAINABILITY PRACTICES IN DOING OUR BUSINESSES DESPITE THE FACT THAT WE ARE RELATIVELY NEW TO THE INSURANCE INDUSTRY.

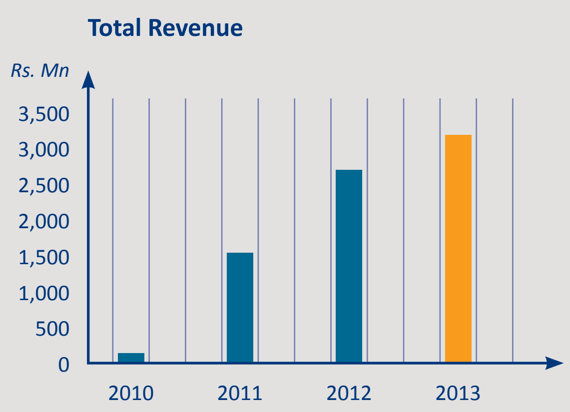
Number of Staff Employed

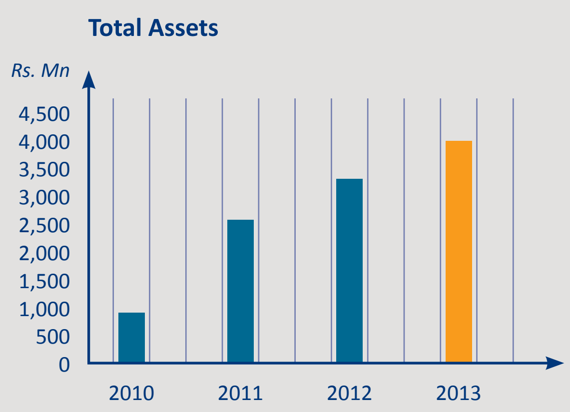


Male to Female Ratios 2013



FINANCIAL INFORMATION





3,195 MILLION

Total revenue increased by 17% mainly due to increased GWP and investment income.

4,021 MILLION

Total assets grew by 21% mainly due to business growth and enhanced profitability.

155%

UNDERWRITING PROFIT GREW FROM RS. 42 MILLION TO RS. 107 MILLION, RECORDING AN EXCEPTIONAL GROWTH OF 155% IN 2013.

Rs. 371 MILLION

58%

PROFIT AFTER TAX SIGNIFICANTLY INCREASED FROM RS. 235 MILLION TO RS. 371 MILLION, RECORDING AN OUTSTANDING GROWTH OF 58% IN 2013.

THE COMPANY WAS ABLE TO ACHIEVE AN UNDERWRITING PROFIT OF RS. 107 MILLION DURING THE YEAR UNDER REVIEW, BECOMING ONE OF THE VERY FEW NON-LIFE INSURERS TO REACH THE RS. 100 MILLION MARK IN UNDERWRITING PROFIT. THIS WAS MAINLY SUPPORTED BY THE INCREASED NET EARNED PREMIUM DUE TO STABILISED BUSINESS GROWTH AND IMPROVED UNDERWRITING AND EXPENSES MANAGEMENT, INCLUDING CLAIMS.

INVESTMENTS ALSO PERFORMED WELL, GROWING BY 40% FROM RS. 256 MILLION TO RS. 359 MILLION. GROWTH IN THE INVESTMENT PORTFOLIO BY 22% AND RELATIVELY HIGH INTEREST RATES EXPERIENCED BY THE COMPANY IN 2013 RESULTED FROM INVESTMENTS MADE PRIOR TO 2013 WERE THE MAIN REASONS FOR THE INCREASE IN INVESTMENT INCOME, APART FROM THE CHANGES IN THE INVESTMENT STRATEGY.

BOTH UNDERWRITING AND INVESTMENTS PERFORMANCE TOGETHER SIGNIFICANTLY BOOSTED THE COMPANY’S PROFIT AFTER TAX BY 58%, DELIVERING RESULTS ABOVE AND BEYOND OUR EXPECTATIONS.

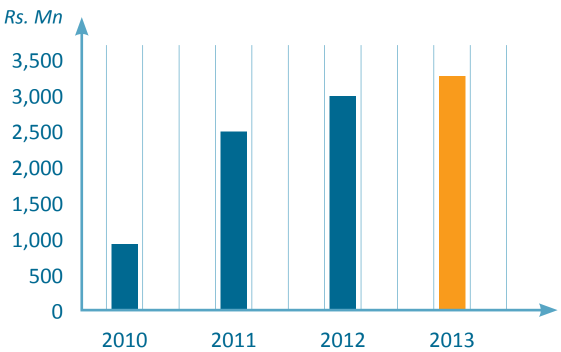
ABOVE AND BEYOND OUR EXPECTATIONS

CONTENTS

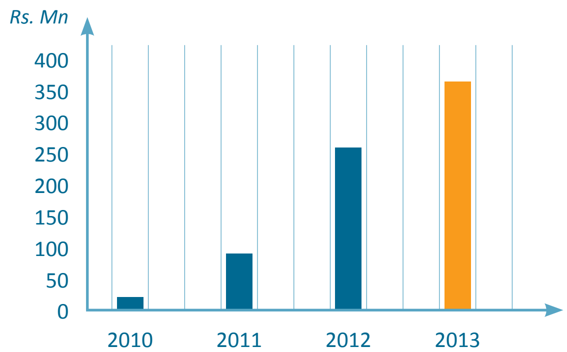
FINANCIAL HIGHLIGHTS

Completing yet another exceptional year, most of our key financial indicators, including, underwriting results, profit after tax, earnings per share and net assets per share recorded outstanding growth in 2013.

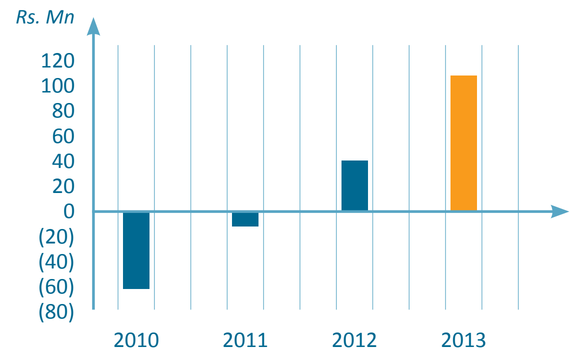
Gross Written Premium



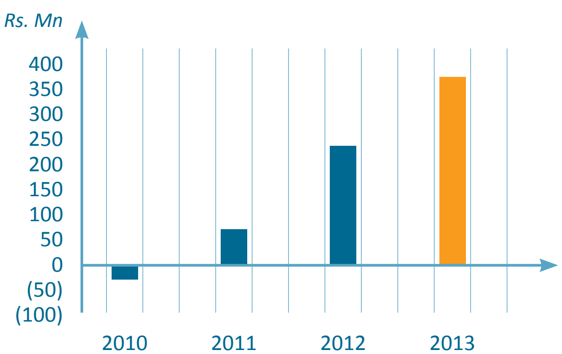
Investment Income



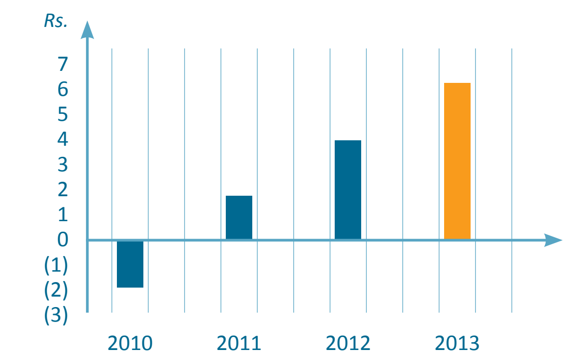
Underwriting Results



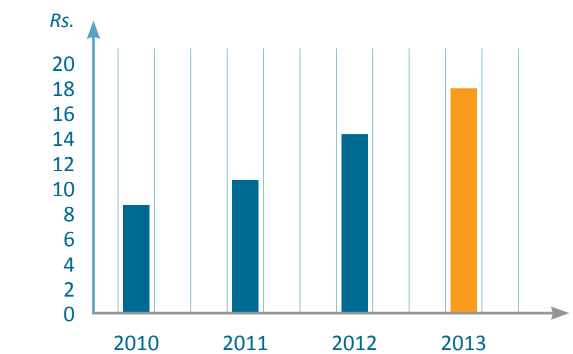
Profit after Tax



Earnings per Share



Net Assets per Share



3,251 MILLION

Gross written premium grew by 10% from Rs. 2,944 million in 2012 to Rs. 3,251 in 2013, maintaining the Company's market position as the fifth largest non-life insurer in terms of the business volumes. This growth was mainly driven by the motor segment.

107 MILLION

Underwriting profit significantly improved by 155% from Rs. 42 million in 2012 to Rs. 107 million in 2013, becoming one of the very few non-life insurance companies to achieve an underwriting profit above Rs. 100 million.

371 MILLION

Profit after tax significantly increased to Rs. 371 million in 2013 from Rs. 235 million in 2012, recording an outstanding growth of 58%. This was due to significantly improved underwriting and investments performance recorded during the year.

OUR JOURNEY

2009

JULY
Incorporated as a limited liability company under the Companies Act.

DECEMBER
Registered with the Insurance Board of Sri Lanka as an insurer to carry on non-life (general) insurance business.

2010

JANUARY
Commenced commercial operations with 15 employees.

DECEMBER
Recorded a gross written premium of Rs. 933 million in the first year of operation.

2011

JUNE
Exceeded Rs. 1 billion of gross written premium (GWP) and became the first company to achieve Rs. 1 billion annual GWP within the shortest period of time in the non-life insurance industry.

OCTOBER
Total number of employees exceeded 100.

DECEMBER
Generated the company's first profit with a profit after tax of Rs. 72 million for the year.

2012

JUNE
Became the fifth largest non-life insurer in terms of the market share by recording Rs. 1,762 million GWP for the first six months.

JULY
Completed the implementation of a customised enterprise resource planning (ERP) system.

AUGUST
Opened a state-of-the art call centre equipped with the latest technology.

DECEMBER
Opened the first regional office in Galle.

Recorded the first underwriting profit in respect of year 2012, which is its third year of commercial operations.

2013

JANUARY
Opened the second regional office in Negombo.

FEBRUARY
Signed bancassurance agreement with People's Bank.

MARCH
Released the first annual report together with the first set of financial statements compliant with the revised accounting standards (SLFRS/LKAS).

APRIL
Launched the new website.

JULY
The very first annual report of the Company was awarded the 'Industry Gold Award' and 'Top National Honours' at the LACP Vision Awards 2012 annual report competition held in Florida, USA.

SEPTEMBER
Total number of employees exceeded 200.

Carried out first dedicated social project titled 'Towards Greenery in Sri Lanka' where plants and fertilisers were distributed to farmers and households.

DECEMBER
Adjudged as a recipient of the 'Insurance Companies Compliance Award' at the Chartered Accountants' Annual Report Awards 2013 organised by the Institute of Chartered Accountants of Sri Lanka.

CHAIRMAN'S MESSAGE

IN PROGRESS...

ONCE AGAIN, WE REPORTED A CREDITABLE PERFORMANCE AND SUSTAINED OUR POSITIONING AMONGST THE TOP NOTCH PLAYERS IN THE NON-LIFE INSURANCE INDUSTRY.

Chairman
People's Insurance

371 MILLION
Profit for the year significantly increased by 58% from Rs. 235 million to Rs. 371 million.

SRI LANKA DURING THE YEAR PURSUED THE ADDRESSING OF MACROECONOMIC IMBALANCES, WHICH WERE AN INTEGRAL PART OF THE POST-CONFLICT OPTIMISM.

As we look at the year 2013 in retrospect, what strikes us the most is the confidence and the focus of People's Insurance in executing the strategy and steadfastly reaching out to the ideals aspired in the corporate vision. We were able to learn and build on our operations within a solid framework of governance and management. Once again, we reported a creditable performance and sustained our positioning amongst the top notch players in the non-life insurance industry. Truly, I consider it is my privilege, on behalf of the Board, to set forth our second annual report including the audited financial statements for the financial year 2013 and share my views on our journey towards sustainable growth.

Global Economy - Rebounding

The year witnessed the world economy moving on from the subprime mortgage led financial crisis and the recession. Notwithstanding the fiscal gridlock which intensified during the year, the US economy picked-up, albeit moderately, propped by strong private demand. The European Union, especially the core economies stepped into a recovery phase from a protracted period of economic strife. Japan stimulated by economic reforms gradually came out of stagnation, although the full recovery is yet to be seen. The emerging and the developing economies, especially the emerging giant - China, grappled on with the structural and cyclical dynamics; yet, the economies held firm ground, although moderating from their impressive growth momentum. In this scenario, the global economy is projected to post a growth of 2.4% with prospects to increase up to 3.2% in 2014 (Global Economic Prospect Report, World Bank, January 2014).

Sri Lanka - Stabilising Macro Economy

Sri Lanka during the year pursued the addressing of macroeconomic imbalances, which were an integral part of the post-conflict optimism. The easy monetary policy stance adopted in effect at the end of the preceding year was broadly set to spur economic growth. Inflation was maintained at single digit levels whilst market interest rates gradually adjusted downwards. The external front was well managed, with a surplus and official reserves maintained an equivalent of 4.5 months of imports as at November 2013. The Rupee exchange rate as against the US Dollar remained fairly stable during the course of the year; this is despite the uncertainties that arose from the anticipated measures of the Federal Reserve in the US to taper its bond-buying programme.

Within this prudent and stable macroeconomic policy framework, Sri Lanka was back on track to reach its post conflict vivacity and edged closer to the country's medium term goals. The economy with the contribution of all key sectors strengthened to achieve a higher GDP growth estimated at 7.2% as published by the Central Bank of Sri Lanka in its 'Road Map 2014'. The per capita income exceeded the USD 3,000 mark and the sovereign credit ratings were broadly maintained as 'stable'.

Insurance - Gaining Ground

In the global context, the year's challenges did not detract the insurance industry from reporting a sound performance, upholding its premium growth in real terms. In Sri Lanka, the insurance industry sought to gain ground within the financial system and to play a catalytic role in the burgeoning economy. Regardless of the macro dynamics and the vicissitudes of weather prevalent in the

Chairman's Message *contd.*

AT PEOPLE'S INSURANCE, WE ARE WELL ATTUNED AND FULLY ENDORSE THE REGULATORY DEVELOPMENTS INITIATED BY OUR REGULATOR, THE INSURANCE BOARD OF SRI LANKA.

recent times, the non-life industry maintained a steady double digit growth since the year 2010. The gross written premium posted an average compounded growth of 14% during the period 2010-2012. Yet, the non-life insurance penetration level in the country remained low with a penetration of below 1%, more so, when compared to the penetration levels within the regional markets. This portends well on the potential for industry growth.

The non-life insurance segment, accounting for more than 50% of the total insurance market is estimated to post a moderate growth, in contrast to the impressive levels achieved in the preceding two years. Weakened by the deceleration of motor vehicle new registrations and intense competition, including questionable pricing policies of some players in the industry, the motor class which leads the non-life insurance segment saw its growth levels falling - estimated to be within single digits in contrast to the remarkable two-digit levels achieved in the preceding two years.

Greater Discipline

In the recent times, much emphasis has been placed to bring in a well regulated industry with current best practices advocating a 'level-playing-field'. The proposed new regulatory framework including the segregation of composite companies, listing on a stock exchange and shifting from solvency margin rules to risk based capital regime has already taken-off ground. The industry is now gearing to integrate with the new framework which is due to be in full effect by the year 2016.

At People's Insurance, we are well attuned and fully endorse the regulatory developments initiated by our regulator, the Insurance Board of Sri Lanka. We are closely reviewing and taking the necessary action to gear our structure and internal processes to conform to the new regulatory framework. During the year, we successfully completed the 'Road Test' on risk based capital (RBC). In this process, we proactively engaged our actuarial technical consultants and identified the significant areas and issues that need to be addressed prior to the transition and implementation. We are ready to begin the second phase of the RBC implementation process by commencing the parallel run from 2014 based on the final risk based capital framework issued by the Insurance Board of Sri Lanka during the year under review.

In the year, we also looked at bracing our structure and streamlining our processes as the first steps towards broad basing our Company on the Colombo Stock Exchange, tentatively scheduled for the year 2015. We sought to strengthen and align our governance with the updated Code of Best Practice issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and reinforced our risk management practices including the reinsurance structure.

Corporate Performance

Amidst the changes in the macro fundamentals and the industry undertones, the Company in the year reported a commendable performance. We were able to effectively pursue our operational goals intertwining them with our strengths - customer service, outreach, group synergies, financial discipline and above all, our core values of transparency, accountability and professionalism. In this setting, we posted a gross written premium growth of 10% and surpassed the Rs. 100 million mark in underwriting profits with over a two-fold increase. Profit after tax reached Rs. 371 million, an increase of 58% over the preceding financial year.

Aspirations

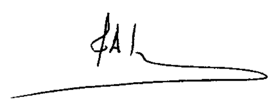
The year 2013 was certainly a prelude to the greater goals we as an emerging player aspire to achieve in the years ahead. Our fundamentals are solid; we have the vital facets and sheer determination to drive this company towards operational excellence in an evolving industry. Our plans which will be discussed in detail in the Managing Director's and Chief Operating Officer's Reviews will not be limited to mere financial numbers; whilst seeking to maximise our returns through strategically growing in scale, developing our expertise, strengthening our market share and aggressively maintaining our underwriting profitability, we will also focus on being a sustainable organisation - our governance, risk management and corporate social responsibility.

Thank You

As People's Insurance moves on in its path to the next level, it is an ideal opportunity to place on record my sincere gratitude for the support extended by the Boards of our immediate and ultimate parent companies along with other group companies. I welcome our Group Chairman Mr. Gamini Senarath who joined us in the early part of 2013 and look forward to his guidance and collaboration in the coming years to shape our young organisation to play a pivotal role in our group's mission. My appreciation is also extended to my Board colleagues and Managing Director for their visionary contribution in taking this company forward. I am well aware of the dedication and hard work of our Chief Operating Officer and his team - thank you for a job well done and hope that you will be likewise committed and energetic in the years ahead.

I wish to commend our regulator, the Insurance Board of Sri Lanka, for the progressive initiatives taken to bring in the much needed discipline and sophistication to the industry.

To all stakeholders, thank you for your valuable patronage.



Jehan P. Amaratunga
Chairman

5th February 2014
Colombo

MANAGING DIRECTOR'S REVIEW

IN PROGRESS...

OUR GROSS WRITTEN PREMIUM REACHED RS. 3,251 MILLION, REPRESENTING A GROWTH OF 10% AS AGAINST THE PRECEDING FINANCIAL YEAR.

Managing Director
People's Insurance

3,251 MILLION

Gross written premium grew by 10% from Rs. 2,944 million to Rs. 3,251 million.

DURING THE YEAR UNDER REVIEW, WE WERE RESOLUTE IN OUR EFFORTS TO BRAND AND POSITION OUR COMPANY ON THE STRENGTH AND STABILITY OF OUR PARENT, PEOPLE'S LEASING & FINANCE PLC AND OUR ULTIMATE PARENT, PEOPLE'S BANK. WE PLACED MUCH EMPHASIS ON COLLABORATING WITHIN THE GROUP TO BOLT ON OUR CORE COMPETENCIES AND BUILD ON BUSINESS OPPORTUNITIES.

Spanning over just four years, People's Insurance has achieved many milestones in its corporate journey of building lasting trust. During the year, we strived to blend our strategic goals with best practices and principles that embody the People's Leasing Group, thus, differentiating us as an ethical and reliable insurer - vital to stand amongst the top in an intensely competitive industry. Our corporate performance was outstanding and we transcended the ever-changing challenges inherent in our business world today. Certainly, it is an honour to take on this responsibility to set forth an overview of the Company's performance in the financial year 2013 and share my views on our future plans within this nascent industry.

Success Factors and Performance

We began the year with a clear strategy which was vital to brace our operations to build trust with our customers and surmount the challenges posed by the uncertain economic environment combined with intense competition in the non-life segment which in effect, has had far reaching consequences on the entire industry. Yet, leveraging single-mindedly on a combination of critical success factors - group synergy, product mix, distribution, people, risk management and good governance set us apart and even ahead from most of the other players in the industry.

Within this framework, we sustained our ranking in the year, as the fifth largest non-life insurance company in terms of the market share. Our gross written premium reached Rs. 3,251 million, representing a growth of 10% as against the preceding financial year. Surpassing our targets for the year, our management practices led underwriting profitability to post an impressive increase of Rs. 65 million from the preceding year to reach Rs. 107 million whilst profit after tax posted Rs. 371 million. Our return on equity was noteworthy at 34%. The financial position of the Company was healthy with 21% increase in assets.

Group Collaborations

During the year under review, we were resolute in our efforts to brand and position our company on the strength and stability of our parent, People's Leasing & Finance PLC and our ultimate parent, People's Bank. We placed much emphasis on collaborating within the Group to bolt on our core competencies and build on business opportunities. We teamed up with our parent to tap into the insurance solutions required in their operational transactions whilst seeking the support of our sister company, People's Leasing Fleet Management Limited, to obtain claim assessments for effective claims management.

Our distribution channel with two regional offices in strategic locations was another significant area where we collaborated with our parent network. Indeed, the post-merger scenario in the year under review between our parent and the former People's Finance PLC further strengthened our distribution, enabling us to penetrate deeper into the periphery across the entire island. Apart from our parent network, we looked at synergising network with our ultimate parent, People's Bank, and entered into a landmark agreement on bancassurance. Accordingly, we took the necessary steps to set up a dedicated unit to take-off these operations in the ensuing years.

Managing Director's Review *contd.*

WE ARE COGNISANT OF THE INNATE ISSUES AND CHALLENGES POSED OUR WAY AND EXPECTANT OF THE OPPORTUNITIES PRESENT WITHIN THIS EMERGING INDUSTRY. IN THIS SETTING, WE WILL FURTHER REINFORCE OUR BUSINESS MODEL - ENCOMPASSING THE STRENGTH OF THE BRAND, PARENT SUPPORT, GROUP SYNERGIES, FINANCIAL DISCIPLINE AND STREAMLINED SYSTEMS AND PROCESSES.

Investing in People

The strategic emphasis we lay on people plays a pivotal role in realising the ambitious goals that we have set for our corporate mission. We recognise and continued to invest during the year, on creating a balanced work culture that nurtures employee inclusivity and well-being whilst setting a platform for career development. We focused on structured training through both internal and external programmes - targeting technical expertise essential in an emerging industry especially with new regulatory changes and soft skills focusing to inculcate customer care, leadership and management skills and team spirit. We also gave our employees an exposure to the working culture within our group network whilst selected executive-level employees were sent on foreign training to experience globally acclaimed best practices, which indeed upheld our quest to distinguish our operations from the 'run of the mill' in the industry. Our remuneration is current and fair. This year, we reviewed and revised compensation packages across the board, reinforcing our commitment to employees.

Product Mix

Our product mix is overly dependent on the motor segment which has been relatively susceptible to the recent dynamics in the macro environment. Hence, during the reporting year, we pursued promoting products under fire, engineering and miscellaneous classes, targeting both the retail sector and institutional clients. Apart from the non-life insurance products, we sought to team up within the group companies by cross-selling and product-bundling to offer an end-to-end solution to address a spectrum of customer needs, now more pronounced given the depth and the width of our growing distribution channel.

Risk, Governance, CSR and Reporting

We are well aware of potential pitfalls of operations purely based on commercialistic decisions. We value sound judgement in our decision-making, carefully weighing and balancing risks vs. returns. The Enterprise Risk Management Committee at the company level and Integrated Risk Management Committee at the group level are in place, providing the necessary framework for efficient and effective risk management. We are conscious of the significance and strive to bring in a stronger structure and processes to align our operations to the prescribed best practices in corporate governance.

This year, we attempted to bring out our values in corporate social responsibility through our first sustainability report, presented with this second annual report. This will no doubt enhance our reporting efforts which in effect were recognised by the Institute of Chartered Accountants of Sri Lanka at the Annual Report Awards held in December 2013 with the 'Insurance Companies Compliance Award' given for our first annual report, 2012. We were also honoured to receive international awards - 'Industry Gold Award' and 'Top National Honours' at the annual report competition - LACP Vision Awards 2012 held in Florida, in the United States of America.

Gearing for the Changes

The insurance industry in Sri Lanka as highlighted in our Chairman's Message is gearing to step into a new horizon in the ensuing years with greater consolidation, clarity and discipline. It will be a challenging transition for many of the insurers - demanding compliance with the new regulatory framework. We are cognisant of the innate issues and challenges posed our way and expectant of the opportunities present within this emerging industry. In this setting, we will further reinforce our business model - encompassing the strength of the brand, parent support, group synergies, financial discipline and streamlined systems and processes. We intend to address the specifics that are wanting - developing internal actuarial resources that may provide technical expertise on liability valuation, pricing and risk based capital, strengthen corporate governance vital for the forthcoming listing on the Colombo Stock Exchange by bringing in independent Directors and appointing Board sub committees for remuneration and nominations. We will aggressively attempt to better our market share and ranking within the non-life segment and grow our gross written premium whilst reaching out to higher targets in our underwriting and overall profitability.

Appreciations

Within a short span of time, our company building on critical success factors has aced present day shocks, uncertainties and industry competition to be a leading player in the industry. In this journey, I remember with gratitude the visionary leadership and direction of our Chairman and my fellow Directors on the Board. I am grateful to the Chairman and Board of Directors of People's Bank and People's Leasing & Finance PLC and to our sister companies for invaluable collaborative support extended for the success of our operations. To our Chief Operating Officer and his team - thank you for your enthusiasm, energy and above all maintaining professionalism in taking the Company on its way forward. My commendation is with the Insurance Board of Sri Lanka for their proactive role and I thank all other stakeholders for extending their support and trust in our corporate mission.

D. P. Kumarage
Managing Director

5th February 2014
Colombo

CHIEF OPERATING OFFICER'S REVIEW

IN PROGRESS...

OUR NET COMBINED RATIO IMPROVED TO 96% IN THE REPORTING YEAR FROM 98% IN THE PRECEDING YEAR WHICH COMPARES FAR BETTER THAN THE RATIOS OF ABOVE 100% EXPERIENCED BY MANY INSURERS GIVEN THE DYNAMICS OF THE NON-LIFE INSURANCE SECTOR.

Chief Operating Officer
People's Insurance

107 MILLION

Underwriting profit significantly increased by 155% from Rs. 42 million to Rs. 107 million.

WE SOUGHT TO RETAIN OUR POSITIONING AMIDST THE FIERCE COMPETITION WITHIN THE NON-LIFE INSURANCE SECTOR.

At the close of 2013, I am happy to report that we were able to reap the benefits of our strategies mapped during the preceding year. During the year, we pursued to reinforce our fundamentals - underwriting and claims management, customer service, product offer, distribution network whilst maintaining our core values in good governance. This supported us to manage the industry dynamics, once again, retaining our positioning within the first five insurers in the non-life insurance sector in terms of the market share. My review herein sets forth our drive towards keeping this momentum for the long term together with our operational and financial performance for the financial year ended 2013 and our plans to take on the promising opportunities present within our industry in the ensuing years.

Pragmatic Strategy

In the reporting year, we continued to be focused in our strategy and steady in our efforts to stand our ground against the pressures of the business landscape we operated in. We sought to retain our positioning amidst the fierce competition within the non-life insurance sector. Our aim was to bolster our premium income whilst reinforcing our expertise in underwriting and claims management coupled with cost effective measures to optimise on our returns. To this end, we were steadfast in our actions to strengthen our customer centric approach; we sought to differentiate our offer by giving the best-in-class service to our customers and delivering effective pricing solutions and claims experience. We also focused on improving the morale and motivation to bring out the full potential of our employees, integrate our operations with the existing ICT resources to avail greater efficiency and leverage on our parent brand and group synergies.

Sound Financial Results

Notwithstanding the challenging industry conditions, our company marked a commendable overall performance with sound financial results for the financial year ended 2013.

The market within the motor class which absorbs a substantial slice of our portfolio continued to be sluggish within a higher tariff structure. Easing of monetary policy, though signalling positivity, lagged in its impact on market rates and thus stifled the anticipated prospects for the industry. Our performance within the motor segment hence was moderate with a growth of 11%. The non-motor segment dealing mainly in fire insurance grew by 8%.

It is in this scenario that we have to note our overall premium income of Rs. 3,251 million for the year under review, corresponding to 10% growth. The year reported a growth in net earned premium including reinsurance outflows and unearned premium adjustment by 14% vis-à-vis the year 2012.

During the year, we were conscientious in our underwriting efforts and sought to effectively manage claims, thereby boosting our bottom-line. Our net combined ratio improved to 96% in the reporting year from 98% in the preceding year which compares far better than the ratios of above 100% experienced by many insurers given the dynamics of the non-life insurance sector. Our underwriting profit for the year surpassed the Rs. 100 million mark to stand at Rs. 107 million as compared to Rs. 42 million in the prior year. This together with investment income of Rs. 359 million, despite

Chief Operating Officer's Review *contd.*

WE MAINTAINED A BALANCED MIX OF RISKS AND RETURNS WITHIN OUR INVESTMENT PORTFOLIO AND STRATEGICALLY INCREASED OUR EXPOSURE TO DEBENTURES TO AVAIL THE BUDGETARY CONCESSIONS EXTENDED BY THE GOVERNMENT TO DEVELOP THE DEBT MARKET IN SRI LANKA.

relatively lower market yields, buoyed our profitability to post an increase of 58% vis-à-vis 2012 and profit after tax reached Rs. 371 million. Return on equity was outstanding at 34%.

We continued to uphold a healthy financial position with assets increasing by 21% to stand at Rs. 4,021 million as at 31st December 2013 as against 31st December 2012. We maintained a balanced mix of risks and returns within our investment portfolio and strategically increased our exposure to debentures to avail the budgetary concessions extended by the Government to develop the debt market in Sri Lanka. Investment position as at the year-end was Rs. 3,190 million, an increase of Rs. 581 million over the position in the preceding year. Our liabilities were well managed at Rs. 2,936 million and the solvency position of the Company was sound with an excess of Rs. 329 million over the required solvency margin.

Driving Market Growth

During the year under review, we sought to reach out to a wider customer base and grow our market share, which is currently estimated to be in the range of 5.75%. In the reporting year, we opened a new regional office in Negombo. We established 15 new window offices within the parent's branch network, taking the total to 59 window offices.

Adding further strength to our distribution channel, we entered into a formal bancassurance agreement with our ultimate parent, People's Bank. Indeed, given the Bank's renowned standing in Sri Lanka's financial sector, we truly believe that this strategic initiative will be an impetus to grow our market share.

We also looked at redesigning our product offer to expand our scope in market outreach. We structured and promoted a product-mix coupling motor class with lifestyle and business oriented products reaching out to both individuals and institutions.

Team Building

Our team currently standing at 210 employees, no doubt, underscores our success in the industry. We fully recognise their role and potential within our operations. Hence, we continued in the year to attract the best talent and nurture their competencies through selected but strategic training and development programmes. During the year, we structured an inspirational training 'Be the Best You were Born to be' conducted by a renowned resource personality in Sri Lanka, Mr. Dhammika Kalapuge, to bring out creativity skills, confidence and team spirit among our employees - especially pertinent to today's business context. We also extended training opportunities both internal and external to enhance technical skills and encouraged staff to avail our non-bonding financial assistance programme to continue their professional studies. We sought during the year, to reinforce our performance-based culture, with a structured appraisal scheme and strongly advocated to keep up our 'open dialogue' policy to get employee feedback on issues and grievances as well as on new ideas and initiatives. The revisions in the compensation packages across the board combined with our move to establish a welfare society for all employees during the year fortified our commitment towards employee wellbeing.

Bracing the Support Services

During the year, we looked at how best we could enhance and tailor our processes to be more efficient and cost effective in our operations. We continued to leverage on our existing state-of-the-art technology and invested well on updates and improvements necessary to be receptive to the risks and opportunities present within the industry.

In the year, we took the initiative to add on an accounts payable module to bring in versatility to our ERP system, whilst upgrading our contemporary call centre with new features to provide a faster and effective service to our customers amidst increasing volumes. Adding on to this, we launched our official website to portray the 'look and feel' of our company brand and the values we stand for. We included new content and user-friendly and interactive options to address customer queries and needs effectively and promptly.

