

WHO WOULD YOU TRUST?



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WHO WOULD YOU TRUST?

WHO WOULD YOU TRUST?

THE PEACE OF MIND PROVIDED BY SECURE INSURANCE IS UNLIKE ANY OTHER. IT IS LIKE YOUR GUARDIAN, KEEPING YOUR BUSINESS AND ALL YOUR ASSETS UNDER ITS PROTECTION AT ALL TIMES.

THE SAFETY NET PROVIDED BY DEPENDABLE INSURANCE WILL GIVE YOU THE STRENGTH TO OVERCOME UNCERTAINTIES AND PURSUE YOUR DREAMS WITH CONFIDENCE. FOR THE PAST 7 YEARS, WE HAVE BEEN THAT GUARDIAN THAT HAS BEEN A DEPENDABLE AND TRUSTWORTHY INSURANCE PROVIDER TO MANY SRI LANKANS AND WILL CONTINUE TO DO SO WITH PROFESSIONALISM, INTEGRITY AND STABILITY.

SO WHO WOULD YOU TRUST WITH WHAT'S IMPORTANT?

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

ABOUT US

We commenced our business operations in 2010 and within a short span of time, we have become a leading non-life insurance company in Sri Lanka with an annual premium income exceeding Rs. 4 billion and total assets in excess of Rs. 6 billion. Our shares are listed on the Main Board of the Colombo Stock Exchange and we are backed by two of the country's largest financial giants and strong international reinsurers.

ABOUT THE REPORT

■ GRI G4-28 – G4-33 ■

Focused in our efforts to adopt current best practices in reporting, People's Insurance PLC (PI) sought in the year under review to strengthen the annual reporting process with greater consistency and accountability. We continued to follow the guidelines prescribed by the Integrated Reporting Framework. Improving from our first attempt in the year 2014, we looked at enhancing our reporting structure and content with a greater focus on value creation process, as relevant to our key stakeholders. As was the case in the previous year, 2015, we sought to blend in our integrated approach with the guidelines recommended by the Global Reporting Initiative (GRI)-G4 standard under the 'core' accordance option.

REPORTING CONTENT, SCOPE AND BOUNDARY

■ GRI G4-17 – G4-28 – G4-31 ■

Refer: *Materiality Assessment, pages 38 to 43.*

The reporting period corresponds to the financial year ended 31st December 2016. The report focuses on the overall operations and future outlook covering the head office, regional offices in Galle and Negombo, window offices located in 91 of our parent, PLC's branches and representation at People's Bank. Our strategy for value creation and the year's performance are discussed at length in the light of the risks and opportunities prevailing in our business backdrop. Relevant comparisons with the preceding financial year's performance are drawn, benchmarking, wherever possible, against the industry trends. Future strategy and planned actions are outlined whilst targets are set out for the ensuing year, 2017.

Following the integrated approach, this year's Annual Report, once again, seeks to discuss both financial and non-financial information. The report deliberates on how we rely, draw and manage our key capitals to create value over time. Apart from the capitals we focused on the previous year viz. financial, human, relationship, social and natural capitals; this year, we include intellectual capital into our management discussion, highlighting the role and significance of intangible assets in operations. The strategic

focus areas, the management approach, performance and key indicators that measure our success are set out and discussed in detail for each of the key capitals.

The content is developed and reported on the materiality concept advocated by the GRI-G4 as will be discussed under the section, Materiality Assessment. The report adheres to the standard disclosures as well as specific disclosures material to our operations and to our key stakeholders. Sector disclosures available for financial services have also been considered in content development.

The report sets out discussion on risk management; highlighting the measures we have taken and the internal controls that are in place to manage and mitigate the risks that may impede our operational progress. We also report on corporate governance which assumes even more significance in our role as a public quoted company. We have set out the status of our compliance to the updated Code of Best Practice on Corporate Governance 2013, published jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Financial statements and related notes and requisite disclosures are set out in this report. The financial statements are prepared in accordance with the Sri Lanka Accounting Standards, guided by the International Financial Reporting Standards. Independent auditors, Messrs. Ernst and Young have audited the financial statements and related notes. Their assurance is set out on page 197 of this report.

The sustainability aspects of the report are not externally assured.

GRI-G4 Content Index is placed on pages 288 to 293.

METHODOLOGY

The information and data presented have been collected and compiled by the relevant departments, mainly using our management information system and intranet. The financial information is taken from the audited financial statements and related notes. Information regarding centralised functions including human resources and information technology has been gathered from the respective departments at the parent company's head office. Materiality and completeness of information and data are confirmed by our Chief Operating Officer and our senior management.

FORWARD-LOOKING STATEMENTS

This report deals with forward-looking statements with information related to our future outlook along with our expected financial and operational performance and targets. Although we have factored in the dynamics that may prevail within our business backdrop in determining our financial forecasts and targets, we caution our stakeholders that these numbers and our opinions may be subject to revision, if reality differs from our expectations and key assumptions. We do not intend, however, nor take responsibility to publicly update our forward-looking statements to factor in new information based on reality after the publication date of this report.

INQUIRIES

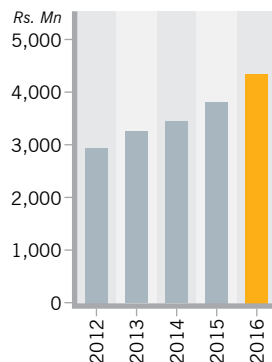
Queries and clarifications on this Integrated Annual Report 2016 are to be directed to:

Senior Manager - Finance
 People's Insurance PLC
 Address : No. 53, Dharmapala Mawatha, Colombo 03, Sri Lanka
 Telephone : +94 11 2206406
 Fax : +94 11 2206418
 Email : nilushan@plc.lk

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

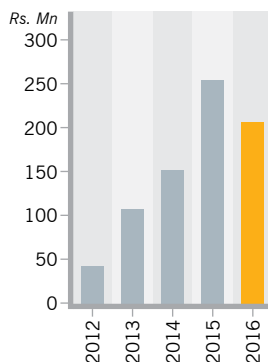
KEY FINANCIAL HIGHLIGHTS

GROSS WRITTEN PREMIUM



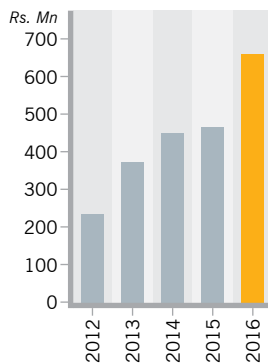
RS. 4,340 MILLION
GROSS WRITTEN PREMIUM

UNDERWRITING PROFIT



RS. 206 MILLION
UNDERWRITING PROFIT

PROFIT AFTER TAX



RS. 658 MILLION
PROFIT AFTER TAX

FINANCIAL HIGHLIGHTS



FINANCIAL CAPITAL

4,340▲

Gross written premium (Rs. Mn)
2015 - 3,813

206▼

Underwriting profit (Rs. Mn)
2015 - 254

658▲

Profit after tax (Rs. Mn)
2015 - 464

6,720▲

Total assets (Rs. Mn)
2015 - 6,642

5,470▲

Financial investments (Rs. Mn)
2015 - 4,931



INDUSTRY SPECIFIC RATIOS

70%▲

Net claims ratio
2015 - 69%

24%▲

Net expense ratio
2015 - 23%

94%▲

Net combined ratio
2015 - 92%

8%⊖

Reinsurance ratio
2015 - 8%

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS



INVESTOR RATIOS

3.29▲

Earnings per share (Rs.)
2015 - 3.09

25%▲

Return on equity
2015 - 20%

13.15▼

Net assets per share (Rs.)
2015 - 15.01

5.78

Price earnings ratio (times)
2015 - N/A

1.45

Price to book value (times)
2015 - N/A

N/A - Not applicable since shares were not listed as at 31.12.2015

NON-FINANCIAL HIGHLIGHTS



HUMAN CAPITAL

330▲

Staff
2015 - 284

90▲

Recruitments
2015 - 72

30.0▲

Staff bonuses (Rs. Mn)
2015 - 18.7

13.2▼

Premium per employee (Rs. Mn)
2015 - 13.4

2.0▲

Profit per employee (Rs. Mn)
2015 - 1.6

NON-FINANCIAL HIGHLIGHTS



SOCIAL AND RELATIONSHIP CAPITAL

2,628▲

Net claims (Rs. Mn)
2015 - 2,257

2●

Regional offices
2015 - 2

91▲

Window offices
2015 - 84

151,736▲

Policies
2015 - 148,205

75▲

Community recruitments
2015 - 64



NATURAL CAPITAL

8,640▲

Paper consumption (kg)
2015 - 7,270

113▲

E-waste collected for recycling (kg)
2015 - 44

373▲

Total carbon footprint
(Tonnes of CO₂ equivalent)
2015 - 133

MILESTONES

2010

- Commenced commercial operations in January with 15 employees as a non-life (general) insurer.
- A wide array of non-life insurance products with the main focus on motor insurance was offered in its first year of operations.
- Recorded a gross written premium (GWP) of Rs. 933 million in the very first year, showing the signs of becoming a top player in the non-life insurance industry.

2011

- Exceeded Rs. 1 billion GWP and became the company which achieved Rs. 1 billion annual GWP within the shortest period of time in the non-life insurance industry.
- Recruited its 100th employee in its second year of operations.
- Achieved its first profit with a profit after tax of Rs. 72 million.
- Total assets exceeded Rs. 1 billion mark in the first few months to end the year with more than Rs. 2.5 billion worth of total assets.

2012

- Completed the implementation of the customised enterprise resource planning (ERP) system, providing soft infrastructure for efficient and effective business operations.
- A new call centre equipped with the latest technology was opened in view of providing an improved service to customers.
- First regional office was opened in Galle.
- Recorded the first underwriting profit which is scarce in the non-life insurance industry.

**TRUST
US WITH
YOUR
DREAMS**





DON'T LET UNCERTAINTY
CLOUD YOUR SUNSHINE.
WITH A TRUSTED PLAN
THAT TAKES ON THE RISK,
YOUR ASPIRATIONS ARE
SAFE WITH US.

MILESTONES

2013

- The second regional office was opened in Negombo.
- Entered into a bancassurance agreement with People's Bank in view of harnessing benefits of synergies.
- Published the first Annual Report.
- The first Annual Report secured the following awards;
 - 'Industry Gold Award' and 'Top National Honours' at the LACP 2012 Vision Awards annual report competition held in Florida, USA
 - 'Insurance Companies Compliance Award' at the Chartered Accountants' Annual Report Awards 2013 organised by the Institute of Chartered Accountants of Sri Lanka.
- Launched the Company's website.
- Carried out first dedicated social project titled 'Towards a Greener Sri Lanka' where plants and fertiliser were distributed to farmers and households.
- Recruited 200th employee in order to facilitate rapid expansion.
- Underwriting profit surpassed Rs. 100 million mark.
- Profit after tax reached Rs. 371 million.

2014

- Carried out two main social projects; donation of drugs and injections to the cancer hospital in Maharagama and opening of savings accounts for children born on Children's Day and distribution of gift packs for children at the Colombo South Teaching Hospital, Kalubowila.
- Re-constituted the Board Audit Committee to ensure a better balance in the Board Audit Committee.
- Implemented and launched electronic Board papers application, 'Board PAC' solution which facilitates the Board of Directors to access Board and committee papers and supplementary information directly via their iPad devices.
- The second Annual Report won 3 international awards, including the 'Gold Award' at the LACP 2013 Vision Awards annual report competition held in Florida, USA and 'Bronze Award' in the 'Non-traditional Annual Report Category – Insurance' at the 28th International ARC Awards competition held in New York, USA. The Company was also recognised as a recipient of the 'Insurance Companies Compliance Award' at the Chartered Accountants' Annual Report Awards 2014 organised by the Institute of Chartered Accountants of Sri Lanka.
- Underwriting profit crossed Rs. 150 million mark.
- After tax profit reached Rs. 450 million.

2015

- Introduced a travel policy to expand the product line to facilitate customers' requirements.
- Opened a Takaful window to cater to the Islamic community.
- Carried out a corporate social responsibility (CSR) activity; donation of chairs to Sri Bodhi Primary School for their computer lab.
- Third Annual Report was recognised at the 14th LACP Vision Awards Annual Report Competition 2014 – Asia-pacific with Excellence within the Insurance Industry – Gold Award and 'Top 50 Annual Reports in the Asia-Pacific region'. Also received 'Insurance Companies Certificate of Compliance' at the Chartered Accountants' Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka Annual Report Awards 2014.
- Recognised and awarded as a strategic training partner for the strategic level, under the Institute of Chartered Accounts of Sri Lanka training programme.
- Carried out CSR activity; beach cleaning, establishing benches and sign boards at Panadura beach.
- Surpassed Rs. 250 million mark in underwriting profits.
- Opened the IPO in December 2015 with oversubscription of almost 6 times on the opening day, making the Company's IPO one of the most successful IPO's in the recent past.


 2016
JANUARY

- Shares of the Company were listed on the Colombo Stock Exchange (CSE).

FEBRUARY

- E-waste collection project was launched.
- Name of the Company changed to People's Insurance PLC from People's Insurance Limited consequent to the listing on the CSE.

MARCH

- Investment portfolio surpassed Rs. 5 billion.

APRIL

- Successfully completed all staff one day training programme at People's Bank training centre in order to improve the service standards of the Company.

MAY

- Provided financial assistance to flood victims in collaboration with Hunupitiya Gangaramaya Temple, Colombo as a CSR activity.

JUNE

- Held the first Annual General Meeting after the listing on the CSE.
- Provided financial assistance to employees who were affected by floods.

JULY

- Annual Report for 2015 was recognised at the 2015 Vision Awards and awarded 'Silver Award' for the Excellence within the Insurance Industry – Asia-Pacific region.
- Awarded 'Certificate of Merit' at the Excellence in Integrated Reporting Awards - 2016 by the Institute of Certified Management Accountants of Sri Lanka for the 2015 Annual Report.
- Paid the final dividend for 2015 of Rs. 0.60 per share amounting to Rs. 120 million.

AUGUST

- Internet payment gateway was launched, facilitating customers to settle their premiums online.

OCTOBER

- Paid an interim dividend of Rs. 0.75 per share amounting to Rs. 150 million.
- Entered into a bancassurance agreement with Sampath Bank.

NOVEMBER

- Principle approval was granted by the Board of Directors to join with the Sri Lanka Climate Fund for the project titled, 'One Million Tree Programme' with a five year commitment.

DECEMBER

- Recognised as a recipient of the 'Insurance Companies Compliance Award' at the Chartered Accountants' Annual Report Awards 2016 organised by the Institute of Chartered Accountants of Sri Lanka for the 2015 Annual Report.
- Annual GWP crossed Rs. 4 billion mark.

CHAIRMAN'S MESSAGE



People's Insurance PLC recorded yet another successful year in 2016. Focused and decisive to deliver business excellence, we strived hard to uphold exceptional quality, standards and best practices in shaping and executing our strategy with a long-term perspective.

JEHAN P. AMARATUNGA
Chairman

Well-positioned within the non-life insurance industry, People's Insurance PLC recorded yet another successful year in 2016. Focused and decisive to deliver business excellence, we strived hard to uphold exceptional quality, standards and best practices in shaping and executing our strategy with a long-term perspective. Positive and principled in our engagement with our stakeholders, we pursued a holistic approach to value creation. We sought to bring together operational and financial management with sustainability initiatives, essentially paving the way to achieve sound performance results against the complexities that prevailed within our business backdrop.

On behalf of my Board, I am indeed honoured to present our Annual Report for the financial year 2016 along with the audited financial statements. I take this opportunity to highlight our milestones achieved in the year and share my thoughts on our future endeavours towards sustainable growth.