Stepping into the Future

From the onset four years ago, we have relentlessly pursued to transform our operations to be among the top tier players in the industry. Much work has been done to build a solid foundation with expertise combined with best practices in risk management and governance. Yet, we recognise that much needs to be done to reach our full potential in an emerging industry. At the same time, we need to exercise constant vigilance on the possible odds - intense price competition, uncertainties in the macroeconomic environment including the volatilities in the capital and money markets in the country which may have a substantial bearing on our operations and performance results.

In these settings, a focused strategy is highly warranted to ensure internal stability whilst reaching out to our growth aspirations above the industry average. We will strengthen our top-line strategy - price optimisation through effective underwriting and increasing our market share specifically concentrating on the bancassurance channel, superior customer service and versatility in the product offer. We will also continue to be disciplined in claims management and cost controls to bolster our bottom-line. We will seek to safeguard the strength and stability of our financial position closely matching our assets to liabilities.

Apart from focusing on our financials, we will further the governance framework and risk management including the reinsurance scheme. This assumes greater significance in the context of the imminent transition to the risk-based capital regime and listing on the Colombo Stock Exchange. We also intend to expand the scope in our corporate social responsibility, especially driving our dedicated project that took off in the reporting year to reduce carbon footprint - 'Towards Greenery in Sri Lanka' and other community initiatives.

In Concluding

It is my duty to place on record, on behalf of my team, our sincere gratitude to the Chairman, Managing Director and the Board of Directors for their visionary leadership and guidance in taking our company on a path of sustainable growth. I take this opportunity to recognise and commend my team for all their hard work, diligence and professionalism in the year and hope they will continue to extend their support and commitment to reaching the corporate goals in the ensuing years.

I wish to commend the Insurance Board of Sri Lanka for their foresight and initiatives taken to bring in a better regulated and disciplined industry. My appreciation is also extended to our customers, reinsurers, intermediaries, other business partners and all our stakeholders for the continued trust placed in our journey towards meeting our corporate vision.

Nimal Perera
Chief Operating Officer

5th February 2014
Colombo

BOARD OF DIRECTORS

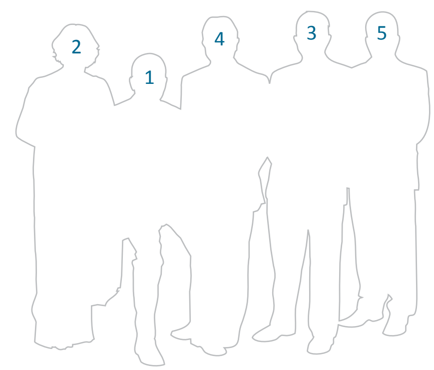
1 Mr. Jehan P. Amaratunga
Chairman

2 Mrs. Dharma N. Gammampila
Director

3 Mr. N. Vasantha Kumar
Director

4 Mr. D. P. Kumarage
Managing Director

5 Mr. Rohan Pathirage
Company Secretary



1 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 and People's Merchant Finance PLC. 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 26 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.

2 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 36 years' experience in England and Sri Lanka. She held the position of Company Secretary of Forbes and Walker Limited and its subsidiary companies and was the Director - Legal and HR of the Forbes and Walker Group for a period of 13 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.

3 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 Leasing Property Development Limited, People's Leasing Havelock Properties Limited, 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 Banks' Association (Guarantee) Limited.

He holds a Master's Degree in Business Administration and counts over 33 years of experience in treasury management. He was the past president of the Association of Primary Dealers and Sri Lanka Forex Association and served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

4 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 Leasing Fleet Management Limited, People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited and People's Microfinance Limited.

He has over 33 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.

5 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.

CORPORATE MANAGEMENT

1. Nimal Perera
Chief Operating Officer

2 Jeevani Kariyawasam
Chief Manager - Operations

3 Nilushan Somarathna
Senior Manager - Finance

4 Kanthi Kempitiya
Senior Manager - Motor Underwriting

5 Shalika de Silva
Manager - Legal

6 Hareendra Dissanayaka
Manager - Motor Claims

7 Dulip Dissanayake
Manager - Finance

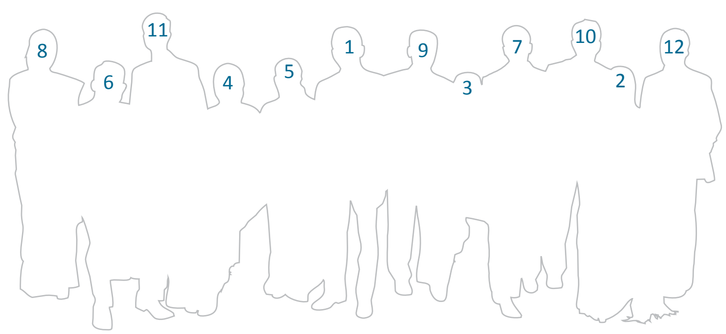
8 Sumudu Bandara
Deputy Manager - Non-motor Claims

9 Gemunu Vithanage
Assistant Manager - Marine

10 Hiran Karunarathne
Motor Engineer

11 Channa Abeywickrema
Officer in Charge - Fire and Miscellaneous Underwriting

12 Sashika Jayathilaka
Officer in Charge - Reinsurance



Corporate Management *contd.*

1 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 Fidé Insurance Limited Malawi. Nimal is a Fellow of the Chartered Insurance Institute. He is a Member of the Asia-Pacific Risk and Insurance Association.

2 Jeevani Kariyawasam
Chief 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 17 years of experience in the insurance industry which includes the experience at National Insurance Corporation and HNB Assurance PLC. Jeevani holds a BSc. Honours Degree in Bio Science from the University of Colombo. She is an Associate of the Chartered Insurance Institute, UK.

3 Nilushan Somarathna
Senior 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 altogether has over 10 years of finance and audit experience, including previous experience at Union Assurance PLC and PricewaterhouseCoopers. Nilushan has a BSc. Business Administration (Special) Degree from the University of Sri Jayewardenepura. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and a prize winner of intermediate examination conducted by CA Sri Lanka. He also holds a Master's Degree in Business Administration (MBA) from the University of Southern Queensland, Australia.

4 Kanthi Kempitiya
Senior Manager - Motor Underwriting

Kanthi joined People's Insurance in October 2009. She has more than 31 years of experience in the insurance industry including the areas of underwriting, claims, administration and business development. Kanthi holds a BSc. Honours Degree in Physical 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.

5 Shalika de Silva
Manager - Legal

Shalika joined People's Insurance in July 2012 and has been heading the legal department since then. She counts over 20 years of experience in the insurance, leasing, finance 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.

6 Hareendra Dissanayaka
Manager - Motor Claims

Hareendra joined People's Insurance in October 2009. He started his career at HNB Assurance PLC and counts over 10 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.

7 Dulip Dissanayake
Manager - Finance

Dulip joined People's Insurance in October 2009. He has over 16 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 Certified Business Accountant of the Institute of Chartered Accountants of Sri Lanka.

8 Sumudu Bandara

Deputy Manager - Non-motor Claims

Sumudu joined People's Insurance in October 2009. She has over 15 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.

9 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 36 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.

10 Hiran Karunarathne

Motor Engineer

Hiran joined People's Insurance in September 2010. He has over 24 years of experience in insurance, over 14 years of experience in heavy construction and 10 years' experience in the automobile industry. He served as 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.

11 Channa Abeywickrema

Officer in Charge - Fire and Miscellaneous Underwriting

Channa joined People's Insurance in August 2010. He has over six years of experience in the insurance industry, starting the 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.

12 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 six years of experience in the insurance industry. He has a BSc. Degree (General) in Physical Science from the Faculty of Science, University of Colombo.

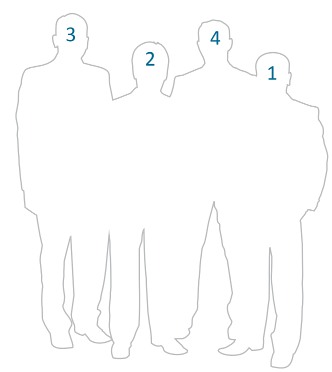
SUPPORT SERVICE TEAM

1 Udesh Gunawardena
Assistant General Manager - Internal Audit (Group)

2 Prabath Gunasena
Assistant General Manager - ICT (Group)

3 Uresh Jayasekara
Chief Manager - Human Resources (Group)

4 Fazmil Mowlana
Deputy Manager - ICT (Group)



1 Udesh Gunawardena

Assistant General Manager - Internal Audit (Group)

Udesh joined People's Leasing & Finance PLC in 1999 as Accountant and possesses over 14 years of experience with the Company. 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 Treasury Managers 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 16 years' experience in the field of finance. He is also a world prize winner of the Australian Computer Society. Presently, he serves as the Secretary to the Board Audit Committees of People's Insurance Limited and People's Leasing & Finance PLC as appointed by the respective Boards.

2 Prabath Gunasena

Assistant General Manager - ICT (Group)

Prabath joined People's Leasing & Finance PLC in 1999 and has been the head of ICT department for the past 14 years. He holds a Master's Degree in Business Administration (MBA) from the University of Western Sydney (UWS). He holds a Diploma in Computer System Design from the National Institute of Business Management (NIBM), Sri Lanka and is a member of the British Computer Society.

3 Uresh Jayasekara

Chief Manager - Human Resources (Group)

Uresh joined People's Leasing & Finance PLC in 2007. He holds a 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 also holds a Master's Degree in Business Administration (MBA), specialised in Human Resources Management from the University of Colombo. He has altogether 15 years of experience in the field of human resources including garments, hospital and financial sectors.

4 Fazmil Mowlana

Deputy Manager - ICT (Group)

Fazmil joined People's Leasing & Finance PLC in December 2009. He has over 15 years of experience in ICT, including insurance experience at National Insurance Corporation (NIC). He holds a Diploma in Computer System Design from the National Institute of Business Management (NIBM), Sri Lanka. He is a member of the British Computer Society.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW

Economy

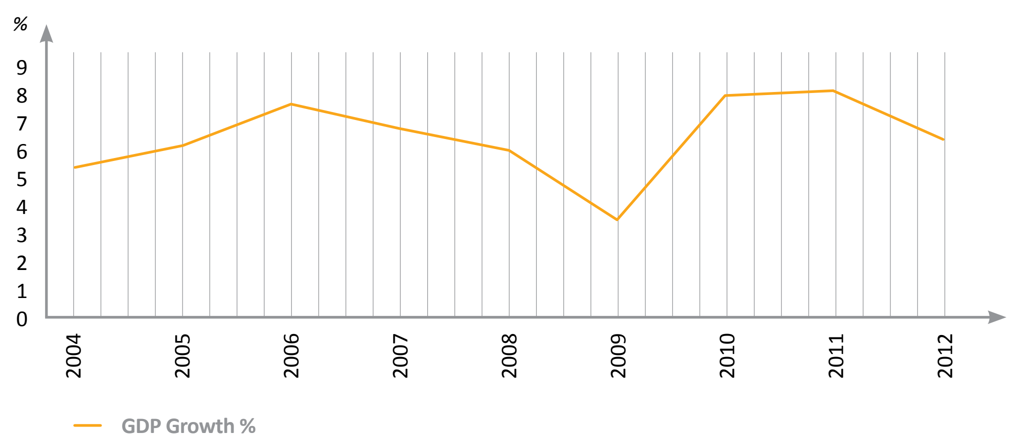
The economy continued on its growth trajectory, growing by 7.8% in 3rd quarter, significantly exceeding the preceding two quarters' growth. The economy is estimated to have grown by 7.2% in 2013 according to the Central Bank of Sri Lanka. This follows two consecutive years' robust growth of 8.0% in 2010 and 8.2% in 2011 which was the highest in South Asia in 2011 and moderate growth of 6.4% in 2012. The robust growth in 2010 and 2011 was largely spurred by private sector demand following the end of the three-decade-long conflict in the North and East. The post-conflict rebound helped all sectors, both on the supply side and demand side. Agricultural lands in conflict areas were once again available for cultivation, employment rate increased due to improved security conditions, consumers' and investors' confidence revived and tourist arrivals picked up after the end of the conflict, facilitating accelerated economic expansion. However, the high growth momentum moderated to 6.4% in 2012 after recording a 7.2% growth in the first half of 2012, affected by weak external demand and tighter domestic credit conditions prevailed in the second half of the year. The growth of the economy was above 5% since 2004, except in 2009 where the growth dropped to 3.5% due to adverse economic conditions prevailed amidst the final phase of the war.

The less growth of 6.0% in the 1st quarter of 2013 than the expected rebounded in the 2nd and 3rd quarters, growing by 6.8% and 7.8% respectively. The growth in the 3rd quarter was mainly driven by the industrial and services sectors which grew by 8.1% and 7.9% respectively. Agricultural sector also grew by 7.0%, recovering from the contraction recorded in the 2nd quarter due to lower prices and adverse weather conditions.

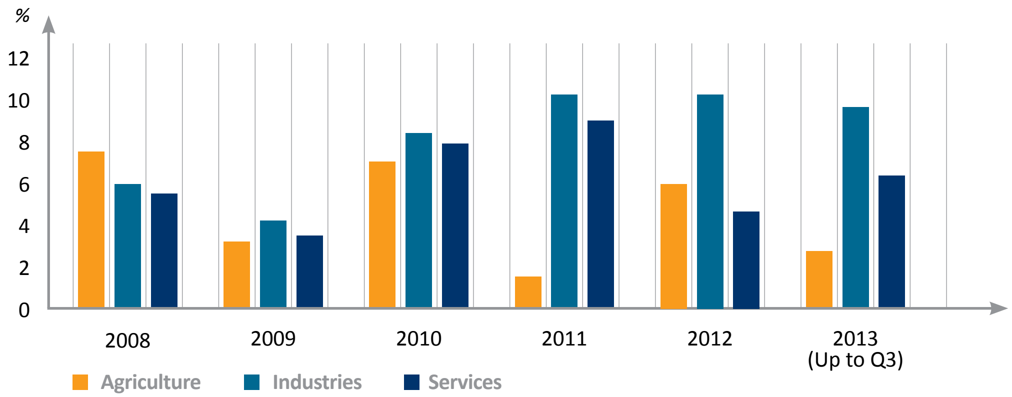
Sub sectors which recorded the highest growth in the 3rd quarter were paddy (56.5% growth), marine fishing (17.5% growth), hotels and restaurants (13.6% growth), mining and quarrying (12.5% growth), transport and communication (11.8% growth), electricity, gas and water (11.2% growth) and construction (10.0% growth). Banking, insurance and real estate sub sector grew only by 6.7% during the same period.

A number of measures were taken by the Central Bank during the year under review to spur economic growth. The measures included further relaxation of monetary policy with reductions of policy interest rates and statutory reserve requirement. Exchange regulations were also relaxed, including general permission to transfer funds in an NRFC/RFC account of one bank to another bank, enabling holders of foreign exchange earners' accounts (FEEA) to obtain foreign currency loans, general permission to repatriate capital gains from the sale of residential properties by non-residents, extension of migration allowance to each migrant of age 18 and above, increase in the amount of foreign currency notes issued for travel purposes, opening and maintaining of bank accounts abroad by dual citizens, etc. in order to achieve greater efficiency in the conduct of international financial transactions and further facilitating economic activity of the private sector through greater ease of doing business, thus enhancing the overall competitiveness of the economy.

Economic Growth



Sectorial GDP Growth



Forecasted economic growth of 7.2% in 2013 by the Central Bank has taken anticipated recovery of the global economy and improved domestic conditions into account, despite the less growth recorded in first half of the year. Accordingly, the Central Bank expects the global recovery to boost the demand for exports and support the tourism industry. The Asian Development Bank (ADB) also expects a stronger performance in the second half of the year, ending 2013 with an economic growth of 6.8% in view of eased monetary policy, continued recovery in services sector and improvements in agricultural sector assuming normal weather conditions. However, the International Monetary Fund (IMF) estimates the growth to be 6.5% in 2013.

According to the World Economic Outlook report issued by the IMF in October 2013, the world economy is expected to grow by 2.9% in 2013. The growth is to be mainly driven by the advanced economies, as the emerging markets' growth was weaker than expected. The advanced economies are expected to grow by 1.2% while emerging and developing economies are expected to grow by 4.5% in 2013.

Inflation

Inflation continued to remain at a single digit level for over four years since February 2009, recording the longest period in recent times. However, inflation almost reached and continued at 10% level from June 2012 to February 2013, recording its highest of 9.8% on year-on-year (YoY) basis mainly due to the depreciation of the Rupee, supply disruptions on account of drought conditions that prevailed in major cultivation areas and high monetary expansion. Since March 2013, inflation gradually eased up to 6.1% in July 2013 on YoY basis and closed the year at 4.7%, recording its lowest in 2013. Restrained international commodity prices, reduced domestic supply side pressures and contained demand-driven inflationary pressures were the main reasons for the deceleration. This was in line with the goal of the Government of Sri Lanka to keep inflation at around mid single digit levels.

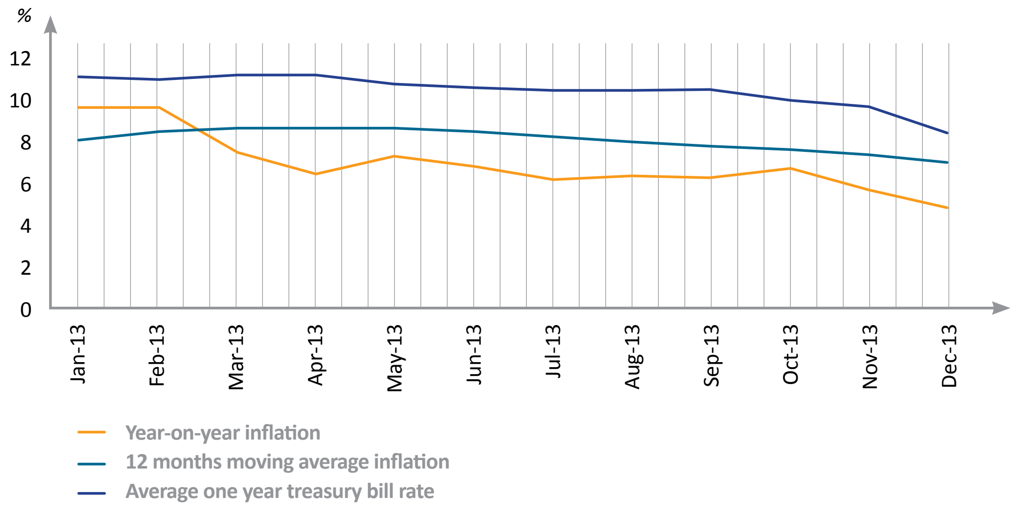
Annual average inflation also decreased to 6.9% in 2013 from 7.6% in 2012. According to the Central Bank, the main reason for the decrease was deceleration of price increases in the non-food category which rose only by 6.1% in 2013 compared with 10.0% recorded in 2012. Impact from upward revisions of fuel prices and bus fares in 2013 was lower than 2012, recording an increase of only 4.6%. However, food and non-alcoholic beverages category which increased by 7.9% during the year had an upward pressure on inflation.

Interest Rates

Interest rates were declining throughout the year, ending high interest rate environment prevailed in most of 2012, continuing its volatility. The Central Bank took several measures during the year under review to bring the interest rates down in view of harnessing the full economic potential of Sri Lanka economy, amidst the comfortable level of inflation and favourable inflation outlook environment due to favourable domestic demand and supply conditions and the absence of upward pressures from international commodity prices. In line with this, the Central Bank cut policy rates by 50 basis points each in May, October and December 2013, following the basis policy rate cut commenced in December 2012. Accordingly, the repurchase rate (now known as standing deposit facility rate) stood at 6.50% and reverse repurchase rate (now known as standing lending facility rate) stood at 8.00% at the end of the year under review, recording multi-year lows. In addition to

Management Discussion and Analysis *contd.*

Interest Rates vs. Inflation



the policy rate cuts, the regulator reduced the reserve requirement by 2% in June. In line with the expectations of the Central Bank, bank lending rates gradually reduced by 4.2% from 14.3% in 2012 to 10.1% in 2013. However, the credit growth of the private sector has been sluggish and recorded only a growth of 7.9% in August 2013 on YoY basis, slowing from 8.4% in the previous month and 28.7% in the previous year.

Trade Deficit and Gross Official Reserves

Trade deficit contracted by 10.7% during the first 11 months ended November 2013 due to favourable developments in the external sector according to the Central Bank of Sri Lanka. Accordingly, the trade deficit decreased from USD 8,768 million in November 2012 to USD 7,831 million in November 2013.

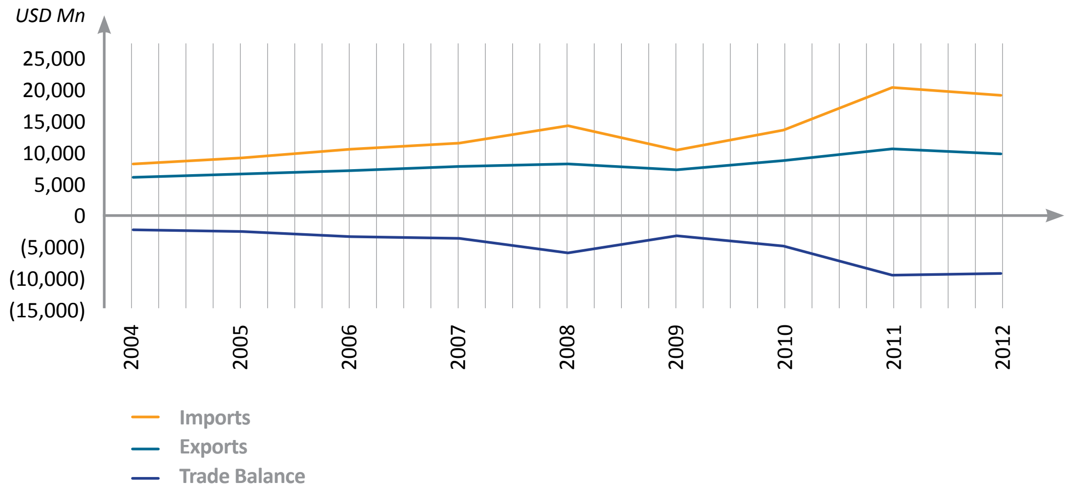
Export income grew by 5.6% from USD 8,903 million during the first 11 months in 2012 to USD 9,400 million during the same period in 2013. The increase of exports income was mainly attributable to the gradual recovery of the global economy. Accordingly, both agricultural export income and industrial export income which collectively account for more than 95% of the total export income grew by 10.6% and 4.1% respectively.

Import expenditure dropped by 2.5% from USD 17,670 million during the first 11 months in 2012 to USD 17,231 million during the same period in 2013. Policy reforms done in 2012, including the regulator allowing more flexibility in the determination of the exchange rate and limiting its intervention in the foreign exchange market mainly aimed at reducing the widening trade deficit by curtailing non-essential imports and improving export competitiveness also contributed to this contraction.

Net workers' remittances of the first 11 months grew by 12.7% from USD 5,432 million in 2012 to USD 6,124 million in 2013. Foreign direct investments increased by 41.5% from USD 615 million during the first nine months of 2012 to USD 870 million during the corresponding period of 2013. Earnings from tourism grew by 36.2% from USD 905 million during the first 11 months in 2012 to USD 1,233 million during the corresponding period in 2013 which was supported by the increase in the number of tourists during the same period by 27% from 883,353 in 2012 to 1,120,675 in 2013.

According to the Central Bank, gross official reserves stood at USD 6.9 billion by the end of November 2013 which was equivalent to 4.5 months of imports while total international reserves including foreign assets of commercial banks amounted to USD 8.3 billion. In terms of the months of imports, total international reserves were equivalent to 5.4 months of imports by the end November 2013.

Trade Deficit

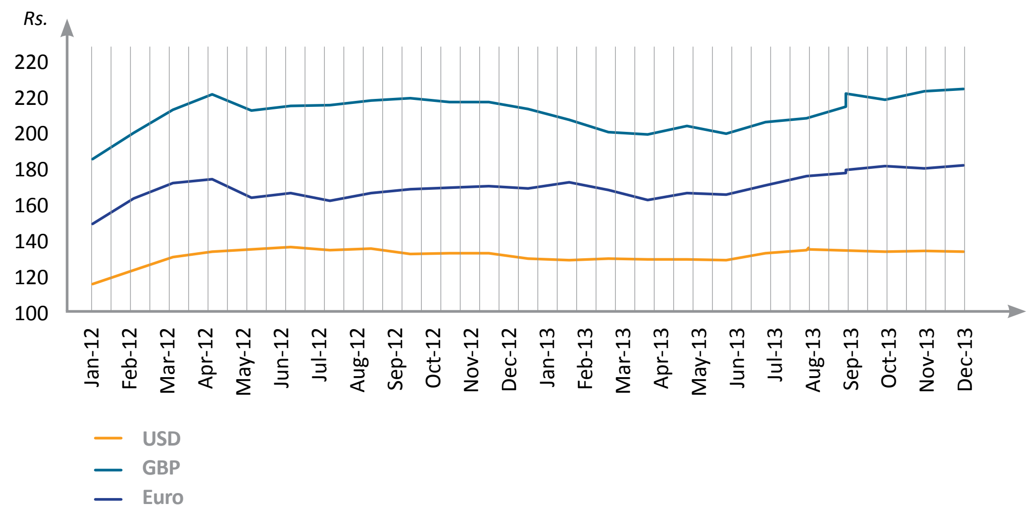


Continuation of the corrective measures taken by the Central Bank, including restrictions on consumer goods imports, revision of fuel prices and imposition of credit ceilings on selected categories in the previous year to avoid any sharp depreciation of the LKR, were the main reasons for the moderate level of depreciation during the year under review. However, with foreign currency cash flows coming from corporate bonds and foreign buying of shares, the trend reversed temporarily in the latter part of the year and it was also seen that the Central Bank intervened in the market and bought the USD in order to prevent a sharp appreciation of the LKR.

Exchange Rates

The Sri Lankan Rupee (LKR) hit a record high during the year under review by reaching Rs. 135.20 per US Dollar (USD) in August 2013. According to the Central Bank, this was mainly due to foreigners withdrawing their funds from Sri Lankan Government bonds. However, the LKR was relatively stable compared with the previous year. The LKR (selling rate) started the year under review at Rs. 129.59 and ended at Rs. 132.34 to the US Dollar, indicating a depreciation of 2% in 2013. In 2012, the LKR significantly depreciated by 12% from Rs. 114.88 to Rs. 128.82. Currency defence by the Central Bank leading to rising liquidity levels and increased credit in the domestic economy propelled this depreciation. However, the LKR was under some pressure during the year under review as well in view of greater import demand, despite the relative stability compared to 2012.

Exchange Rates



Management Discussion and Analysis *contd.*

In another move to safeguard the LKR, in August the Central Bank imposed a 100% margin deposit requirement against letters of credit (LC) opened with commercial banks for importation of motor vehicles other than buses, lorries, ambulances and trucks in view of the depreciation of currencies of several trading countries against the LKR. However, the Central Bank lifted this requirement in December 2013 in view of favourable developments in the external sector.

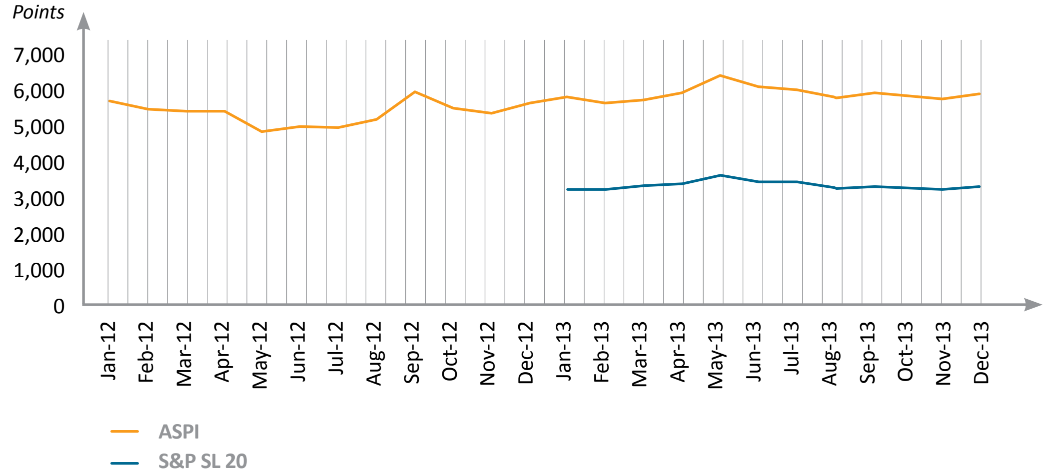
Stock Market

2013 was an eventful year for the Colombo Stock Exchange (CSE). During the year under review, the CSE recorded a growth of 4.8%, ending negative returns of two years. This performance placed the CSE at the sixth position in the Asian region. Newly introduced blue chip S&P SL Index, replacing the Milanka Price Index, recorded a slightly higher gain of 5.79%. A record breaking Rs. 119.4 billion was raised through the CSE as fresh capital with another record of Rs. 68.3 billion debt capital raised through debentures.

Net foreign inflows (excluding net foreign inflows from corporate debts) in 2013 were Rs. 34.1 billion compared with Rs. 40.3 billion reported in 2012. Stocks of more than 50 companies performed well, providing high yields in excess of 15% to investors according to the CSE.

Beverage, food and tobacco sector recorded the highest growth with 28% growth over the last year while power and energy sector was the second highest with a growth of 20%. Information technology sector was the worst with 27% negative growth over the last year.

CSE Performance



Regional Share Market Performance

Rs. 68.3 billion was raised through 28 debenture issues during the year. This was mainly attributable to incentives provided to listed debentures by the Government's budget for 2013. According to the new incentives, interest income from listed debentures is exempt from withholding tax and income tax. It was observed that many investors locked their funds in debentures as evident by the capital raised through debentures instead of more risky shares due to a sluggish market amid falling interest rates and the tax incentives. It is also expected that the same interest on debentures will continue for 2014, having an adverse impact on the stock market as the same money is expected to shift from stocks to debt.

Future Outlook

According to the Road Map for 2014 unveiled by the Central Bank, future outlook in the medium term is optimistic.

The Central Bank projects a GDP growth of 7.8% in 2014. The economy is expected keep this growth momentum in the medium term with expected growths of 8.2% in 2014 and 8.5% in 2015. Headline inflation is forecasted to be 5% in 2014 and further declined to 4% in 2016 in line with the Government's objective of maintaining the inflation at mid-single digit levels. Total investment as a percentage of GDP is expected to increase up to 33% in 2016 from estimated current level of 31%.

External sector is also expected to improve considerably in the medium term. Trade deficit as a percentage of GDP is expected to reduce up to 8.4% in 2014 from estimated current level of 12.8%. In line with this, current account balance is also expected to be positive in 2016 with 0.1% of GDP in 2016 from estimated current negative level of 3.9%. Overall balance is projected at USD 3,000 million in 2016, indicating a significant improvement from estimate for the current year of USD 700 million.

Fiscal sector is also expected to perform well in the medium term with key indicators showing positive signs. Current account balance is expected to record a positive balance from 2014 onwards. Accordingly, trade balance as a percentage of GDP is expected to be positive 1.1% in 2014 and further improve to 2.3% in 2016 from estimated current negative level of 0.5%. Overall balance is projected to improve to negative 3.8% of GDP from negative 5.8% in 2013. Government debt as a percentage of GDP is expected to reduce up to 65% in 2016 from the estimated level of 78% in 2013. Private sector credit growth is expected to accelerate from estimated 8% in 2013 to 17% in 2016.

According to the World Bank's latest Global Economic Prospects (GEP) report, Sri Lanka remains vulnerable to tightening of international financial conditions due to large current account deficit, high foreign debt and openness to capital flows. The GEP report projects an economic growth of 7.4% in 2014 which is expected to be spurred mainly by infrastructure spending and consumption activities maintained by inward remittances. The growth rate in the medium term is however projected to be at a moderate level, with growth rate of 6.5% in 2015 and 6.3% in 2016. South Asia's economic growth in 2013 is estimated at 4.6% which is expected to improve to 5.7% in 2014, 6.3% in 2015 and 6.7% in 2016.

Financial and insurance sectors of Sri Lanka are expected to experience significant changes as per the major regulatory initiatives taken by the regulators. As a result, a greater level of consolidations and mergers across these sectors are also expected to take place in the medium term.

Management Discussion and Analysis *contd.*

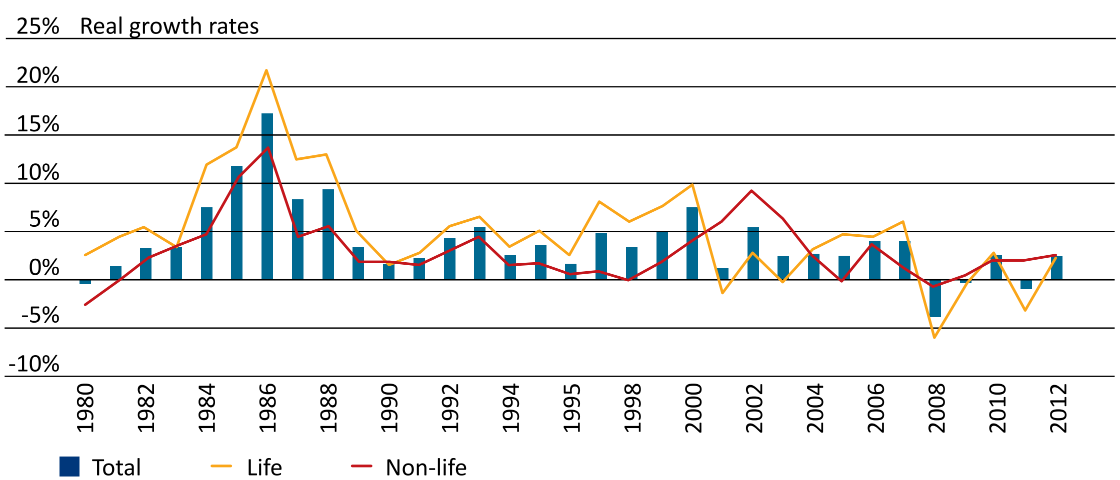
OPERATIONAL REVIEW

World Insurance Industry

Overall Performance

World insurance industry grew in 2012 despite the challenging economic environment. According to Swiss Re, total global premiums written increased by 2.4% in real terms to USD 4,613 billion in 2012. Non-life premium growth picked up to 2.6% in 2012 with an estimated growth of 2.5% in 2013. Life premiums resumed growth, rising by 2.3% in 2012 led by improvements in emerging markets and solid demand in the US and advanced Asian markets. Profitability of life insurers remains restrained but non-life underwriting results improved moderately. Low interest environment continued to depress investment income, but boosted reported accounting capital and solvency levels under Generally Accepted Accounting Principles (GAAP).

World Premium Growth since 1980



Source: Swiss Re Economic Research & Consulting

Insurance penetration level in 2012 was 8.6% in industrialised countries while it was 2.7% in emerging markets. Global penetration level stood at 6.5%.

A global survey carried out by CSFI on insurance sector risk has revealed that the greatest risk faced by the insurers globally is regulations. This has been mainly caused by uncertainty in major regulatory changes across the globe, in particular Solvency II for which European Union (EU) is now in its seventh year of planning for adoption. The concern has been that the regulations will load the insurance industry with heavy costs and distract the management from running profitable businesses. Investment performance, macro-economic environment, business practices, natural catastrophes, guaranteed products, quality of risk management, long tail liabilities and political interference were among the top 10 risks.

Non-life Insurance Performance

Globally, non-life insurance premiums grew by 2.6% in 2012 (2011 - 1.9%) to USD 1,992 billion while in emerging markets, non-life premiums grew by 8.6% in 2012 (2011 - 8.1%). Increase in non-life premiums was mainly supported by the continued expansion in emerging markets and selective price increases in some advanced markets. However, the global growth rate is still below the average pre-crisis growth rate. The non-life industry continued growth momentum since 2009 due to recovery in the advanced markets, following the contraction in 2008.

Future Outlook

It is expected that total premiums will continue to grow, but at a moderate rate. Life premiums are expected to be mainly driven by the emerging markets. Non-life segment is more positive for expansion since the sector will benefit from the strong economic performance of emerging markets and selective rate increases in advanced economies.

According to Swiss Re, economic growth and rising penetration will continue to increase the market share of emerging economies over the next decade. Ageing populations will increase the demand for life insurance products while non-life insurance will profit from increasing urbanisation, expanding middle class and rising economic wealth.

It is expected that the regulatory risk and investment performance risk will continue to be among the key risks over the next few years in view of implementation of major regulatory initiatives such as Solvency II and low interest environment.

Sri Lanka Insurance Industry

Overview

There are 21 operating companies out of 22 companies registered with 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 three and six companies are operating as standalone life insurers and non-life insurers respectively.

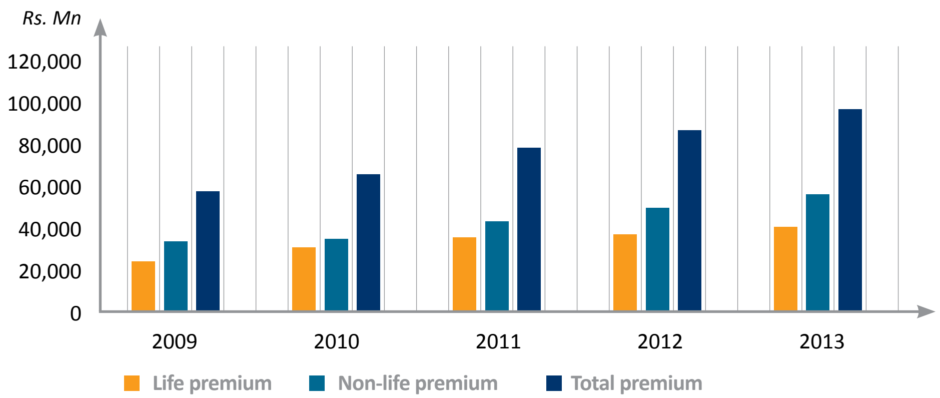
The size of the total insurance market in Sri Lanka is estimated to be Rs. 97 billion in 2013. The total market continued to grow at a two digit level since 2010. Penetration of insurance sector as a percentage of gross domestic product (GDP) was 1.15 % in 2012 (1.20% in 2011), while the non-life insurance penetration as a percentage of GDP was 0.66% in 2012 (0.66% in 2011). Insurance penetration level in Sri Lanka is substantially low compared with the global level of 6.5% and South and East Asia level of 3.0%.

Premium Income

Description	2009	2010	2011	2012	2013 (e)
Life premium (Rs. Mn)	24,005	31,152	35,162	37,469	40,628
Non-life premium (Rs. Mn)	33,548	35,101	43,329	49,683	56,564
Total premium (Rs. Mn)	57,553	66,253	78,512	87,152	97,192
Growth rate in total premium (%)	(1)	15	19	11	12

(e) - estimated

Premium Income



Non-life Insurance Industry

Non-life Premium Income

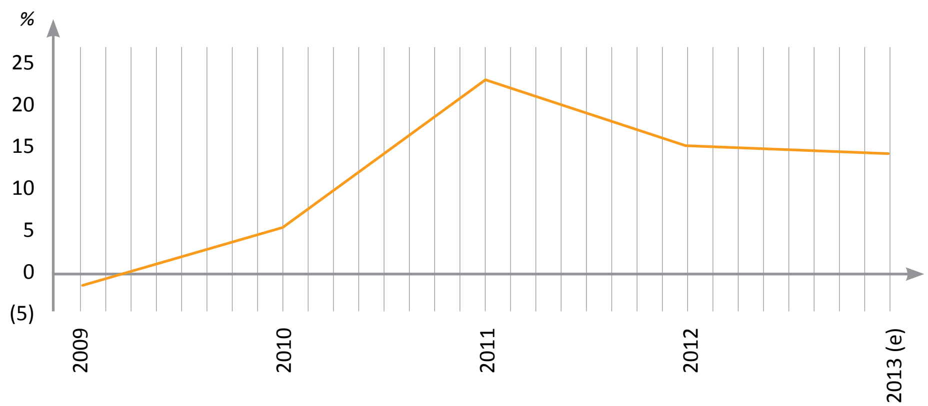
Unlike the global total insurance market where the life segment is leading with a market share of 57%, the non-life segment is leading the local insurance market with 58% of the total market as per the available market data for 2013. Non-life insurance industry segment continued to grow after the contraction in 2008. The segment grew at a two digit level in the previous two years but expected to slow down thereafter due to the challenging environment. Deceleration of the growth in the motor segment which currently represents more than 60% of the non-life business is expected to affect the growth of the non-life insurance business as a whole.

Management Discussion and Analysis *contd.*

Non-Life Premium Growth

Description	2009	2010	2011	2012	2013 (e)
Non-life premium (Rs. Mn)	33,548	35,101	43,329	49,683	56,564
Growth rate (%)	(2)	5	23	15	14

Non-life Premium Growth



Market Share

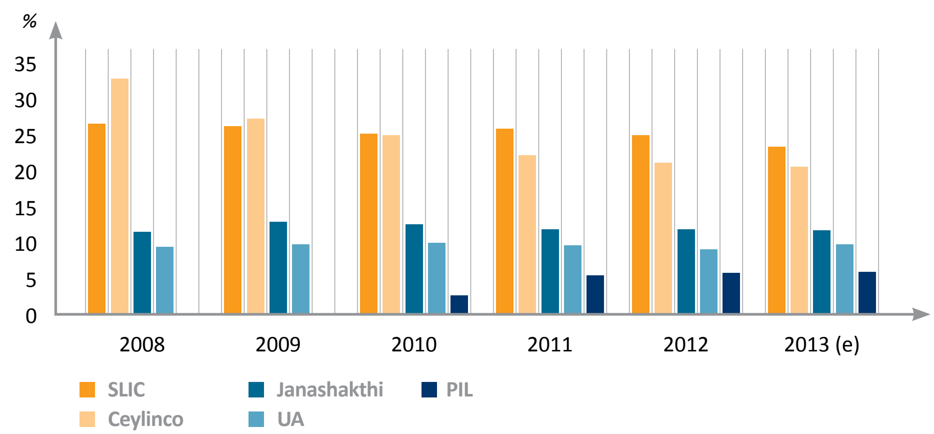
Sri Lanka Insurance Corporation (SLIC) continued to be the market leader since 2010 and had an estimated market share of 23.31% in 2013. Ceylinco Insurance PLC which was the market leader prior to 2010, continued to be in the second position since then. The third and fourth positions held by Janashakthi Insurance PLC and Union Assurance PLC (UA) remained unchanged since 2008. People's Insurance (PIL) having achieved 5th position within three years of operations, continued to maintain its market position since 2012.

Market Share

Year	SLIC	Ceylinco	Janashakthi	UA	PIL
2008	26.45%	32.66%	11.39%	9.21%	-
2009	26.13%	27.07%	12.74%	9.57%	-
2010	24.97%	24.85%	12.32%	9.78%	2.42%
2011	25.70%	22.06%	11.74%	9.36%	5.27%
2012	24.88%	21.00%	11.62%	8.93%	5.63%
2013 (e)	23.31%	20.45%	11.50%	9.53%	5.75%

Top two insurers' market share totalling to 59.11% in 2008 significantly dropped to 45.88% in 2012. According to estimates, their total market share is expected to further decline to 43.76% in 2013. This was mainly due to increased competition, particularly arising from the new entrants who came up with in-house business portfolios.

Market Share of Top Five Insurers



Class-wise Premium

Premium income from the motor segment continued to represent the largest share while miscellaneous class continued to represent the second largest share of the non-life segment. Fire class which represented 21% of the non-life segment in 2009 is expected decrease up 14.83% by 2013.

Class-wise Distribution of Business

Business Class	2009	2010	2011	2012	2013 (e)
Motor	53.35%	59.68%	62.64%	63.64%	60.76%
Non-motor (a+b+c)	46.65%	40.32%	37.36%	36.36%	39.24%
Fire (a)	21.01%	14.28%	12.41%	10.91%	14.83%
Marine (b)	4.30%	4.27%	3.87%	3.85%	3.21%
Miscellaneous (c)	21.34%	21.77%	21.08%	21.60%	21.20%

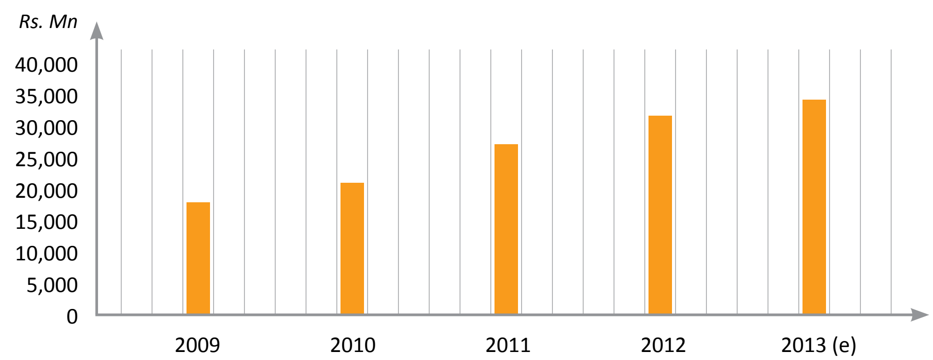
Motor Premium

Motor class continued to dominate the non-life insurance industry with estimated 61% share of the total non-life insurance market in 2013. However, the growth of motor class is expected to decelerate in 2013 after high growth recorded in excess of 15% during the period 2010 to 2012. Premium income from the motor segment is expected to grow only by 9% from Rs. 31,616 million in 2012 to Rs. 34,367 million in 2013. Both decline in number of motor vehicle new registrations and severe price competition are expected to dampen the growth in motor premium income.

Motor Premium Growth

Description	2009	2010	2011	2012	2013 (e)
Motor premium (Rs. Mn)	17,898	20,949	27,141	31,616	34,367
Growth (%)	(4)	17	30	16	9

Motor Premium

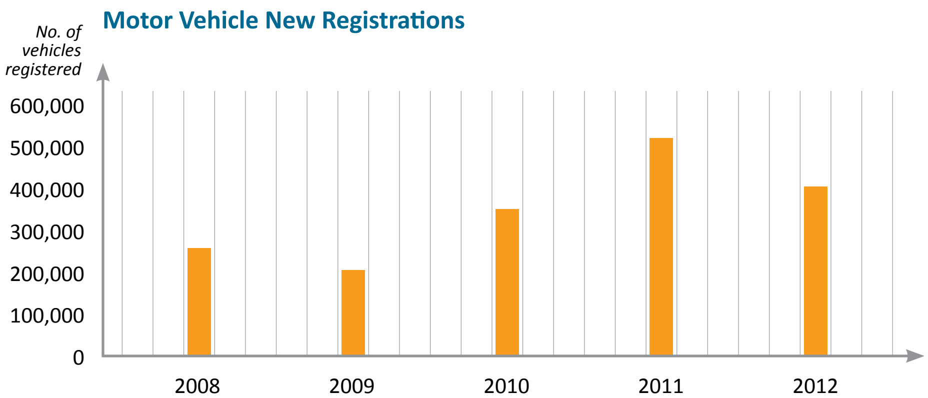


High vehicle tariff structure, high interest rates and weak exchange rate were among the main reasons for the decline in the number of new vehicle registrations since 2011. According to the available statistics for 2013, the number of new vehicle registrations registered up to July was 188,719. However, an increase of the registrations of the number of motor cars and sports utility vehicles (SUV) was seen in the latter part of the year as a result of lifting a three-year restriction on transfer of vehicles imported under vehicle tax permits issued by the Government and improved Yen exchange rate, slightly recovering from the significant drop compared with the previous year.

Motor Vehicle New Registrations

Description	2008	2009	2010	2011	2012
Number of new vehicles registered	265,199	204,075	359,243	525,421	397,295
Growth %	(11)	(23)	76	46	(24)

Management Discussion and Analysis *contd.*



The motor class continued to be under a fierce price competition, continuing the pressure on the premium income as well as underwriting performance of the non-life insurance industry. In particular, some new entrants offering below the cost premiums and some established companies offering major discounts up to 50% made the competition harder.

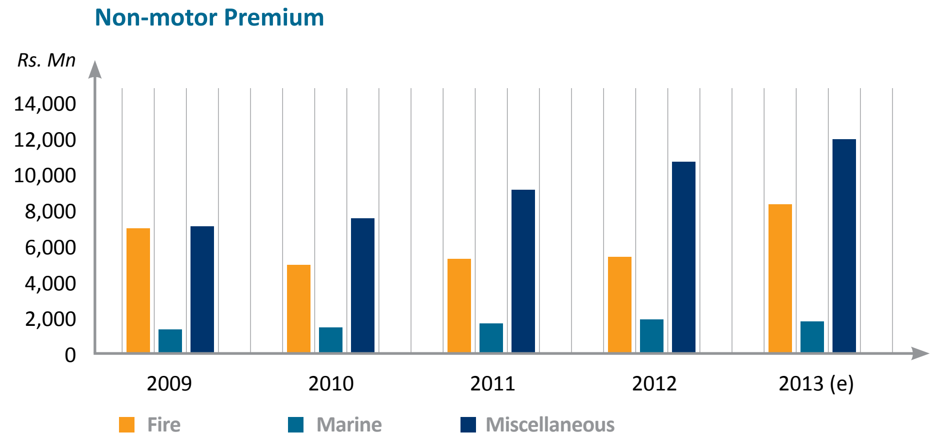
Non-motor Premium

Non-motor premium income is estimated to increase by 23% from Rs. 18,068 million in 2012 to Rs. 22,197 million in 2013. Non-motor premium has recorded a relatively stable growth than the motor premium growth due to relatively low volatility of the factors affecting the non-motor premium income.

Non-motor Premium Growth

Business Class	2009	2010	2011	2012	2013 (e)
Fire (Rs. Mn)	7,049	5,012	5,376	5,422	8,394
Marine (Rs. Mn)	1,443	1,499	1,678	1,913	1,813
Miscellaneous (Rs. Mn)	7,158	7,641	9,134	10,733	11,990
Total non-motor premium (Rs. Mn)	**15,650**	**14,152**	**16,188**	**18,068**	**22,197**
Total non-motor premium growth (%)	**1**	**(10)**	**14**	**12**	**23**

Miscellaneous class continued to dominate the non-motor segment, representing more than 20% of the non-life insurance market. Medical sub-class which is included in the miscellaneous class seems to grow at a rapid pace. In 2013, it is estimated that medical premium has grown at 18%. Developments in the private healthcare sector propelled by the increased demand for private healthcare and introduction of new insurance products including products for individuals resulted in this accelerated growth.



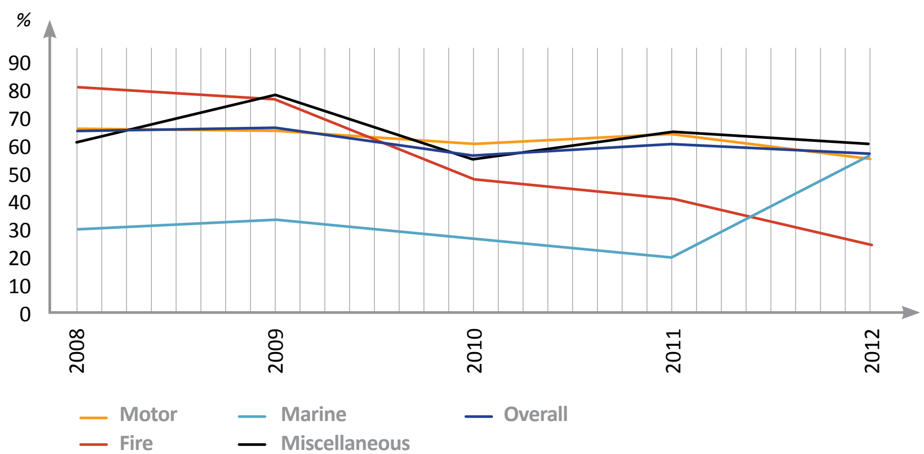
Underwriting Profitability

The industry's net claims ratio and net combined ratio improved significantly in 2012. Accordingly, the net claims ratio improved from 63.78% in 2011 to 60.57% in 2012 by 3.21% and the net combined ratio improved from 101.82% in 2011 to 98.73% in 2012 by 3.09% indicating that the industry has achieved an underwriting profit in 2012 after a long period.

Class-wise Net Claims Ratios

Business class	2008	2009	2010	2011	2012
Motor	67.73%	66.39%	63.92%	65.39%	61.33%
Fire	82.32%	79.51%	48.21%	42.28%	26.82%
Marine	36.22%	38.12%	32.05%	28.93%	62.79%
Miscellaneous	61.48%	80.13%	58.52%	66.05%	63.96%
Total	**66.03%**	**69.27%**	**61.27%**	**63.78%**	**60.57%**

Class-wise Net Claim Ratios

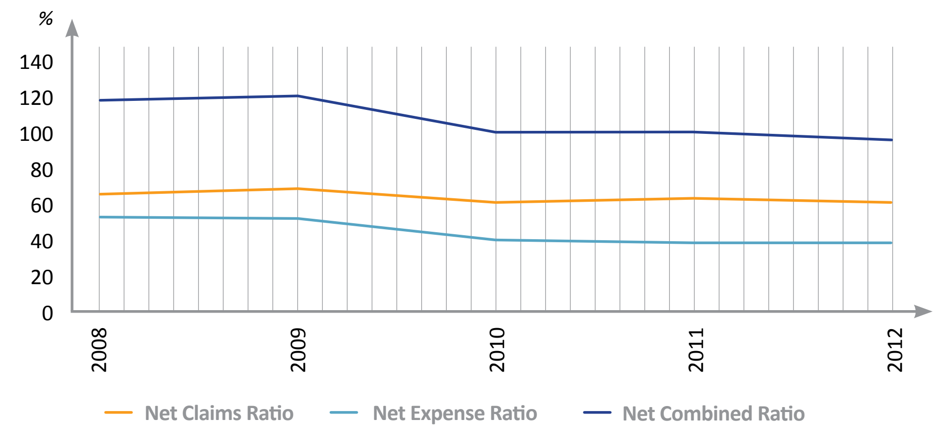


Net motor claims ratio also significantly improved to 61.33% by 4.06% in 2012, recording its lowest during the five years' period from 2008 to 2012 which was the main reason for the improvement of the overall net claims ratio as well as net combined ratio in 2012. Miscellaneous class recorded the highest net claims ratio of 63.96% among the other classes in 2012. The net combined ratio of fire class reduced significantly to 26.82% in 2012 from 42.28% in 2011, recording its lowest since 2008, while the net claims ratio of marine rose significantly from 28.93% in 2011 to 62.79% in 2012. However, given the less volumes of marine class amounting to less than 4% of the total non-life insurance market, it did not have a significant upward impact on the overall net claims ratio.

Net Claims, Expense and Combined Ratios

Ratio	2008	2009	2010	2011	2012
Net claims ratio	66.03%	69.27%	61.27%	63.78%	60.57%
Net expense ratio	53.54%	52.52%	39.58%	38.04%	38.16%
Net combined ratio	119.57%	121.79%	100.85%	101.82%	98.73%

Net Claims, Expense and Combined Ratios



The net expense ratio of the industry has improved significantly from above 50% level before 2010 to less than 40% level from 2010 onwards. However, the net expense ratio slightly increased from 38.04% in 2011 to 38.16% in 2012.

Management Discussion and Analysis *contd.*

There is a continuous improvement of the net combined ratio since 2010 after staggering ratios above 110% recorded previously. The net combined ratio of 98.73% recorded in 2012 indicates an industry underwriting profit of Rs. 487 million compared with the continuous underwriting losses recorded previously. These results demonstrate that conscious efforts have been made to improve the underwriting results by certain insurers. For example, Sri Lanka Insurance Corporation which is the market leader with a market share of approximately 23% reported an exceptional underwriting profit of Rs. 765 million with a net combined ratio of 92% in 2012. People's Insurance also generated an underwriting profit of Rs. 42 million for the first time in 2012, joining the party. However, many non-life insurers including certain leading insurers continued to incur underwriting losses despite the industry achieving an underwriting profit in 2012.

Regulatory Environment

The insurance industry will be undergoing a few major regulatory changes during the next few years. Splitting of composite insurance companies to two separate life and non-life companies by 2015, listing in a stock exchange by 2016, increasing the share capital up to Rs. 500 million by 2015 for each line of business from current limit of Rs. 100 million and implementing risk based capital by 2016 are the major regulatory requirements of the insurance industry regulator, the Insurance Board of Sri Lanka (IBSL). These changes will pose significant challenges to the insurance industry as a whole. It is expected that these challenges, in particular the need to split composite insurers and increase share capital up to Rs. 500 million for each class of business, will result in mergers and acquisitions in the insurance industry.

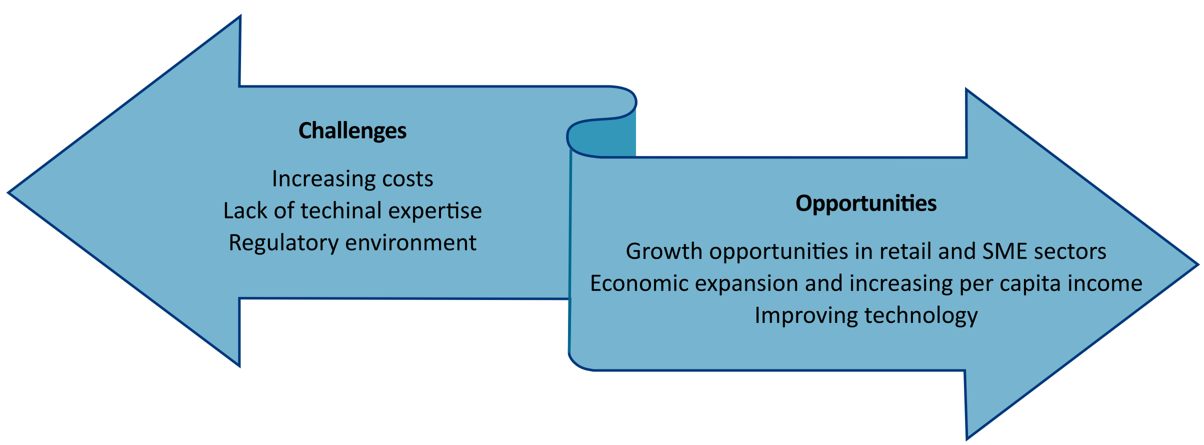
Progressing with the above regulatory initiatives, the IBSL released the final framework on risk-based capital and guidelines on segregation of composite insurance companies into two separate life and non-life insurance companies during the year under review. According to the final risk-based capital framework issued by the IBSL in 2013, it was apparent that the insurers will have to maintain their equity well above the minimum capital requirement of Rs. 500 million in view of the requirement to maintain the total available capital which is subject to material deductions in respect of investment in various types of assets including property, plant and equipment, intangible assets, staff loans, advances and deposits, tax receivables including deferred tax assets, above the minimum capital requirement, making the insurance industry capital intensive.

Apart from the major regulatory initiatives, several changes were made to the existing regulations. The changes included the amendment of the determination No. 12 on quarterly returns by cancelling the circular No. 18 and the amendment to determination No. 11 on maximum sum insured. In addition, new regulations were introduced including issue of the circular No. 30 on instructions on valuation of land buildings and circular No. 31 on overseas health and travel insurance.

A new tax named 'crop insurance levy' was imposed with effect from 1st April 2013 in line with the budget proposal of the Government Budget for 2013. Accordingly, banks, finance and insurance companies are liable to pay 1% of their profit after tax to the National Insurance Trust Fund (NITF) on a quarterly basis.

Opportunities and Challenges

The key opportunities and challenges identified in respect of the non-life insurance business as a whole are illustrated below.



Opportunities

Growth opportunities in retail and SME sectors

Under-penetrated small and medium enterprises (SMEs) which also have a great potential for accelerated growth will be one the key potential segments for non-life insurers. Retail sector also remains under-penetrated, in particular the non-motor segment, creating opportunities for insurers.

Economic expansion and increasing per capita income

The continuing economic expansion of the country which is also fuelled by larger construction projects, together with the Government's aspirations of reaching per capita income of USD 4,000 by 2016, are expected to continue to create opportunities to insurers.

Improving technology

The development of technology will help insurers to enhance customer convenience and increase sales volumes cost effectively. The insurance companies which use improved technologies in their businesses are likely to take a competitive advantage in the short to medium term. It is also expected that the web will emerge as a key channel for generating businesses as well as a convenient mode of transactions for customers in the future.

Challenges

Increasing costs

Increase of operating costs caused by general inflation as well as claims costs caused by increase of spare parts costs due to the recent hike of motor spare parts tariff rates and weak exchange rate, increased likelihood of natural disasters and long tail liabilities particularly arising from motor third party insurance covers are among the key challenges of the industry. Insurers usually find it difficult to pass these additional costs to their customers adequately on a timely basis due to fierce price competition.

Lack of technical expertise

Since insurance is highly technical, the industry needs more technical expertise which is not adequately available locally. In particular, the insurance industry will need more technical resources in view of the proposed regulatory changes such as need for splitting composite insurers and implementation of the risk based capital model.

Regulatory environment

Similar to the other countries, in particular the European Union which is planning to implement Solvency II regime, the proposed major changes by the local regulator including the need to separate life and non-life businesses with the minimum capital increased from Rs. 100 million to Rs. 500 million and implementation of risk based capital will create significant challenges to the insurers.

Company

Overview

People's Insurance Limited is a fully-owned subsidiary of People's Leasing & Finance PLC and a subsidiary of People's Bank. The Company is registered with the Insurance Board of Sri Lanka as an insurer to carry out non-life (general) insurance business in December 2009 and commenced its commercial operations in January 2010.

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 internal and external challenges whilst capitalising on opportunities and strengths. Accordingly, the Company was able to become the fifth largest non-life insurer in terms of the market share in 2012 which was its third year of operation.

Products

Being an insurer operating in the non-life sector, the Company has developed products to 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

Management Discussion and Analysis *contd.*

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 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

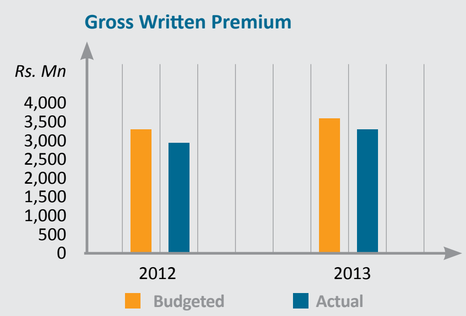
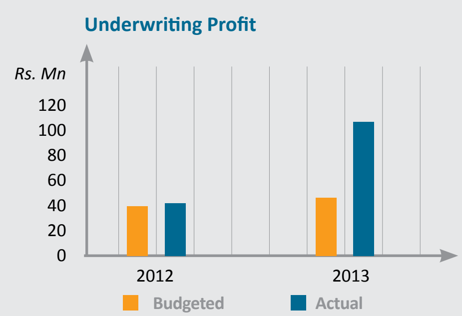
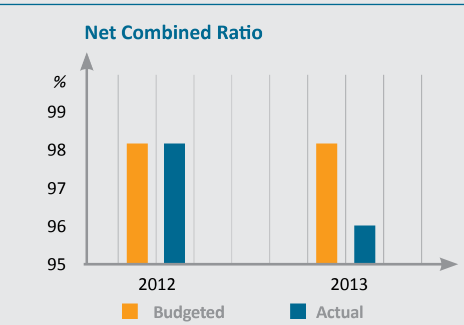
People's Insurance has set up its unique distribution model by extending its operations across the island within the wings of the distribution channel of its group, People's Leasing Group. Currently, the Company operates with two regional offices at Galle and Negombo and 59 window offices, covering all the provinces of the island at People's Leasing & Finance PLC branch network. Out of 59 window offices, 17 offices were newly added to the distribution network during the year under review.