WORLD ECONOMY – PERFORMING BELOW POTENTIAL

Grappling with persistent economic and geopolitical issues, the world economy in the year 2016 continued to underperform with lower-than-expected results. The vote in favour of Brexit, political developments, refugee crisis in Europe, deteriorating international relations, inter-alia, impeded most of the nations from reaching out to optimal performance.

The advanced economies, particularly the United States, fell short of meeting its anticipated targets; the emerging and developing economies, however, managed a steadier course, leading global growth. The realigning initiatives in China and signals of bottoming out of energy and commodity prices broadly supported economic activity. Most of the advanced nations continued to follow an accommodative monetary policy, supporting financial market stability within the emerging nations. Yet, the possibility of a full-blown monetary policy tightening programme in the US was undoubtedly a cause of concern to most markets.

With significant downside risks, the overall prospects remained modest and uneven across nations. The 'World Economic Outlook October 2016' published by the International Monetary Fund (IMF), sets the world economic growth forecast at 3.1 percent in 2016, marginally down as against 2015. The outlook for 2017, however, is expected to move on to stronger ground, with growth forecast standing at 3.4 percent.

SRI LANKAN ECONOMY – MODEST PROGRESS

Navigating through the challenges in the global economy and addressing structural imbalances on the domestic front, our nation in the year strived to keep up its growth momentum as aspired for the post-conflict years. The monetary policy shifted to a tighter stance; leading to higher market interest rates and capping upward trends in inflation at mid-single-digit levels. Policy measures were taken to curtail the external sector pressures, cushioning the official reserve position and enabling a relatively stable exchange rate. The Extended Fund Facility from the IMF played a pivotal role in this regard.

The service sector followed by industry led the economy whilst the agriculture sector performed below potential. According to the Central Bank of Sri Lanka (CBSL), the economy has gone by 4.4% in 2016 compared to 4.8% percent achieved in 2015. According to the CBSL, the

CHAIRMAN'S MESSAGE

economic growth is expected to be in the range of 5.5% to 6.0% in 2017.

INSURANCE – PROGRESSIVE PATH

Progressively moving ahead, the insurance industry is well recognised as a pivotal sub-sector within the nation's financial services arena. With a firm regulatory framework in place along with best practices advocated across the board, the industry is poised to gain from the burgeoning economic settings. However, the insurance industry is yet to realise its full potential. The overall penetration levels are still within 1.1% of GDP, well below the average level of 6.2% globally.

Sustaining the performance in the double-digit range, the non-life insurance sector remained buoyant in the year 2016 with steady growth in gross premium income; forecast at 14%, above the result achieved in 2015. The motor-class segment, the largest sub-sector, continued to post strong results. The higher tariff structure that prevailed along with the rising trends in market interest rates did not significantly deter the motor segment growth as expected. The non-motor class segment also registered an improved performance. The rise in claims across the industry, however, undermined the underwriting result. Yet, higher returns from fixed income investments complemented and cushioned the industry bottom-line profits.

CORPORATE RESULTS – RESILIENT AND STEADY

Resilient in the face of adversities inherent in today's business context, we were consistent in our efforts to consolidate and sustain a creditable performance in the reporting year. We were focused and disciplined in following through with our strategy—seeking to grow our top-line results, manage the efficacy of

claim settlements and underwriting and optimise on our investments; whilst taking necessary measures to inculcate and internalise inclusive and responsible business practices across the organisation.

Our gross written premium in the year grew by 13.8% over the previous year to touch Rs. 4,340 million. Our underwriting result remained positive at Rs. 206 million, and indeed, this was creditable considering the significant claims settled in the year. It must be noted that we were conscientious and prompt in settling the flood claims prevalent in the year. Investment income further cushioned our bottom-line, with profit after tax reaching Rs. 658 million, exceeding the results achieved in the preceding financial year by 42%. We also maintained a healthy balance sheet position as at 31st December 2016 with total assets amounting to Rs. 6,720 million, backed by net assets of Rs. 2,629 million.

We propose to declare a final dividend of Rs. 0.25 per share for our valued shareholders, taking the total dividend to Rs. 1.75 per share with a dividend pay-out ratio of 53% for the year under review.

REGULATORY FRAMEWORK – STEADY TRANSITION

As aimed by the reforms advocated in the recent years within the revised regulatory framework, we saw greater clarity, discipline, consolidation and a more vibrant level-playing-field shaping our industry platform. Many of the insurers brought in the necessary structural changes and adjusted well in complying with the mandatory requirements—segregation of composite businesses; adoption of risk-based capital framework; and maintaining minimum capital as mandated.

With our fundamentals in place, we remained proactive and smart, seeking to find the 'best-fit' strategic solutions to adapt to the dynamics of our evolving regulatory scenario. Having debuted on the public domain in January 2016, we successfully transitioned and strived to deliver shareholder value. We maintained our market status with price stability and ensured due diligence on filing disclosures. We made headway in blending our operations with the risk based capital model. Our capital buffer was adequate, well above the mandatory requirement.

GOVERNANCE – STRIVING FOR GREATER COMPLIANCE

Upholding our most valued tenets—trust, responsibility and accountability, we continued in our quest to strengthen our governance structure and processes in line with best standards and practices prescribed for listed corporate entities. We initiated and set up our investment committee, reinforcing our oversight on investment decisions-making. We also took initiative to bring in the internal audit under the direct supervision of our Board Audit Committee which was previously carried out as a shared function with our parent company, People's Leasing & Finance PLC.

FUTURE YEARS – SUSTAINABLE GROWTH

In an emerging political and socio-economic landscape, our industry is well set to reach higher ground. There is immense potential to grow, secure and reap significant gains, with

trickle-down benefits to society at large. As a progressive and a top-tier insurer, we are in good stead to steer through market complexities, embrace change, if necessary, and take on the opportunities present within our nascent industry. This calls for us to adopt and follow through a swift and a responsive strategy with focused actions, leading to positive engagement with our key stakeholders.

In the year ahead, we will continue to invest and build a distinct brand; strengthen our market positioning to be more inclusive in our outreach; and ensure stronger top-line results. We will continue to nurture and leverage on the synergies present within the Group, whilst, proactively pursuing direct market prospects to grow in scale. The bancassurance agreement we have established with our ultimate parent, People's Bank, will no doubt be an advantage in our efforts to grow the top-line. We will continue to be focused in tapping the potential opportunities present within this channel. We will reinforce our culture of learning and innovation; revamp our systems and processes; be disciplined in underwriting and claims settlements; and strengthen internal controls and risk management. Certainly, we will remain steadfast in our efforts to inculcate ethical and socially responsible business practices and standards that will underscore our operational excellence and reward our value creation process from a long-term standpoint.

STAKEHOLDERS – THANK YOU

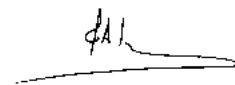
As we complete seven years, it is fitting and my privilege to pay a tribute to all our stakeholders, who stood as our strength in our corporate journey—carving out our presence at the forefront of the non-life insurance industry.

I am grateful to my Managing Director and my colleagues on the Board for their insight, support and cooperation extended in taking People's Insurance PLC on a steady path to progress against a demanding business backdrop. My gratitude is extended to the respective Boards of the parent companies and the sister network for their guidance and collaborative support.

It is with sincere appreciation that I commend our Chief Operating Officer, management and team for their professional and passionate effort in reaching out to our strategic ambitions. I am truly inspired by their team spirit and I am confident that they will continue to take on future challenges and reach out to greater goals.

I place on record our appreciation to our regulator, the Insurance Board of Sri Lanka, for their foresight and direction in shaping our industry model to be more responsive and sustainable, in line with current best practices, acclaimed globally. I also appreciate the assistance and support extended by the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

I thank all our stakeholders and sincerely hope they will continue to place their confidence in our mission to be a trusted insurance partner, backing our nation's drive towards the aspired 2020 economic prosperity.



Jehan P. Amaratunga
Chairman

26th April 2017
Colombo

MANAGING DIRECTOR'S REVIEW



Our gross premium income remained buoyant, with a year-on-year growth of 13.8% to Rs. 4,340 million, up by almost three percentage points as against the growth level achieved in the prior year. Despite the surge in claims, our underwriting results remained strong at Rs. 206 million.

D. P. KUMARAGE
Managing Director

Moving progressively ahead over a span of seven years, we at People's Insurance PLC have placed our organisation on a solid foundation of best corporate practices and acted resolutely to manage the dynamics of today's business landscape. In the year, we followed through with our strategic plans and focused on strengthening our top-line, whilst seeking to secure strong underwriting and bottom-line results amidst the complexities faced by our industry. My review for the financial year 2016 set out herein seeks to outline our strategic imperatives, performance and milestones achieved during the year along with our future plans to create long-term sustainable value for our stakeholders.

STRATEGIC DIRECTION

Steadfast in our efforts to consolidate our positioning as a trusted and a valued insurer, we continued to brace our operations to align with the fast-evolving industry settings. We looked at nurturing our key result areas to build on our market share and secure top-line growth. Clearly, we relied and promptly acted on group business opportunities, whilst proactively seeking to gain on the non-captive market share amongst the retail and small and medium enterprises sectors. However, we were cautious in our effort to ensure the quality of our portfolio.

Essentially underscoring our stability against a complex marketplace, we were fully focused on our underwriting operations—seeking to be smart in pricing in response to the underlying risks of our portfolio exposures. We were meticulous in our approach to claim settlements, complemented by our relationships with globally-renowned reinsurers.

Driving in a more holistic approach to our strategy, we stayed true to our core values upheld across our group companies; striving to strengthen our compliance function; bring in internal controls to meet the regulatory requirements; and seeking to shape a stronger governance structure as discussed in detail under our Chairman's Message. We stood by our sustainability charter formulated in the preceding year and carried out meaningful social responsibility projects, along with some key measures to minimise our carbon footprint. Our parent, People's Leasing & Finance PLC (PLC), stood as our guide and inspiration in this regard.

ROBUST PERFORMANCE

Focused in our strategic approach, we sought in the year under review to consolidate and secure a creditable portfolio performance, despite the growing competition building up pressure on our market share. Our gross premium income remained buoyant, with a year-on-year growth of 13.8% to Rs. 4,340 million, up by almost three percentage points as against the growth level achieved in the prior year. Despite the surge in claims, our underwriting results remained strong at Rs. 206 million. This is indeed creditable especially within a market where most insurers grappled with negative results. Buttressed by the increasing trends in interest rates, our investment income was strengthened and we succeeded in posting a healthy net profit after tax of Rs. 658 million with a growth of 42% over the previous year. The annualised return on equity stood at 25% and we maintained a healthy financial position as at the year end, with the asset position at Rs. 6,720 million.

FOCUSED CUSTOMER ENGAGEMENT

In our quest to build a strong and a loyal customer base, we continued to prioritise customer engagement. This year, we intensified our direct marketing measures, whilst initiating a

MANAGING DIRECTOR'S REVIEW

marketing campaign to maximise our brand visibility and foray deeper into the non-captive market. This campaign is scheduled to take off ground in the ensuing year. We invested well in our award-winning insurance system with process improvements, website development and online payment platform, thereby extending an efficient and a convenient product solution.

We remained decisive in our efforts to enhance our product responsibility, especially focusing on fair and transparent claim settlements. The formal mechanism that we set up in the year to handle customer complaints reflected our commitment in this regard. This is also in line with the regulatory requirement set out by the Insurance Board of Sri Lanka.

AN ENABLING WORKPLACE

Recognising talent, distinction and dedication of our employees—our cornerstone—we stand committed to nurture a well-balanced workplace with values of equality, respect and professionalism.

Keeping in line with PLC's group policies and practices, we strived to bring in a high-performing work culture, advocating career growth and development at all levels. Our performance-based appraisal scheme, where we link rewards and recognition, has clearly carved a dynamic platform for our employees to develop their skills, be creative and innovative and give their best to the organisation. The training that we extend—in-house, cross-placements across the Group and external programmes—not only seeks to give our employees technical knowledge, but also exposure to develop their soft skills and be current with best practices and mandatory requirements in the industry. This, together with the encouragement and financial support we give them to take up professional studies, underscores our ability to deliver exceptional service to our stakeholders.

GROUP COLLABORATIVE CULTURE

The strength and stability of our parent entities, PLC and People's Bank, have always been our strength, boosting our corporate image, brand and positioning in an emerging industry landscape. The synergies present have opened up a range of business opportunities, which stand as our edge over the competition.

Capitalising on the synergies present, we continued this year to engage closely with our parent companies. We collaborated through our window representation in strategic branches and promoted cross-selling of products; enabling the customer an inclusive and a total solution. The bancassurance agreement with People's Bank was followed through, optimising on the business opportunities present therein. The shared overhead functions with PLC including ICT, HR, procurement and logistics continued to support us with scale benefits and leaner costs, thereby, buttressing our bottom-line profits.

Our synergistic ties with our sister companies within the PLC Group network were also closely pursued, availing mutual benefits. In the year under review, we sought to further enhance our working ties with People's Leasing Fleet Management Ltd. in our claims management operations; looked for new market openings in micro insurance through People's Microfinance Ltd.; and secured new business through People's Leasing Property Development Ltd.

RESPONSIBLE REPORTING

Building trust and confidence of our valued shareholders along with other key stakeholders, we have always strived to emulate and adopt current and best practices and standards in reporting. Following through with our initiatives in the previous year, we looked at further refining our reporting process—bringing together operational, financial and sustainability facets to give a more holistic depiction of our organisation. This year, once again, our reporting is in line with the guidelines prescribed by the Integrated Reporting Council along with the sustainability reporting guidelines prescribed by the Global Reporting Initiative (GRI-G4).

Recognised at the LACP Vision Awards Annual Report Competition 2015 – Asia-Pacific, 'The Next Phase', our Annual Report 2015 was awarded Silver for Reporting Excellence within the Insurance Industry Category. The Institute of Chartered Accountants of Sri Lanka presented a Compliance Award under our sector category at the Annual Report Awards held in December 2016, whilst we received a Certificate of Merit at the CMA Excellence in Integrated Reporting Awards 2016, organised by the Institute of Certified Management Accountants of Sri Lanka.

FUTURE PROSPECTS AND PLANS

Today, our nation stands in an era of immense opportunity to move towards greater economic prosperity, although, tainted with challenges posed by the geo-political issues, sluggish global economy, and the vicissitudes of the domestic socio-political and macroeconomic environment. As an industry, fast evolving, there is great potential to reap significant benefits from the changing socio-economic landscape. Yet, this potential can only be fully realised, if the industry comes together to work in concert to heed and lessen the intense rivalry and adapt to the ongoing regulatory changes.

As a top-tier player in the non-life insurance sector, our organisation has a robust business model to operate with responsibility and create long-term value. We have the right mix of success factors, paving pathways to recognise and fasten on opportunities whilst surmounting the challenges present within our industry.

As a top-tier player in the non-life insurance sector, our organisation has a robust business model to operate with responsibility and create long-term value. We have the right mix of success factors, paving pathways to recognise and fasten on opportunities whilst surmounting the challenges present within our industry. The strength and support of our parent companies; collaborative business within the Group; the dedication of a young and talented team; financial astuteness with systems and processes in place; truly underscore our ability to generate real value to our stakeholders.

Reinforcing our top-line strategy, we intend to expand our outreach, seeking to fill in the market gaps and gaining a larger slice of the non-captive business. We will continue to pursue greater discipline in underwriting, claims management and sustain a trim overhead cost structure. We will remain cautious in our investments, carefully assessing our options in the money and capital markets—balancing out risks and returns. Ensuring greater stability and sustainability of our operations, we will work towards internalising fair and transparent business practices, better risk management, greater internal controls, stronger governance and social and environmental responsibility.

WITH GRATITUDE

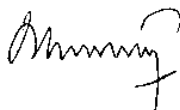
Over seven years, we have strived and succeeded to etch our mark as a valued and trusted insurer in the non-life insurance sector. In our quest, we owe much to all our stakeholders, for their enduring support and trust placed in our organisation—defining our success.