During the year, the Company entered into a bancassurance agreement with People's Bank. Accordingly, the Company placed its employees at regional offices of People's Bank at the initial stage and is planning to expand this operation aggressively in the years to come. The Company placed its employees in 17 branches of People's Bank during the year under review and had its officers in 24 branches of People's Bank by the end of the year, covering most parts of the island.

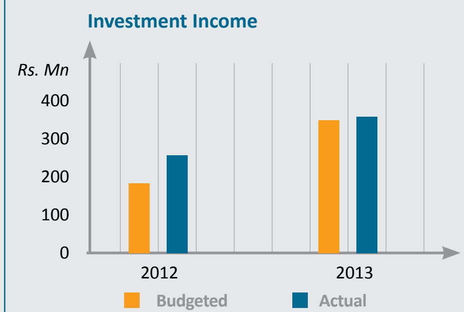
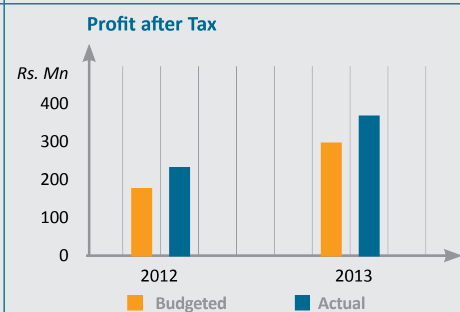
Performance against Objectives

The table on the next page summarises the Company's key performance indicators, performance against the objectives, status of achievement and comments in respect of the current year.

Performance against Objectives 2013

Key Performance Indicator (KPI)	Description of KPI	Performance against the Objectives	Status	Comments
Gross written premium	The total premium recorded by the Company.			The Company had an ambitious 20% growth target for gross written premium. However, the Company fell short of expectations due to limited market growth, in particular the moderation of motor class growth caused by adverse market conditions.
Underwriting profit	The profit that the Company derives from providing insurance. This excludes investment and other income.			Higher net earned premium and lower expenses than the expectations resulted in a higher underwriting profit.
Net combined ratio	Measures the level of underwriting profitability by presenting expenses incurred as a percentage of net premiums earned. Lower the ratio, better the underwriting profitability.			Performance was above the objective due to lower expense ratio than expected.

Management Discussion and Analysis *contd.*

Key Performance Indicator (KPI)	Description of KPI	Performance against the Objectives	Status	Comments
Investment income	The amount of income generated from investments.			Though the actual interest rates were lower than the budgeted interest rates, the Company was able to achieve the budgeted investment income due to increase of the investment portfolio than expected and improved management of its investment portfolio.
Profit after tax	The amount of profit generated for the year.			Significant underwriting performance above the expectations and the achievement of budgeted investment income helped surpass the targeted profit after tax by a significant margin despite the shortfall in the gross written premium.

Achieved Not achieved

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 more than 200 employees in different capacities. The following tables depict distribution of employees and employee productivity.

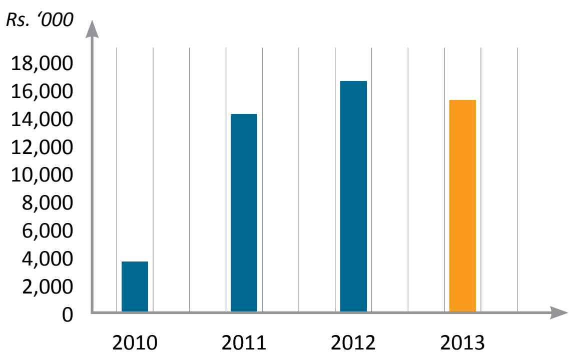
Distribution of Employees

Designation	2010	2011	2012	2013
Managerial	9	8	9	9
Executive	5	6	7	11
Non-executive	61	97	149	190
Grand total	**75**	**111**	**165**	**210**

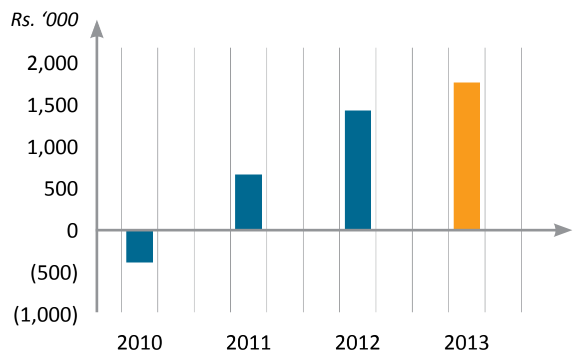
Employee Productivity

Employee Productivity Indicator	2010 Rs. '000	2011 Rs. '000	2012 Rs. '000	2013 Rs. '000
Revenue per employee	3,457	14,278	16,547	15,213
Gross written premium per employee	12,442	21,755	17,845	15,481
Profit/(loss) per employee	(397)	648	1,422	1,766
Value added per employee	185	2,480	3,817	4,224

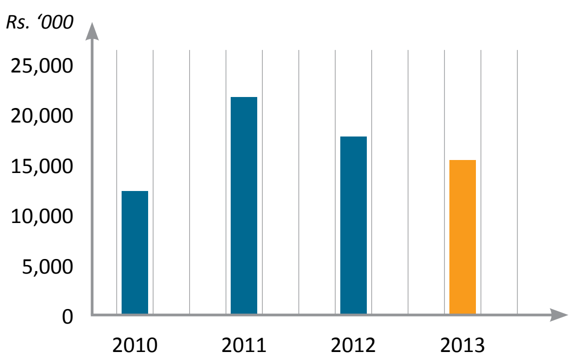
Revenue per Employee



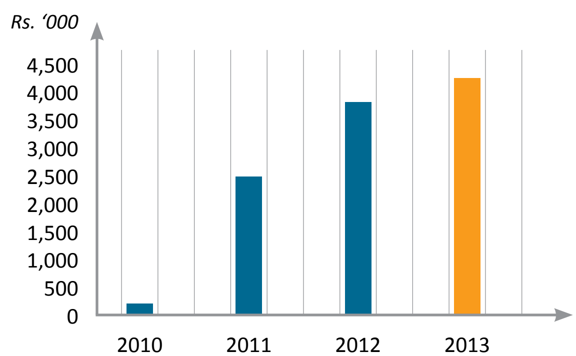
Profit/(loss) per Employee



Gross Written Premium per Employee



Value Added per Employee



Management Discussion and Analysis *contd.*

FINANCIAL REVIEW

Overview of Financial Performance

Financial Performance Highlights

Financial performance highlights of the Company since the commencement of its commercial operations in 2010 are provided below.

Financial Performance Indicator	2013 Rs. Mn	2012 Rs. Mn	2011 Rs. Mn	2010 Rs. Mn
Gross written premium (GWP)	3,251	2,944	2,415	933
Net earned premium	2,801	2,448	1,478	231
Net claims and expenses	(2,694)	(2,406)	(1,491)	(293)
Underwriting profit/(loss)	**107**	**42**	**(13)**	**(62)**
Other revenue	394	282	107	28
Profit before income tax	**501**	**324**	**94**	**(34)**
Income tax expense	(130)	(89)	(22)	4
Profit for the year	**371**	**235**	**72**	**(30)**

Performance Overview

The Company recorded a gross written premium of Rs. 3,251 million during the year under review, posting a growth of 10% over the previous year. An increase of 40% in other revenue was recorded mainly due to the relatively high interest rates experienced by the Company in 2013 resulted from investments made prior to 2013 and early part of 2013 which was also strengtened by the strategic changes made to the Company's investment portfolio. With the contribution of both gross written premium and the investment and other income included in other revenue, total revenue recorded a growth of 17%. The Company posted Rs. 501 million profit before income tax with a growth of 55% and Rs. 371 million profit after tax with a growth of 58%, driven mainly by improved underwriting performance, supported by the steady premium growth and improved underwriting and claims management and improved investment performance.

Gross Written Premium

The Company wrote gross written premium totalling Rs. 3,251 million during the year 2013, an increase of 10% over the previous year. This was mainly due to 11% growth in the motor segment and 8% growth in the non-motor segment. Fire and miscellaneous classes were the main contributors to the growth of non-motor segment, recording a growth of 10% and 7% respectively. The Company managed to maintain the fifth position in terms of the market share with an estimated market share of 5.75% by the end of 2013.

Net Earned Premium

Net earned premium increased by 14% from Rs. 2,448 million in 2012 to Rs. 2,801 million in 2013 mainly due to the gross written premium growth of 10%, followed by favourable change of 24% in unearned premium reserve. Accordingly, Rs. 139 million was transferred to unearned premium reserve in 2013 compared to Rs. 183 million transferred in 2012. Rs. 10 million was reversed from reserve for unearned reinsurance premium in 2013 compared to a transfer of Rs. 6 million to the reserve for unearned reinsurance premium in 2012. This is an accounting adjustment required to match the premiums over the policy period.

Net Claims and Expenses

Net claims consist of gross claims paid, claims recovered from reinsurers, gross change in contract liabilities and change in contract liabilities ceded to reinsurers. With the expansion of the business volume, gross claims paid increased by 8% and total gross change in contract liabilities increased by 2% during the year under review. Combining all changes including re-insurer recoveries, overall net claims increased by 8% during the year under review over the previous year. Other expenses increased by 46% mainly due to the business expansion and inflation.

Underwriting Profit/(loss)

Underwriting performance of the Company during the year under review was remarkable with a growth of 155% over the previous year. Accordingly, underwriting profit crossed the Rs. 100 million mark in 2013 by recording an underwriting profit of Rs. 107 million mainly due to improved underwriting and claims management apart from the growth of 10% in gross written premium, followed by the 14% increase in the net earned premium due to favourable impact from the net change in reserves for unearned premiums.

Other Revenue

Other revenue of the Company mainly comprises investment income amounted to Rs. 359 million in 2013, representing a share of more than 91% of other revenue. Accordingly, investment income grew by 40% during the year under review. Investment income by major categories of investments is as follows.

For the year ended 31st December	2013 Rs. '000	2012 Rs. '000	Change %
Fair value through profit or loss			
Dividend income	5,293	1,419	273%
Available-for-sale			
Interest income	131,338	90,616	45%
Loans and receivables			
Interest income	222,162	163,587	36%
Total	**358,793**	**255,621**	**40%**

Sharp increase in the interest income from both investments classified as available-for-sale and loans and receivables were the main reason for the increase of 40% in total investment income. Interest income from available-for-sale financial instruments which consists of investments in government securities and unit trusts grew by 45% from Rs. 91 million in 2012 to Rs. 131 million in 2013, while interest income from loans and receivables which mainly consist of investments in fixed deposits, corporate debts and repurchase agreements grew by 36% from Rs. 164 million in 2012 to Rs. 222 million in 2013. The main reason for the increase in the interest income as a whole was the relatively high interest rate experienced by the Company during the year under review, from investments made prior to 2013 apart from the growth of the Company's investment portfolio by 22% and improved management.

Profit for the Year

Profit for the year recorded an outstanding growth, growing by 58% over the previous year to Rs. 371 million and surpassing the target set for the year under review with a significant margin of Rs. 73 million. This was attributable to outstanding growth of both underwriting results and investment income.

Earnings per Share

Earnings per share (EPS) increased significantly during the year, recording a growth of 57% from Rs. 3.94 in 2012 to Rs. 6.18 in 2013. This remarkable growth was attributable to the outstanding growth in profit after tax recorded during the year under review.

Indicator	2013 Rs.	2012 Rs.	Change Rs.	Change %
Earnings per share (EPS)	6.18	3.94	2.24	57%

Dividends

A distribution of a portion of a company's earnings, decided by the Board of Directors, is instrumental in enhancing shareholder satisfaction. The Company should maintain a trade-off between the Company's growth and investor satisfaction through investment returns by way of dividends. The Company was able to keep the shareholders satisfied and maintain the growth required by balancing both pay out and retention ratios. The Company paid Rs. 1.50 per share amounting to Rs. 90 million as an interim dividend and authorised a final dividend of Rs. 0.75 per share amounting to Rs. 45 million for the year ended 31st December 2013. Accordingly, the Company declared a total dividend of Rs. 2.25 per share amounting to Rs. 135 million for the year 2013. Dividend per share, dividend pay-out ratio and retention ratio are tabulated below.

Indicator	2013	2012
Dividend per share (DPS)	Rs. 2.25	Rs. 1.00
Dividend payout ratio	36%	25%
Retention ratio	64%	75%

Return on Equity

Return on equity (ROE) measures a corporation's profitability by indicating 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, improved from 27.60% in 2012 to 34.28% in 2013 as depicted in the table on the next page.

Management Discussion and Analysis *contd.*

Indicator	2013	2012	Growth
Return on equity (%)	34.28	27.60	24

The growth of 24% is primarily due to the significant improvement in the profitability despite the increase in the equity during 2013.

Overview of Financial Position

A company's financial position tells investors about its general well-being. An analysis is essential to understand and value a company properly.

Financial Performance Highlights

The asset base of the Company grew by 21% during the year under review and the capital position was strong with a stated capital of Rs. 600 million. Investment portfolio grew by 22% while providing an improved yield compared with the previous year. The solvency position also improved during the year under review with adequate insurance provisions maintained with prudential risk margins.

Assets

Growing asset base is required to ensure the regulatory minimum requirements and to strongly absorb the internal and external shocks. Asset management plays a key role in financing a company, thereby profit growth. Our company continues to maintain a strong financial position with a sound asset base which stemmed from business. Even though the external shocks have dampened growth of assets in businesses, People's Insurance achieved a substantial increase of 21% in total assets during the year under review. The main contributing factor for the asset growth in the year 2013 of the Company was its profits generated during the year under review. Return on assets and total asset growth are tabulated below.

Indicator	2013	2012	Change	
			Absolute	%
Total assets (Rs. Mn)	4,021	3,319	702	21
Return on assets (%)	9.2	7.0	2.2	31

Investments

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 strives to have a balanced approach in managing investments, maintaining risk return trade-off within its investment strategy. The Company always adheres to the stipulated regulatory framework when making investment decisions. Statistics of the investments and returns are tabulated below.

Indicator	2013	2012	Change	
			Absolute	%
Investment portfolio (Rs. Mn)	3,190	2,609	581	22
Investment income and fair value gains (Rs. Mn)	372	267	105	39
Investment income as a percentage of average investments (%)	12.8	12.2	0.6	5

The total investment portfolio increased by 22% due to the growth of the business and improved profitability during the year under review. The Company started investing in listed corporate debentures during the year under review in view of benefiting from the tax concessions introduced through the Government Budget for 2013. Accordingly, 11% of the total investments has been invested in medium term listed corporate debentures, which provides more attractive yields, both before and after tax, compared with the other short term investment instruments. However, the Company strives to strike a balance on the tenures of investments due to the short term nature of the non-life business.

As a result of improved management of the investment portfolio, the Company was able to improve investment income as a percentage of average investments from 12.2% in 2012 to 12.8% in 2013, despite the deteriorating market interest rates experienced in 2013.

The Company invests a significant portion of investments in government securities which are considered as risk free. Fixed deposits represent the largest proportion with 43% of the total investment portfolio. Investments in government securities accounted for 39%

of the total investment portfolio as at 31st December 2013, representing the second largest share. Investment in listed debentures was 11% while investment in listed shares was only 5% in keeping with the Company's investment strategy. The Company also invested in unit trusts during the year which accounted for 2% of the total investments. Details with regard to investment composition are provided below.

Investment Instrument	2013		2012		Growth in Value %
	Value Rs. Mn	Composition %	Value Rs. Mn	Composition %	
Government securities	1,236	39	1,251	48	(1)
Fixed deposits	1,382	43	1,104	42	25
Listed shares	154	5	96	4	60
Corporate debts	353	11	149	6	137
Unit trusts	49	2	-	-	100
Other financial assets	16	-	9	-	78
Total	**3,190**	**100**	**2,609**	**100**	**22**

Based on the expected financial market behaviour, the Company is planning to maximise the returns in the years to come by responding to the market changes while meeting the stipulated regulatory requirements of the IBSL.

Capital

Strong capital backing from its shareholders creates a good foundation for the Company to stand strongly in the market. Continuous infusion of capital to the Company from the shareholders has contributed to bring the stated capital up to Rs. 600 million to date, starting from Rs. 115 million in 2009. This has enabled the Company to maintain 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 for each class of business which will be effective from 2015.

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 2013. This IBNR provision, together with the case reserves held by the Company is expected to be adequate to meet future liabilities in respect of the claims obligations as at 31st December 2013.

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 maintained by the company is adequate in relation to the unexpired risks of the Company as at 31st December 2013.

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 4% in the solvency ratio from 1.50 to 1.56 in 2013. Details of the solvency position as at the end of year are provided below.

Indicator	2013	2012	Change	
			Absolute	%
Net admissible assets (Rs. Mn)	915	790	125	16
Required solvency margin (Rs. Mn)	586	528	58	11
Excess over required solvency margin (Rs. Mn)	**329**	**262**	**67**	**26**
Solvency ratio (%)	**1.56**	**1.50**	**0.06**	**4**

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 the functions to align with the corporate strategies.

The Company's ICT operation is managed centrally by its group, People's Leasing Group.

Audit and Certification

The Company's ICT system is subject to periodic audits from independent bodies. In the reporting year, a penetration test and vulnerability assessment was carried out through an independent and reputed consultancy firm to affirm the security measures that are in place to safeguard the business continuity. Results of this audit revealed that the Company's security measures were current and effective. In addition, Det Norske Veritas (DNV), global certification body conducted an audit on the ICT function and the necessary audit clearances were obtained. The standards of ICT security management is certified under ISO/IEC27001:2005.

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 customer. Improvements have been made continuously, ensuring the integrity and availability and confidentiality of information.

The official website (www.peoplesinsurance.lk) was launched during the year under review. The new website is more informative and provides facilities to customers by being able to directly be contacted by the Company with the mere submission of a phone number.

An independent applications control review over the core information technology (IT) system and document management system was carried out by a reputed professional firm of Chartered Accountants. The ICT team implemented the majority of the recommendations and is in the process of conforming to the balance part of the recommendations. 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 major insurance related business processes across the Company. Accordingly, the functions of the Company are fully computerised with a centralised processing system with all major business 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 is in place 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 get 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 e-mails 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 efficient and secure and it has improved the delivery process of transactions, facilitating the Company to capitalise on its core competency of providing a faster service to its customers.

Call Centre Upgrade

Call centre is a vital component for the insurance industry. With the movement of the call centre to the new location at Borella, an upgrade to the existing call centre system was made. Call centre system capacity improved with sophisticated features in order to provide efficient customer service by catering to the need of a stable call centre solution with enhanced features in view of increasing business volumes. Features of the new call centre includes:

- Inbound automatic call distributor
- Skills based routing
- Interactive voice response
- Outbound voice and SMS
- Centralised management
- High reliability and scalability and multi-protocol support
- Call recording
- Basic call management system reporting, etc.

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 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.

An MIS which enables management to track and make decisions on several functions as well as their performances at any time is also in place.

Disaster Recovery Plan

The disaster recovery system is centralised and 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 guaranteed with the establishment of a 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 network in a very short period of time which results in quick responses. Network health monitoring at regular periods has controlled administrative functions which assists in eliminating unnecessary traffic and other issues in the network.

User Friendliness

The ICT team relentlessly focuses on improving the systems and procedures, thus ensuring the system is on 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 programmes were conducted in order to ensure that the staff is familiar with the system and its workings.

Looking Forward

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 current processes to re-engineer and improve efficiency levels to facilitate a faster and more convenient service to external and internal customers by using latest and advanced technologies.

Management Discussion and Analysis *contd.*

FUTURE OUTLOOK

Industry

The Company continues to maintain a positive outlook in the medium term. We expect that the insurance industry will continue to grow in terms of gross written premiums in the medium term. Expanding economy, increasing per capita income and large development projects will continue to support the growth of the non-life insurance industry.

Motor segment which is the main driving factor of the non-life insurance business will continue to be under some pressure in view of the current high tariff structure and tightened depreciation allowances imposed on pre-owned cars by the Government's Budget for 2014. However, it is expected that decreasing interest rates will set-off the negative impact to a certain extent, helping to keep the motor as well as overall non-life premium growth at a moderate level.

Escalation of claims expenses in view of increased likelihood of natural disasters, increasing motor third party claims and increased repair costs in addition to general inflation will be a key challenge to the industry players. Apart from this, the insurance industry will go through a turbulent and crucial time in the medium term in view of implementation of a few major regulatory changes (i.e. splitting of composite insurers, increase of minimum capital requirement up to Rs. 500 million for each class of business, implementation of risk based capital, listing, etc.) which are planned to take place in 2015 and 2016. It is expected that the costs of many composite insurers will increase to some extent mainly due to splitting requirement as a result of losing certain synergistic benefits. In addition, all insurers will generally need more skilled staff and other resources as a result of these changes which will drive costs upwards. This is expected to exert more pressure on the non-life insurance segment's underwriting profitability.

Diminishing interest rates affecting investment performance will also be a key concern for non-life insurers as many of them still encounter underwriting losses. In addition, adoption of risk based capital will limit investment options available to a certain extent exerting more pressure on the investment income.

In view of the above, the bottom-line of the insurers, in particular the composite insurers, will be under increased pressure in the next few years. This may result in more discipline in pricing, expense management and credit management, creating a more conducive environment to industry players to achieve underwriting profitability in the medium to long term. It is also expected that the insurance industry will consolidate to a certain extent through mergers and acquisitions, reducing the number of players in the medium term to long, given the significance of the forthcoming challenges.

Company

The Company was able to significantly improve underwriting as well as overall profitability during the year under review despite the challenging market conditions. The Company will aggressively seek to strengthen the underwriting and claims management discipline to maintain and improve this position in the future, ensuring the sustainability of overall profitability of the Company despite the decreasing interest rates enviroment which will limit the growth of investment income. The Company will also continue to focus on reaping the benefits of group synergies with more emphasis on bancassurance.

The Company welcomes the proposed regulatory changes and is well positioned to meet the changes. The splitting requirement will not affect People's Insurance as the Company is a stand-alone non-life insurer. The Company's stated capital has already met the minimum capital required and is in the process of preparation for adoption of risk based and confident of successful implementation. The Company is also well positioned and planning to list the Company before the due date.

CORPORATE GOVERNANCE

Corporate governance is about effective, transparent and accountable governance of affairs of a company. The purpose of corporate governance is to facilitate effective entrepreneurial and prudent management that can deliver the long-term success of the Company. In this light, 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.

- Reinforced our commitment to adopt corporate governance best practices by striving to adopt best practices as per the revised 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) in 2013.

- Assessed the potential impact from the risk based capital (RBC) regime which is to be effective from 2016 onwards with the support of a consultant actuary.

- Performed an independent evaluation and testing of the design and operating effectiveness of internal accounting and operational controls over motor and reinsurance areas by an external professional firm of chartered accountants.

- Assessed and documented the effectiveness of controls in operational areas including motor underwriting and claims, non-motor underwriting and claims, reinsurance, premium collections, commission payments and record keeping. This document is to be updated on a timely basis, depending on the improvements and changes made to the processes.

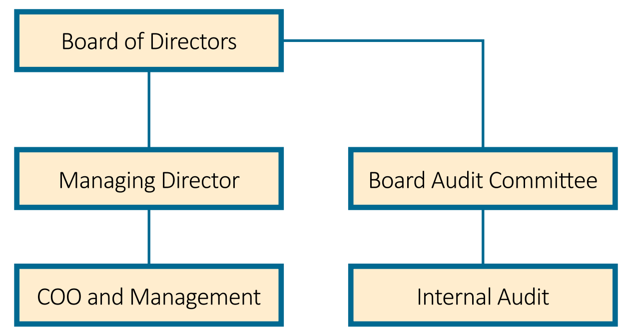
- Completed an independent and comprehensive review of security and controls over core information technology (IT) application system and other systems linked to the core system.

- Implemented a comprehensive process and policy for related party transactions covering the requirements of accounting standards and other regulatory requirements.

- Developed a formal internal audit plan for 2014 and the same was approved by the Board Audit Committee.

Governance Structure

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



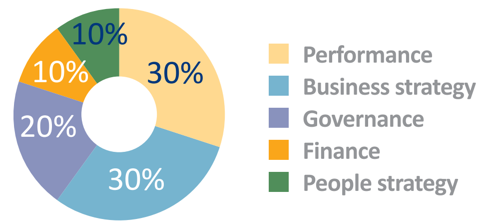
Corporate Governance *contd.*

Boardroom Table

The Board comprises experienced professionals who possess a wide variety of skills. The following diagram depicts the skills each Director brings into the Board, how the skills complement each other and how the balance is maintained in the Board room.

Board's Time Utilisation

Board meetings are held on a monthly basis. The Board evaluates the Company's performance at each meeting. The Board also reviews the compliance with applicable regulations on a monthly basis, considering the fact that the Company is under high regulation as an insurer. In addition, the Board discussed a wide variety of subjects during the year. The main subjects discussed during the year are diagrammatically presented below.



January
- Review and approval of related party transactions policy
- Review and approval of bancassurance agreement
- Review and approval of reinsurance arrangements

February
- Review of investment strategy
- Approval of annual financial statements
- Evaluation and approval of final dividend for 2012

March
- Approval of IBSL annual returns
- Review of investment strategy
- Review of impact from RBC regulations

April
- Approval for expansion of reinsurance brokers panel
- Review of investment by a potential strategic investor

May
- Review and approval of medium term agreement with external actuary

June
- Review and approval for extension of head office lease agreement

July

August
- Review of investment strategy
- Evaluation and approval of interim dividend for 2013

September
- Competitor analysis
- Review of business strategy

October

November
- Review and approval for purchase of insurance software

December
- Review of the progress of risk based capital Implementation
- Performance review of senior management
- Review and approval of revision of the employees' compensation package
- Review and approval of budget for 2014

Corporate Governance *contd.*

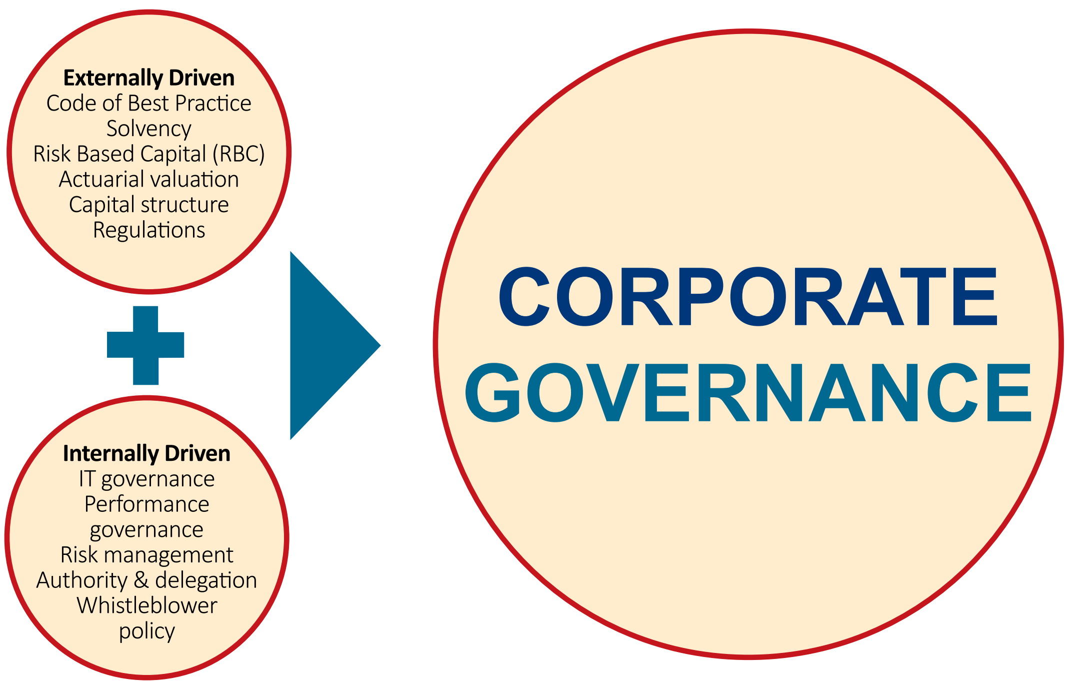
Corporate Governance Framework

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.

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) which was revised in 2013. The extent to which the Company has complied with the revised Code of Best Practice on Corporate Governance is summarised on the next page.



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, and 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 79.
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 essential 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 30 to 37.
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.
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.

Corporate Governance *contd.*

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
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.
Sustainable business development in corporate strategy, decisions and activities.	A.1.2	The Company takes into account of impact to its stakeholders including community and the environment when business strategies are formulated, decisions are made and business activities are carried out. Details are presented in the sustainability report on pages 90 to 105.
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 the revised Sri Lanka Accounting Standards (SLFRS/LKAS) which were 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 thereto.
Fulfilling the other Board functions relevant to the organisation	A.1.2	The Board makes every endeavour to fulfil 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.
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.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Independent judgment to bear on issues of strategy, performance, resources and standards of business conduct	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 79.
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.
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 30 to 31.
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 5.4, A.5.5	Presently the Board does not have any Independent Directors.

Corporate Governance *contd.*

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Appointment of an alternate Director	A.5.6	The Directors have not appointed any alternate Directors.
Requirement to appointment Senior Independent Director (SID)	A.5.7, A.5.8	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.5.9	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.5.10	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.
Requirement of a Nomination Committee	A.7.1, A.7.2	The Company has not appointed a Nomination Committee as at 31st December 2013. 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 30 to 31.
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.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
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 30 to 31. Details of related party transactions are presented on pages 162 to 166. Attendance of Directors at Board meetings is presented on page 79.
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.

Corporate Governance *contd.*

Principle	**Reference to the CA Sri Lanka and SEC Code**	**Level of Compliance**
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, 2.6, B.2.7, 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	Directors' fees and remuneration are disclosed on page 109.
Constructive use of AGM and conduct of General Meetings	C.1	People's Leasing & Finance PLC is the sole shareholder of the Company and the AGM is held with the participation of representatives of People's 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 Board Audit Committee is available to answer questions at the AGM.
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 rights 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.

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
Effective communication with shareholders	C.2	People's Leasing & Finance PLC is the sole shareholder of the Company and the Company disseminates timely information to its sole shareholder through the common Directors of two companies and the Company Secretary.
Disclosure of major and material transactions	C.3	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 and material transactions which have a material impact on net assets	C.3.1	All transactions which have a material impact on the Company's net asset base are disclosed. However, no such transactions occurred in 2013.
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 18 to 21. • Managing Director's Review on pages 22 to 25 • Chief Operating Officer's Review on pages 26 to 29. • Management Discussion and Analysis on pages 56 to 59.
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 113 to 114.
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 107.
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 113 to 114. Statement of Directors on internal controls is set out in the Directors' Statement on Internal Control on pages 115 to 116. Auditor's responsibility over the financial statements is set out in the Independent Auditor's Report on page 118.

Corporate Governance *contd.*

<table>
<tr><th>Principle</th><th>Reference to the CA Sri Lanka and SEC Code</th><th>Level of Compliance</th></tr>
<tr><td>Inclusion of a 'Management Discussion and Analysis' report</td><td>D.1.4</td><td>The requirements in detail are provided in the following reports.
<table>
<tr><th>Description</th><th>Reference</th></tr>
<tr><td>Industry structure and developments</td><td>Management Discussion and Analysis on pages 44 to 55.</td></tr>
<tr><td>Opportunities and threats</td><td>Management Discussion and Analysis on pages 50 to 51.</td></tr>
<tr><td>Risks and concerns</td><td>Enterprise Risk Management on pages 81 to 89.</td></tr>
<tr><td>Internal control systems and their adequacy</td><td>• Board Audit Committee Report on pages 111 to 112.
• Director's Statement on internal control on pages 115 to 116.
• Enterprise Risk Management on pages 84 to 88.</td></tr>
<tr><td>Social and environment protection activities carried out by the Company</td><td>Sustainability Report on pages 100 to 103.</td></tr>
<tr><td>Financial performance</td><td>Management Discussion and Analysis on pages 56 to 59.</td></tr>
<tr><td>Material developments in human resources</td><td>Management Discussion and Analysis on pages 97 to 99.</td></tr>
<tr><td>Prospects for the future</td><td>Chairman’s Message on page 21.

Managing Director’s Review on pages 24 to 25.

Chief Operating Officer’s Review on page 29.

Management Discussion and Analysis on page 62.</td></tr>
</table></td></tr>
<tr><td>Declaration of going concern by the Directors</td><td>D.1.5</td><td>This information is provided in the Annual Report of the Board of Directors on the Affairs of the Company on page 110.</td></tr>
</table>

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
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.
Adequate and accurate disclosure of related party transactions	D.1.7	The Board approved a related party transactions policy during the year. This policy provides detailed procedures on identification of related parties and related party transactions, review, approval or ratification of transactions and disclosures in financial statements. Related party transactions are disclosed on pages 162 to 166.
Implementation of sound system of internal control and a process of risk management.	D.2	The Board is ultimately responsible for the Company's internal controls and risk management. 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 and review of the risks.	D.2.1	In order to ensure an effective system of internal control and risk management 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 programmess 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 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.

Corporate Governance *contd.*

Principle	Reference to the CA Sri Lanka and SEC Code	Level of Compliance
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	The Board Audit Committee has a written terms of reference which is line with the Code of Best Practice on Corporate Governance jointly issued a by the CA Sri Lanka and SEC.
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 111 to 112. 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 110.
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 representatives of People's Leasing & Finance PLC participate 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 63 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.

<table>
<tr><th>Principle</th><th>Reference to the CA Sri Lanka and SEC Code</th><th>Level of Compliance</th></tr>
<tr><td>Sustainability reporting</td><td>G.1</td><td>The requirements in detail are provided in the sustainability report as follows.
<table>
<tr><th>Description</th><th>Reference to the CA Sri Lanka and SEC Code</th><th>Reference</th></tr>
<tr><td>Economic sustainability</td><td>G.1.1</td><td>Page 91.</td></tr>
<tr><td>Environment</td><td>G.1.2</td><td>Page 103.</td></tr>
<tr><td>Labour practice</td><td>G.1.3</td><td>Pages 97 to 99.</td></tr>
<tr><td>Society</td><td>G.1.4</td><td>Pages 100 to 101.</td></tr>
<tr><td>Product responsibility</td><td>G.1.5</td><td>Pages 94 to 96.</td></tr>
<tr><td>Stakeholder identification, engagement and effective communication</td><td>G.1.6</td><td>Page 91.</td></tr>
<tr><td>Sustainable reporting and disclosure as part of the Company’s reporting process</td><td>G.1.7</td><td>Pages 90 to 105.</td></tr>
</table>
</td></tr>
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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 80, total admissible assets and total liabilities including required solvency margin were Rs. 3,573 million and Rs. 3,244 million respectively, resulting in an excess of Rs. 329 million above the required solvency margin as at 31st December 2013.

Risk Based Capital

A risk based capital regime is planned to be implemented in Sri Lanka by the IBSL with effect from 1st January 2016 replacing the current solvency margin regime. Risk based capital methodology measures the amount of available capital relative to the risks inherent in the liabilities and the assets supporting those liabilities and the adequacy of capital to absorb unforeseen losses. The risk based formula to be introduced to Sri Lanka includes credit risk, concentration risk, reinsurance risk, market risk liability risk and operational risk. The Company successfully participated in the ‘Road Test’ conducted by the IBSL during the period from September 2012 to June 2013. The Company was able to maintain the indicative capital adequacy ratio well above the minimum required capital adequacy ratio of 120% stipulated by the IBSL. A mandatory parallel run is planned to commence from 1st January 2014 and continue till 31st December 2015 in a view of implementing the regime in full with effect from 1st January 2016. The Company has set up necessary processes in place to report under both solvency rules and risk based capital rules during the parallel run and is confident of compliance.

Actuarial Valuation of Insurance Liabilities

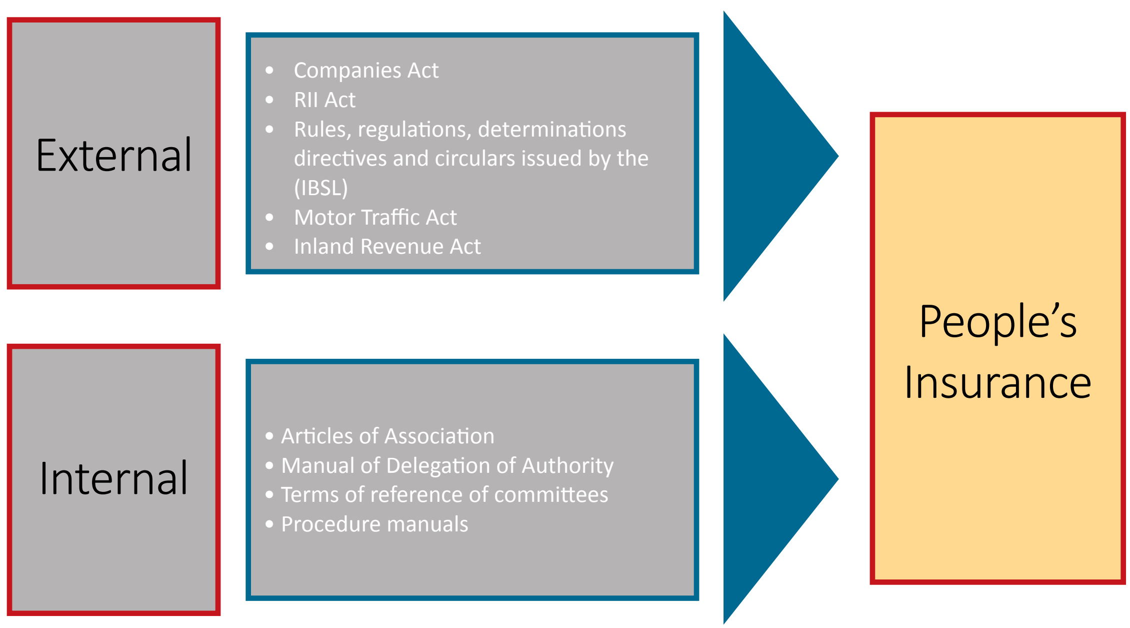
The Company obtains an actuarial valuation of its claim and premium liabilities from an independent professional firm on a quarterly basis. Since claims reserves and measurement of sufficiency of premium liabilities to meet future obligations are based on judgment and estimates, an actuarial valuation 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 117.

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 is also already in line with the regulatory requirement to increase the paid up share capital to Rs. 500 million for each class of business by February 2015 and the absolute minimum regulatory capital of Rs. 500 million that is required to be maintained by insurers at all times under the proposed risk based capital regime effective 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.
To ensure the compliance with regulatory requirements, the Company maintains a regulatory compliance checklist. 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 the 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, an independent applications control review over the core information technology (IT) system and document management system which was initiated by the Board in the previous year in view of enhancing IT governance was completed by a reputed professional firm of chartered accountants.

Performance Governance

The Company maintains a performance based culture. The annual plan with revenue and profit targets is developed by the Management in advance and 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. Class wise and aggregated key performance indicators are used for the above purpose. Benefits and rewards to employees are also linked to their performance.

Risk Management

The Board discharges its overall responsibility on risk management through the Board Audit Committee. Internal audit function, Enterprise Risk Management Committee and Integrated Risk Management Committee facilitate the Board Audit Committee in discharging their responsibilities. Details of the Company's risk management are set out in the Enterprise Risk Management report on pages 81 to 89.

Authority and Delegation

The Board has delegated its financial authority to the Managing Director and the Management as comprehensively documented in the Manual of Delegation of Authority (MODA). The MODA 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 MODA 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.

Whistleblower Protection Policy

A formal whistleblower protection policy is in place in view of providing an opportunity to 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 whistleblowing 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			13		3	
Meeting status			A	B	A	B
Mr. Jehan P.Amaratunga	Board Audit Committee	Non-Executive Director	13	13	3	3
Mrs. Dharma N. Gammampila	Board Audit Committee	Non-Executive Director	13	11	3	3
Mr. N. Vasantha Kumar		Non-Executive Director	13	13	1	1
Mr. D. P. Kumarage		Executive Director	13	13	-	-

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

B - Number of meetings attended

SOLVENCY 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 31 December	2013 Rs. '000	2012 Rs. '000
Value of admissible assets	3,573,190	2,952,948
Total liabilities including technical reserves	2,658,419	2,163,095
Net admissible assets	**914,771**	**789,853**
Required solvency margin	585,831	527,566
Excess over required solvency margin	**328,940**	**262,287**
Solvency ratio	**1.56**	**1.50**

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 31 December	2013 Rs. '000	2012 Rs. '000
Approved assets		
Approved assets maintained	3,146,183	2,591,156
Technical reserves	2,238,159	1,878,856
Approved assets in excess of the technical reserve	**908,024**	**712,300**
Investment in Government Securities		
Investment in government securities (20% of the technical reserves)	447,632	375,771
Investment in government securities	1,236,624	1,251,471
Excess over required investment in government securities	**788,992**	**875,700**

ENTERPRISE RISK MANAGEMENT

Overview

Risk is the possibility of a loss arising from a specific action or inaction. The notion implies that a choice having an influence on the outcome sometimes exists. Potential losses themselves may also be called 'risks' without any indication of cause.

Any corporate endeavour carries some risks that threaten the successful execution of their mission, but some are much riskier than others. 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 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. A successful enterprise risk management (ERM) initiative can affect the likelihood and consequences of risks materialising, as well as deliver benefits related to better informed strategic decisions, successful delivery of change and increased operational efficiency. We encourage integrated risk management culture within our organisation by keeping everybody aware and accountable of the risk that they bring into the Company with their actions.

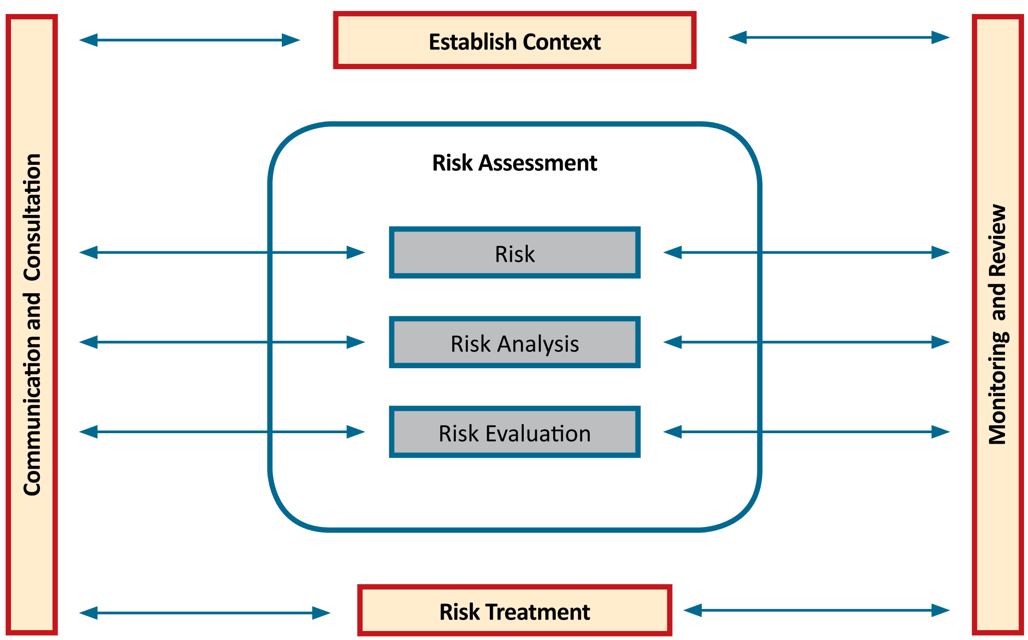
Risk Governance

The ultimate responsibility for setting the risk appetite, communicating risk strategy and approving policies for the 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 in the previous year to strengthen the risk management process. The functions of the committee include assessing, measuring and managing 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 actions are taken as appropriate.

Risk Management Process

The risk management process followed by the Company is diagrammatically presented below.



Enterprise Risk Management *contd.*

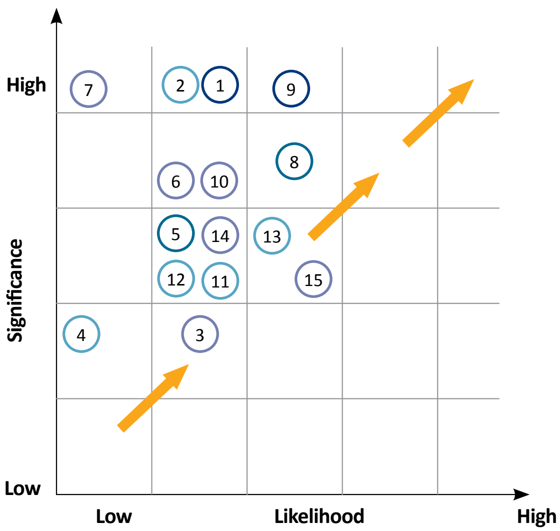
Risk Assessment

Risk identification establishes the exposure of the organisation to risk and uncertainty. 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 insurance business. There is a process of 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. We identify and categorise risks in terms of their source, their impact to the Company and the preferred strategies for dealing with them.

The risk analysis of the Company's identified risks is used to give ratings to them on the likelihood of occurrences and the significance of the possible consequence or impacts. By considering the likelihood and consequences of each risk, it is possible to prioritise or rank the key risks for further analysis.

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

The Company's risk analysis and evaluation on their significance and likelihood is diagrammatically presented below.



1. Business risk
2. Exposure risk
3. Fraud risk
4. Reinsurance risk
5. Liquidity risk
6. Reputational risk
7. ICT risk
8. Concentration risk
9. Regulatory risk
10. Socio economic and political risk
11. Credit risk
12. Reserving risk
13. Market risk
14. Claims settlement risk
15. Human resource risk

Risk Treatment

Risk treatment is the activity of selecting and implementing appropriate control measures to modify the risk. Risk treatment includes as its major elements, risk control (or mitigation), but extends further to, for example, risk avoidance, risk transfer and risk sharing, etc. Our system of risk treatment provides efficient and effective internal controls. Effectiveness of internal control is the degree to which the risk will either be eliminated or reduced by the proposed control measures. We believe compliance with laws and regulations is not an option to an insurer. We are aware of the applicable laws and regulations and implemented a system of controls that achieves compliance.

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. Therefore risk management, which plays a crucial role for the Company, is considered an integral component of the Company's enterprise governance system.

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

- 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

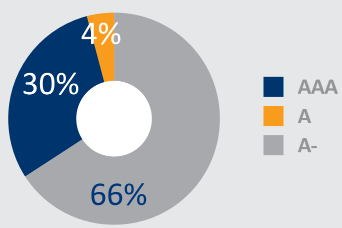
Monitoring, Reviewing, Communication and Consultation

Monitoring and review ensures that the organisation monitors risk performance and learns from experience. Communication and consultation is another important mechanism of feedback of risk management process as well as part of the supporting framework. The Company monitors the risks quarterly by way of a risk dash board presented to the Integrated Risk Management Committee and it is communicated to the Board for consultation if there is a major impact on the Company.

Enterprise Risk Management *contd*.

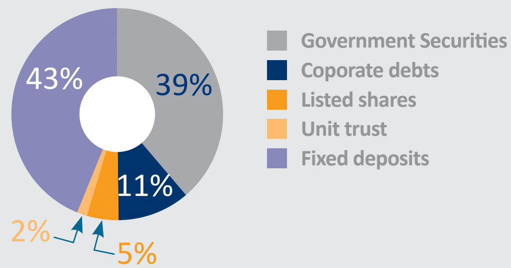
A summary of the controls that People's Insurance has implemented to manage risks that are generally faced by insurance companies are given below.

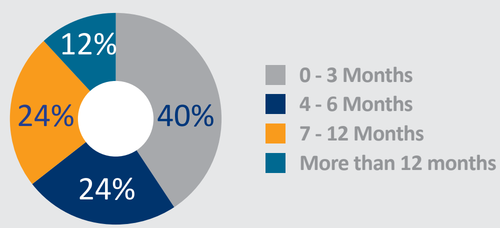
Risk	Controls
Strategic Risks	
Business Risk Business risk is the risk of a loss arising from a poor strategic business decision. Business risk may arise if the Company's strategy is not compatible with the market and customer expectations or with socio economic/political parameters.	• The Company's 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.
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.

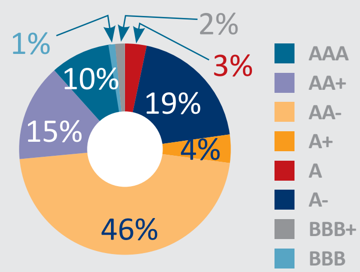
Risk	Controls
Reserving Risk This risk refers to unexpected or unbudgeted increase in claims emanating from business written prior to the current underwriting year.	• Claims handling staff creates necessary reserves as soon as information is received. • Reserves are updated as and when further information 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.	• 100% 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** 
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.

Enterprise Risk Management *contd.*

<table>
<tr><th>Risk</th><th>Controls</th></tr>
<tr><td colspan="2">Investment Risks</td></tr>
<tr><td>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.</td><td>• 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 2013 is given below.

Investment Composition

</td></tr>
<tr><td>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.</td><td>• 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 2013 are given below.

Maturity Analysis of Government Securities, Corporate Debts and Fixed Deposits

</td></tr>
</table>

Risk	Controls
Credit Risk Credit risk refers to the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with the 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 2013 is given below. **Fixed Deposits and Corporate Debts by Rating** 
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.

Enterprise Risk Management *contd.*

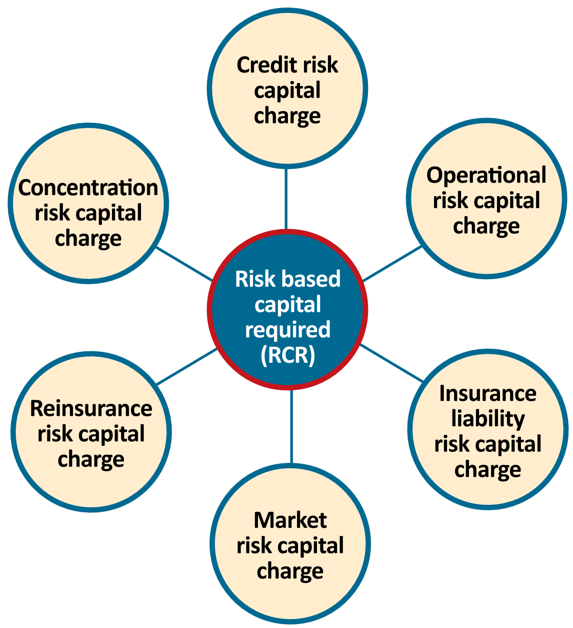
Risk	Controls
Human Resource Risk This is the risk of losing competent staff or shortage of qualified personnel.	• Conduct periodic performance appraisals of staff and reward accordingly. • Bonus payments are made based on performance and years of experience/service. • Provide financial assistance to 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.
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 whistleblowing procedure was is in place 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.

Risk Based Capital

The Insurance Board of Sri Lanka (IBSL), with the assistance of the World Bank and FIRST initiative is in the process of strengthening its supervisory system by developing a risk-sensitive minimum capital regime for the insurance sector in Sri Lanka. Accordingly, the IBSL plans to fully implement a risk based capital model with effect from January 2016 followed by a 'Road Test' and a two years' parallel run from 2014 to 2015.

A risk-based capital methodology measures the amount of available capital relative to the risks inherent in the liabilities and the assets supporting those liabilities and the adequacy of capital to absorb unforeseen losses. A risk-based formula includes factors such as credit risks, market risks, liability risks and operational risks. This framework outlines the minimum capital requirements for insurers operating in Sri Lanka using a risk-based formula and defines the capital that is available to meet the standard. It also outlines the principles for the market consistent valuation methodology to be used in determining the amounts under the risk-based capital formula.

The risk based capital required is the aggregate of capital charges determined for various risk categories with appropriate allowances for diversification.



Under this regime, the required capital adequacy ratio (RCR) is set at 120% below which supervisory actions of increasing intensity will be taken to resolve the financial position of an insurer. The minimum capital requirement (MCR) represents the absolute minimum regulatory capital that is required to be maintained by insurers at all times and is prescribed at Rs. 500 million. The MCR requirement is in addition to and separate from any requirements related to minimum paid up share capital.

People's Insurance successfully participated in the 'Road Test' conducted by the IBSL during the period from September 2012 to June 2013 by submitting the data on a quarterly basis which also included actuarial valuation of claims and premium liabilities. The Company also used an advanced template to calculate the RCR based on the draft risk based capital framework as a proactive measure. The Company has already taken the necessary steps to comply with the RBC reporting requirements during the parallel run period commencing from 2014. The Company considers the potential impacts on risk based capital in all current activities engaged in order to assess the risk of the Company.

SUSTAINABILITY REPORT

Managing Director's Message

It is indeed a great pleasure to present our first sustainability report with our second annual report. We believe that committing towards sustainability, irrespective of the size or age of an organisation is vital in today's context, where the concept of sustainability has emerged as a part of our day to day lives. In addition, the Company has an added responsibility towards its customers and the community as an insurer. With these in mind, we present our approach to sustainability with this report as a relatively new company to the insurance industry with a history of just four years and a company which has achieved a tremendous business success within this short period of time.

We are mindful of all our stakeholders including the environment and community who may be negatively impacted by the Company's operations which are directed towards achieving our business objectives. Hence, we make our best efforts not only to minimise negative impacts but also to add value to our stakeholders. To this end, we believe that we should start our sustainability practices from our workplace where the concept of sustainability can be cultivated in the minds of employees who will in turn put them into practice.

As an insurer, we always ensure fair treatment to our customers by paying their claims fairly as our primary business function. We also treat our employees fairly and strive to maintain a strong relationship with them as we believe that they are the critical success factor behind the success of the Company.

We also extend our hand to the community wherever possible. Accordingly, during the year we carried out our first dedicated social project titled 'Towards Greenery in Sri Lanka' where we distributed plants and fertiliser to farmers to promote sustainable use and cultivation of native herbal plants and economic crops. The Company also provided financial assistance to various parties of the community including students, schools and a hospital during the year. We have also initiated certain business practices including waste paper management, less paper environment, energy saving, etc. in our efforts to protect the environment.

We believe that you will find this report useful in understanding our efforts towards sustainability. We also expect to enhance our efforts and widen the scope towards ensuring the sustainability both within and outside the Company in the years to come.

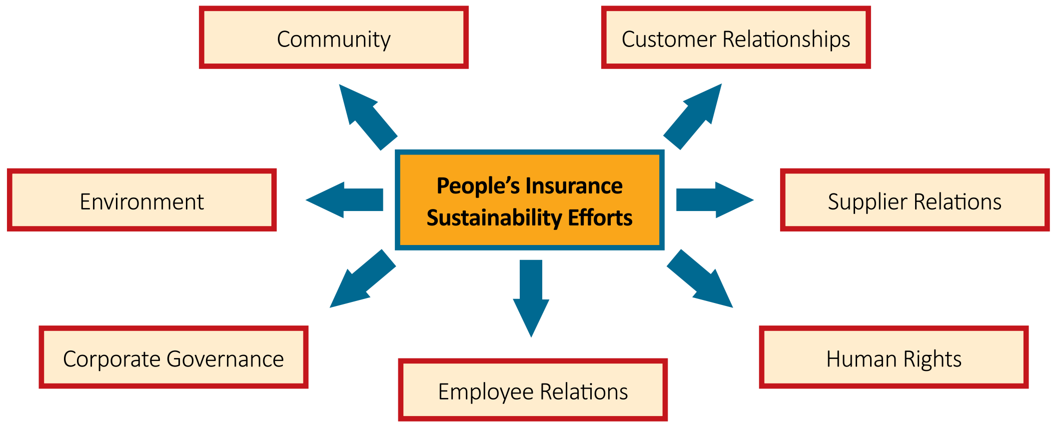
D. P. Kumarage
Managing Director

5th February 2014
Colombo

OVERVIEW

Our sustainability policy is embedded in our vision. We believe that following an integrated approach is crucial in terms of sustainability, irrespective of the size or age of an organisation to ensure the continuity of not only the organisation but also the continuity of both people and the planet. In view of this, we endeavour to adopt sustainability practices in doing our businesses despite the fact that we are relatively new to the insurance industry.

We take a holistic view in our sustainability efforts and in our sustainability framework, we have identified customers, employees, community, environment, shareholders as our key stakeholders who may have an impact from our business activities. Hence, we as a responsible corporate citizen always strive to minimise negative impacts while making our best effort to add value to our stakeholders. The diagram below illustrates seven dimensions of the Company's sustainability efforts, covering our key stakeholders.



CUSTOMERS

Customers' appreciation is vital in our strategic vision, as it can consolidate and increase the success achieved over time. The Company attaches the greatest importance to maximum customer satisfaction through adoption of high quality standards for products and services provided and their constant adaptation to new needs.

The Company is committed to constantly improve the quality of its services and places particular emphasis on dialogue with customers. Products and services are frequently modified and streamlined based on the communication with customers. Our efforts to satisfy the customers' needs are briefly described below.

Fair Claim Payments

Undoubtedly, customers want their claims to be settled fairly which is the primary function of an insurer. Bearing this in mind, we always ensure that claims are settled if they are within the framework of policy terms and conditions and there is no satisfactory evidence to the contrary. We also have set up a claims panel consisting of heads of respective departments and Manager Legal which is involved in settling claims above a specific threshold and if the liability is in doubt.

Customers who are not satisfied with regard to a particular decision made by the Company are free to refer the matter to the Insurance Ombudsman. The Insurance Ombudsman is a body formed by the Insurance Association of Sri Lanka in liaison with the Insurance Board of Sri Lanka to resolve disputes between customers and insurance companies. Decisions made are binding on both parties. During the year under review, two cases were referred to the Insurance Ombudsman. The Company settled both the cases based on the decisions made by the Insurance Ombudsman.

Periodic audits on processes as well as paid claims are carried out in order to minimise leakage on fraudulent claims and ensure that genuine customers do not pay increased premiums due to fraudulent claims.

24X7 Contact Centre

We have in place a state-of-art 24X7 Contact Centre equipped with the latest technology which serves our customers with a personalised service around the clock. Customers could access these services by dialling 0112 206306. This helpline plays a major role, especially in dealing with motor accidents. Our well-trained customer service representatives work to ensure that the burden on the customer is minimised, maintaining constant contact with the customer from the moment the accident is notified till the claim is settled.

Contact Centre

Distribution Network

We operate in the business of providing insurance services and thus, close proximity to our loyal customers has the ability to give us an edge over our competitors. Therefore, broadening our distribution network and increasing the efficiency of the distribution channels are a strategic priority for People's Insurance, as it in turn contributes to our competitive advantage. Our distribution network is multi-channelled, inclusive of bancassurance officers, brokers, direct sales officers, etc.

In line with our distribution strategy, we opened our new regional office in Negombo during the year under review. We also opened 15 and 17 window offices at branches of People's Leasing & Finance PLC and People's Bank respectively. Accordingly, we had two regional offices and 59 window offices at People's Leasing & Finance PLC branch network and 24 window offices at People's Bank branch network with one window office at Sri Lanka Customs head office by the end of 2013. Our branch employees are always ready and equipped to provide a seamless service to customers.

Negombo regional office opening

Our bancassurance channel assumes high importance within our distribution network, as it is a venture we have embarked upon with our ultimate parent, People's Bank. In view of this, we entered into a bancassurance agreement with People's Bank and formed a bancassurance unit at our head office in 2013. Through this channel, we have improved proximity to our customers, whereby they can conduct both their banking and insurance transactions under one roof.

Signing bancassurance agreement with People's Bank

People's Insurance Website

Our website, which was launched in 2013, provides yet another platform to develop an active dialogue with our customers. The website can be accessed at www.peoplesinsurance.lk. The website offers prospective and existing customers information about the Company and its products and services. The website also guides customers on how to identify the product that best suits their needs. Our website is accessible on desktop and mobile devices.

The website also offers a 'Call you Back' feature through which customers can send their contact numbers and mention a convenient time to be contacted. The team at People's Insurance follows up such messages and calls back the customers during the time specified by the customers. This feature is expected to save both time and money of customers as they do not have to visit a branch. A detailed FAQ section has also been incorporated in the website to educate users on the benefits of insurance and industry specific terms, so that People's Insurance customers can make an informed decision.

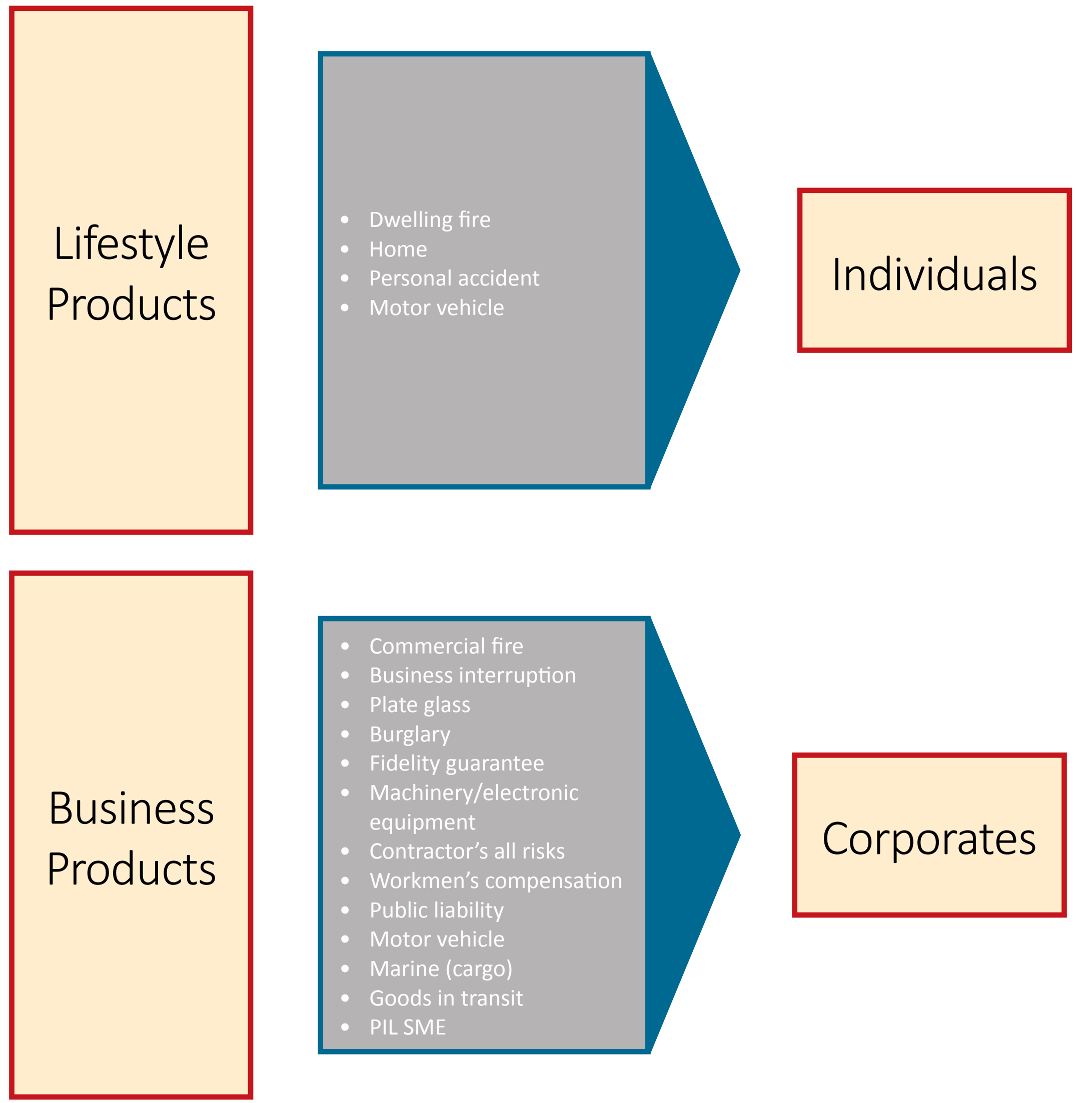
SMS Alerts

During the past few years, we have been using short message service (SMS) technology to update our customers on claims status. We expect to extend the use of SMS-based communications with the customers to other processes which will provide value added services to them and reduce our transaction costs, enabling us to pass the benefit onto our customers through competitive premiums.