A warm thank you is extended to our Chief Operating Officer and his talented team, for their diligence and enthusiasm to accomplish our strategic goals and I am confident that they will continue to give their best to achieve greater goals in the years to come.

My sincere appreciation is extended to our Chairman and my colleagues on the Board for their strategic direction and leadership, paving the way for our organisation to reach sustainable heights. My appreciation is placed with the Chairman and the respective Boards of People's Bank and PLC for their synergistic support and guidance.

I wish to recognise and commend our regulator, the Insurance Board of Sri Lanka for their effort, ensuring best regulatory practices for greater transparency and accountability of the industry. My commendation also goes out to the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange for their role in fostering a level-playing field within the country's capital market.

To all other stakeholders, thank you.



D. P. Kumarage
Managing Director

26th April 2017
Colombo

CHIEF OPERATING OFFICER'S REVIEW



We sought in the year to consolidate our outreach; leverage on our parent positioning and group synergies; ensure greater customer engagement to excel in our service; develop new products; bring in greater efficiency to systems and processes; and pursue team development and empowerment. We also remained conscientious in underwriting and claims management which together with our efficient cost structure underscored our bottom-line profits.

NIMAL PERERA
Chief Operating Officer

Marking a significant year in 2016, People's Insurance PLC successfully carved its presence as a top-tier organisation within the non-life insurance industry. We were well poised, resilient and strong against the headwinds of a challenging business backdrop. We operated on a solid platform of best practices and values and stood committed to deliver a pragmatic strategy to create inclusive value to our stakeholders. It is my privilege to set forth my review for the financial year 2016, highlighting our strategy, performance, milestones achieved along with our plans to lead our organisation in the future years.

UNDERLYING GOALS

In the year under review, we continued to strive to extend a trusted service in a demanding industry setting. Our aim was to secure a quality portfolio to build a sustainable top-line. Our captive business within the Group remained significant to our operations. But, we also stayed focused and looked at securing a larger share of the non-captive market base within the retail sector and also the small and medium enterprises sector. This was no easy feat given the intense competition that prevailed in the industry. Hence, we had to be perceptive in our strategy to build and sustain our market presence, without giving way to unethical business practices.

Working towards this end, we sought in the year to consolidate our outreach; leverage on our parent positioning and group synergies; ensure greater customer engagement to excel in our service; develop new products; bring in greater efficiency to systems and processes; and pursue team development and empowerment. We also remained conscientious in underwriting and claims management which together with our efficient cost structure underscored our bottom-line profits.

OVERALL PERFORMANCE

Navigating through volatile market conditions and decisively addressing the challenges inherent in our business environment, we were able to post an impressive operational performance. We maintained a clear strategy and strived to follow through a focused corporate action plan to meet our budgetary targets set for the year.

With 151,736 active policies in the portfolio, gross written premium income generated in the reporting year touched Rs. 4,340 million, reflecting an improvement of 13.8% over the income generated in the year 2015. Net earned premium, after adjusting for reinsurance and unearned premium, registered a growth of 13.9% as against the preceding year to Rs. 3,723 million. Dominating the portfolio, motor class based premium income saw an increase of 14.0% whilst the non-motor segment comprising fire, marine, health and miscellaneous recorded an increase of 12.8% as against the previous year.

We continued in the year under review to manage our claims settlement process with due diligence. As was the case across the industry, we registered and settled substantial claims; including claims arising from the floods in May 2016 along with the fire disaster in Salawa, in Avissawella. Despite higher claims, we managed to control our net claims ratio at 70%, representing only a one percentage point increase from the ratio recorded in the previous year. Complemented by our lean operating cost structure and streamlined processes, our net combined ratio was maintained at 94%, an increase of two percentage points over the previous year. Our

CHIEF OPERATING OFFICER'S REVIEW

underwriting results remained positive and healthy at Rs. 206 million. Given the rising trends in interest rates, our investment income performed well, posting a 62% increase over the previous year. In this scenario, we were able to sustain a solid bottom-line, with profit after tax posting a growth of 42% over the previous year at Rs. 658 million.

FINANCIAL STABILITY

We continued to uphold a healthy financial position throughout the year. As at 31st December 2016, we maintained a quality asset position of Rs. 6,720 million.

Accounting for 81% of our asset base, our investment portfolio of Rs. 5,470 million, was well managed and balanced against risks and returns. We were timely and responsive in meeting the dynamics of our investment climate. We were particularly bullish on investing in debentures, seeking to avail tax benefits. Decreasing by 7%, the liability position stood at Rs. 4,091 million as at the year-end, adequately covered by our assets. We continued to maintain a healthy capital base, with the capital adequacy ratio at 323% together with the total available capital at Rs. 2,643 million, well above the mandated levels.

EXPANDING OUTREACH

Leveraging on the vast distribution channel of our parent companies, People's Leasing & Finance PLC (PLC) and People's Bank, we strengthened our window representation in strategic locations, seeking to secure an inclusive and larger share of the market, particularly within the retail segment. We established 7 new window offices within the PLC's branch network, taking the total to 91 as at the year-end. We also reinforced our bancassurance agreement with People's

Bank, tapping into their vast portfolio. Apart from the parent ties, we signed a memorandum of understanding to embrace a bancassurance relationship with Sampath Bank.

Expanding direct business, we also recruited 17 new officers to strengthen our marketing team, totalling to 42. The regional offices in Galle and Negombo posted improved performance, buttressing our overall efforts to enhance our direct market outreach. Our agent and broker networks also supported our quest in this regard.

AS A LISTED ENTITY

Completing one year trading after our debut on the Colombo Stock Exchange in the preceding year, we maintained a stable performance on the market. We sought to strengthen our level of compliance to the relevant regulations, including the continuous listing requirements and ensured that we were timely and disciplined in filing all due disclosures. Our share was last traded in 2016 at Rs. 19.00, registering an increase of 27% since its initial float at Rs. 15.00 per share. The highest price recorded in the year under review stood at Rs. 19.40 per share whilst the lowest was Rs. 14.70 per share.

TEAM EMPOWERMENT

Endowed with a well-rounded and dedicated team of People's Insurance PLC, we stayed consistent and progressive in our efforts to nurture a dynamic and an enabling workplace. We relied and gave much precedence to our performance management system. Refining our approach to be more systematic in line with best practices, we actively engaged our employees in this process, both, at the individual level and at the team level. We were more interactive in setting goals, giving on-the-job feedback, assessing skills gap, extending training support and addressing any grievances. This year, nearly 93% of the permanent cadre was evaluated on performance and we duly rewarded and recognised their hard work and commitment which culminated in staff motivation, lower turnover and higher productivity.

We invested well in extending a well-rounded training to hone employee skills and bring out their potential talents. We encouraged the team to avail the non-bonded financial assistance scheme to take up professional studies, whilst mentoring our high achievers to be confident and competent in taking up managerial and leadership roles. In the reporting year, we clocked in 8,430 training hours, reaching out to 330 employees at an investment of Rs. 1.6 million.

IT IMPROVEMENTS

Staying on par with current trends, we pursued and invested well on digital platforms to bring in greater efficiency and effectiveness to our operating model. This reporting year, we leveraged on our state-of-the-art insurance system and brought in more web-based features to enhance our product offer. The payment gateway we launched in the year under review facilitated easy and hassle-free premium payment options, enabling a better customer experience. We also commenced revamping our official website to be more interactive, user-friendly and align the 'look and feel' to reflect our branding message.

PATH AHEAD

Our nation is on a trajectory to achieve higher level of growth in the coming years. Operating within an emerging industry such as ours, we have much to look forward to and we intend to take advantage of the opportunities that may arise in this burgeoning economic settings. Our strategy will seek to leverage on our unique operating model with a cost-effective structure, to gain a competitive edge in the industry. We will assess and fill in market gaps in all classes of business; grow our top-line responsibly; and ensure that we sustain our level of profitability and financial stability.

We will continue to expand and be more inclusive in our market outreach. We will strengthen our window offices within the parents' branch network whilst improving our relationships through the bancassurance channel. We also intend to establish fully-fledged regional branches in potential locations, mainly targeting the Wayamba and Central provinces.

Catering to trending market requirements, we will continue to brace our product offer and seek to extend a versatile solution to our customers. We will look into add-on new features to our product range, especially merging with online solutions.

Our marketing campaign which is due to be launched in this year, is expected to reach out and tap into the non-captive retail market base. We intend to build our brand identity across our target audience and boost their awareness on our unique selling points. The proposed campaign which is interactive and creative is expected to generate positive results, culminating in greater market share.

Upholding a more rounded approach, we will also follow through with our plans to build a versatile team with professional advancement and wellbeing. We will remain committed to social responsibility, engaging in community service and continuing with our carbon neutral initiatives. We will take the necessary steps to be current and uphold best practices in governance, whilst strengthening our risk management and reinsurance schemes.

APPRECIATION

I join my team to extend our sincere appreciation to our Chairman, Managing Director and the Board of Directors for their leadership and astute direction in positioning our organisation as a trusted and a valued insurer in the non-life insurance sector.

A heart-felt thank you goes out to my talented team for their hard work, enthusiasm and professionalism that they upheld in achieving our goals. Indeed, a job-well-done! and I sincerely hope that they will likewise spirited in the ensuing years.

I would like to commend the Insurance Board of Sri Lanka for their proactive initiatives to ensure a well-regulated playing field for our industry to be in line with best practices, acclaimed globally.

I am grateful to our customers, intermediaries, reinsurers, suppliers and all our stakeholders, for their unstinted support and trust placed in our corporate mission. I reiterate our commitment to uphold sustainable business practices and secure our place in the nation's drive to reach economic prosperity.



Nimal Perera
Chief Operating Officer

26th April 2017
Colombo

COMPANY PROFILE

WHO WE ARE

- Incorporated as a public limited liability company on 22nd July 2009.
- Registered as a non-life insurance provider under the Regulation of Insurance Industry Act.
- Supported by two of the largest financial entities in the country – People's Leasing & Finance PLC and People's Bank.
- Successfully completed the initial public offering and listed on the Main Board of CSE.

HOW WE OPERATE

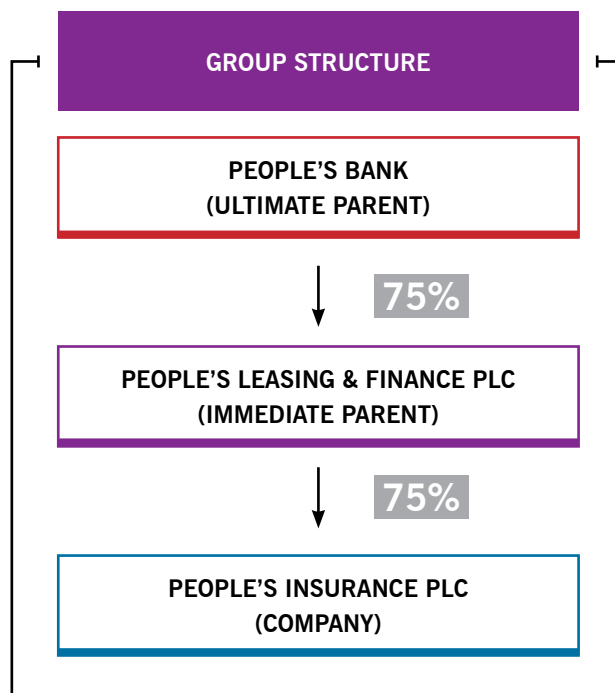
- Island-wide presence through window operations within PLC's branch network with a unique opportunity to access an existing and potential client base in an effective and cost efficient manner, apart from operations at our head office and two regional offices.
- Increase our market share through customer base of People's Leasing & Finance PLC and People's Bank.
- Directly grow our customer base through our direct marketing channels.

WHERE WE STAND

- We are one of the most profitable non-life insurance companies in Sri Lanka with constant underwriting profits.
- We are a leading non-life insurance company in Sri Lanka with more than Rs. 4 billion annual premium income.
- We are financially strong with an asset base over Rs. 6 billion.
- We have a large captive business base through our group.
- We are now focusing on developing non-captive business.

WE ARE A MEMBER OF

- Insurance Board of Sri Lanka.
- Insurance Association of Sri Lanka.
- Sri Lanka Insurance Institute.
- Institute of Chartered Accountants of Sri Lanka.
- Finance Intelligence Unit of Central Bank of Sri Lanka.
- Institute of Personnel Management of Sri Lanka.





**TRUST
US WITH
YOUR
PEACE
OF MIND**



GREAT INSURANCE IS ABOUT
BEING SECURE IN THE
KNOWLEDGE THAT YOUR
ASSETS ARE LOOKED AFTER,
AND THAT PEACE OF MIND IS
WHAT WE'RE ALL ABOUT.

BUSINESS MODEL

STAKEHOLDERS



VISION

To be appreciated for building lasting trust based on strength, stability and sustainability



GOVERNANCE

RISK AND OPPORTUNITIES

INPUT

- Reinsurers
- Vehicle agents
- Vehicle dealers
- Banks
- Financial institutions
- Assessors
- Valuers
- Actuaries



PROCESS

- Underwriting
- Claims assessment
- Fund management
- Compliance
- Corporate social responsibility



PERFORMANCE

CAPITAL EMPLOYED IN VALUE CREATION;



Financial Capital

Our primary sources of financial capital are stated capital provided by our shareholders, retained profits and cash flows generated from our business activities. These sources of funding have been more than sufficient to pay claims to policyholders and dividends to shareholders while earning a substantial investment income from our investment portfolio.



Manufactured Capital

Being in the service industry, our manufactured capital mainly comprises tangible assets which facilitates the provision of service such as IT assets and equipments.



Intellectual Capital

We have invested in technology, systems and processes, including an integrated user-friendly IT system to provide an outstanding service to our customers.



Human Capital

Our management team consists of well-experienced professionals in the insurance industry that helps ensure appropriate decisions and actions. Our employees mainly consist of young and dynamic staff, helping ensure a pleasant experience to our customers.



Social and Relationship Capital

Sound corporate relationship with our reinsurers, regulators, insurance intermediaries such as insurance agents and brokers, vehicle agents and dealers, garages, banks and financial institutions is one of the core competencies.



Natural Capital

Being in the insurance industry, we are a low impact user of natural resources.



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

STRATEGY AND RESOURCES ALLOCATION

OUTPUTS

- Insurance premiums
- Reinsurance recoveries
- Investment income
- Claims cost
- Underwriting and other administrative costs



OUTCOMES

- Return on investment
- Employee loyalty
- Best work practices
- Customer loyalty
- Brand enhancement
- Positive word of mouth
- Less carbon footprint
- Responsible corporate citizen



OUTLOOK

EXTERNAL ENVIRONMENT

VALUE CREATION OVER TIME

CAPITAL ENHANCED IN VALUE CREATION;



Financial Capital

In 2016, the Company generated Rs. 1,347 million internally as total value added. This was primarily used for;

Employee salaries and benefits	Rs. 201 million
Broker and agent commissions	Rs. 380 million
Government taxes	Rs. 75 million
Supplier payments	Rs. 36 million
Shareholder dividends	Rs. 270 million

Our value added statement, on page 31 gives further details on the use of our financial capital.



Manufactured Capital

The Company has developed infrastructure throughout past years in order to provide an outstanding customer service, amounting to Rs. 21 million. Additions during the year were Rs. 9 million.



Intellectual Capital

The Company owns an integrated comprehensive user friendly insurance system in order to provide highly-customised customer service. The value of the information system is Rs. 23 million as at the reporting date.



Human Capital

We employed 330 people and paid Rs. 201 million in salaries and benefits to our employees during the year under review.



Social and Relationship Capital

We actively manage the stakeholder relationships on which our business depends, including with communities, business partners, government and regulators. We strive to not just meet, but exceed their expectations.

Our value added statement on page 31 gives further details on the expenses on social and relationship capital.