Sustainability Report *contd.*

Products

We have a range of lifestyle and business products designed to meet the needs of individuals and corporates or organisations. In addition, we provide tailor made solutions to corporate customers. The full range of non-life insurance products is summarised below.



Descriptions of products are given below.

Product	Product Description
Lifestyle Products	
Dwelling fire insurance	Standard policy provides indemnity in the event of destruction or damage to a property insured by fire or lightning and domestic explosion. Storm, flood, earthquake, tsunami, strike and riot, terrorism, malicious damage, bursting of pipes, impact by vehicles and aircraft covers are provided as optional.
Home insurance	Home insurance is specially designed to provide essential insurance for home and family in a single policy. Basic cover includes loss and damage to 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. Optional covers are malicious damages, riot and strikes, terrorism and fire damage to electrical appliances, personal accident cover for family members, workmen's compensation cover for domestic employees and personal and family liability cover.
Personal accident insurance	Covers bodily injury or death arising from an accident. Especially valuable cover if self-employed and earnings may cease on disablement.
Motor vehicle insurance	Covers motor vehicle against loss or damage caused by accidents and legal liability to third party for bodily injury or property damage. Optional additional covers are available under comprehensive motor insurance.
Business Products	
Commercial fire insurance	Covers loss or damage to property caused by fire or lightning and domestic explosion. This insurance cover is usually extended to cover loss or damage due to storm and flood, earthquake, explosion, malicious damage, impact damage, burst pipes, strike, riot and terrorism, etc.
Business interruption (consequential loss) insurance	Covers loss of net profit and fixed charges (shortfall in gross profit) following interruption of business caused by risks which are insured under a fire policy.
Plate glass insurance	Covers against accidental breakage. Breakage means a fracture through the entire thickness as opposed to mere scratching or chipping.
Burglary insurance	Covers any loss or damage to the property and premises by any burglary or hold up.
Fidelity guarantee insurance	Covers loss of money or goods either belonging to employers or for which they are responsible as a result of acts or fraud or dishonesty by an employee.
Machinery/electronic equipment insurance	Covers unforeseen and sudden damage to machinery by any accidental cause whilst at work or at rest and during cleaning, inspection, overhaul or removal to other position in the premises.

Sustainability Report *contd.*

Product	**Product Description**
Contractor's all risks insurance	Covers loss or damage to contract works and all other materials on site as well as legal liability to third parties arising out of the performance of a contract.
Workmen's compensation insurance	Provides payment for accidental bodily injury and/or disease sustained by employees whilst in the course of employment.
Public liability insurance	Covers insured's legal liability for accidental bodily injury or loss of or damage to property whilst in the course of business. It also covers legal fees, costs and expenses that may be incurred because of accidents.
Motor vehicle insurance	Covers motor vehicle against loss or damage caused by accidents and your legal liability to third party for bodily injury or property damage. Optional additional covers are available under comprehensive motor policies.
Marine (cargo) insurance	Cover loss or damage to goods whilst in transit by land and sea. Cargo transported by air also covered by this policy.
Goods in transit insurance	Covers loss of or damage to property caused by fire, theft or accidental means whilst being transported, loaded or unloaded from any road vehicle belonging to or hired by insured.
PIL SME	This solution enables customers to simplify their insurance. Instead of a collection of separate documents covering a wide variety of risks, with the possibility of an important field of protection being overlooked, customer receives a simple policy providing with the covers selected according to the customer's needs.

EMPLOYEES

We believe in sustainability at work. Accordingly, we trust that understanding current attitudes and behaviours towards sustainability in the workplace can provide insights and a platform for our organisation to promote positive sustainable practices.

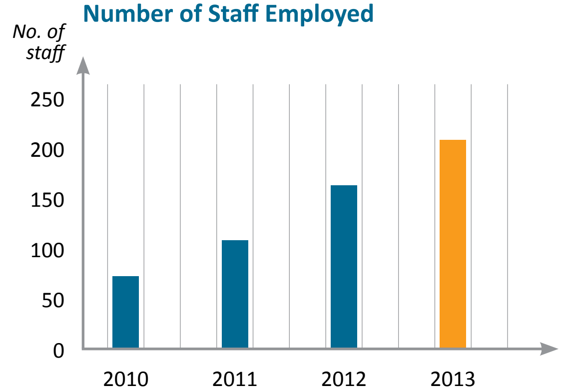
The Company's success is largely due to many positive qualities that our employees possess in abundance. These include motivation, high quality performance, experience, both broad based and specialised knowledge, teamwork and ability to adapt to meet multiple challenges in an ever-changing business environment. To this end, People's Insurance has an exhaustive set of processes to recruit, train, promote and retain the best individuals inside and outside the industry.

Staff Strength

The Company's total staff strength reached 200 employees during the year, recording a steady increase over the past few years to cater our expanded business operations. Accordingly, the Company employed 210 staff at head office, regional offices and window offices at People's Leasing & Finance PLC and People's Bank by the end of 2013.

Year	No. of Staff
2010	75
2011	111
2012	165
2013	210

Number of Staff Employed



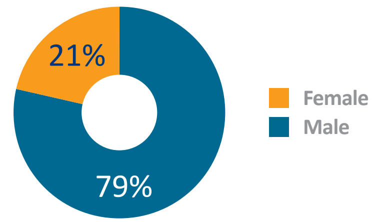
Employee Diversity

The Company considers gender and age as the key parameters in terms of the employee diversity.

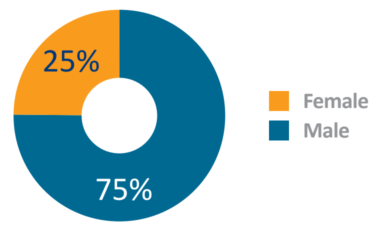
The Company is an equal opportunity employer. Recruitments are made based on qualifications, experience and competency regardless of race, religion or gender. Male and female staff employed by the Company at executive and non-executive levels is provided below.

Staff Category	2013		2012	
	Male	Female	Male	Female
Executive	10	6	10	6
Non-executive	155	39	114	35
Total	**165**	**45**	**124**	**41**

Male to Female Ratios 2013



Male to Female Ratios 2012

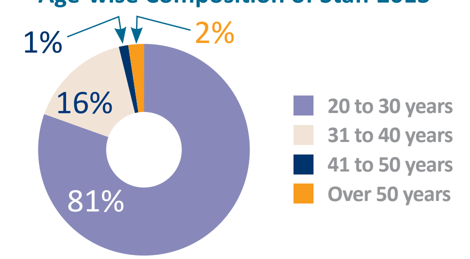


The Company's staff continues to consist of mainly of those who are below 30 years of age, which is an indication that the Company can expect to benefit from the dynamism of youth for many years in to the future.

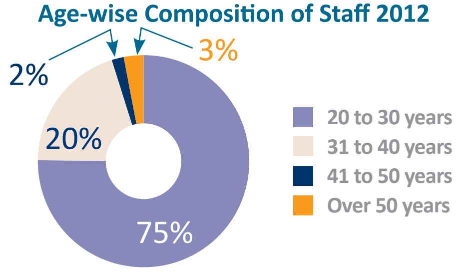
Sustainability Report *contd.*

Age Group	No. of Staff	
	2013	2012
20 to 30 years	169	124
31 to 40 years	33	33
41 to 50 years	3	3
Over 50 years	5	5
Total	**210**	**165**

Age-wise Composition of Staff 2013



Age-wise Composition of Staff 2012



Training and Development

At People's Insurance, we believe that human resource is our best asset. Hence, we make our best effort to train and develop them progressively. In line with our belief, we have launched several initiatives including a wide variety of internal and external training programmes held both locally and globally and professional education scheme providing financial assistance in pursuing professional education. Innovative and strategic learning environments are also developed and monitored carefully.

Internal Training

Training at People's Insurance begins with a comprehensive training and orientation which all new recruits must follow. A week's orientation to People's Leasing & Finance (PLC) Group's culture is followed by three weeks of rotational basis training, covering all respective departments at the head office which is then followed by exposure at the branch level. This enables interactive knowledge sharing and stimulates peer-to-peer networking in the Company.

Orientation

General training programmes for all employees of the Company, covering head office, all regional offices and window offices are conducted on a periodic basis with the participation of the Corporate Management in addition to specific training programmes conducted time to time. We consider this training programme crucial as this provides an opportunity to give the necessary instructions to all employees more effectively and efficiently and obtain their feedback at the same time.

General training programme

External Training

In addition to the internal training programmes, the Company conducts dedicated training programmes which are resourced by renowned external professionals and provides opportunities to participate in training programmes conducted by other institutions in view of providing the employees an opportunity to obtain an exposure on a wider perspective. The Company also provides overseas training exposure to executives.

A training programme titled 'Be the Best You were Born to be' was conducted for all staff of the Company by an eminent resource person, Mr. Dhammika Kalapuge in October 2013. We believe that this program inspired our employees to achieve the best results in a challenging environment and maintain a positive attitude towards changing circumstances to live a life purposefully and resourcefully. We also believe that it persuaded our employees on possessing a wide variety of skills including how to focus the energy for a purpose, demonstrate team work, be more productive, build confidence, work with an entrepreneur mind-set, have a positive attitude towards life, manage change and serve the institution with passion.

External training - 'Be the Best You were Born to be'

Professional Education Scheme

The Company has a scheme in place providing financial assistance to employees in pursuing professional education in insurance and other job related courses. As a policy, the Company does not execute bond agreements for any sort of training programme or assistance provided under professional education scheme as we believe in mental bonding rather than legal bonding.

Investment in Training and Development

The table below summarises the costs incurred in respect of training since the commencement of the Company's commercial operations.

Year	Training Cost Rs.
2010	205,641
2011	347,647
2012	1,712,695
2013	1,054,040

Employee Relations

The company maintains a culture where employees can easily access their superiors and top management. Relatively flat structure maintained by the Company also facilitates this. This has in turn given a great opportunity to build and maintain a very good employee relationship which is essential for both the employees and the Company in achieving objectives of both parties simultaneously.

A welfare society was also formed during the year with the financial assistance of the Company in view of increasing employee benefits.

Bonus Scheme

The Company has a variable bonus scheme in place to reward employees who have contributed in achieving corporate objectives. Both performance and service period of respective employees are considered when bonuses are paid.

Sustainability Report *contd.*

COMMUNITY

We, as a responsible corporate, always journey hand in hand with the community and are fully aware of the mutual benefits of this special relationship between the community and us. Our policy with regard to the community is therefore simply to do our utmost to ensure the wellbeing of the community.

Distribution of Plants to the Farmers Club in Siyambalape

The Company launched its first dedicated social project titled, 'Towards Greenery in Sri Lanka' during the year with view of increasing economic level of farmers and primary healthcare by encouraging villagers to cultivate trade herbal and economic crops. The Company distributed plants and fertiliser together with a guidance in a leaflet to promote sustainable use and cultivation of native herbal plant and economic crops.

Distribution of plants to the farmers club in Siyambalape

Fish Tank to Paediatric Ward in Ampara General Hospital

People's Insurance provided a fish tank to the paediatric ward of Ampara General Hospital. This would be a source of great enjoyment for ill children and will make their hospital stay and recovery from illness less gruelling.

Fish tank provided to paediatric ward in Ampara General Hospital

Reference Books to Sri Dharmaloka Maha Vidyalaya, Kelaniya

The Company made a contribution to the library of Sri Dharmaloka Maha Vidyalaya - Kelaniya in order to buy reference books useful for students expecting to sit for the Ordinary and Advanced Level examinations.

Display Boards to Rathmalkandura Maha Vidyalaya, Ampara

The Company provided display boards depicting vision and mission statements of Rathmalkandura Maha Vidyalaya - Ampara in order to motivate the students. A display board depicting a site map of the school was also donated in facilitating easy reference to visitors.

A display board given to Rathmalkandura Maha Vidyalaya

Wesak Dansela

The Company organised a Wesak ice-cream dansela to quench the thirst of devotees to the Gangarama Wesak Kalapaya. Over 7,500 devotees participated at this event and head office staff enthusiastically contributed to carry out this event successfully.

Wesak ice-cream dansela

Sponsorship for 'Abhinandana Pranama' Scholarship Project 2013

The Company contributed to 'Abhinandana Pranama' scholarship project organised by the People's Bank Officers Association by way of a sponsorship. In this event, scholarships were awarded for students who have obtained higher results in the Grade Five scholarship, Ordinary Level and Advanced Level examinations held in 2012.

Stationery Items to School Children

The Company sponsored stationery items for school children. This project was carried out by the Seva Vanitha Unit of Government Analyst's Department and distributed exercise books and other stationery items to school attending children of needy employees in the Government Analyst's Department.

Sustainability Report *contd.*

Value Addition

Value addition shows the total wealth created and how it is distributed, taking into account the amounts retained and reinvested in the Company for the replacement of assets and for expansion programmes.

	2013		2012	
	Rs. Mn	**%**	**Rs. Mn**	**%**
Net earned premium	2,801	-	2,448	-
Other revenue	394	-	282	-
Net claims	(2,120)	-	(1,970)	-
Cost of external services	(188)	-	(130)	-
Total value added	**887**	**-**	**630**	**-**
Distribution of value added				
To employees - Salaries and other benefits	83	9	56	9
To intermediaries - Insurance commission	292	33	244	39
To the Government - Taxes	130	15	89	14
To shareholders - Dividends	150	17	12	2
Retained within the business				
- as depreciation	11	1	6	1
- as reserves	221	25	223	35
Total value added	**887**	**100**	**630**	**100**

ENVIRONMENT

Protecting the environment as a primary asset is one of the Company's guiding values. The Company has made a commitment to direct its own decisions towards ensuring compatibility between economic and environmental factors. Our primary aim is to manage all significant environmental aspects of business operations to ensure compatibility between economic initiative and environmental requirements. In particular, we always strive to guide the Company's choices and actions in order to positively contribute to a sustainable development. The objectives relate to both the environmental impacts directly attributable to the insurance activities of the Company and indirect impacts associated with the procurement of goods and services.

Our sustainable practices include:

- Insuring hybrid vehicles without discrimination - Encourage use of vehicles which are less harmful to the environment.

- Paper recycling - Bins located throughout the work area for recycling papers, used printer cartridges and cardboard collected by administration department and send for recycling.

- Leveraging technology to reduce paper consumption - Primary distribution of event information is done via website and emails. Minimal on-site materials and handouts are used. Paperless documentation process has been initiated for motor claims process.

Insuring Hybrid Vehicles without Discrimination

The Company was among the very first few insurers to insure hybrid vehicles without any additional terms or conditions. We took this initiative at a stage where repair costs of hybrid vehicles were not known and expected to be high due to technicalities. Hence, we believe that this initiative taken by the Company not only encouraged the use of hybrid vehicles which consume less fuel and results less emissions but also set an example to the other insurance companies.

Paper Recycling

Our arrangement with GEOCYC (Private) Limited to recycle used paper continued throughout the year. The waste paper bins have been placed in all departments at head office, so that employees could put used papers to recycle them in an environment friendly manner.

Leveraging Technology to Reduce Paper Consumption

We continued our efforts to reduce paper consumption through the introduction of information technology, redirecting any waste to be re-used and recycling non-reusable waste. Our system facilitates window office staff members to upload claims documents such as digital photographs, e-mail correspondence, etc to the claims module. The new process has reduced paper consumption, compared to the previous process, thereby reducing carbon footprint.

Sustainability Report *contd.*

SHAREHOLDERS

People's Insurance is committed to deliver a sustainable shareholder value in carrying out its business operations while protecting interests of other stakeholders. The progress of the achievements in respect of creation of sustainable value addition during the year is summarised below.

Enhanced Return on Investment

The average return on net assets was 31% as at 31st December 2013, recording one of the highest in the industry. This was due to significantly enhanced profitability recorded during the year.

Sustainability of Business Performance

A number of measures were taken to ensure the sustainability of the performance including;

- Continued reinsurance arrangements with established reinsurers with at least 'A' rating assigned by international rating agencies.
- Strengthened internal controls including controls over core information technology application system.
- Ensured compliance with relevant regulatory and statutory requirements.
- Strived to adopt best practices on corporate governance.

Financial Performance

Gross written premium increased by 10% from Rs. 2,944 million in 2012 to Rs. 3,251 million in 2013. Underwriting profit which is scarce in the industry significantly rose by 154% from Rs. 42 million in 2012 to Rs. 107 million in 2013. Profit after tax also increased significantly by 58% from Rs. 235 million in 2012 to Rs. 371 million in 2013.

Earnings

Earnings per share increased significantly by 57% from Rs. 3.94 in 2012 to Rs. 6.18 in 2013. This was attributable to the significant increase in the profit after tax in 2013.

Dividends

The Company authorised a total dividend of Rs. 2.25 per share amounting to Rs. 135 million in respect of 2013. This is an increase of Rs. 1.25 per share (125%) compared to the dividend of Rs. 1.00 paid in respect of 2012 profits.

Financial Performance Indicators

Indicator	2013	2012	Growth
Gross written premium	Rs. 3,251 Mn	Rs. 2,944 Mn	10%
Underwriting profit	Rs. 107 Mn	Rs. 42 Mn	154%
Profit after tax	Rs. 371 Mn	Rs. 235 Mn	58%
Earnings per share	Rs. 6.18	Rs. 3.94	57%
Dividend per share	Rs. 2.25	Rs. 1.00	125%
Return on net assets	34.2%	27.6%	24%
Total assets	Rs. 4,021 Mn	Rs. 3,319 Mn	21%

Awards and Recognitions

The very first annual report of People's Insurance was recognised both locally and globally.

The first annual report of the Company was recognised at Vision Awards 2012 annual report competition held in Florida, USA. The Company was awarded a Gold Award for excellence within its industry on the development of the organisation's annual report for the past fiscal year and also recognised for developing one of the Top 10 Sri Lankan Annual Reports of 2012. Organised by the League of American Communication Professionals (LACP) in Florida USA, this is a much coveted global annual report competition.

LACP Vision Awards 2012

The first annual report of the Company was also awarded the 'Insurance Company Compliance Award' at the annual reports ceremony organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in December 2013.

CA Sri Lanka Annual Report Awards 2013

FINANCIAL 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) has pleasure in presenting this report to the shareholders together with the audited financial statements for the year ended 31st December 2013 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 18 to 21), Managing Director's Review (pages 22 to 25), Chief Operating Officer's Review (pages 26 to 29) and Management Discussion and Analysis (pages 44 to 59). 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 119 to 166 and Auditor's Report on the financial statements is provided on page 118.

Future Developments

An overview of the future developments of the Company is presented in the Chairman's Message (page 21), Managing Director's Review (pages 24 to 25), Chief Operating Officer's Review (page 29) and Management Discussion and Analysis (page 62).

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 committee is in place, 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 63 to 79.

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. The Managing Director, Chief Operating Officer and Senior Manager - Finance attend the meetings by invitation. The report of the Board Audit Committee is given on pages 111 to 112.

Vision, Mission and Corporate Conduct
The Company's vision and mission are provided on page 1. 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 an adequate 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 81 to 89.

Auditor's Report
Auditor's Report on the financial statements is given on page 118.

Accounting Policies
The accounting policies adopted in preparation of the financial statements are given on pages 125 to 133.

Turnover
The Company underwrote an amount of Rs. 3,251 million in 2013 (Rs. 2,944 million in 2012) as gross written premium.

Financial Results
The Company recorded a net profit of Rs. 371 million for the year. A synopsis of the Company's performance is presented below.

	2013 Rs. '000	2012 Rs. '000
Profit after taxation	370,824	234,657
Profit brought forward from previous year	261,852	39,195
Profit available for appropriation	**632,676**	**273,852**
Appropriations		
Dividend paid in respect of previous year	(60,000)	(12,000)
Interim dividend paid in respect of current year	(90,000)	-
Unappropriated profit carried forward	**482,676**	**261,852**

Dividends
An interim dividend of Rs. 1.50 per share was paid on in September 2013 and a final dividend of Rs. 0.75 per share was authorised by the Board of Directors for the financial year ended 31st December 2013.

The Board of Directors fulfilled that the Company would meet the requirement of the solvency test in terms of the Section 56 (3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividend and would ensure the compliance with the solvency test after the payment of aforesaid final dividend. Accordingly, the Board of Directors provided the statement of solvency to the Auditors and obtained a certificate of solvency from the auditors in respect of each dividend payment conforming to the above statutory provision.

Provision for Taxation
The tax position of the Company is disclosed in note 12 (pages 137 to 138) to the financial statements.

Property, Plant and Equipment
The details of property, plant and equipment are shown in note 16 (page 140).

Reserves
The movement in reserves during the year is set out in the statement of changes in equity on page 122.

Investments
Details of investments held by the Company are disclosed in note 17 (pages 140 to 143) 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 amount received by the Company in respect of the issued share capital. The total capital and reserves amounted to Rs. 1,085 million as at 31st December 2013 (Rs. 863 million as at 31st December 2012), details of which are provided in note 24 (page 146) to the financial statements.

Share Information
Information relating to earnings, dividends and net assets per share is given in the Four Year Summary on page 169.

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 167 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 2013, the Board of Directors of People's Insurance Limited consisted of four Directors with wide financial and commercial knowledge and experience. The qualifications and experience of the Directors are given on page 30. The following persons were Directors of the Company as at 31st December 2013.

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 162 to 166, under related party transactions.

Share Dealings
There have been no share dealings by the Directors during the year ended 31st December 2013.

Directors' Interests in Shares
The Directors do not own any shares in the Company.

Remuneration to Directors
Details of Directors' fees and Directors' emoluments paid during the year are stated below.

	2013 Rs. '000	2012 Rs. '000
Executive Directors' fees and emoluments	130	120
Non-Executive Directors' fees and emoluments	250	210
Total	**380**	**330**

Directors' Meetings
Details of Directors' meetings are presented on page 79.

Directors' Responsibility for Financial Reporting
The Directors have been responsible for the preparation of the financial statements of the Company to reflect 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 113 to 114 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 have been no related party transactions which have exceeded the lower of 10% of equity or 5% of the total assets of the Company during the year ended 31st December 2013. 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 162 to 166 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 166) 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. 1,076,000 (2012 - Rs. 936,000) was payable to them as audit fees during the year under review and a sum of Rs. 3,023,384 (2012 - Rs. 536,654) was payable 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 21st March 2014 at 4.00 p.m. The Notice of the Meeting relating to the 5th Annual General Meeting is given on page 178.

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

5th February 2014
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, whistleblowing and assessment of independence and performance of external auditors. The Committee comprises two Non-Executive Directors. The present members of the Board Audit Committee are as follows:

Mr. N. Vasantha Kumar - Chairman
Mrs. Dharma N. Gammampila

Mr. Udesh Gunawardena, Assistant General 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.

The Committee reviewed the assignments conducted in accordance with the annual internal audit plan guided by the Board Audit Committee. The areas audited included application control review, motor and re-insurance operational review, collection and banking, follow up non-motor insurance, operational risk assessment and analysis of financial and operational results.

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 Audit Committee.

Risk Management

The Committee reviewed the operational risk management report submitted by the group internal audit department. This was a joint exercise made by the group internal audit department and the Management of the Company with a view to identify the operational risks and bring about remedial actions in that regard.

The risk assessment review focussed the attention on major operational areas, namely, underwriting, claim payment, commission payment, finance and administration. The assignment is intended to be carried out on a rolling basis and the baseline risk understanding is adjusted accordingly. The quantification of risk assessment to manure the degree of change in the baseline risk understanding is based on a scale derived from articulation of perceived risk into grades.

Board Audit Committee Report *contd.*

The grading for the current year yielded a satisfactory overall operational risk assessment, supported mainly by developments in the integrated insurance application system. The Committee noted that the operational risk can be further managed by business process automation.

Outsourcing

The Committee value the importance of welcoming the expertise of independent parties and accordingly, viewed the outsourcing is one such method of considering them. Accordingly, two assignments were outsourced.

The Committee reviewed the report on application control assessment by a leading firm of Chartered Accountants and requested them to assist in ensuring the completion of implantation of their recommendations.

The non-motor underwriting and re-insurance reviews are also outsourced to another leading firm of Chartered Accountants.

Meetings and Activities

The Committee met adequately during the year. The Managing Director, Chief Operating Officer and Senior 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 reports and the management responses thereto.
- Directions and advice to the internal auditors on the areas that need specific attention.
- Review and approval of annual internal audit plan.
- Discussion with and advice to the internal auditors for the fine tuning of audit strategy-in house as well as outsourced.
- Review of operational risk assessment carried out jointly by internal auditors and the Management of the Company.
- Review of observations presented by independent experts through outsourced assignments.

Appointment of External Auditors

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.

N. Vasantha Kumar
Chairman -
Board Audit Committee

Udesh Gunawardena
Secretary -
Board Audit Committee

5th February 2014
Colombo

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the financial statements of the Company in accordance with the provisions of the Companies Act No. 07 of 2007 (Companies Act) is set out in this statement. The responsibilities of the external auditors in relation to the financial statements are set out in the Independent Auditor's Report given on page 118.

As per sections 150 (1) and 151 of the Companies Act, the Directors of the Company have a responsibility for ensuring that the Company keeps proper books of accounts of all the transactions and prepare financial statements that give a true and fair view of the state of affairs of the Company as at the 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 2013, 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 2013; 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 5th February 2014 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 2013 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. 7 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 an interim and full and final dividend in respect of the financial year ended 31st December 2013.

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

Statement of Directors' Responsibility for Financial Reporting *contd.*

within the prescribed 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

5th February 2014
Colombo

DIRECTORS' STATEMENT ON INTERNAL CONTROL

In line with the revised Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka in 2013, the Board of Directors (the Board) presents this report on the internal controls of People's Insurance Limited (the Company).

The Board is responsible for the adequacy and effectiveness of the system of internal controls of the Company. However, such a system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than eliminating the risk of failure to achieve the policies and business objectives of the Company. Accordingly, the system of internal controls can only provide a reasonable, but not an absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines. The process was in place during the year under review and is regularly reviewed by the Board and the Board Audit Committee.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

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

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The internal audit department of the Parent Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on significant processes and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the internal audits are submitted to the Board Audit Committee for review at their periodic meetings.

- Certain reviews over internal controls are outsourced to specialised external professional firms, depending on the nature and complexity of the concerned areas.

- The Board Audit Committee of the Company reviews internal control issues identified by the Group Internal Audit of the Parent Company, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. Further, details of the activities carried out by the Board Audit Committee are presented in the Board Audit Committee Report on pages 111 to 112.

- In assessing the internal control system, the Company continued to review and update procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company. The Group Internal Audit of the Parent Company continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.

Directors' Statement on Internal Control *contd.*

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with the applicable Sri Lanka Accounting Standards and regulatory requirements.

By order of the Board

Jehan P. Amaratunga
Chairman

D. P. Kumarage
Managing Director

N. Vasantha Kumar
Chairman - Board Audit Committee

5th February 2014
Colombo

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

I hereby certify that the undiscounted 75% confidence level IBNR provision of Rs.215,210,039, inclusive of CHE, is adequate in relation to the Claim Liability of People's Insurance Ltd as at 31st December 2013, net of reinsurance. This provision applies to claims from Accident Years 2010 to 2013. 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 31st December 2013, 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). I hereby certify that the UPR provision as set by the Company of Rs.1,541,703,231 net of reinsurance, is adequate in relation to the unexpired risks of People's Insurance Ltd as at 31st December 2013, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.
I have relied upon information and data provided by the management of the above company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Consulting
Dated: 29th January 2014

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INDEPENDENT AUDITOR'S REPORT

Building a better working world

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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 2013, 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 set out on the pages 125 to 166.

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 2013 and the financial statements give a true and fair view of the Company's financial position as at 31 December 2013 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.

Ernst & Young

5th February 2014
Colombo.

STATEMENT OF INCOME

For the year ended 31 December	Notes	2013 Rs.	2012 Rs.
Gross written premium	3	3,251,084,198	2,944,487,069
Net change in reserve for unearned insurance premium		(139,438,161)	(183,587,717)
Gross earned premium		3,111,646,037	2,760,899,352
Premium ceded to reinsurers		(321,929,713)	(306,657,434)
Net change in reserve for unearned reinsurance premium		10,764,506	(6,000,787)
Net earned premium		2,800,480,830	2,448,241,131
Other revenue			
Fee income	4	19,159,311	15,176,732
Investment income	5	358,792,809	255,621,379
Fair value gains and losses	6	13,210,206	11,195,815
Other operating revenue	7	3,196,424	74,714
Total other revenue		394,358,750	282,068,640
Total revenue		3,194,839,580	2,730,309,771
Claims and expenses			
Net claims	8	(2,120,218,765)	(1,970,048,532)
Underwriting and net acquisition costs	9	(292,259,004)	(243,880,865)
Other operating and administrative expenses	10	(281,481,769)	(192,384,167)
Total claims and expenses		(2,693,959,538)	(2,406,313,564)
Profit before tax	11	500,880,042	323,996,207
Income tax expense	12	(130,055,888)	(89,338,958)
Profit for the year		370,824,154	234,657,249
Basic earnings per share	13	6.18	3.94
Dividend per share	14	2.25	1.00

The notes to the financial statements on pages 125 to 166 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2013 Rs.	2012 Rs.
Profit for the year		370,824,154	234,657,249
Other comprehensive income			
Net actuarial losses on retirement benefit obligations	26	(74,855)	(214,718)
Available-for-sale financial instruments			
Fair value gains	17.4	1,358,081	1,679,666
Fair value gains transferred		-	3,580,959
Tax effect	12	(228,017)	(1,472,975)
		1,130,064	3,572,932
Other comprehensive income for the year, net of tax		1,055,209	3,572,932
Total comprehensive income for the year, net of tax		371,879,363	238,230,181

The notes to the financial statements on pages 125 to 166 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2013 Rs.	2012 Rs.
Assets			
Intangible assets	15	61,716,770	3,492,990
Property, plant and equipment	16	28,310,298	25,529,408
Financial investments	17	3,190,344,558	2,609,366,419
Reinsurance receivables	18	111,005,222	148,407,599
Insurance receivables	19	435,019,566	361,282,931
Deferred expenses	20	167,355,627	155,523,082
Other assets	21	22,204,603	14,948,847
Cash and cash equivalents	23	5,221,146	391,104
Total assets		4,021,177,790	3,318,942,380
Equity and liabilities			
Equity			
Stated capital	24	600,000,000	600,000,000
Revenue reserves		484,881,247	263,001,884
Total equity		1,084,881,247	863,001,884
Liabilities			
Insurance liabilities	25	2,516,037,434	2,171,701,475
Retirement benefit obligations	26	2,493,213	1,386,394
Other financial liabilities	27	292,615,952	143,262,617
Other liabilities	28	21,854,020	37,179,053
Reinsurance payable		23,979,308	45,239,822
Income tax payable		58,940,609	38,276,578
Deferred tax liability	22	18,344,385	1,313,153
Bank overdraft	29	2,031,622	17,581,404
Total liabilities		2,936,296,543	2,455,940,496
Total equity and liabilities		4,021,177,790	3,318,942,380

The notes to the financial statements on pages 125 to 166 form an integral part of the financial statements.

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

Nilushan Somarathna
Chief Financial Officer

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

Jehan P. Amaratunga
Chairman

D. P. Kumarage
Managing Director

5th February 2014
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated capital	Revenue reserves			Total revenue reserves	Total
		Retained earnings	Actuarial gain/ (loss)	Available-for-sale reserves		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1 January 2012	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
Profit for the year	-	370,824,154	-	-	370,824,154	370,824,154
Other comprehensive income	-	-	(74,855)	1,130,064	1,055,209	1,055,209
Dividend paid during the year	-	(150,000,000)	-	-	(150,000,000)	(150,000,000)
Balance as at 31 December 2013	600,000,000	482,676,430	(134,607)	2,339,424	484,881,247	1,084,881,247

The notes to the financial statements on pages 125 to 166 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2013 Rs.	2012 Rs.
Operating activities			
Premium received from customers		3,183,419,916	3,433,413,335
Reinsurance premium paid		(276,640,827)	(302,316,819)
Claims paid	8	(1,932,812,496)	(1,782,048,628)
Reinsurance receipts in respect of claims		16,119,967	48,146,697
Interest received		273,646,244	224,206,056
Dividends received		5,292,894	1,418,929
Other operating cash flows		(493,556,116)	(1,100,420,186)
Net cash flows generated from operating activities	A	775,469,582	522,399,384
Income tax paid		(61,561,000)	(12,805,951)
Net cash flows from operating activities		713,908,582	509,593,433
Investing activities			
Purchase of liquid investments		(14,047,409,877)	(12,050,983,770)
Purchase of other investments		(3,458,575,621)	(2,138,251,990)
Sale of liquid investments		14,297,649,225	12,228,794,644
Sale of other investments		2,736,641,848	1,386,429,010
Purchase of property, plant and equipment	16	(11,834,333)	(13,558,486)
Purchase of intangible assets	15	(60,000,000)	(3,881,100)
Net cash flows used in investing activities		(543,528,758)	(591,451,692)
Net cash flows before financing activities		170,379,824	(81,858,259)
Financing activities			
Proceeds from issue of ordinary shares		-	50,000,000
Ordinary dividend paid		(150,000,000)	(12,000,000)
Net cash flows from/(used in) financing activities		(150,000,000)	38,000,000
Net increase/(decrease) in cash and cash equivalents	B	20,379,824	(43,858,259)

The notes to the financial statements on pages 125 to 166 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	2013 Rs.	2012 Rs.
A. Cash flows generated from operating activities			
Profit before tax		500,880,042	323,996,207
Unrealised gain on quoted equities at market value	6	(13,210,206)	(11,195,815)
Provision for retirement benefit obligations	26	1,031,964	378,614
Impairment - Intangible assets		-	95,060
Depreciation and amortisation expenses	10	10,697,998	6,019,191
Reversal of provision for impairment - Insurance receivables		(266,732)	(2,583,532)
Changes in working capital			
(Increase)/decrease in reinsurance assets		(36,622,297)	21,587,009
Increase in insurance receivables and other assets		(153,533,031)	(180,037,817)
Increase in deferred expenses		(11,832,546)	(23,134,513)
Increase in insurance liabilities		344,335,959	416,091,927
Increase/(decrease) in creditors		133,988,431	(28,816,947)
Net cash flow from operating activities		775,469,582	522,399,384
B. Increase/(decrease) in cash and cash equivalents			
Cash in hand and balance at bank		5,221,146	391,104
Bank overdraft	29	(2,031,622)	(17,581,404)
Net cash and cash equivalents at the end of the year	23	3,189,524	(17,190,300)
Net cash and cash equivalents at the beginning of the year		(17,190,300)	26,667,959
Increase/(decrease) in cash and cash equivalents during the year		20,379,824	(43,858,259)

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 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 year ended 31 December 2013 were authorised for issue on 5 February 2014.

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 are in compliance with the Companies Act No. 07 of 2007.

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 expire.

b) Revenue recognition

Gross written premium

Non-life insurance gross written premium comprises the total premium 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. Premium includes 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.

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) Claims and expenses recognition

Gross claims
Gross 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

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 companies or other available fair value indicators.

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

Notes to the Financial Statements *contd.*

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 asset 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 balance sheet 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.

- **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 shall 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;
- 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;

Notes to the Financial Statements *contd.*

- 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 (DAC)

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 acqusition 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 statement of cash flows, cash and cash equivalents consists 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 balance sheet 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 balance sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on emperical data and current assumptions that may include a margin for adverse deviation.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the 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 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 expire.

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 19, Employee Benefits.

Actuarial gains and losses are charged or credited to 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

Notes to the Financial Statements *contd.*

all employees, are recognised as an employee benefit expense in the statement of income 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 Aticles 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. 863,814,822 (2012 - Rs. 616,001,346).

Defined benefit plan

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

2.6 New statndards and interpretation not yet adopted

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

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 as defined in LKAS 39. SLFRS 9 was issued in 2012 and effective date of this standard has been deferred until the new effective date is notified. Pending the completion of full study of this standard, the financial impact is not yet known and reasonably estimable.

SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. Use of principles of measurement in this standard are currently encouraged. Pending the completion of a full study of this standard, the financial impact is not yet known and reasonably estimable.

Notes to the Financial Statements *contd.*

3. GROSS WRITTEN PREMIUM

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

For the year ended 31 December	2013 Rs.	2012 Rs.
Motor	2,715,710,122	2,448,517,833
Fire	326,835,343	297,675,437
Marine	5,114,780	8,147,522
Miscellaneous	203,423,953	190,146,277
	3,251,084,198	2,944,487,069

4. FEE INCOME

For the year ended 31 December	2013 Rs.	2012 Rs.
Policy fee	9,402,323	6,270,119
Administration fee	9,756,988	8,906,613
	19,159,311	15,176,732

5. INVESTMENT INCOME

For the year ended 31 December	2013 Rs.	2012 Rs.
Financial assets at fair value through profit or loss		
Dividend income	5,292,894	1,418,929
Available-for-sale financial assets		
Interest income	131,337,558	90,615,508
Loans and receivables		
Interest income	222,162,357	163,586,942
	358,792,809	255,621,379

6. FAIR VALUE GAINS AND LOSSES

For the year ended 31 December	2013 Rs.	2012 Rs.
Fair value gains on financial assets at fair value through profit or loss	13,210,206	11,195,815

7. OTHER OPERATING REVENUE

For the year ended 31 December	2013 Rs.	2012 Rs.
Other income	3,196,424	74,714

8. NET CLAIMS

For the year ended 31 December	2013 Rs.	2012 Rs.
Claims paid	(1,932,812,496)	(1,782,048,628)
Claims ceded to reinsurers	55,055,846	71,175,814
Gross change in contract liabilities	(215,662,306)	(210,717,691)
Change in contract liabilities ceded to reinsurers	(26,799,809)	(48,458,027)
	(2,120,218,765)	(1,970,048,532)

9. UNDERWRITING AND NET ACQUISITION COSTS

For the year ended 31 December	2013 Rs.	2012 Rs.
Acquisition cost	(336,399,216)	(303,503,171)
Change in deferred acquisition cost	13,921,943	25,934,863
	(322,477,273)	(277,568,308)
Reinsurance commission	32,307,667	31,416,719
Change in unearned commission reserve	(2,089,398)	2,270,724
	30,218,269	33,687,443
	(292,259,004)	(243,880,865)

Notes to the Financial Statements *contd.*

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

For the year ended 31 December	Notes	2013 Rs.	2012 Rs.
Staff expenses	10.1	(64,669,034)	(43,498,553)
Administrative expenses		(206,381,469)	(143,766,609)
Depreciation and amortisation		(10,697,998)	(6,019,191)
Net impairment gain		266,732	900,186
		(281,481,769)	(192,384,167)

10.1 Staff expenses

	2013	2012
Wages and salaries	(56,422,500)	(38,032,917)
Contribution to defined benefit plan	(1,031,960)	(378,614)
Staff benefit expense	(698,265)	(427,351)
Contributions made to the provident and trust fund	(6,516,309)	(4,659,671)
	(64,669,034)	(43,498,553)

11. PROFIT BEFORE TAX

The profit before tax for the year is stated after charging the following expenses;

For the year ended 31 December		2013 Rs.	2012 Rs.
Auditors' remuneration	- Statutory audit services	(1,076,000)	(936,000)
	- Other services	(3,023,384)	(536,654)
Legal fees		(686,670)	(86,391)
Depreciation		(8,737,481)	(5,631,081)
Directors' emoluments		(380,000)	(330,000)

12. INCOME TAX EXPENSE

For the year ended 31 December	Notes	2013 Rs.	2012 Rs.
Current Tax			
Current tax charge		113,174,545	87,086,926
Under provision in respect of previous year		78,129	1,568,940
		113,252,674	88,655,866
Deferred tax			
Deferred tax charge	12.3	16,803,214	683,092
Income tax expense recorded in statement of income		130,055,888	89,338,958
Tax recorded in other comprehensive income	12.1	228,017	1,472,975
Total tax expense		130,283,905	90,811,933

12.1 Tax recorded in other comprehensive income

Deferred tax	228,017	1,472,975
Total tax charge recognised in other comprehensive income	228,017	1,472,975

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

Accounting profit before tax	500,880,042	323,996,207
Aggregate allowable expenditure	(117,620,261)	(21,622,000)
Aggregate disallowable expenditure	20,935,023	8,650,530
	404,194,804	311,024,737
Statutory tax rate	28%	28%
Tax at applicable rate	113,174,545	87,086,926
Under provision in respect of previous year	78,129	1,568,940
Deferred taxation charged	16,803,214	683,092
Income tax expense reported in statement of income	130,055,888	89,338,958

Notes to the Financial Statements *contd.*

12.3 Deferred taxation

	2013 Rs.	2012 Rs.
Movement in deferred tax asset		
Retirement benefit obligations	309,910	166,132
Movement in deferred tax liability		
Capital allowances for tax purposes	(17,113,124)	(849,224)
Deferred income tax expense	(16,803,214)	(683,092)

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	2013	2012
Amount used as the numerator		
Net profit attributable to ordinary shareholders (Rs.)	370,824,154	234,657,249
Number of ordinary shares used as denominator		
Weighted average number of ordinary shares in issue	60,000,000	59,583,333
Basic earnings per share (Rs.)	6.18	3.94

14. DIVIDENDS

	2013	2012
Interim dividend paid (Rs.)	90,000,000	-
Final dividend authorised (Rs.)	45,000,000	60,000,000
Total dividend for the year	135,000,000	60,000,000
Number of ordinary shares	60,000,000	60,000,000
Dividend per share (Rs.)	2.25	1.00

The Board of Directors of the Company has authorised a final dividend of Rs. 0.75 per share for the financial year ended 31 December 2013, 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 2013.

15. INTANGIBLE ASSETS

	Software Rs.	Total Rs.
Cost		
Balance as at 1 January 2012	140,080	140,080
Additions	3,881,100	3,881,100
Balance as at 31 December 2012	4,021,180	4,021,180
Additions	60,000,000	60,000,000
As at 31 December 2013	64,021,180	64,021,180
Amortisation and impairment losses		
Balance as at 1 January 2012	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
Amortisation charge for the year	1,776,220	1,776,220
As at 31 December 2013	2,304,410	2,304,410
Carrying amount		
As at 31 December 2013	**61,716,770**	**61,716,770**
As at 31 December 2012	3,492,990	3,492,990

Notes to the Financial Statements *contd.*

16. PROPERTY, PLANT AND EQUIPMENT

	Computer hardware Rs.	Equipment Rs.	Furniture and fittings Rs.	Motor vehicles Rs.	Total Rs.
Cost					
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
Additions	4,777,800	6,032,504	1,024,030	-	11,834,334
Disposals	-	-	-	(315,964)	(315,964)
As at 31 December 2013	18,218,510	21,419,502	9,145,507	110,755	48,894,274
Depreciation					
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	2,488,832	1,197,214	85,344	5,631,082
As at 31 December 2012	3,860,133	5,245,909	2,568,736	171,718	11,846,496
Depreciation charge for the year	3,273,772	3,799,165	1,784,576	64,279	8,921,792
Disposals	-	-	-	(184,312)	(184,312)
As at 31 December 2013	7,133,905	9,045,074	4,353,312	51,685	20,583,976
Carrying Amount					
As at 31 December 2013	**11,084,605**	**12,374,428**	**4,792,196**	**59,070**	**28,310,298**
As at 31 December 2012	9,580,577	10,141,090	5,552,741	255,000	25,529,408

17. FINANCIAL INVESTMENTS

The Company’s financial investments are summarised below by measurement category.

As at	Notes	31.12.2013 Rs.	31.12.2012 Rs.
Fair value through profit or loss	17.1	154,314,032	95,966,334
Loans and receivables	17.2	1,877,674,705	1,523,712,492
Available-for-sale	17.3	1,158,355,821	989,687,593
		3,190,344,558	2,609,366,419

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

As at		**31.12.2013**		**31.12.2012**	
	Notes	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Fair value through profit or loss	17.1	154,314,032	154,314,032	95,966,334	95,966,334
Loans and receivables	17.2	1,877,674,705	1,877,674,705	1,523,712,492	1,523,712,492
Available-for-sale	17.3	1,158,355,821	1,158,355,821	989,687,593	989,687,593
		3,190,344,558	3,190,344,558	2,609,366,419	2,609,366,419

17.1 Fair value through profit or loss

As at	**31.12.2013 Rs.**	**31.12.2012 Rs.**
Fair value		
Listed shares	154,314,032	95,966,334

17.2 Loans and receivables

Amortised cost		
Repurchase agreements	127,131,760	261,246,859
Staff loans	13,818,724	7,608,931
Rent deposit	1,101,472	1,113,810
Fixed deposits with financial institutions	1,382,231,160	1,099,999,242
Commercial papers	-	149,445,010
Savings account	814,344	4,298,640
Debentures	352,577,245	
	1,877,674,705	1,523,712,492

Fair value		
Repurchase agreements	127,131,760	261,246,859
Staff loans	13,818,724	7,608,931
Rent deposit	1,101,472	1,113,810
Fixed deposits with financial institutions	1,382,231,160	1,099,999,242
Commercial papers	-	149,445,010
Savings account	814,344	4,298,640
Debentures	352,577,245	
	1,877,674,705	1,523,712,492

Notes to the Financial Statements *contd.*

17.3 Available-for-sale

As at	31.12.2013 Rs.	31.12.2012 Rs.
Investment in government securities	1,109,491,753	989,687,593
Investment in unit trust	48,864,068	-
	1,158,355,821	989,687,593

17.4 Movement in financial investments

	Fair value through profit or loss Rs.	Loans and receivables Rs.	Available-for-sale Rs.
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 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
Purchases	45,727,375	15,900,914,572	1,658,141,943
Maturities	(1,130,011)	(15,546,952,359)	(1,490,831,797)
Fair value gains recorded in statement of income	13,750,334	-	-
Fair value gains recorded in other comprehensive income	-	-	1,358,081
As at 31 December 2013	154,314,032	1,877,674,705	1,158,355,821

17.5 Fair value of financial investments 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.

17.6 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 31 December 2012			
Fair value through profit or loss			
Listed shares	95,966,334	-	95,966,334
Available-for-sale			
Government securities	-	989,687,593	989,687,593
	95,966,334	989,687,593	1,085,653,927
As at 31 December 2013			
Fair value through profit or loss			
Listed shares	154,314,032	-	154,314,032
Available-for-sale	-	-	-
Unit trust	48,864,068	-	48,864,068
Government securities	-	1,109,491,752	1,109,491,752
	203,178,100	1,109,491,752	1,312,669,852

Notes to the Financial Statements *contd.*

18. REINSURANCE RECEIVABLES

As at	Notes	31.12.2013 Rs.	31.12.2012 Rs.
Reinsurance receivable on outstanding claims	25.1	110,522,501	137,322,313
Reinsurance receivable on paid claims		482,721	11,085,286
		111,005,222	148,407,599

19. INSURANCE RECEIVABLES

As at	31.12.2013 Rs.	31.12.2012 Rs.
Premium receivable from policyholders	437,194,314	363,724,415
Less: Provision for impairment	(2,174,748)	(2,441,484)
	435,019,566	361,282,931

20. DEFERRED EXPENSES

	2013 Rs.	2012 Rs.
Balance as at 1 January	155,523,082	126,387,783
Change in commission reserve	13,921,943	26,864,576
Change in reinsurance commission reserve	(2,089,398)	2,270,723
Balance as at 31 December	167,355,627	155,523,082

21. OTHER ASSETS

As at	31.12.2013 Rs.	31.12.2012 Rs.
Advances, deposits and prepayments	12,211,707	7,107,792
Other receivable	8,990,303	6,597,576
Inventory	1,002,593	1,243,479
	22,204,603	14,948,847

22. DEFERRED TAX LIABILITY

As at	31.12.2013 Rs.	31.12.2012 Rs.
Recognised deferred tax asset		
Retirement benefit obligations	698,100	388,190
Recognised deferred tax liability		
Property, plant and equipment	(18,344,161)	(1,231,037)
Fair value gains recognised in comprehensive income	(698,324)	(470,306)
	(19,042,485)	(1,701,343)
Recognised net deferred tax liability at 28%	(18,344,385)	(1,313,153)

23. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of cash flows, 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 the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

As at	Notes	31.12.2013 Rs.	31.12.2012 Rs.
Favourable balance			
Cash in hand and bank		5,221,146	391,104
Unfavourable balance			
Cash in hand and bank	29	2,031,622	17,581,404
Total cash and cash equivalents		3,189,524	(17,190,300)

Notes to the Financial Statements *contd.*

24. STATED CAPITAL

As at	31.12.2013	31.12.2012
Stated capital (Rs.)	600,000,000	600,000,000
Allotted and fully paid number of ordinary shares	60,000,000	60,000,000

25. INSURANCE LIABILITIES

As at	Notes	31.12.2013 Rs.	31.12.2012 Rs.
Outstanding claims provision	25.1	974,337,323	753,323,659
Provision for unearned premium (net)	25.1	1,541,700,111	1,413,026,454
Provision for liability adequacy	25.1	-	5,351,362
		2,516,037,434	2,171,701,475

25. INSURANCE LIABILITIES

25.1 Insurance provision

As at		31.12.2013			31.12.2012		
	Notes	Gross insurance contract liabilities Rs.	Reinsurance of insurance contract liabilities Rs.	Net liability Rs.	Gross insurance contract liabilities Rs.	Reinsurance of insurance contract liabilities Rs.	Net liability Rs.
Claims outstanding		711,448,887	(63,634,065)	647,814,822	718,559,155	(121,536,581)	597,022,574
Claims incurred but not reported (IBNR)		262,888,436	(46,888,436)	216,000,000	34,764,504	(15,785,732)	18,978,772
Total claims outstanding	25.2	974,337,323	(110,522,501)	863,814,822	753,323,659	(137,322,313)	616,001,346
Provision for unearned premium	25.3	1,604,111,715	(62,411,604)	1,541,700,111	1,464,673,554	(51,647,100)	1,413,026,454
Provision for liability adequacy		-	-	-	5,351,362	-	5,351,362
		2,578,449,038	(172,934,105)	2,405,514,933	2,223,348,575	(188,969,413)	2,034,379,162

25.2 Movement in total claim liabilities

	2013			2012		
	Gross liabilities Rs.	Reinsurance of liabilities Rs.	Net liability Rs.	Gross liabilities Rs.	Reinsurance of liabilities Rs.	Net liability Rs.
As at 1 January	753,323,659	(137,322,313)	616,001,346	526,820,236	(169,994,608)	356,825,628
Claims incurred in the current accident year	2,155,076,000	(28,256,034)	2,126,819,966	2,008,552,051	(38,503,519)	1,970,048,532
Claims paid during the year	(1,934,062,336)	55,055,846	(1,879,006,490)	(1,782,048,628)	71,175,814	(1,710,872,814)
As at 31 December	974,337,323	(110,522,501)	863,814,822	753,323,659	(137,322,313)	616,001,346

25.3 Provision for unearned premium

	2013			2012		
	Gross liabilities Rs.	Reinsurance Rs.	Net liability Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liability Rs.
As at 1 January	1,464,673,554	(51,647,100)	1,413,026,454	1,281,085,837	(57,647,886)	1,223,437,950
Premiums written during the year	3,251,084,198	(321,929,713)	2,929,154,485	2,944,487,069	(306,657,434)	2,637,829,635
Premiums earned during the year	(3,111,646,037)	311,165,207	(2,800,480,830)	(2,760,899,352)	312,658,220	(2,448,241,131)
As at 31 December	1,604,111,715	(62,411,606)	1,541,700,109	1,464,673,554	(51,647,100)	1,413,026,454

26. RETIREMENT BENEFIT OBLIGATIONS

	2013 Rs.	2012 Rs.
As at 1 January	1,386,394	793,063
Interest cost	189,682	125,107
Current service cost	842,282	253,506
Net actuarial (gain)/loss	74,855	214,718
As at 31 December	2,493,213	1,386,394

Notes to the Financial Statements *contd.*

Expense recognised in statement of income

For the year ended 31 December	2013 Rs.	2012 Rs.
Interest cost	189,682	125,108
Current service cost	842,282	253,506
Amount recognised in statement of income	1,031,964	378,614
Net actuarial loss recognised in other comprehensive income	74,855	214,718

Principal actuarial assumptions used

As at	31.12.2013	31.12.2012
(a) Discount rate	12.0%	12.0%
(b) Salary increase	10.0%	10.0%
(c) Incidence of withdrawal		
20 Years	8.0%	8.0%
25 Years	7.5%	7.5%
30 Years	7.0%	7.0%
35 Years	5.0%	5.0%
40 Years	1.5%	1.5%
45 Years	0.9%	0.9%
50 Years	0.0%	0.0%

27. OTHER FINANCIAL LIABILITIES

As at	Notes	31.12.2013 Rs.	31.12.2012 Rs.
Other creditors including accrued expenses		83,598,981	25,964,570
Outstanding commission payable		127,983,833	114,662,196
Amounts due to related parties	27.1	81,033,138	2,635,851
		292,615,952	143,262,617

27.1 Amounts due to related parties

People's Leasing Fleet Management Limited	23,351	277,205
People's Leasing & Finance PLC	81,009,787	2,358,646
	81,033,138	2,635,851

28. OTHER LIABILITIES

As at	31.12.2013 Rs.	31.12.2012 Rs.
Government levies payable	21,854,020	37,179,053

29. BANK OVERDRAFT

As at	31.12.2013 Rs.	31.12.2012 Rs.
Bank overdraft	2,031,622	17,581,404

The Company's overdraft amounting to Rs. 9,000,000 is subject to variable over draft interest rate of 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.

Notes to the Financial Statements *contd.*

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 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 is in place 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.

- **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 term 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 the IBSL into consideration when developing the aforementioned credit policy. As a result of rigours 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 of the review.

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, the IBSL.

Credit exposure
The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2013 and 2012 is the carrying amounts of respective financial instruments.

Notes to the Financial Statements *contd.*

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.

As at 31 December 2013

	Risk free Rs.	AAA to AA- Rs.	A+ to A- Rs.	BBB+ to BB- Rs.	Non-rated Rs.	Total Rs.
Available-for-sale financial instruments						
Investments in government securities	1,109,491,753	-	-	-	-	**1,109,491,753**
Loans and receivables						
Repurchase agreements	127,131,761	-	-	-	-	**127,131,761**
Commercial papers	-	-	-	-	-	**-**
Debentures	-	216,793,303	125,565,931	10,218,012	-	**352,577,246**
Fixed deposits	-	1,011,701,619	344,693,506	26,000,991	-	**1,382,396,116**
Savings account	-	814,344	-	-	-	**814,344**
Staff loans and rent deposits	-	-	-	-	14,920,196	**14,920,196**
Insurance receivables	-	411,926,701	-	-	23,092,865	**435,019,566**
Reinsurance receivables	-	33,279,416	77,651,976	-	73,830	**111,005,223**
Cash in hand and balance at bank	-	5,100,920	-	-	120,227	**5,221,147**
Total	**1,236,623,514**	**1,679,616,303**	**547,911,413**	**36,219,003**	**38,207,118**	**3,538,577,352**

As at 31 December 2012

	Risk free Rs.	AAA to AA- Rs.	A+ to A- Rs.	BBB+ to BB- Rs.	Non-rated Rs.	Total Rs.
Available-for-sale financial instruments						
Investments in government securities	989,687,593	-	-	-	-	**989,687,593**
Loans and receivables						
Repurchase agreements	261,246,859	-	-	-	-	**261,246,859**
Commercial papers	-	79,782,597	69,662,413	-	-	**149,445,010**
Debentures	-	-	-	-	-	**-**
Fixed deposits	-	718,339,403	284,156,316	97,503,524	-	**1,099,999,242**
Savings account	-	4,298,640	-	-	-	**4,298,640**
Staff loans and rent deposits	-	-	-	-	8,722,741	**8,722,741**
Insurance receivables	-	340,518,480	-	-	20,764,451	**361,282,931**
Reinsurance receivables	-	30,423,394	114,269,795	3,094,305	620,104	**148,407,599**
Cash in hand and balance at bank	-	-	-	-	391,104	**391,104**
Total	**1,250,934,452**	**1,173,362,513**	**468,088,524**	**100,597,829**	**30,498,400**	**3,023,481,719**

Collateral adequacy

	2013 Rs.	2012 Rs.
Carrying value of investments in repurchase agreements	127,131,761	261,246,859
Fair value of collaterals	140,257,100	297,104,700
Excess value of collaterals	**13,125,339**	**35,857,841**

- **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.

Notes to the Financial Statements *contd.*

Maturity profile of investments based on remaining maturity is given below.

As at 31 December 2013

	0-6 months Rs.	7-12 months Rs.	1-2 years Rs.	3-5 years Rs.	No stated maturity Rs.	Total Rs.
Available-for-sale financial instruments						
Investments in government securities	858,673,659	250,818,095	-	-	-	**1,109,491,753**
Loans and receivables						
Repurchase agreements	127,131,761	-	-	-	-	**127,131,761**
Commercial papers	-	-	-	-	-	**-**
Debentures	-	-	-	352,577,246	-	**352,577,246**
Fixed deposits	928,732,845	453,663,271	-	-	-	**1,382,396,116**
Savings account	-	-	-	-	814,344	**814,344**
Staff loans and rent deposits	-	-	1,101,472	13,818,724	-	**14,920,196**
Insurance receivables	435,019,566	-	-	-	-	**435,019,566**
Reinsurance receivables	111,005,222	-	-	-	-	**111,005,222**
Cash in hand and balance at bank	5,221,147	-	-	-	-	**5,221,147**
Total	**2,465,784,200**	**704,481,366**	**1,101,472**	**366,395,970**	**814,344**	**3,538,577,352**

As at 31 December 2012

	0-6 months Rs.	7-12 months Rs.	1-2 years Rs.	3-5 years Rs.	No stated maturity Rs.	Total Rs.
Available-for-sale financial instruments						
Investments in government securities	679,088,095	310,599,498	-	-	-	**989,687,593**
Loans and receivables						
Repurchase agreements	261,246,859					
Commercial papers	22,100,498	127,344,512	-	-	-	**149,445,010**
Debentures	-	-	-	-	-	**-**
Fixed deposits	648,902,578	451,096,664	-	-	-	**1,099,999,242**
Savings account	-	-	-	-	4,298,640	**4,298,640**
Staff loans and rent deposits	1,113,810	-	-	7,608,931	-	**8,722,741**
Insurance receivables	361,282,931	-	-	-	-	**361,282,931**
Reinsurance receivables	137,322,313	11,085,286	-	-	-	**148,407,599**
Cash in hand and balance at bank	391,104	-	-	-	-	**391,104**
Total	**2,111,448,188**	**900,125,960**	**-**	**7,608,931**	**4,298,640**	**2,762,234,860**

- **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 equity 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.

- **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 the 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 2013 is given below.

Category	Composition	Value Rs.
Government securities	38.94%	1,236,623,514
Corporate debts	11.11%	352,577,246
Shares	4.86%	154,314,032
Fixed deposits	43.52%	1,381,581,772
Unit trusts	1.54%	48,864,068
Other	0.03%	814,344
Total	**100.00%**	**3,174,774,976**

Sensitivity analysis on market risk, equity risk and interest rate risk

Sensitivity analysis for interest rate risk reflects the changes in the fair value or future cash flows of a financial instrument at the reporting date will fluctuate in response to assumed movements in market interest rates. The sensitivity of reported fair value of financial instruments is monitored by assessing the projected changes in the fair value of financial instruments held by the portfolios in response to assumed parallel shift in the yield curve by +/- 100 and +/-200 basis points.

Notes to the Financial Statements *contd.*

The sensitivity analysis for equity risk reflects how changes in the fair value of equity securities at the reporting date will fluctuate in response to assumed changes in equity market prices. The movements in the fair value of equity securities monitored by assessing the projected changes in the fair value of equity securities held by the portfolios in response to assumed equity price movements of +/- 10% and +/- 20%.

Impact to;	2013			2012		
	Impact to net asset value Rs.	Impact to profit before tax Rs.	Impact to other comprehensive income before tax Rs.	Impact to net asset value Rs.	Impact to profit before tax Rs.	Impact to other comprehensive income before tax Rs.
Interest rate risk						
Government securities						
+100 basis points	(3,103,852)	-	(3,103,852)	(3,186,830)	-	(3,186,830)
-100 basis points	3,141,197	-	3,141,197	3,231,644	-	3,231,644
+200 basis points	(6,171,157)	-	(6,171,157)	(6,329,925)	-	(6,329,925)
-200 basis points	6,320,564	-	6,320,564	6,509,216	-	6,509,216
Equity market risk						
Listed shares						
+10% in equity market prices	15,431,403	12,305,930	-	9,596,633	9,596,633	-
-10% in equity market prices	(15,431,403)	(15,431,403)	-	(9,596,633)	(9,596,633)	-
+20% in equity market prices	30,862,806	30,862,806	-	19,193,267	19,193,267	-
-20% in equity market prices	(30,862,806)	(30,862,806)	-	(19,193,267)	(19,193,267)	-

(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.

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 a better potential for creating shareholder value at an acceptable level of risk. 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 insurance claim liabilities by type of contract.