Natural Capital

The Company's carbon footprint amounted to 373.31 tonnes of CO₂ equivalent during the year under review. We also initiated a greenery project by sponsoring 'One Million Tree Programme' which is expected to reduce the carbon footprint of the Company by 40 tonnes of CO₂ equivalent per annum after five years.

VALUE CREATION

OVERVIEW

As a flagship subsidiary of a well-respected financial services provider, we have the capacity and the key success factors for significant value creation within our burgeoning industry. The value we create is far-reaching, with ripple-effect benefits flowing through our entire economy and supporting the nation's drive to meet higher economic goals.

We are geared with a strong mainstay and well-positioned to reach out and meet our stakeholders' expectations, be it as returns to our shareholders; versatile product and excellence in service for our customers; employment, career development, remuneration and benefits for our employees; business opportunities for our business partners; taxes to support public expenditure; social and environmental responsibility with solid work ethics to uplift our industry and the society as a whole.

OUR APPROACH

Reaching out to sustainability in operations, we have always looked to create value from a long-term and broader perspective, looking into the interest of our shareholders and all other stakeholders. Guided by our parent company's business policies and practices, we have progressively embraced integrated thinking through our seven-year corporate journey. Looking beyond mere commercial viability, we seek to blend in responsibility, ethical work values and best practices in governance and risk management into our business operations. Our strategic aim is to ensure a solid top-line through competitiveness and efficiency in operations, in turn, culminating in profitability. Yet, our aim is not limited to mere short-term profits, but, we seek to uphold corporate stewardship

and be responsible to address social and environmental issues, mainly relevant and closely linked to our operations.

We have in place clear and defined strategies to ensure that we are able to make 'best-fit' decisions on resource allocations to maximise value creation. We are focused in planning and managing our key capitals proactively and efficiently and thus, ensure the quality of the value we create and meet stakeholder expectations from a broader perspective.

CAPITAL MANAGEMENT

Financial Capital

Our funds needed to support value creation process are generated by way of equity from our shareholders. Apart from equity, we also rely on our internal cash flows. The funds thus raised are utilised to support our day-to-day business activities, expansions and upgrades, in turn, generating income and profits. In the reporting year, we continued to sustain a sound financial performance, despite the challenges of our business backdrop. We generated Rs. 4,340 million as premium income, recorded underwriting profits and earned sound investment income. This culminated in net profits of Rs. 658 million, enabling total dividend for our shareholder of Rs. 1.75 per share, including the proposed final dividend with a pay out of Rs. 350 million, indicating a dividend payout ratio of 53%. Return on equity stood at 25%.

Human Capital

We are endowed with a talented team of employees. Their expertise and committed service are utilised in operations, significantly underlining our value creation process. Therefore, we seek to support them—extending an enabling workplace; developing their level of competence through skills training; compensating their services; and ensuring their wellbeing. In the year under review, we employed 330 employees including 90 new recruitments. We incurred a sum of Rs. 201 million on remuneration, rewards, increments, bonuses, welfare and statutory obligations. This reflected 26% increase over the previous year. We invested Rs. 1.6 million on training.

Intellectual Capital

We rely on our intangible assets to support our value creation process. Our corporate standing, brand and our affiliations as a subsidiary to a leading financial services group take center-stage in this regard. The cost-effective distribution through our parents' branch network and the solid repute of People's Leasing & Finance PLC and People's Bank underscore our strength in the market, gaining trust and confidence of our customers, business partners and investors. The shared administrative functions with our parent, People's Leasing & Finance PLC, including HR and IT, enable us to leverage on economies of scale and be cost efficient in our business.

We also rely and invest in latest digital solutions to enhance our value creation capacity. Clearly reaching out to support customer expectations, our systems and processes along with real-time analytics and mobile technology support us to be efficient in our product delivery with personalised

insurance packages, quick-turn around in processing of policies and claims and being responsive in pricing. We have already invested Rs. 64 million on information technology.

Relationship Capital

Nurturing relationships with our customers—to gain their trust, patronage and loyalty—play a pivotal role in our efforts to create sustainable value. In our efforts, we strive to be more responsive to customers' changing expectations, focusing on product responsibility and extending an excellent service. We have a versatile product offer to support our customers to manage their risks in their lives and businesses. We are also fair in our pricing and claims settlements. We take our fiduciary duty to customers with responsibility and ensure that we manage our business with proper risk management and controls. In the year, we had 118 customer touch points, including fully-fledged branches and window offices in our parent branches.

We also rely on our relationships with our business partners—insurance intermediaries and general suppliers to support our operations. Our ties with 53 insurance brokers and agents play a considerable role in our efforts to grow our market share, particularly, to penetrate the non-captive markets. In the reporting year, we have incurred Rs. 380 million as commissions for their services rendered. We also paid Rs. 36 million to our suppliers, predominantly locally based.

Coinciding with our debut on the Colombo Stock Exchange as a public quoted company, we strived to work towards strengthening our relationship ties with our investors. We sought to engage them with a consistent dialogue and ensured that we filed necessary disclosures on the Company with the regulator and followed and complied with relevant laws, rules and regulations.

Social Capital

Ensuring our responsibility to society underlines our quest to create value sustainably. We are committed to uphold good relations with relevant regulatory and statutory bodies. We are conscientious in complying with the mandatory and voluntary codes and practices, and we seek ensure that we meet our reporting obligations effectively. We are also prompt in meeting our obligations to the Department of Inland Revenue, thus, contributing to the tax revenue of the country. In the year under review, we incurred Rs. 75 million as income tax.

We also seek to strengthen our role within communities, particularly in areas where we operate. We engage in philanthropy and seek to give community based employment. In the year under review, we hired 75 as community recruitments and spent Rs. 0.6 million on philanthropic activities.

Value Creation Process				
	Inputs	Business Activities	Output	Outcome
Financial Capital	<ul style="list-style-type: none"> Shareholder equity Internal cash generation 	<ul style="list-style-type: none"> Marketing and promotions Processing policies Claim settlement Underwriting Investment management Capital expenditure 	<ul style="list-style-type: none"> Net profits Cash flows Dividends Financial stability 	<ul style="list-style-type: none"> Shareholder trust and confidence Shareholder loyalty
Human Capital	<ul style="list-style-type: none"> Expertise and hard work of permanent contract and temporary employees 	<ul style="list-style-type: none"> Skills development Performance management Recruitments Staff welfare Payroll and benefits 	<ul style="list-style-type: none"> Employee competence and professionalism Employee wellbeing Productivity Retention 	<ul style="list-style-type: none"> Solid bonds with employees Loyal and motivated workforce

VALUE CREATION

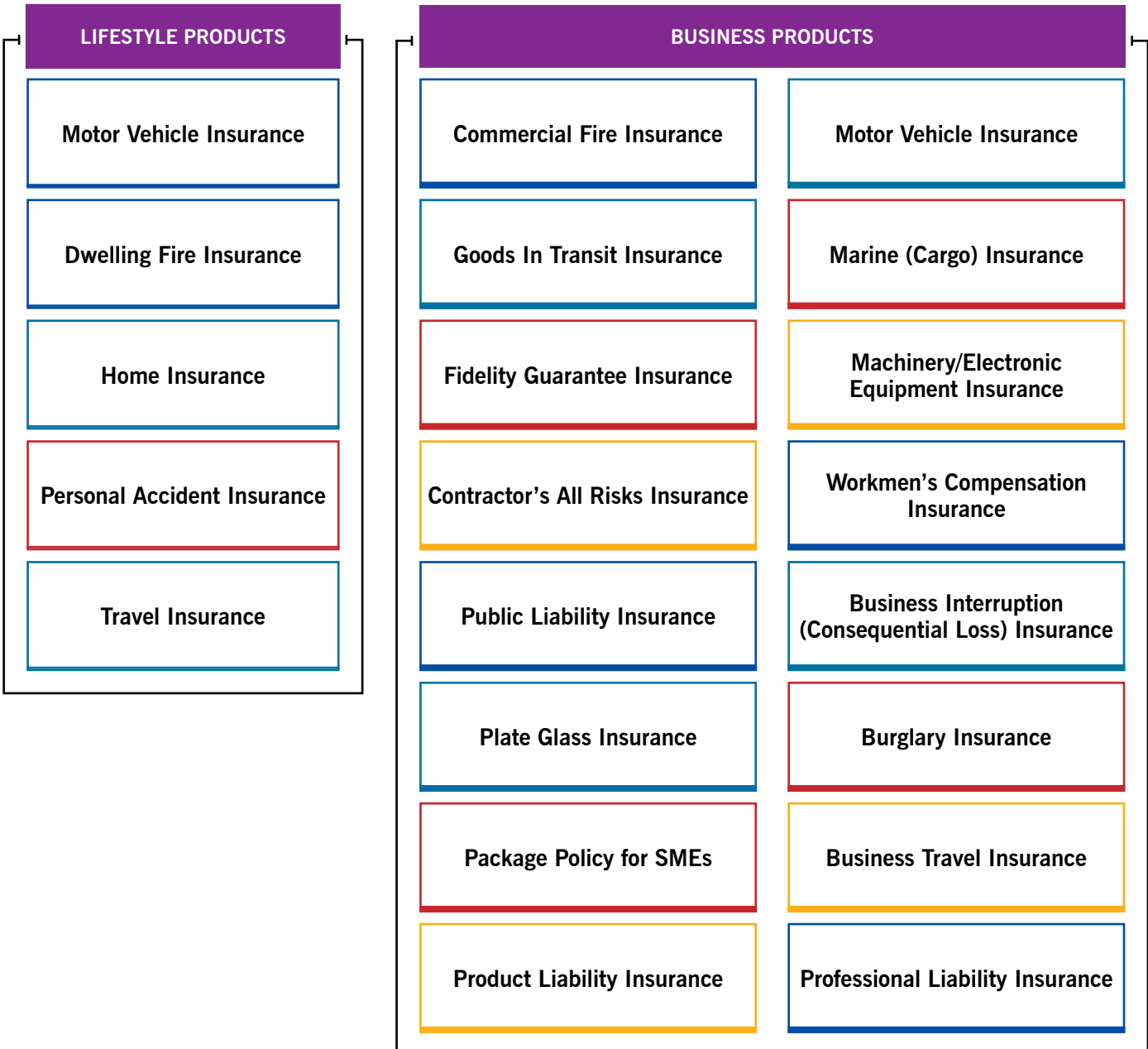
Value Creation Process				
	Inputs	Business Activities	Output	Outcome
Intellectual Capital	<ul style="list-style-type: none"> Corporate brand Group synergies 	<ul style="list-style-type: none"> Window operations Cross selling Shared services 	<ul style="list-style-type: none"> Comprehensive and accessible product solutions Competitive advantage Market share Economies of scale and lean overheads 	<ul style="list-style-type: none"> Strong work ties with parent and group companies Customer loyalty Brand value enhancement and top-of-the mind brand recall Positive-word-of-mouth
	<ul style="list-style-type: none"> IT systems, processes and mobile applications 	<ul style="list-style-type: none"> Investments in current and suitable technology Developing new products and value addition 	<ul style="list-style-type: none"> Streamlined operational processes Competitiveness Efficient and speedy service Customer satisfaction 	<ul style="list-style-type: none"> Customer loyalty Brand value enhancement Positive-word-of-mouth
Relationship Capital	<ul style="list-style-type: none"> Customer patronage 	<ul style="list-style-type: none"> Marketing and brand communication Product development Customer service 	<ul style="list-style-type: none"> Customer satisfaction 	<ul style="list-style-type: none"> Customer confidence, strong ties and loyalty Brand value enhancement and top-of the mind brand recall Positive-word-of-mouth
	<ul style="list-style-type: none"> Services of insurance intermediaries Products and services from suppliers 	<ul style="list-style-type: none"> Training and managing insurance intermediaries Managing general suppliers and procurement 	<ul style="list-style-type: none"> Business from insurance intermediaries Quality and price competitive supplies 	<ul style="list-style-type: none"> Long-standing work ties with insurance intermediaries Long-standing preferential ties with suppliers
Social Capital	<ul style="list-style-type: none"> Investor patronage 	<ul style="list-style-type: none"> Maintaining investor dialogue Filing disclosures on the Company with the regulators Complying with relevant laws, rules and regulations 	<ul style="list-style-type: none"> Investor satisfaction and support 	<ul style="list-style-type: none"> Investor confidence and long standing ties Positive-word-of-mouth and recognition on the stock market
	<ul style="list-style-type: none"> Statutory and regulatory bodies 	<ul style="list-style-type: none"> Complying with laws, rules and regulations 	<ul style="list-style-type: none"> Compliance with laws, rules and regulations 	<ul style="list-style-type: none"> Recognition and respect as a good corporate citizen Brand value enhancement
	<ul style="list-style-type: none"> Community investments 	<ul style="list-style-type: none"> Community recruitments Philanthropic initiatives Employee volunteerism 	<ul style="list-style-type: none"> Community wellbeing Community support 	<ul style="list-style-type: none"> Community bonds, loyalty and recognition Brand value enhancement Positive-word-of-mouth
Natural Capital	<ul style="list-style-type: none"> Usage of energy, paper and other resources 	<ul style="list-style-type: none"> Carbon emission management Energy management Paper and e-waste management Green initiatives and campaigns 	<ul style="list-style-type: none"> Reduced carbon emissions Paper recycled E-waste recycled Green work practices 	<ul style="list-style-type: none"> Carbon footprint Brand value enhancement

VALUE ADDITION AND DISTRIBUTION**■ GRI G4-EC1 ■**

As set out in the value-added statement for the financial year 2016, the value generated in the reporting year stood at Rs. 1,347 million, representing an increase of 15% over the previous year. Out of the value generated, Rs. 962 million, corresponding to 71% was distributed amongst key stakeholders. The balance 29% reaching Rs. 385 million was retained within the organisation.

Value Added Statement				
	2016		2015	
	Rs. Mn	%	Rs. Mn	%
Value addition				
Net earned premium	3,723	-	3,268	-
Other revenue	527	-	349	-
Net claims	(2,628)	-	(2,257)	-
Cost of external services	(275)	-	(191)	-
Total value added	1,347	-	1,169	-
Value distribution				
Employees – salaries and other benefits	201	15	160	14
Intermediaries – insurance commissions	380	28	338	29
Government – taxes	75	5	139	12
Shareholders – dividends	270	20	240	20
Suppliers – payments	36	3	45	4
Retained value				
Depreciation	22	2	23	2
Reserves	363	27	224	19
Total value distributed and retained	1,347	100	1,169	100

KEY PRODUCTS



AWARDS AND RECOGNITION



2016

SILVER AWARD
2015 Vision Awards Annual Report Competition

'The Next Phase' Annual Report 2015 was recognised with the Silver Award for Excellence within Insurance Industry Category by the League of American Communications Professionals, USA.

2016

CERTIFICATE OF MERIT
CMA, Excellence in Integrated Reporting Awards - 2016

'The Next Phase' Annual Report 2015 was awarded with a Certificate of Merit by the Institute of Certified Management Accountants of Sri Lanka (CMA).



2016

COMPLIANCE AWARD
CA Sri Lanka 52nd Annual Report Awards

'The Next Phase' Annual Report 2015 was presented with a Compliance award under the Insurance Industry Category by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

STAKEHOLDER ENGAGEMENT

■ GRI G4-24 – G4-27 ■

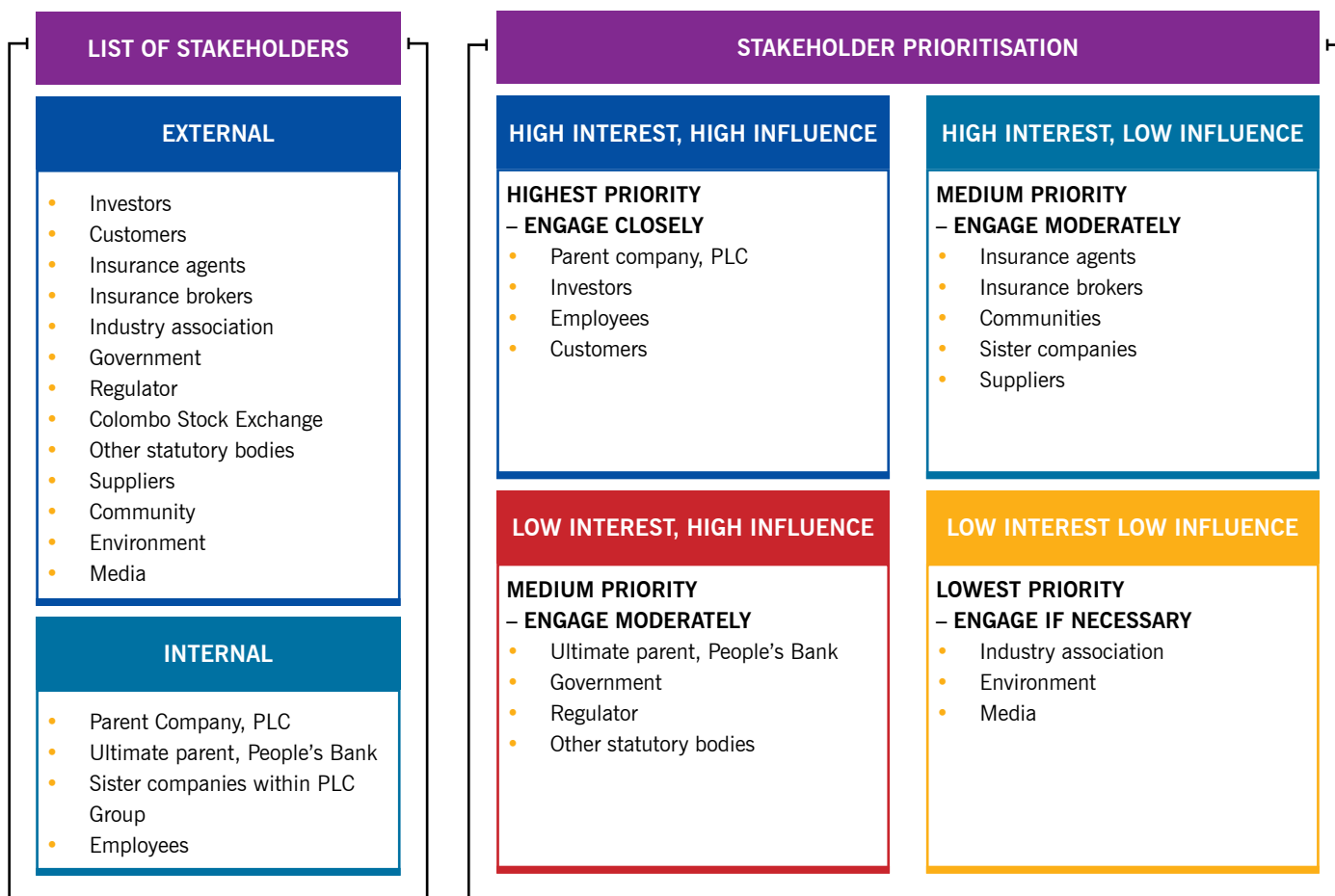
The Approach

As a responsible non-life insurer, we are committed to build and uphold sound relationships with our stakeholders. We have in place a structured and an active engagement process, giving due precedence to best practices—inclusivity, accountability, transparency and professionalism. We are conscientious in our efforts to reach out to our stakeholders, seeking to shape our organisation to be in line with their values; collaborate on mutually beneficial activities; ensure effective communication and receptivity to address their material issues and meet their diverse expectations. Our decision making at the strategic level to daily management is well aligned to this engagement process.

Identification of Key Stakeholders

During the planning and budgeting sessions, as was the case in the preceding year, we reviewed our list of stakeholders, taking into consideration their level of influence on our operations and our level of impact on them through our strategy and operations. Prioritisation of stakeholders is based on four scenarios from high to low in impact and influence. Stakeholders falling within the ‘high interest and high influence’ category are identified to be given top priority with close engagement. Our reporting initiatives give precedence to this stakeholder group.

Our stakeholders, prioritisation, level of engagement and the process are set out below:



Stakeholder Engagement					
Key Stakeholders	Priority	Engagement Tools	Frequency	Issues, Concerns and Expectations	PI's Response
Investors	High	<ul style="list-style-type: none"> Financial statements Annual Report Annual General Meeting Extraordinary General Meeting Declaration through CSE 	<ul style="list-style-type: none"> Quarterly Annually As and when required 	<ul style="list-style-type: none"> Return on investment Good governance and corporate ethics Risk management Internal controls Compliance Social responsibility 	<ul style="list-style-type: none"> Operate as a profitable venture with positive returns. Timely disclosures made on the Company plans, performance and changes. Compliance to laws, rules and regulations
Parent company, PLC	High	<ul style="list-style-type: none"> Board papers Progress reports Financial statements Group meetings Business agreements Annual Report Annual General Meeting Extraordinary General Meeting Networking events 	<ul style="list-style-type: none"> Monthly Quarterly Semi-annually Annually As and when required 	<ul style="list-style-type: none"> Operational and financial performance Business synergies Good governance and corporate ethics Risk management Internal controls Compliance Social responsibility 	<ul style="list-style-type: none"> Follow through with an integrated strategy and deliver on goals in line with PLC group ethos. Build strong ties with customers referred by PLC. Operate as a profitable venture with positive returns. Operate with due diligence, upholding good governance and risk management. Duly report on the organisation's plans and performance.
Ultimate parent company, People's Bank	Medium	<ul style="list-style-type: none"> Bancassurance agreement Business meetings Annual Report Networking events 	<ul style="list-style-type: none"> Quarterly Annually As and when required 	<ul style="list-style-type: none"> Operational and financial performance Good governance and risk management Business synergies 	<ul style="list-style-type: none"> Strengthen bancassurance ties with People's Bank. Organise and participate in networking events to build positive relationships with bank staff. Operate with due diligence, upholding good governance and risk management.

STAKEHOLDER ENGAGEMENT

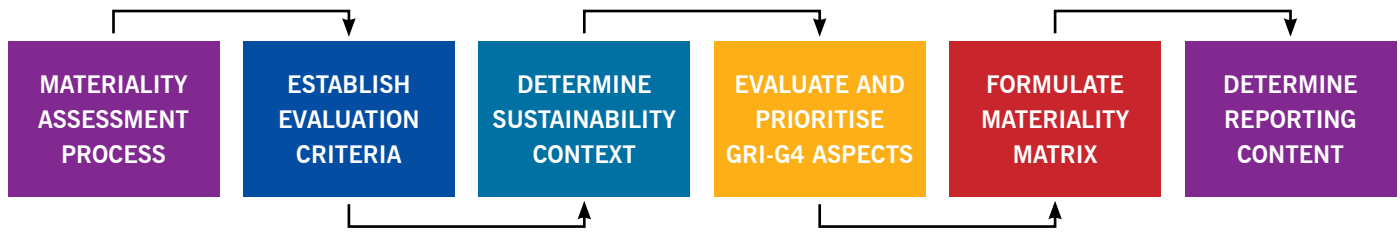
Stakeholder Engagement					
Key Stakeholders	Priority	Engagement Tools	Frequency	Issues, Concerns and Expectations	PI's Response
Sister companies	Medium	<ul style="list-style-type: none"> Business agreements Business meetings Networking events 	<ul style="list-style-type: none"> Monthly Annually As and when required 	<ul style="list-style-type: none"> Business synergies 	<ul style="list-style-type: none"> Share, collaborate and leverage on business opportunities. Organise networking events to build positive relationships with sister companies.
Customers	High	<ul style="list-style-type: none"> Communication material Road shows Door-to-door promotions Website 24-hour call centre Customer feedback 	<ul style="list-style-type: none"> Daily Monthly Annually 	<ul style="list-style-type: none"> Value added product range Fair pricing Convenient and fair claims settlement Quick turnaround time for processing claims 	<ul style="list-style-type: none"> Due staff training on customer service and technical skills to ensure fair pricing and claims settlements. Invest in appropriate technology to extend streamlined processes and speedy insurance solutions. Focused efforts to uphold best business practices.
Employees	High	<ul style="list-style-type: none"> Team meetings General staff meetings Cluster meetings Performance appraisals Training programmes Staff circulars Intranet 	<ul style="list-style-type: none"> Daily Monthly Semi-annually Annually 	<ul style="list-style-type: none"> Due promotions, rewards and remuneration Performance based culture and assessments Skills development Welfare 	<ul style="list-style-type: none"> Extended tactical training opportunities to develop staff skills and careers. Base rewards, recognition and promotions on a transparent performance appraisal mechanism. Extend industry competitive remuneration, bonuses and other welfare measures.
Suppliers	Medium	<ul style="list-style-type: none"> Procurement meetings Supplier information questionnaire Supplier feedback 	<ul style="list-style-type: none"> As and when required 	<ul style="list-style-type: none"> Supplier loyalty Prompt payments Best practices 	<ul style="list-style-type: none"> Ensure timely payments. Give fair referrals. Obtain supplier information through a simple questionnaire and feedback form to assess and nurture best practices.

Stakeholder Engagement					
Key Stakeholders	Priority	Engagement Tools	Frequency	Issues, Concerns and Expectations	PI's Response
Insurance brokers and agents	Medium	<ul style="list-style-type: none"> Meetings Training programmes 	<ul style="list-style-type: none"> As and when required 	<ul style="list-style-type: none"> Industry developments Product development Best practices 	<ul style="list-style-type: none"> Extend due commissions Extend a training programme on products, latest regulations and best business practices.
Communities	Medium	<ul style="list-style-type: none"> Charity projects Employee volunteerism 	<ul style="list-style-type: none"> Annually 	<ul style="list-style-type: none"> Community recruitments Community service projects Philanthropic activities 	<ul style="list-style-type: none"> Organise relevant and community beneficial projects. Recruit marketing officers from the communities where regional and window offices are located.
Regulatory and statutory bodies	Medium	<ul style="list-style-type: none"> Disclosures Annual Report Meetings Industry forums 	<ul style="list-style-type: none"> Quarterly Annually As and when required 	<ul style="list-style-type: none"> Compliance with regulations and statutory requirements Good corporate governance 	<ul style="list-style-type: none"> Comply with the latest regulatory requirements. Structure the Board with recommended sub-committees in line with good governance practices.
Environment	Low	<ul style="list-style-type: none"> Meetings Annual Report Industry forums 	<ul style="list-style-type: none"> As and when required 	<ul style="list-style-type: none"> Compliance to environmental laws and regulations Employee volunteerism Environment campaigns Recycling waste 	<ul style="list-style-type: none"> Recycling of paper and e-waste through parent company. Support the parent, PLC's initiative on reducing the carbon footprint.
Industry association	Low	<ul style="list-style-type: none"> Association meetings Industry forums Association website 	<ul style="list-style-type: none"> As and when required 	<ul style="list-style-type: none"> Discussion of industry issues Lobby for industry causes 	<ul style="list-style-type: none"> Continue to be an active member of the association.

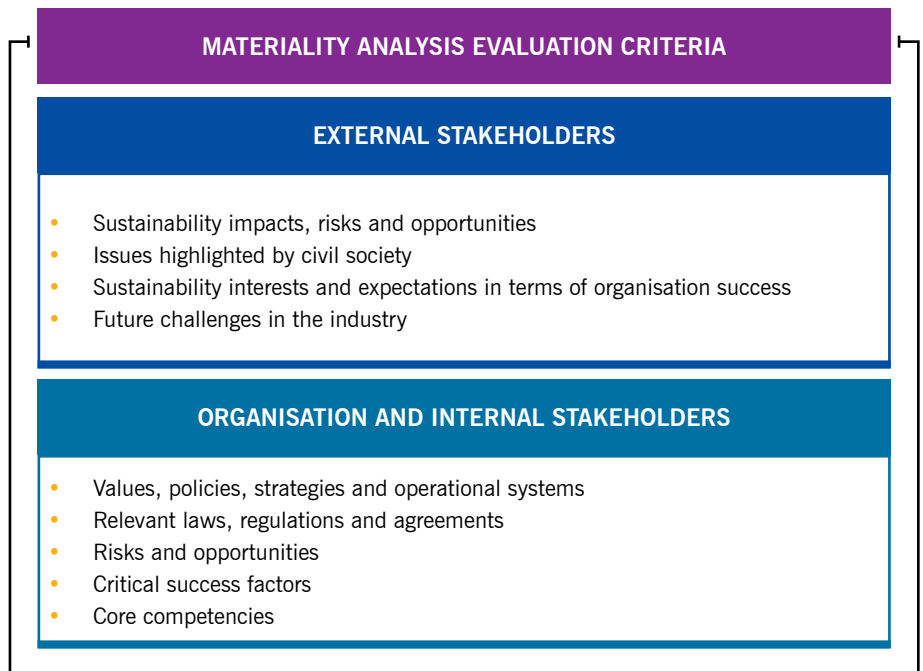
MATERIALITY ASSESSMENT

■ GRI G4-18 – G4-21 ■

Our team, comprising senior and middle-level managers along with relevant executives attached to the operations and finance departments came together to refine and re-validate our key stakeholders and materiality aspects as determined in the previous financial year. These findings supported us to develop material and relevant content targeting our key stakeholders, thereby, strengthening our reporting initiatives. The materiality results thus determined were forwarded to our Chief Operating Officer for his endorsement.



Our analysis is based on the GRI-G4 framework and financial sector guidelines. We closely looked at each aspect identified under the GRI-G4 framework and evaluated them against our materiality evaluation criteria. Our analysis sought to establish the level of significance and relevance in terms of external and internal stakeholders, including the organisation. The aspects thus analysed were prioritised as ‘high’, ‘medium’ and ‘low’ in significance as set out in the materiality matrix. Our report herein focuses on those aspects considered as high to medium in significance. The aspects categorised under low to medium in significance are not reported herein.



SUSTAINABILITY CONTEXT

CATEGORY: ECONOMIC

As a leading insurer, our engagement in economic value creation is substantial. We support our stakeholders to mobilise their savings and manage general risks systematically whilst taking up a significant role as an institutional investor within the equity and money markets.

CATEGORY: ENVIRONMENT

As an insurance-based organisation, our environmental footprint is not extensive. Our impact on the environment mostly comes from energy utilisation, carbon emissions through our operational activities, paper usage and e-waste.

CATEGORY: SOCIAL LABOUR PRACTICES AND DECENT WORK

Operating within a competitive and a highly-specialised sector, work-place dynamics assume a greater importance. It is critical to nurture employee relations, support them to build their skills and careers and empower them to give their best to the organisation.

CATEGORY: SOCIAL HUMAN RIGHTS

With emphasis placed on best corporate practices, it is essential that we uphold human rights of all our stakeholders. We give due regard to enable a non-discriminatory workplace whilst taking necessary precautions to follow laws, rules and regulations. Our HR policies and practices are geared to address human rights violations.

CATEGORY: SOCIAL SOCIETY

In keeping with our group ethos, upholding best practices in business and being socially responsible are essential to build and sustain our corporate image and brand, enabling us to win the confidence and trust of the public.

CATEGORY: SOCIAL PRODUCT RESPONSIBILITY

We give highest priority to extend a responsible product. We are conscientious in our efforts to be fair, transparent and accountable in all our dealings with our customers, essentially underscoring the sustainability of our operations.