As at	31 December 2013			31 December 2012		
	Gross liabilities	Reinsurance receivable	Net liabilities	Gross liabilities	Reinsurance receivable	Net liabilities
Motor	661,932,224	16,980,378	644,951,846	434,572,224	6,097,170	428,475,054
Marine	18,677,871	1,633,271	17,044,599	14,123,678	1,625,396	12,498,282
Fire	99,674,233	51,325,736	48,348,498	119,481,360	71,755,384	47,725,976
Miscellaneous	194,052,995	40,583,116	153,469,879	185,146,397	57,844,363	127,302,034
Total	**974,337,323**	**110,522,501**	**863,814,822**	**753,323,659**	**137,322,313**	**616,001,346**

Notes to the Financial Statements *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 2013

(All figures are in Rupees thousands unless otherwise stated)

Accident Period	Current Estimate of Cumulative Claims																
	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Total
2013 Q4	-	4	-	(100)	(2,280)	392	(6,664)	4,942	2,839	2,727	5,726	995	4,260	(62,136)	62,041	467,873	
2013 Q3	-	(735)	518	(212)	(201)	525	9,604	(591)	1,372	(3,771)	4,072	10,576	(54,728)	98,546	493,283		
2013 Q2	-	184	(50)	256	126	3,043	7,218	3,797	4,927	16,834	3,885	(32,213)	24,817	444,460			
2013 Q1	-	(34)	2,550	767	5,921	3,532	6,739	14,195	9,242	17,305	(57,356)	(154,997)	563,678				
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)	421	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	178,612												
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**	**28,774**	**65,546**	**126,196**	**196,609**	**372,198**	**374,562**	**445,160**	**441,029**	**402,251**	**542,533**	**489,285**	**538,027**	**480,870**	**555,324**	**467,873**	**5,529,509**

Gross non-life insurance contract outstanding claims provision for 2013

(All figures are in Rupees thousands unless otherwise stated)

Accident Period	Cumulative Payments to date																
	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Total
2013 Q4	-	(7)	(19)	(26)	(6,616)	(4,091)	(1,400)	(3,352)	(3,016)	(2,655)	(29,960)	(4,961)	(14,245)	(30,991)	(200,371)	(213,652)	
2013 Q3	-	(800)	-	(214)	(125)	(375)	(965)	(1,858)	(5,233)	(2,545)	(7,942)	(9,841)	(39,702)	(225,009)	(233,265)		
2013 Q2	-	(18)	(3)	(1,862)	(133)	(25,614)	(1,058)	(2,001)	(5,595)	(2,496)	(7,712)	(38,536)	(164,773)	(204,098)			
2013 Q1	-	(3)	(73)	(470)	(2,106)	(593)	(1,895)	(5,392)	(4,878)	(3,996)	(21,190)	(101,828)	(295,206)				
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)	(10,980)															
2010 Q1	(812)																
Cumulative payments to date	**(3,271)**	**(28,097)**	**(59,907)**	**(124,504)**	**(177,552)**	**(324,550)**	**(348,214)**	**(412,636)**	**(412,520)**	**(356,785)**	**(480,154)**	**(468,508)**	**(513,926)**	**(460,098)**	**(433,636)**	**(213,652)**	**(4,818,010)**
Total gross claims outstanding	**-**	**677**	**5,639**	**1,692**	**19,057**	**47,648**	**26,348**	**32,524**	**28,509**	**45,466**	**62,379**	**20,777**	**24,101**	**20,773**	**121,689**	**254,221**	**711,449**

Notes to the Financial Statements *contd.*

Net non-life insurance contract outstanding claims provision for 2013

(All figures are in Rupees thousands unless otherwise stated)

Accident Period	Current Estimate of Cumulative Claims																
	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Total
2013 Q4	-	4	-	(100)	(2,280)	396	(6,662)	4,969	2,889	2,491	6,211	1,419	4,067	(61,964)	64,719	467,171	
2013 Q3	-	(735)	518	(207)	(2,760)	540	9,669	(493)	3,717	3,077	4,099	10,591	(46,314)	99,543	488,446		
2013 Q2	-	184	(50)	257	143	3,087	7,217	3,800	4,927	9,848	10,051	(32,508)	24,533	439,971			
2013 Q1	-	(34)	2,550	770	9,358	3,539	6,717	14,105	9,240	17,303	(60,184)	(151,658)	553,950				
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**	**28,081**	**64,767**	**125,189**	**192,354**	**265,336**	**371,580**	**430,646**	**435,855**	**399,976**	**497,496**	**484,609**	**536,236**	**477,550**	**553,165**	**467,171**	**5,333,123**

Net non-life insurance contract outstanding claims provision for 2013

(All figures are in Rupees thousands unless otherwise stated)

Accident Period	Cumulative Payments to Date																
	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Total
2013 Q4	-	(7)	(19)	(26)	(6,616)	(4,091)	(1,400)	(3,352)	(3,016)	(2,644)	(8,637)	(4,961)	(13,997)	(30,727)	(199,444)	(213,482)	
2013 Q3	-	(800)	-	(214)	(125)	(375)	(965)	(1,858)	(4,836)	(2,542)	(7,940)	(9,788)	(39,233)	(223,250)	(233,138)		
2013 Q2	-	(18)	(3)	(1,862)	(133)	(614)	(1,058)	(2,001)	(5,594)	(2,496)	(7,548)	(37,737)	(164,617)	(203,701)			
2013 Q1	-	(3)	(73)	(470)	(1,942)	(582)	(1,895)	(5,273)	(4,859)	(3,996)	(21,117)	(99,257)	(295,014)				
2012 Q4	-	(46)	(3)	(484)	(313)	(783)	(1,502)	(8,018)	(12,033)	(5,022)	(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)	711	(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	(5,078)	(10,467)	(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)	(1,216)	(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)**	**(27,404)**	**(59,128)**	**(123,497)**	**(175,946)**	**(251,790)**	**(345,252)**	**(398,138)**	**(408,980)**	**(354,928)**	**(456,299)**	**(464,232)**	**(512,861)**	**(457,678)**	**(432,582)**	**(213,482)**	**(4,685,309)**
Total gross claims outstanding	**-**	**677**	**5,639**	**1,692**	**16,408**	**13,546**	**26,328**	**32,508**	**26,875**	**45,048**	**41,197**	**20,377**	**23,375**	**19,872**	**120,583**	**253,689**	**647,814**

Notes to the Financial Statements *contd.*

31. RELATED PARTY TRANSACTIONS AND OUTSTANDING BALANCES

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 and outstanding balances are reported below.

31.1 Transactions and outstanding balances with the ultimate parent - People's Bank

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
Insurance premium in respect of their own policies	270,711,671	247,189,627
Insurance premium in respect of customers introduced	52,151,197	55,058,334
Service charge expense	7,472,476	5,926,989
Claims expense	81,379,659	126,233,417
Investment in repurchase agreements (Including reinvestments during the year)	14,126,382,728	15,790,817,807
Settlement of repurchase agreements (Including settlement for reinvestments)	14,297,649,225	15,835,073,994
Investment income from overnight repurchase agreements	18,706,383	31,093,056
Treasury bills purchased through People's Bank	1,608,509,078	1,732,921,109
Interest income from fixed deposits	3,629,445	247,841
Interest income from savings account	16,474	2,569
Building rent expense	900,000	150,000

Outstanding balances

As at 31 December	2013 Rs.	2012 Rs.
Insurance premium receivable in respect of their own policies	189,973	52,329
Insurance premium receivable in respect of customers introduced	5,149,326	2,677,036
Service charge expense payable	2,074,364	-
Claims outstanding	194,263,050	214,626,719
Fixed deposits	79,064,515	10,229,062
Savings account	3,270,509	285,528
Building rent expenses payable	75,000	-
Cash at bank	1,837,049	-
Bank over draft	2,031,623	17,581,404

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

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
Insurance premium in respect of their own policies	49,807,194	45,850,743
Insurance premium in respect of customers introduced	2,711,748,263	2,242,328,174
Service charge expense Note	329,243,839	295,021,515
Claims expense	452,625	655,375
Shared service expense	27,176,358	16,087,262
Shares issued	-	50,000,000
Purchase of intangible asset	60,000,000	-
Debenture interest	12,785,847	-
Interest income from savings account	304,176	173,470
Interest income from fixed deposits	9,939,254	381,629
Interest income from commercial papers	3,249,043	8,483,407
Building rent expenses	2,990,301	2,932,653

Outstanding balances

As at 31 December	2013 Rs.	2012 Rs.
Insurance premium receivable in respect of their own policies	1,555,369	1,714,209
Insurance premium receivable in respect of customers introduced	400,130,139	374,306,962
Service charge expense payable	149,820,484	125,147,855
Claims outstanding	603,345	535,000
Debentures	100,000,000	-
Savings account	814,344	4,298,641
Fixed deposits	72,302,837	53,355,225
Commercial papers	-	98,502,573
Building rent expense payable	203,571	193,878
Current account	81,009,787	2,358,646

Note: Shared service expenses include amounts payable in respect of information and communication technology, human resources and logistics services provided to People's Insurance Limited during the year.

Notes to the Financial Statements *contd.*

31.3 Transactions and outstanding balances with the 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 as the key management personnel of the Company.

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
Directors' fees	380,000	330,000

31.4 Transactions and outstanding balances with other related companies

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
People's Leasing Fleet Management Limited		
Insurance premium in respect of their own policies	4,727,726	3,042,861
Vehicle hiring expenses	1,575,488	3,300,250

Outstanding balances

As at 31 December	2013 Rs.	2012 Rs.
Insurance premium receivable	185,414	266,487
Current account balance	23,351	277,205

People's Leasing Property Development Limited

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
Insurance premium in respect of their own policies	1,978,947	1,967,930

31.4 Transactions and outstanding balances with other related companies Contd.

People's Leasing Microfinance Limited

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
Insurance premium in respect of their own policies	634,660	-
Insurance premium in respect of customers introduced	5,195,876	4,963,988
Service charge expense	659,709	121,533

Outstanding balances

As at 31 December	2013 Rs.	2012 Rs.
Insurance premium receivable in respect of their own policies	68,227	-
Insurance premium receivable in respect of customers introduced	585,922	147,864
Service charge expense payable	252,610	505,608

People's Merchant Finance PLC

Transactions

For the year ended 31 December	2013 Rs.	2012 Rs.
Insurance premium in respect of their own policies	442,748	-
Insurance premium in respect of customers introduced	922,864	507,534
Service charge expense	52,486	45,953

Outstanding balances

As at 31 December	2013 Rs.	2012 Rs.
Insurance premium receivable in respect of their own policies	-	1,057,840
Insurance premium receivable in respect of customers introduced	46,540	147,864
Service charge expense payable	88,958	13,895

Notes to the Financial Statements *contd.*

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.

Transactions entered into with the government of Sri Lanka and its related entities, relating to the ordinary course of business are detailed below.

Payment of statutory rates and taxes
Payment for utilities mainly comprising 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	2013 Rs.	2012 Rs.	Classification
Fixed deposit - People's Bank	Bank overdraft facility	10,000,000	10,000,000	Loans and receivables

33. EVENTS AFTER THE REPORTING DATE

The Board of Directors of the Company has declared a final dividend of Rs. 0.75 per share for the financial year ended 31 December 2013.

In accordance with 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 2013.

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

Earnings per share (EPS) for the year ended 31st December 2013 increased by 57% from Rs. 3.94 in 2012 to Rs. 6.18 in 2013. This was due to increase of profit after tax by Rs. 136 million (58%) in 2013.

Dividends

An interim dividend of Rs. 1.50 per share amounted Rs. 90 million was paid in September 2013 and a final dividend of Rs. 0.75 per share amounting to Rs. 45 million was authorised by the Directors based on the profits of 2013.

Net Assets per Share

Net assets per share increased by 26% from Rs. 14.38 in 2012 to Rs. 18.08 in 2013 mainly due to the profit after tax of Rs. 371 million recorded in 2013.

31 December	2013 Rs.	2012 Rs.
Earnings per share	6.18	3.94
Dividend per share	2.25	1.00
Net assets per share	18.08	14.38

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.

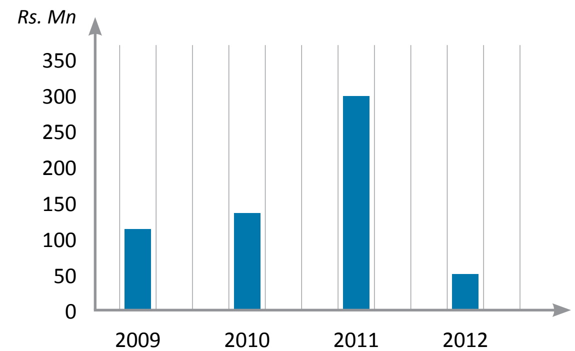
Name of Director	No. of Shares	
	As at 31.12.2013	As at 31.12.2012
Jehan P. Amaratunga	Nil	Nil
Dharma N. Gammampila	Nil	Nil
N. Vasantha Kumar	Nil	Nil
D. P. Kumarage	Nil	Nil

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
2013	-	-
Total	**60,000,000**	**600,000,000**

Record of Share Issues



Shareholder Information *contd.*

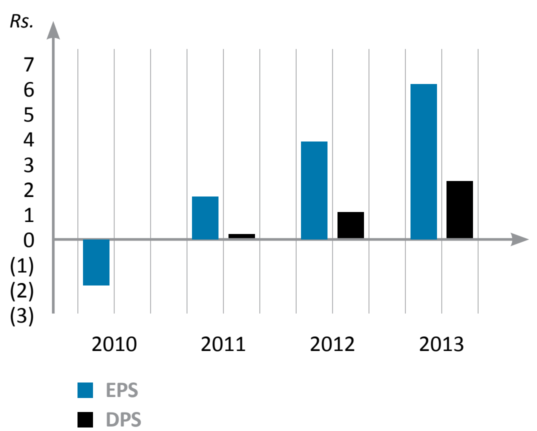
Earnings per Share (EPS) vs. Dividend Payout Ratio

Year	EPS Rs.	DPS Rs.	Dividend Payout Ratio
2010	(1.96)	-	0%
2011	1.70	0.20	12%
2012	3.94	1.00	25%
2013	6.18	2.25	36%

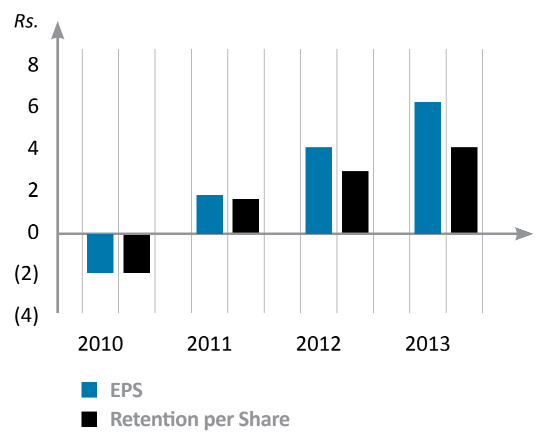
Earnings per Share (EPS) vs. Retention Ratio

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%
2013	6.18	3.93	64%

Earnings per Share (EPS) vs. Dividend per Share (DPS)



Earnings per Share (EPS) vs. Retention per Share



FOUR YEAR SUMMARY

	2013	2012	2011	2010
Statement of Income (Rs.)				
Gross written premium	3,251,084,198	2,944,487,069	2,414,788,213	933,152,132
Net earned premium	2,800,480,830	2,448,241,131	1,477,971,086	231,467,928
Other revenue	394,358,750	282,068,640	106,842,291	27,807,832
Total revenue	3,194,839,580	2,730,309,771	1,584,813,377	259,275,760
Net claims	(2,120,218,765)	(1,970,048,532)	(1,235,213,750)	(221,863,150)
Underwriting and net acquisition cost	(292,259,004)	(243,880,865)	(145,402,538)	(10,863,581)
Other operating and administrative expenses	(281,481,769)	(192,384,167)	(110,079,326)	(60,121,274)
Profit/(loss) before tax	**500,880,042**	**323,996,207**	**94,117,763**	**(33,572,245)**
Income tax expense	(130,055,888)	(89,338,958)	(22,161,958)	3,809,412
Profit/(loss) for the year	**370,824,154**	**234,657,249**	**71,955,805**	**(29,762,833)**
Statement of Financial Position (Rs.)				
Assets				
Intangible assets	61,716,770	3,492,990	95,060	123,076
Property, plant and equipment	28,310,298	25,529,408	17,602,003	15,797,326
Financial assets	3,190,344,558	2,609,366,419	1,763,276,493	513,883,789
Reinsurance and insurance receivables	546,024,788	509,690,530	575,832,533	319,775,821
Deferred expenses	167,355,627	155,523,082	126,387,783	50,288,890
Other assets	22,204,603	14,948,847	30,587,931	13,687,602
Deferred tax asset	-	-	842,914	3,809,412
Cash in hand and balance at bank	5,221,146	391,104	26,667,959	748,571
Total assets	**4,021,177,790**	**3,318,942,380**	**2,541,292,676**	**918,114,487**
Equity and liabilities				
Equity				
Stated capital	600,000,000	600,000,000	550,000,000	250,000,000
Revenue reserves	484,881,247	263,001,884	36,771,702	(32,959,146)
Total equity	**1,084,881,247**	**863,001,884**	**586,771,702**	**217,040,854**
Liabilities				
Insurance liabilities	2,516,037,434	2,171,701,475	1,755,609,548	620,174,513
Retirement benefit obligations	2,493,213	1,386,394	793,063	569,791
Payable and other financial liabilities	373,410,580	218,718,248	157,174,148	68,745,260
Reinsurance payable	23,979,309	45,239,822	40,944,215	11,584,069
Deferred tax liability	18,344,385	1,313,153	-	-
Cash and bank	2,031,622	17,581,404	-	-
Total liabilities	**2,936,296,543**	**2,455,940,496**	**1,954,520,974**	**701,073,633**
Total equity and liabilities	**4,021,177,790**	**3,318,942,380**	**2,541,292,676**	**918,114,487**
Investor Information				
Return on net assets (%)	34.18	27.19	12.26	(13.71)
Earnings per share (Rs.)	6.18	3.94	1.70	(1.96)
Dividend per share (Rs.)	2.25	1.00	0.20	-
Net assets per share (Rs.)	18.08	14.38	10.67	8.68
Other Information				
Number of employees	210	165	111	75
Number of shares	60,000,000	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
The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the reporting 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 insurer/broker, pending the issue of a policy which confirms the arrangement of cover for the named insured/reassured. Motor insurance cover notes that are issued in Sri Lanka (which incorporate a certificate of insurance) are usually of short duration.

Deductible
Amount of expenses that must be paid out of pocket before payment of any expenses by an insurer.

Deferred acquisition costs
Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the reporting 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.

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.

Exclusion
A term in an insurance or reinsurance contract that excludes the insurer or reinsurer from liability for specified types of loss. An exclusion may apply throughout a policy or it may be limited to specific sections of it. In certain circumstances, an exclusion may be limited or removed altogether following the payment of an additional premium.

Ex-gratia payment
A payment made by underwriters 'as a favour' or 'out of kindness' without an admission of liability so as to maintain goodwill.

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.

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

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 contracts, 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.

Glossary of Insurance Terms *contd.*

Insurance provision
Usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, which are deferred to subsequent accounting periods, as well as the gross claims outstanding.

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

Layer
Section of cover in a non-proportional reinsurance programme in which total coverage is divided into a number of consecutive layers. Individual layers may be placed with different reinsurers.

Liability adequacy test (LAT)
A test that needs to be performed by an insurer to determine whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts as per the Sri Lanka Accounting Standards.

Loss adjuster
A person who is appointed to investigate the circumstances of a claim under an insurance policy and to advise on the amount that is payable to the policyholder in order to settle that claim.

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 premium.

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 to be allocated by a company to cover risks arising from the nature of its business and the markets in which it operates, based on an assessment of those risks and the likelihood of adverse developments.

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.

Sum insured
The maximum amount that an insurer will pay under a contract of insurance. The expression is usually used in the context of property and life insurance where (subject to the premium cost) the insured determines the amount of cover to be purchased.

Surplus treaty or surplus lines treaty
A type of reinsurance under which bands of cover known as lines are granted above a given retention which is referred to as the cedant's line. Each line is of equivalent size and the capacity of the treaty is expressed as a multiple of the cedant's line. The reinsurer receives an equivalent proportion of the full risk premium. A surplus treaty is a form of proportional reinsurance.

Treaty
A reinsurance contract under which the reassured agrees to offer and the reinsurer agrees to accept all risks of certain size within a defined class.

Underwriting
The process of selecting which risks an insurance company can cover and deciding the premiums and terms of acceptance.

Underwriting profit
The underwriting result generated by transacting non-life insurance business, without taking into account the investment income.

Unearned premium
The proportion of premium that relates to the unused period of cover.

Unexpired risk reserve
The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

Written premium
Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods and adjustments arising in the accounting period to premiums receivable in respect of contracts entered in to prior accounting periods.

DISTRIBUTION NETWORK

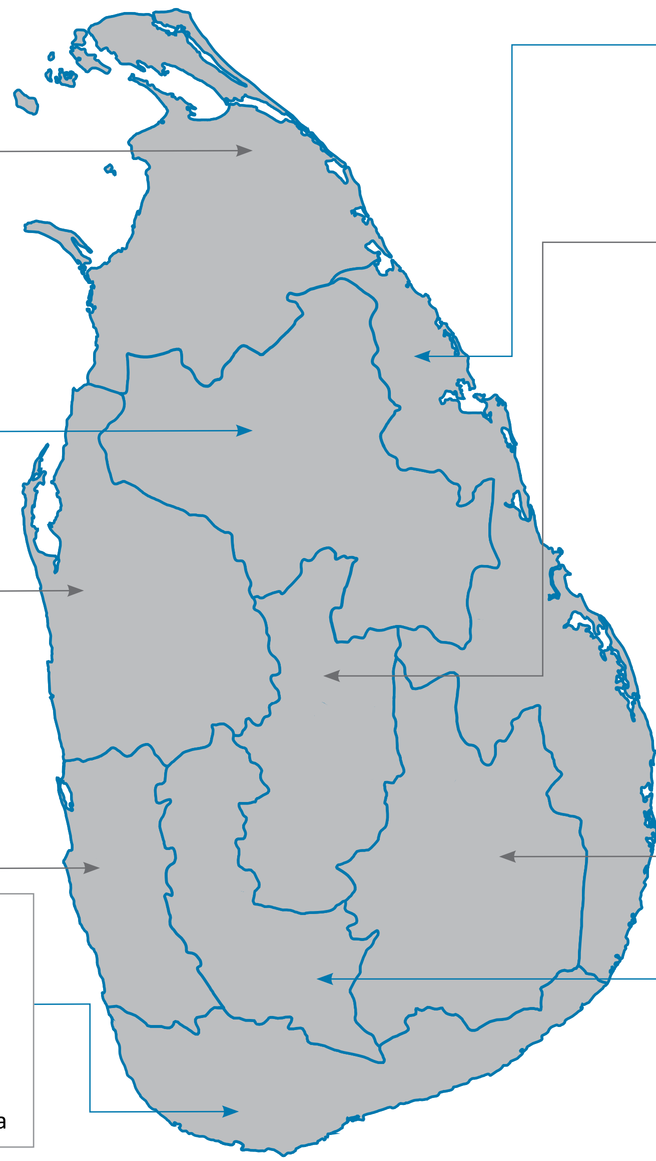
Northern Province
- Jaffna
- Vavuniya

North Central Province
- Anuradhapura
- Kekirawa
- Polonnaruwa
- Thambuttegama

North Western Province
- Chilaw
- Kuliyapitiya
- Kurunegala
- Wariyapola
- Wennappuwa

Western Province
- ■ Negombo
- Avissawella
- Battaramulla
- Colombo-Fort (Customs Office)
- Dehiwala
- Gampaha
- Grandpass
- Havelock
- Homagama
- Horana
- Ja-ela
- Kaduwela
- Kalutara
- Kelaniya
- Kirindiwela
- Kollupitiya
- Mathugama
- Metropolitant
- Nugegoda
- Panadura
- Pettah
- Union Place
- Ward Place
- Wattala
- Wellawatta

Southern Province
- ■ Galle
- Akuressa
- Ambalangoda
- Ambalanthota
- Elpitiya
- Matara
- Tangalle
- Tissamaharama



Eastern Province
- Ampara
- Batticaloa
- Trincomalee

Central Province
- Dambulla
- Kandy
- Mahaiyawa
- Matale
- Nawalapitiya
- Nuwara Eliya
- Pilimathalawa

Uva Province
- Badulla
- Bandarawela
- Mahiyanganaya
- Wellawaya

Sabaragamuwa Province
- Balangoda
- Embilipitiya
- Kegalle
- Rathnapura

■ Regional office
• Window office at People’s Leasing & Finance PLC branch network.

Head Office

No. 53, Dharmapala Mawatha,
Colombo 03.
Tel : 011-2206406
Fax : 011-2206436

Regional Offices

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

Negombo
No. 159, Colombo Road, Negombo.
Tel : 031-2235514, 031-2235517
Fax : 031-2235516

Window Offices at People's Leasing & Finance PLC Branch Network

Branch	Address	Telephone Number	Fax Number	Contact Person
Central Province				
Dambulla	No. 513/1, Kadapaha, Anuradhapura Road, Dambulla.	066-2284855	066-2284158	Mr. Kasun Chathuranga
Kandy	No. 177, D. S. Senanayaka Veediya, Kandy.	081-2205419	081-4471654	Mr. Rangana Lakmal
Kandy (Islamic)	No. 26, Hill Street, Kandy.	081-2205651	081-2205043	Mr. Ajith Abeykoon
Mahaiyawa	No. 288, Katugasthota Road, Kandy.	081-2205947	081-2205937	Mr. Palitha Bandara
Matale	No. 96/1/1, Kings Street, Matale.	066-2226400	066-2226402	Mr. Sitara Sumith
Nawalapitiya	No. 75, Ambagamuwa Road, Nawalapitiya.	054-2224482	054-2224485	Mr. Isuru Heshan
Nuwara Eliya	No. 36, K. Ramanadhan Complex, Park Road, Nuwara Eliya.	052-2224119	052-2224122	Mr. Sameera Janaruwan
Pilimathalawa	No. 174, Kandy Road, Pilimathalawa.	081-2056338	081-2056339	Mr. Kosala Supun
Eastern Province				
Ampara	No. 149, Kumarasiri Building, Nidahas Mawatha, Ampara.	063-2223395	063-2224850	Mr. Madushan Pradeep
Batticaloa	No. 26, New Kalmunai Road, Batticaloa.	065-2226537	065-2226754	Mrs. Tharaha Priyandren
Trincomalee	No. 445/1, Dockyard Road, Trincomalee.	026-2225285	026-2225286	Mr. Nadeeth Prithikumara
North Central Province				
Anuradhapura	No. 387, Harischandra Mawatha, Anuradhapura.	025-2226053	025-2234966	Mr. Niluka Sampath
Kekirawa	No. 12/A, Thalawa Road, Kekirawa.	025-2264821	025-2264566	Mr. Anushka Prasad
Polonnaruwa	No. 407, Main Street, Kaduruwela, Polonnaruwa.	027-2226719	027-2222961	Mr. Sampath Thushara
Thambuttegama	No. 326, Queen Junction, Kurunegala Road, Thambuttegama.	025-2276180	025-2275511	Mr. Prasanna Lakmal

Distribution Network *contd.*

Branch	Address	Telephone Number	Fax Number	Contact Person
Northern Province				
Jaffna	No. 12, Stanly Road, Jaffna.	021-2220398	021-2229627	Mr. Nadesapillai Subaangan
Vavuniya	No. 91/1, Station Road, Vavuniya.	024-2225860	024-2225861	Mr. Thuraisingam Thusjendran
North Western Province				
Chilaw	No. 10, Colombo Road, Chilaw.	032-2224844	032-2224103	Mr. Chinthaka Suneth
Kuliyapitiya	No. 88, Kurunegala Road, Kuliyapitiya.	037-2281343	037-2281525	Mr. Lakmal Tharanga
Kurunegala	No. 183 B, Colombo Road, Kurunegala.	037-2221582	037-2231505	Mr. Clement Tharindu
Wariyapola	No. 41, Kurunegala Road, Wariyapola.	037-2267886	037-2268311	Mr. Dhammika Kumara
Wennappuwa	No. 327 1/1, Colombo Road, Wennappuwa.	031-2245663	031-2245662	Mr. Chathuranga Sandaruwan
Sabaragamuwa Province				
Balangoda	No. 118/A, Barns Rathwaththa Mawatha, Balangoda.	045-2289500	045-2289502	Mr. Gihan Sachith
Embilipitiya	No. 122, New Town Road, Embilipitiya.	047-2261387	047-2261972	Mr. Asha Tharanga
Kegalle	No. 345, Main Street, Kegalle.	035-2230101	035-2230195	Mr. Vishwa Sonal
Rathnapura	No. 102, Colombo Road, Rathnapura.	045-2223674	045-2230678	Mr. Gayan Ravinatha
Southern Province				
Akuressa	No. 75, Matara Road, Akuressa.	041-2234712	041-2283199	Mr. Isuru Asanka
Ambalangoda	No. 105 A, New Galle Road, Ambalangoda.	091-2255646	091-2255649	Mr. Dilan Suresh
Ambalantota	No. 32/1/1, Thissa Road, Ambalantota.	047-2225265	047-2225266	Mr. Amila Isanka
Elpitiya	No. 44, Ambalangoda Road, Elpitiya.	091-2290827	091-2291847	Mr. Krishan Jayasanka
Matara	No. 45/A, Anagarika Dharmapala Mawatha, Matara.	041-2220129	041-2225985	Mr. Chathura Iroshana
Tangalle	No. 138/A, Matara Road, Tangalle.	047-2242501	047-2242503	Mr. Thilina Madushanka
Tissamaharama	No. 171, Main Street, Tissamaharama.	047-2239671	047-2239703	Mr. Nimesh Indika
Uva Province				
Badulla	No. 33/9, Modern Complex, Cocowatta Road, Badulla.	055-2223903	055-2223777	Mr. Aruna Kumara
Bandarawela	No. 35/2D, Welimada Road, Bandarawela.	057-2221146	057-2221149	Mr.Buddhika Rathnayake
Mahiyanganaya	No. 03, Sri Jayasanka Building, Kandy Road, Mahiyanganaya.	055-2257738	055-2257737	Mr.Palitha Dharmasiri
Wellawaya	No. 128, Monaragala Road, Wellawaya.	055-2274025	055-2274025	Mr.Achintha Chandimalal

Branch	Address	Telephone Number	Fax Number	Contact Person
Western Province				
Avissawella	No. 15, Kudagama Road, Avissawella.	036-2233791	036-2233793	Mr. Lahiru Suranjith
Battaramulla	No. 261, Main Street, Battaramulla.	011-2886818	011-2886824	Mr. Mithila Dhananjaya
Colombo Fort (Customs Office)	No. 40, Main Street, Colombo 11.	077-3212170		Mr. Kesara Nanayakkara
Dehiwala	No. 119, Galle Road, Dehiwala.	0112-720770	011-2725904	Mr. Dhanushka Sampath
Gampaha	No. 65, Yakkala Road, Gampaha.	033-2233892	033-2232733	Mr. Sheron Perera
Grandpass	No. 361, Grandpass Road, Colombo 14.	011-2340013	011-2340025	Mr. Sandakelum Chathuranga
Havelock	No. 62, Havelock Road, Colombo 05.	011-2592432	011-2592445	Mr. Yohan Chathuranga
Homagama	No. 121/3, High Level Road, Homagama.	011-2098141	011-2098144	Mr. Dimuthu Sandaruwan
Horana	No. 101, Rathnapura Road, Horana.	034-2267701	034-2267701	Mr. Waruna Lakmal
Ja-ela	No. 112/A, Negombo Road, Ja-Ela.	011-2228078	011-2228076	Mr. Malinda Udayakumara
Kaduwela	No. 501/1, Avissawella Road, Kaduwela.	011-2548578	011-2548590	Mr. Viraj Chathuranga
Kalutara	No. 314/1/1, Main Street, Kalutara South.	034-2235336	034-2235800	Mr. Kavishan Randika
Kelaniya	No. 965, Kandy Road, Wedamulla, Kelaniya.	011-2914112	011-2908484	Mr. Kasun Chamara
Kirindiwela	No. 153, Gampaha Road, Kirindiwela.	033-2247581	033-2247580	Mr. Asela Manoj
Kollupitiya	No. 385, Galle Road, Colombo 03.	011-2376476	011-2376477	Mr. Tharindu Jayasanka
Mathugama	No. 4/29, Agalawatta Road, Mathugama.	034-2249230	034-2248882	Mr. Ruwan Kumara
Metropolitant	No. 67, Sir Chiththampalam A. Gardiner Mawatha, Colombo 02.	011-2481000	011-2481123	Mr. Dinesh Sampath
Nugegoda	No. 290, Highlevel Road, Nugegoda.	011-2813990	011-2813991	Mr. Dilip Perumal
Panadura	No. 482, Arther V. Dias Mawatha, Panadura.	038-2245737	038-2237332	Mr. Manju Lakruwan
Pettah	No. 319, Main Street, Colombo 11.	011-2437708	011-2473549	Mr. Sajevan Balakrishnan
Union Place	No. 167, Union Place, Colombo 02.	0112-304460	011-2304463	Mr. Mohomad Sharaff
Ward Place	No. 24A, Ward Place, Colombo 07.	011-2678692	011-2678696	Mr. Tuan Zenirath
Wattala	No. 540/A, Negombo Road, Wattala.	011-2948441	011-2947411	Mr. Prageeth Sandaruwan
Wellawatta	No. 507, Galle Road, Wellawatta.	011-2361562	011-2361564	Mr. Hasitha Udayangana
Threewheeler Unit	No. 67, Sir Chiththampalam A. Gardiner Mawatha, Colombo 02.	011-2481000	011-2481128	Mr. Nuwan Nilantha

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Fifth (5th) Annual General Meeting of People's Insurance Limited will be held on 21st of March 2014 at 4.00 p.m. at the Board Room of People's Leasing & Finance PLC Head Office, No. 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 2013 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

Colombo
5th February 2014

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 08 not later than 48 hours prior to the time appointed for the holding of the meeting.

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 her
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 Fifth (5th) Annual General Meeting of the Company to be held on 21st March 2014 at 4.00 p.m. at the Board Room of People's Leasing & Finance PLC Head Office, 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**
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 2013 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.		

Signed this…………………day of…………2014

……………………………………………………………
Signature

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

INSTRUCTIONS AS TO COMPLETION

1. The instrument appointing a proxy may be in writing under the hands of the appointer or of its attorney duly authorised in writing or if such appointer 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 Identification 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
Messrs. Ernst & Young
Chartered Accountants,
No. 201, De Seram Place,
Colombo 10.

Consultant Actuaries
NMG Consulting
65 Chulia Street,
#37-07/08 OCBC Centre,
049513 Singapore.

Bankers
People's Bank

Reinsurance Panel
Asia Capital Reinsurance Group
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

Investor Relations
Chief Operating Officer
People's Insurance Limited
No. 53, Dharmapala Mawatha, Colombo 03.
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