MATERIALITY ASSESSMENT

Materiality Analysis					
Materiality Matrix Ref. No.	Aspect	Significance - External Stakeholders		Significance - Organisation and Internal Stakeholders	
		Stakeholder Boundary	Level	Stakeholder Boundary	Level
Category: Economic					
01	Economic performance	<ul style="list-style-type: none"> • Investors • Customers • Insurance agents • Insurance brokers • Suppliers • Government 	High	<ul style="list-style-type: none"> • Organisation • Parent company • Sister companies • Ultimate parent Company • Employees 	High
02	Market presence		Low		Low
03	Indirect economic impact		Low		Low
04	Procurement practices		Medium		Medium
Category: Environmental					
05	Materials	<ul style="list-style-type: none"> • Society • Government • Regulator • Other statutory bodies 	Low	<ul style="list-style-type: none"> • Organisation • Parent company 	Low
06	Energy		Medium		Medium
07	Water		Low	Low	
08	Biodiversity		Low	Low	
09	Emissions		Medium	Medium	
10	Effluents and waste		Medium	Medium	
11	Products and services		Low	Low	
12	Compliance		Medium	Medium	
13	Transport		Low	Low	
14	Overall		Low	Low	
15	Supplier environmental assessment		Low	Low	
16	Environmental grievance mechanisms		Low	Low	

Materiality Analysis					
Materiality Matrix Ref. No.	Aspect	Significance - External Stakeholders		Significance - Organisation and Internal Stakeholders	
		Stakeholder Boundary	Level	Stakeholder Boundary	Level
Category: Social - Labour Practices and Decent Work					
17	Employment	<ul style="list-style-type: none"> • Shareholders • Customers • Insurance agents • Insurance brokers • Suppliers 	High	<ul style="list-style-type: none"> • Organisation • Parent company • Employees 	High
18	Labour management relations		Medium		Medium
19	Occupational health and safety		Low		Medium
20	Training and education		High		High
21	Diversity and equality		Medium		High
22	Equal remuneration for men and women		Low		High
23	Supplier assessment for labour practices		Low		Low
24	Labour practices grievance mechanism		Medium		High
Category: Social - Human Rights					
25	Investment	<ul style="list-style-type: none"> • Shareholders • Customers • Insurance agents • Insurance brokers • Suppliers • Government • Regulator • Statutory bodies 	Low	<ul style="list-style-type: none"> • Organisation • Parent company • Ultimate parent company • Employees 	Low
26	Non-discrimination		Medium		Medium
27	Freedom of association and collective bargaining		Low		Low
28	Child labour		High		Low
29	Forced or compulsory labour		High		Low
30	Security practices		Low		Low
31	Indigenous rights		Low		Low
32	Assessments		Low		Low
33	Supplier human rights assessments		Low		Low
34	Human rights grievance mechanism		Medium		Medium

MATERIALITY ASSESSMENT

Materiality Analysis					
Materiality Matrix Ref. No.	Aspect	Significance - External Stakeholders		Significance - Organisation and Internal Stakeholders	
		Stakeholder Boundary	Level	Stakeholder Boundary	Level
Category: Social - Society					
35	Local communities	<ul style="list-style-type: none"> Shareholders Customer Insurance agents Insurance brokers Communities Government Regulator Statutory bodies Suppliers 	Low	<ul style="list-style-type: none"> Organisation Parent company Ultimate parent company Employees 	Low
36	Anti-corruption		High		High
37	Public policy		Low		Low
38	Anti-competitive behaviour		High		High
39	Compliance		High		Medium
40	Supplier assessments for impacts on society		Medium		Low
41	Grievance mechanism for impacts on society		Medium		Low
Category: Social - Product Responsibility					
42	Customer health and safety	<ul style="list-style-type: none"> Customer Insurance agents Insurance brokers Regulator/Statutory bodies 	Low	<ul style="list-style-type: none"> Organisation, Parent company Ultimate parent company Employees 	Low
43	Product and service labelling		High		High
44	Marketing communication		Medium		Medium
45	Customer privacy		High		High
46	Compliance		High		High
Financial Services Category: Social - Product Portfolio					
47	Product portfolio	<ul style="list-style-type: none"> Regulator Statutory bodies 	Low	<ul style="list-style-type: none"> Organisation, PIL Parent company Ultimate parent company 	Low
48	Audit		Low		Low
49	Active ownership		Low		Low

Materiality Matrix				
Significance - External Stakeholders	High	28, 29	39	01, 17, 20, 36, 38, 43, 45, 46
	Medium	40, 41	04, 06, 09, 10, 12, 18, 26, 34, 44	21, 24
	Low	02, 03, 05, 07, 08, 11, 13, 14, 15, 16, 23, 25, 27, 30, 31, 32, 33, 35, 37, 42, 47, 48, 49	19	22
		Low	Medium	High
Significance - Internal Stakeholders				

Notes:

- 1) Numbers represent economic, environmental and social aspects reflected in the materiality analysis table.
- 2) Highlighted area in the matrix represents the aspects that have been prioritised in developing the report content.
- 3) Comparing to the previous year's analysis, materiality of the procurement practices (04) aspect has been changed from high to medium in significance with regard to internal stakeholders.

Category	Colour Keys
Economic	■
Environmental	■
Social	■

REPORT CONTENT MATERIALITY BASED PRIORITISATION

HIGH

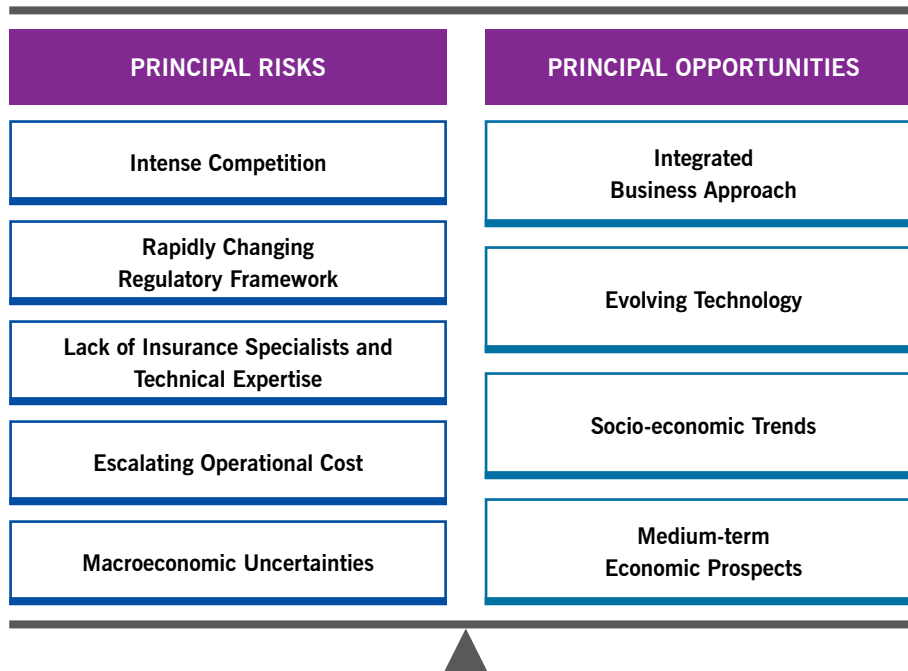
- Economic performance
- Employment
- Training and education
- Anti-corruption
- Anti-competitive behaviour
- Product and service labelling
- Customer privacy
- Product responsibility - compliance

MEDIUM

- Procurement practices
- Energy
- Emissions
- Effluents and waste
- Environmental compliance
- Labour management relations
- Diversity and equality
- Labour practices grievance mechanism
- Non-discrimination
- Human rights grievance mechanism
- Society-compliance
- Marketing communication

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL STRATEGY



During the year under review, we marked a credible corporate performance; growing our premium income; registering positive underwriting results; gaining on investment income; and bolstering our bottom-line profits. The financial position as at the year-end was sound and healthy, whilst the cash flows remained positive.

OVERVIEW

The sluggish and uneven performance across the global economy along with intense geo-political issues, had grave implications on our nation's economic drive. The volatility that prevailed in the year 2016 within our macroeconomic environment coupled with partisan politics and socio-cultural tension undermined our growth aspirations to fall below the anticipated levels. Notwithstanding the overall dynamics, the insurance industry on the whole was robust and achieved double-digit growth whilst moving towards greater compliance with the regulatory demands.

Consolidating our presence within the non-life insurance sector, we were committed and decisive in our efforts to raise the bar in our corporate delivery. We concentrated on growing our captive market business whilst consistently looking to tap a larger slice of the non-captive direct market. We also remained diligent and smart in managing our finances. Not limiting our efforts to mere financial gains, we strived to closely engage with our key stakeholders and bring in quality, standards and best practices to our daily operations.

During the year under review, we marked a credible corporate performance; growing our premium income; registering positive underwriting results; gaining on investment income; and bolstering our bottom-line profits. The financial position as at the year-end was sound and healthy, whilst the cash flows remained positive. We gave due precedence and took necessary actions to strengthen our risk management, internal controls and governance—seeking for greater compliance with the statutory and regulatory obligations.

STRATEGIC REVIEW**■ G4-1 ■****Key Risks and Opportunities**

In a rapidly-evolving business landscape, the insurance industry continues to face a myriad of risks and uncertainties—be it the challenges within the political and macroeconomic environment; sluggish growth levels; changing demographic and socio-cultural trends; overcrowded market conditions with intense competitiveness; along with greater regulatory demands. Yet, within these risks and uncertainties, there lies extensive opportunities for our industry to avail, grow and prosper. Our strategy as discussed below is carefully planned to evade or mitigate the risks with pragmatic measures and controls and move forward to bolt on the emerging opportunities within our industry.

The key risks and opportunities that underline our business decision-making process along with our strategic responses are discussed below.

Principal Risks	
Escalating Operational Cost	Our Response
In today's turbulent business climate, spiralling operational cost is a critical facet which is increasingly undermining insurance industry profitability. Inflationary pressures together with a weaker exchange rate adversely affect claims and expense ratios and thereby, underwriting results and overall profitability. The intense competition that prevails in the industry limits insurers from accounting for rising costs in their pricing.	<ul style="list-style-type: none"> • Leverage on the cost-effective distribution model within our parents' branch network. • Utilise scale benefits through shared services. • Be disciplined in claims management to minimise leakages.
Lack of Insurance Specialists and Technical Expertise	Our Response
In a rapidly-changing business landscape, with greater regulatory demands, the shortage of technically qualified and skilled persons is intensely felt across the industry. This in effect stands as a serious obstacle to the industry way forward in line with best practices; impeding realising its goals and impacting long-term sustainability.	<ul style="list-style-type: none"> • Extend well-structured training and foreign exposure to hone employees' technical skills. • Extend are reimbursement scheme to take up professional studies.
Rapidly Changing Regulatory Framework	Our Response
As an evolving industry, insurers across the board are grappling to align their businesses with the rapid changes taking place within the regulatory landscape. The recent changes within the revised regulatory framework have created uncertainty and challenged the entire industry in all business segments—demanding compliance to the new standards, whilst balancing operational viability.	<ul style="list-style-type: none"> • Respond and manage the regulatory issues through a structured mechanism. • Adjust operations to suit the risk-based capital framework. • Maintain the minimum capital and capital adequacy ratio above the mandatory standards.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL STRATEGY

Principal Risks	
<p>Intense Competition</p> <p>The demand for insurance products is limited and therefore, the industry remains congested and intensely competitive. This gives leeway for some of the players in the industry to resort to unethical marketing gimmicks and pricing to secure a greater market share—compromising the industry standards and wellbeing. This is more distinct within the non-life insurance segment which is over-crowded and all players skewed towards motor-class.</p>	<p>Our Response</p> <ul style="list-style-type: none"> • Consolidate the core customer base channelled through parent companies. • Follow a well-planned and a sustainable path to gain share within the non-captive retail market. • Be disciplined in maintaining a technically-sound pricing policy without resorting to unethical pricing strategies.
<p>Macroeconomic Uncertainties</p> <p>The industry is highly susceptible to the negative trends prevailing within the macroeconomic environment, in turn, dampening market growth as well as investment earning capacity. The changes in monetary policy along with the fluctuations in market interest rates impact planned interest income from fixed income securities, whilst the dynamics within the capital market weigh down the industry's equity investment prospects. The exchange rate volatility along with ad-hoc changes in the duty structure to restrict imported motor vehicles directly impact the motor class insurance business, which dominates the non-life insurance segment.</p>	<p>Our Response</p> <ul style="list-style-type: none"> • An investment committee ensures pragmatic investments, quality portfolio and setting and complying with the regulations imposed by the regulators. • Forecast and track latest trends in interest rates to make informed decisions on investments. • Ensure that equity investments are made in fundamentally sound companies and corporate debt and fixed deposit investments are made in investment grade securities. • Invest in new product development to diversify and minimise the dependence on the motor segment.
Principal Opportunities	
<p>Medium-term Economic Prospects</p> <p>In the post-conflict back drop, the country is broadly set to reap peace dividends and reach out to greater and inclusive economic goals. In the medium term, the economy is expected to grow at a higher pace and achieve upper mid-income status. The insurance industry in this setting is well poised to avail significant opportunities entailed within the burgeoning economic scenario and move forward with greater market penetration and growth.</p>	<p>Our Response</p> <ul style="list-style-type: none"> • Consolidate our positioning at the forefront of the industry and gain greater confidence of the market and reap the benefits of a growing economy. • Leverage on parent's brand strength and group synergies and avail the captive market opportunities present therein. • Create public awareness on insurance industry benefits and deliver a comprehensive product offer.

Principal Opportunities	
Socio-economic Trends	Our Response
<p>Our economy, with higher disposable income levels and a rising middle-class, is more skewed towards consumerism. Masses are more inclined to embrace an upbeat lifestyle, heavily relying on technology and social media. Their attitudes and perceptions are rapidly changing with greater awareness and demand for financial products and services. These social changes are not limited to urban areas, but have progressively moved into the periphery. This has set the platform for our industry to increase penetration into new market segments.</p>	<ul style="list-style-type: none"> • Invest in product development and deliver a versatile product offer to match consumer trends. • Enter new market segments spanning the periphery through the cost-effective distribution channel in collaboration with the parents' branch network. • Develop the official website and extend online products and services for greater accessibility and customer convenience.
Evolving Technology	Our Response
<p>Accompanying the dynamics of the nation's socio-economic landscape, technology has influenced and revolutionised the way people think, live and manage their businesses. Automation, web-based and mobile applications are widespread, enabling greater productivity within the workplace, effective communication for informed decisions, customer accessibility, convenience and good service. Technology, hence, plays a pivotal role in insurance, making way for progressive insurance solutions, pragmatic underwriting and effective marketing and communications.</p>	<ul style="list-style-type: none"> • Invest in state-of-the-art insurance system and automate and streamline processes. • Develop the official website and extend online products and services for greater customer convenience, efficiency and accessibility. • Access data and advance analytical tools to ensure effective underwriting.
Integrated Business Approach	Our Response
<p>An integrated approach to value creation, bringing together economic, social and environmental facets is now widely recognised and respected across the business arena. The stakeholders demand and feel more comfortable with organisations which uphold sustainable business practices with emphasis on good governance, risk management and social and environmental responsibility alongside commercial viability.</p>	<ul style="list-style-type: none"> • Uphold best practices in operations, including responsible marketing and communications, fair pricing and claims along with environmentally friendly and philanthropic activities.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL STRATEGY



STRATEGY, KEY ACTIONS AND OUTPUT

Well-aligned with our commitment to move towards an integrated approach to value creation, we continued to take a broad view of our business and follow a strategy that is clearly directed towards the medium to long term. Upholding our adage ‘building lasting trust’ and seeking to meet our key stakeholder expectations, we remain focused on bringing in best practices, quality and standards to our operational way forward.

In the year under review, our strategy continued to optimise on our critical success factors and bring out sustainable top-line growth. We sought to be disciplined in managing our key capitals, and ensured that we are responsible in our underwriting and financial management, product development, customer, employees and community relations and in protecting our environment. We also strived to improve and achieve greater compliance with well-accepted risk management practices and good governance.

Our five-pronged strategy and the interrelated key actions and output for the year 2016 are discussed in detail below:

OUR FIVE-PRONGED STRATEGY

- **Top-line Growth**
 Consolidate the captive market through parent entities, whilst increasing the market share in direct business through focused positioning and strategic distribution.
- **Underwriting and Financial Discipline**
 Strengthen technical expertise for optimal pricing and ensure efficient claims management and maintain a lean overhead cost structure.
- **Employee Development**
 Uphold best practices in human resources management, ensuring employee empowerment and wellbeing.
- **Governance, Compliance and Risk Management**
 Uphold best practices in governance and comply with the regulatory requirements along with firmer internal controls and risk management.
- **Social and Environment Responsibility**
 Focus on customer service, product responsibility and initiate community based and environmental projects as an integral part of operations.

Strategic Targets vs. Actuals – 2016			
Indicators	Target	Actual	(%) Achievement
Captive business (Rs. Mn)	3,832	3,915	102
Non-captive business (Rs. Mn)	488	425	87
Top-line growth	13.3%	13.8%	104
Underwriting results (Rs. Mn)	269	206	77
Net claims ratio	68.4%	70.5%	N/A
Net expense ratio	25.2%	23.9%	N/A
Net combined ratio	93.6%	94.4%	N/A
Profit after tax (Rs. Mn)	679	658	97
Net profit margin	18.2%	17.7%	97
Human resources expenditure (Rs. Mn)	204	201	99
Community and environmental initiatives expenditure (Rs. Mn)	1.5	0.6	40

N/A - Not Applicable

STRATEGY 1: TOP-LINE GROWTH

We continued to focus in the year under review on growing our top-line in a sustainable manner. Our strategy, on one hand, looks at securing more business through our captive customer base through our collaborative ties with our parent entities, PLC and People's Bank, and the sister organisations within our group network. Out of the total premium earnings, almost 90% come from the captive market sources. On the other hand, we seek to secure a greater share of the non-captive market base within the retail and the small and medium enterprises sector through direct marketing efforts.

Parent and Group Synergies

Refer: *Intellectual Capital*, pages 90 to 93.

As a flagship subsidiary, we are privileged to have the patronage of our parent entities, PLC and People's Bank. Their solid corporate reputation, brand and outreach across the island stand as our foundation, underscoring our quest to gain market share in an intensely-competitive marketplace and grow our top-line cost-effectively. In the reporting year, we continued to rely and leverage on their customer base. The bancassurance arrangements with People's Bank remained intact and we sought to further consolidate our collaborations under this channel. This year, our premium income from this channel stood at Rs. 105 million.

We also sought to consolidate our collaborative role within our sister organisations in the PLC Group. This year under review, we reinforced our ties with People's Leasing Fleet Management Ltd. (PLFML)–securing insurance business of their growing fleet. We also extended insurance solutions to People's Leasing Property Development Ltd. to cover their risks from fire and theft with regard to their construction projects. We even ventured into micro insurance, extending our products to the growing customer base of People's Microfinance Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL STRATEGY

Distribution Channel

Refer: *Relationship Capital - Customers and Business Partners, page 95.*

Seeking greater market share from non-captive sources, we continue to look at availing the market gaps in our industry and seek to enhance our presence as a 'trusted' insurer within the non-life insurance sector. To this end, we look to tap into the vast outreach enjoyed by our parent companies through their branch network which spans across the island. This is a cost-effective distribution option and therefore, we are focused and strategic in establishing window offices and placing marketing representatives in potential locations.

Alternatively, we are also focused in our efforts to brace our own operations at the two regional branches in Galle and Negombo, whilst looking at new potential opportunities to establish fully-fledged branches in key locations. We are considering setting up two branches in the year 2017.

We also continue to rely on our broker and agent network placed across 16 districts to canvass direct business opportunities. At present, we transact with 19 brokers and have 34 agents representing our organisation.

Branding and Marketing

Refer: *Relationship Capital - Customers, page 100.*

In a highly-competitive industry such as ours, it is crucial that we pursue a consistent and an effective branding and marketing strategy to secure our positioning and gain on market share. This is well in line with our quest to build a non-captive market base.

Our marketing team together with our broker and agent network engage in door-to-door direct marketing campaigns in key locations. We also rely on road-shows, jointly organised with our parent, PLC. Below-the-line communication material—brochures and leaflets with product information—are used to communicate during these campaigns. This year under review, we looked at taking off a fully-fledged marketing campaign consisting both below-the-line and above-the-line marketing, targeting a wider audience. We expect this campaign to bear great dividends and enhance our market share in the ensuing years.

Customer Service

Refer: *Relationship Capital - Customers, pages 94 to 101.*

Setting us apart from a competitive marketplace and well in line with our integrated approach to business, we continue to give due precedence to uphold good customer service. As a responsible insurer, we are fully committed to best business practices—extending comprehensive and versatile product solutions, fair premium pricing and claims settlements.

We extend due training to our marketing and operational staff and invest well on digital solutions in processing some of the policies and claims, transactions and communications; thereby, facilitating greater customer convenience with speedier turn-around times and lower costs.

Product Development

Refer: *Relationship Capital - Customers, pages 95 to 97.*

In keeping with our growth aspirations, we continue to uphold a well-rounded product strategy. Closely following the current industry trends, we look at bringing in greater value-addition, particularly relying on digital solutions to brace our existing portfolio. Our focus is on initiating web-based features to our product offer, including an online payment gateway and mobile applications—facilitating greater customer accessibility and convenience.

We continue to allocate resources on further developing our new product solutions, seeking to curtail our dependence on motor class. Following up on the initiatives undertaken in the preceding year, we looked at strengthening our two new product operations—travel and Islamic insurance. We are currently looking at strengthening newly-introduced insurance solution to cover the risks of solar panel loan products. This is well in line with our efforts to adopt more 'greener' measures in our operations. This product is targeted at both the retail segment and the corporate clientele.

STRATEGY 2: UNDERWRITING AND FINANCIAL DISCIPLINE

Refer: *Financial Capital, pages 71 to 73.*

Moving in tandem with our top-line strategy, we are concerned and cautious in our efforts to sustain prudent pricing and efficient claims management; ensuring that we uphold positive underwriting results as compared to many other insurers who are challenged in this regard within the non-life insurance industry.

To this end, we stand committed to hone expertise with due technical training to identify and account for the risks involved in the underwriting process. We maintain a lean cost structure through our unique distribution network and shared services with our parent PLC, enabling us benefits from economies of scale. We are also diligent in our efforts to be disciplined in managing claims to curtail our leakages. Our ties with our sister organisation, People's Leasing Fleet Management Ltd. give us access to a competent pool of qualified and experienced valuation assessors; complementing our quest for better claims management. With regard to investment decisions, we are conscious and pragmatic, giving due consideration to balance between risks and returns.

STRATEGY 3: EMPLOYEE DEVELOPMENT

Refer: *Human Capital, pages 83 to 85.*

In keeping with our group strategy, we remain committed to extend a progressive and a balanced work-place for all our employees. Our aim is to recruit the best-in-class employees, maintain the right level of remuneration on par with the industry, reward and recognise performance. We invest well on staff training, extending on-the-job training along with structured training programmes to enhance employee technical skills and soft-skills—paving the path for career advancement and empowering them to face the challenges of our business environment. We also encourage our employees to take up further studies under our education reimbursement scheme.

STRATEGY 4: GOVERNANCE, COMPLIANCE AND RISK MANAGEMENT

Refer: *Governance and Risk Management, pages 129 to 191.*

Well attuned to the group ethos, we are conscious and conscientious in adopting good governance measures—seeking to minimise any gaps in complying with the regulations and standards prescribed by our regulators—the Insurance Board of Sri Lanka, Securities and Exchange Commission of Sri Lanka, Colombo Stock Exchange and along with other relevant statutory bodies.

We also give much thought to our risk management and internal controls. In the year under review, we took initiating to bring the internal audit function under the direct supervision of our Board. We also maintain 'A' rated reinsurers and ensure that we are prudent in our provisioning policy, particularly when accounting for claims incurred but not reported (IBNR).

STRATEGY 5: SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Refer: *Social Capital and Natural Capital, pages 108 to 118.*

As a responsible insurer and in keeping with our group values, we remain steadfast in our efforts to balance our commercial operations with sustainability facets. Envisioned in our integrated approach, we seek to engage communities, particularly in areas where we operate and seek to support communities in need with philanthropic initiatives. We also stand committed to move towards 'greener' operations—seeking to reduce our carbon footprint.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL STRATEGY

Strategic Focus, Key Actions and Achievements – 2016		
Strategic focus: Strengthen synergistic ties with parent, PLC and tap into its market base; collaborate with sister companies to secure group business; and reinforce the bancassurance arrangement with the ultimate parent, People's Bank		
Strategy 1	Key Actions	Output
Top-line growth - Parent and group synergies	<ul style="list-style-type: none"> Access PLC's vast client base through customer referrals. Collaborate with PLC through cross-selling. Seek synergies and work closely with sister companies and cater to their insurance needs. Develop stronger networking ties with People's Bank. 	<ul style="list-style-type: none"> Secured premium income valued at Rs. 3,132 million through PLC customer referrals. Secured insurance business valued at Rs. 10.6 million from People's Leasing Fleet Management Ltd. and People's Leasing Property Development Ltd. Secured Rs. 86 million in premium income through People's Microfinance Ltd. Generated premium income of Rs. 105 million through the bancassurance ties with People's Bank.
Strategic focus: Leverage on the cost-effective distribution channel and expand it in strategic locations with a wider outreach		
Strategy 1	Key Actions	Output
Top-line growth - Distribution channel	<ul style="list-style-type: none"> Consolidate operations at the two regional offices in Galle and Negombo. Increase the number of marketing officers and open new window offices within the parents' branch network. 	<ul style="list-style-type: none"> Generated premium income of Rs. 32 million from direct customer operations at the regional offices. Established seven new window offices and placed 17 new marketing representatives at PLC branches.
Strategic focus: Position brand and market the product offer using appropriate marketing communications and promotion techniques		
Strategy 1	Key Actions	Output
Top-line growth - Branding and marketing	<ul style="list-style-type: none"> Carry out below-the-line and above-the-line marketing campaigns including door-to-door campaigns, road shows and distribution of promotional material. Organise and participate in joint promotional campaigns with PLC. 	<ul style="list-style-type: none"> Organised and participated in 18 door-to-door campaigns in collaboration with PLC in 11 districts. Developed promotional material worth Rs. 0.9 million.
Strategic focus: Reach operational excellence through responsible, fair and efficient customer service		
Strategy 1	Key Actions	Output
Top-line growth - Customer service	<ul style="list-style-type: none"> Deploy technology to extend an efficient service with quick turn-around times. Extend structured training on customer care and service. Obtain customer feedback to cater to the changing customer needs. Uphold professionalism, integrity and commitment to customer protection practices. 	<ul style="list-style-type: none"> Strengthened online transactions with an electronic payment platform. Deployed 17 new marketing officers. Settled Rs. 2.6 billion worth of claims in 2016, an increase of 16% over 2015.

Strategic Focus, Key Actions and Achievements – 2016		
Strategic focus: Extend a versatile set of products with greater value addition		
Strategy 1	Key Actions	Output
Top-line growth - Product development	<ul style="list-style-type: none"> Invest in new product development and add value-added features to suit customer needs. Extend products in collaboration with PLC to extend a comprehensive product range. Build brand identity for key products to strengthen product outreach. 	<ul style="list-style-type: none"> Consolidated the operation of the two new products—travel and motor Takaful insurance. Set out structure to establish solar panel insurance products.
Strategic focus: Be pragmatic in underwriting and disciplined in financial management		
Strategy 2	Key Actions	Output
Underwriting and financial discipline	<ul style="list-style-type: none"> Invest in training employees on technical skills and extend advanced IT tools to empower them in the underwriting process. Ensure efficient claims management and minimise leakages. Deploy technology to streamline operations and enhance productivity. Leverage on group synergies and bolt on the cost-effective distribution opportunities and obtain scale benefits. Seek high-return investments, balancing equity and fixed income securities to minimise risks-returns. 	<ul style="list-style-type: none"> Extended technical training to staff members with 8,430 training hours. Deployed 46 assessors through People's Leasing Fleet Management Ltd. to ensure efficient claims processing. Maintained net claims ratio at 70% and net combined ratio at 94%. Posted a strong underwriting result of Rs. 206 million. Sustained bottom-line profitability with profit after tax at Rs. 658 million, an increase of 42%.
Strategic focus: Recruit best talent; hone employee skills; enhance workplace team culture and professionalism		
Strategy 3	Key Actions	Output
Employee development	<ul style="list-style-type: none"> Recruit best talent after a diligent selection process. Extend technical training opportunities to staff along with soft skills. Extend financial support for staff to take up further professional studies. Nurture a performance-based work culture and reinforce performance evaluation mechanism. Reward and incentivise employees on performance. Give preference to internal promotions based on good performance. 	<ul style="list-style-type: none"> Recruited 90 staff members. Invested Rs. 1.7 million on staff training, including reimbursement of professional studies. 93% of the cadre was assessed on a structured performance appraisal scheme. Promoted 81 staff members. Paid bonus amounting to Rs. 30 million which is paid based on performance and service period. Extended Rs. 12.9 million as defined benefit obligations.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL STRATEGY

Strategic Focus, Key Actions and Achievements – 2016

Strategic focus: Comply with the rules and regulations stipulated by the regulators and other statutory bodies and ensure prudent business practices

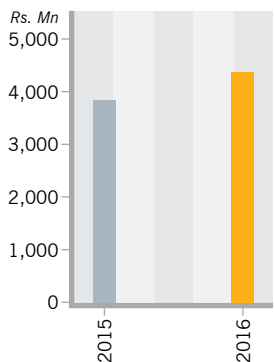
Strategy 4	Key Actions	Output
Risk management, good governance and compliance	<ul style="list-style-type: none"> • Ensure compliance with the Regulation of Insurance Industry Act and other regulations imposed by the Insurance Board of Sri Lanka. • Ensure compliance with continuing listing requirements prescribed by the Colombo Stock Exchange. • Strengthen the structure in compliance with the risk-based capital model. • Maintain the prescribed minimum capital and capital adequacy ratio. • Maintain a sound reinsurance base. • Adopt prudent provisioning method. 	<ul style="list-style-type: none"> • Established an investment committee comprising the Managing Director and the management. • Annual inspection completed by the Insurance Board of Sri Lanka and endorsement received on the standards and measures adopted in compliance with the prescribed rules and regulations. • Established an internal audit function directly under the supervision of the Company instead as a shared function with PLC. • Successfully transitioned to the risk-based capital model. • Maintained the capital adequacy ratio (CAR) well above the minimum of 120%. • Maintained relationships with 'A-' or above rated reinsurers for reinsurance premium amounting to Rs. 351 million. • Maintained a net provision of Rs. 413 million for incurred but not reported (IBNR) claims based on the actuarial valuation in addition to case reserves.

Strategic focus: Engage communities, carry out philanthropic activities and adopt environmentally-friendly practices in the workplace whilst supporting the parent, PLC's green campaigns and initiatives.

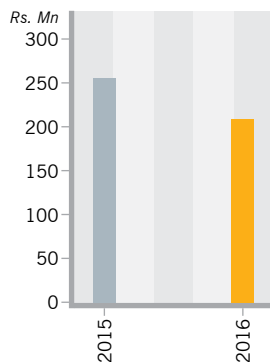
Strategy 5	Key Actions	Output
Social and environmental responsibility	<ul style="list-style-type: none"> • Reinforce the role of the sustainability team with clear social responsibility goals. • Organise community service and philanthropic projects. • Uphold green practices within the organisation. • Collaborate with parent, PLC, on environmental campaigns and carbon-neutral initiatives. 	<ul style="list-style-type: none"> • A community service project was carried out at a cost of Rs. 0.6 million with the participation of 115 employees and 486 volunteer hours. • Recycled 300 kilograms of used paper and 113 kilograms of e-waste. • Measured the carbon footprint, recording 373.31 tonnes of CO₂ equivalent.

KEY PERFORMANCE INDICATORS

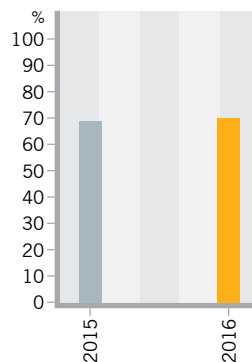
GROSS WRITTEN PREMIUM



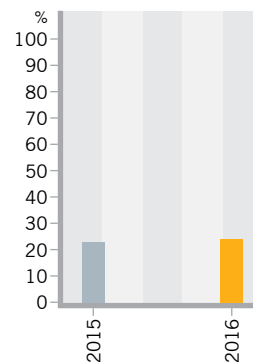
UNDERWRITING PROFIT



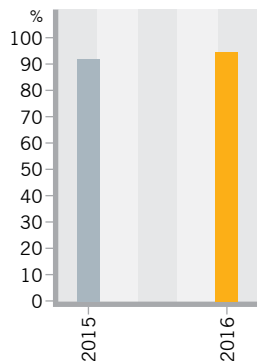
NET CLAIMS RATIO



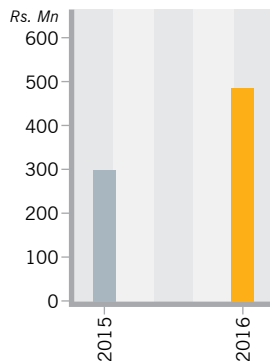
NET EXPENSE RATIO



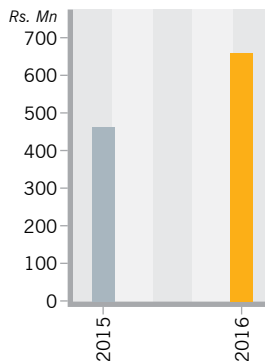
NET COMBINED RATIO



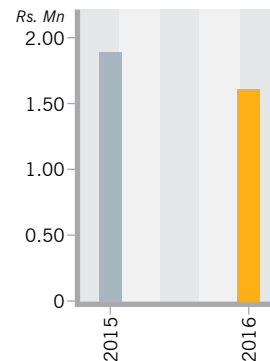
INVESTMENT INCOME



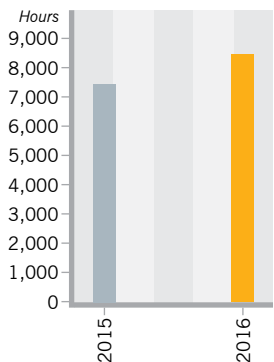
PROFIT AFTER TAX



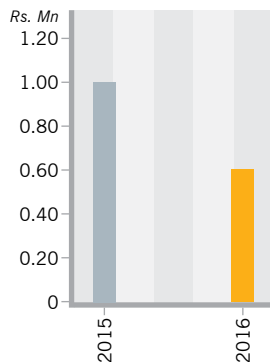
TRAINING INVESTMENT



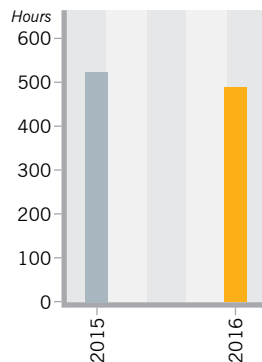
TRAINING HOURS



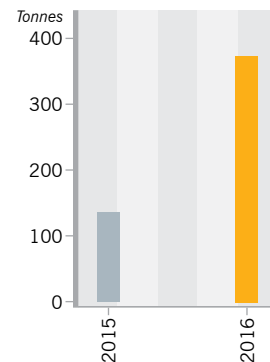
SOCIAL RESPONSIBILITY INVESTMENT



EMPLOYEE VOLUNTEERISM HOURS



**CARBON FOOTPRINT
TONNES OF CO₂
EQUIVALENT**



ECONOMIC REVIEW

WORLD OUTPUT GROWTH

- 2015: 3.2%
- 2016: 3.1%
- 2017: 3.4%

ADVANCED ECONOMIES GROWTH

- 2015: 2.1%
- 2016: 1.6%
- 2017: 1.9%

EMERGING MARKET AND DEVELOPING ECONOMIES GROWTH

- 2015: 4.1%
- 2016: 4.1%
- 2017: 4.5%

Source: *World Economic Outlook Update, January 2017, IMF*

Note: 2016 - estimates and 2017 - projections

GLOBAL ECONOMY

With slow and uneven growth trends widespread across nations, the global economy in the year 2016 continued to perform below potential. Uncertainties that prevailed in the world financial markets, lower inflation and demand in advanced nations, slow-down of China with spill-over effects, and bottoming out of commodity prices, broadly formed the backdrop for the global economic developments. Geopolitical tension following Brexit, influx of refugees to Europe, and the mayhem created around the United States (US) presidential election and the unpredicted result further intensified the down-side risks that marred global prospects.

The advanced nations moved on to firmer grounds, but remained modest in their level

of economic activity. The US in particular, and the United Kingdom (UK), held on to their growth stance spurred by the growing demand and the measures adopted within the fiscal and monetary policy front. In the eurozone, however, the deflationary trends combined with complacency in investments and consumption patterns did not support these nations to completely move away from their economic woes. The uncertainty in trade between the UK and the European Union due to Brexit did not complement the economic prospects in the region. Despite the stimuli policies, Japan's economy remained sluggish, short of expectations.

The emerging and the developing economies led by China, although stable, continued to slow down from their impressive growth stance witnessed in the recent past. The gradual tightening of monetary policy in the US together with the stronger US Dollar and persistent low demand from advanced nations did not reflect well on these economies. We saw China and most other nations bring in policy measures and structural changes to re-balance the shifts in the macroeconomic environment.

As per the 'World Economic Outlook Update, January 2017' published by the International Monetary Fund (IMF), world output in 2016 is estimated to grow at a modest 3.1%, below the growth of 2015. However, the outlook for 2017-2018 is broadly expected to pick-up and the forecasts are set at more optimistic levels.

SRI LANKA ECONOMY

Amidst the sluggishness of the global economy, geopolitical tension and the evolving socio-political challenges within the domestic front, the Sri Lankan economy continued in its growth trajectory, albeit modest compared to the expectations for the post-conflict years. Except for agriculture, the other two sectors, industry and service, added substantial value to the economy. Necessary policy measures were brought in to address the imbalances within the macroeconomic environment—seeking to moderate excessive credit flows to the private sector, curb rising inflation, reduce the mounting pressure on the external position and bring stability to the Rupee against the stronger US Dollar.

Economic growth

GDP GROWTH (ANNUAL)

- 2015: 4.8%
- 2016(p): 4.5%-5.0%

GDP GROWTH (9 MONTHS)

- 2016: 4.0%

Source: *Roadmap, Monetary and Financial Sector Policies for 2017 and Beyond, Central Bank of Sri Lanka*

Note: 2016 Annual - projection

In the first three quarters of 2016, the economy registered a modest a growth of 4.0% as against the corresponding three quarters of 2015. The economy is expected to touch between 4.5%-5.0% growth by the end of the year, almost akin to 4.8% growth registered in the year 2015.

Sectoral performance

AGRICULTURE
<ul style="list-style-type: none"> 2015: 5.5% 1st half 2016: (2.5)%
INDUSTRY
<ul style="list-style-type: none"> 2015: 3.0% 1st half 2016: 5.2%
SERVICES
<ul style="list-style-type: none"> 2015: 5.3% 1st half 2016: 4.9%

Source: Recent Economic Developments, Highlights of 2016 and Prospects for 2017, Central Bank of Sri Lanka

The industry sector posted a strong performance supported by the construction and mining and quarrying sub-sectors which turned around from a negative performance in the preceding year. The value addition from the manufacturing sub-sector was also considerable. The services sector, backed by greater level of activity from financial services, and wholesale and retail trade sub sectors also made considerable value addition to the economy. Adverse weather and the sluggish demand for agriculture exports dampened the agriculture sector performance, mainly that of paddy, tea and rubber.

Inflation

CCPI CORE INFLATION (YOY CHANGE)
<ul style="list-style-type: none"> Dec 2015: 4.5% Dec 2016: 6.3%
CCPI HEADLINE INFLATION (YOY CHANGE)
<ul style="list-style-type: none"> Dec 2015: 2.8% Dec 2016: 4.1%
NCPI HEADLINE INFLATION (YOY CHANGE)
<ul style="list-style-type: none"> Dec 2015: 4.2% Nov 2016: 4.1%

Source: Roadmap, Monetary and Financial Sector Policies for 2017 and Beyond, Central Bank of Sri Lanka

Inflation in the year 2016 trended upwards, but was sustained at single-digit levels. However, supply-side issues due to adverse weather conditions impacting agriculture produce and higher taxation, including the revision in value added tax, pressured inflation to trend upwards. The demand pressures from excessive credit growth to the private sector and the increase in wages and salaries also pressured prices to rise. Changes in monetary policy and other macro-prudential measures were adopted to stabilise the price levels. Both indices, Colombo Consumer Price Index (CCPI) and National Consumer Price Index (NCPI), reflected upward movement in prices.

External position

TRADE DEFICIT
<ul style="list-style-type: none"> 2015: (US\$ 8.4) Bn Jan-Sep 2016: (US\$ 6.2) Bn
CURRENT ACCOUNT BALANCE
<ul style="list-style-type: none"> 2015: (US\$ 2.0) Bn Jan-Sep 2016: (US\$ 1.1) Bn
BALANCE OF PAYMENT
<ul style="list-style-type: none"> 2015: (US\$ 1.5) Bn Jan-Sep 2016: US\$ 0.2 Bn

Source: Sri Lanka: Macroeconomic Development in Charts, Third Quarter 2016, Central Bank of Sri Lanka

Export sector earnings continued to decline in the face of sluggish demand that prevailed for Sri Lanka's exports from key markets. Conversely, the measures taken to restrict motor vehicle imports to the country along with lower commodity prices controlled the import bill, in turn supporting the trade deficit to be curtailed. The improvements in inward remittances from foreign employment and tourism earnings further cushioned the current account deficit. However, the financial account came under pressure in the early part of the year with limited inflows of foreign direct investments and net outflows from the capital market and Government securities. Yet, the three-year IMF's 'Extended Fund Facility'

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW

of US Dollars 1.5 billion together with the proceeds from the International Sovereign Bond and syndicated loan, inter-alia, buoyed the country's external sector position by the third quarter of 2016.

The Rupee came under pressure and depreciated considerably against the US Dollar in the first months of 2016. Subsequent Central Bank intervention in the foreign exchange market and improvements in the external sector supported the Rupee to stabilise towards the latter part of the year.

Fiscal management

REVENUE (% OF GDP)
<ul style="list-style-type: none"> 2015: 13.0% Jan-Sep 2016: 9.6%
RECURRENT EXPENDITURE (% OF GDP)
<ul style="list-style-type: none"> 2015: 15.2% Jan-Sep 2016: 10.6%
BUDGET DEFICIT (% OF GDP)
<ul style="list-style-type: none"> 2015: (7.4%) Jan-Sep 2016: (4.1%)

Source: Sri Lanka: Macroeconomic Development in Charts, Third Quarter 2016, Central Bank of Sri Lanka

With focused efforts to consolidate the fiscal position, Government revenue increased in the first nine months of 2016 compared to

the corresponding period in 2015. Recurrent expenditure was kept under control whilst capital and net lending recorded a modest increase in the first nine months of 2016. The overall deficit was below the deficit in 2015 for the first nine months of the year, and the Government expects to uphold the proposed budget deficit of 5.4% of GDP. The deficit was primarily financed through domestic sources.

Monetary policy and interest rates

Y-O-Y PRIVATE SECTOR CREDIT GROWTH
<ul style="list-style-type: none"> 2015: 23.5% Jan-Sep 2016: 22.9%
AVERAGE WEIGHTED DEPOSIT RATE
<ul style="list-style-type: none"> 2015: 6.20% End Sep 2016: 7.56%
AVERAGE WEIGHTED PRIME LENDING RATE
<ul style="list-style-type: none"> 2015: 7.40% End Sep 2016: 12.29%

Source: Recent Economic Developments, Highlights of 2016 and Prospects for 2017, Central Bank of Sri Lanka

Seeking to curb demand pressures on inflation, the Central Bank of Sri Lanka moved towards a tighter stance in monetary policy in 2016. Policy rates, Standard Deposit Facility Rate and Standard Lending Facility Rate increased by 50 basis points to

6.50% and 8.00%, respectively in February 2016 whilst increasing again by 50 basis points to 7.00% and 8.50% respectively in July 2016. Following the policy signals, market rates adjusted upwards in the first nine months of 2016.

Reversing the trends in the preceding year, excess liquidity in the money market was controlled and moderated during the year 2016. Given higher market rates, the trending growth in private sector credit which prevailed in the year 2015 and early part of 2016 bottomed-out from excessive levels during the first nine months of 2016.

Financial sector

The financial sector continued to be stable in line with macro-prudential fundamentals. Both the banking and the non-banking sectors marked a healthy operational performance—achieving a sound growth in loans and advances, profitability and assets. The quality of the portfolio was maintained and provisioning was prudent to cover the non-performing portfolio. The capital and liquidity levels were well managed above the statutory minimum requirements. The Central Bank of Sri Lanka played a proactive role in monitoring and exercising prudential measures to maintain sector stability and accountability.

Economic outlook – short to medium term

The strengthening of the global economy combined with a more balanced and conducive macroeconomic environment—despite, the challenges within the socio-political backdrop—will broadly facilitate greater economic activity in the short to medium term. Investments are expected to expand in both public and private sectors including foreign direct investments, enabling the three key sectors to register stronger level

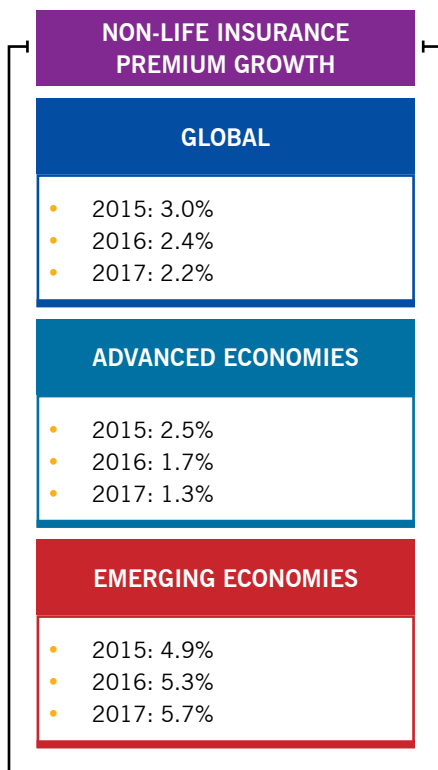
of economic activity and positively contribute to secure a higher rate of GDP growth. In the year 2016, GDP is estimated to reach between 4.5%-5.0% whilst it is forecast to grow between 5.0%-5.5% in 2017.

With the increasing trends in commodity prices in the global markets and the domestic supply conditions, inflation is likely to rise, but necessary policy measures are expected to support inflation to be managed at mid-single digit levels. The external front is likely to further improve with stronger demand from key export markets whilst import expenditure will continue to be rationalised, in turn trimming the trade deficit. Further improvements are expected from tourism and inward remittances. This together with projected increases in inflows into the financial account is expected to buoy the external sector position. The fiscal consolidation will continue into the medium term, seeking to meet revenue targets whilst continuing to rationalise recurrent expenditure.

The Central Bank of Sri Lanka expects to roll out a forward-looking monetary policy with flexible inflation targeting over the medium term. This is expected to manage demand pressures, leading to stability in price levels and the overall macroeconomic environment, thus supporting the nation's aspirations for economic prosperity. In the medium term, the country is expected to move into the upper middle income status and reach per capita GDP of over US Dollars 5,500 by 2020.

(Source: Roadmap, Monetary and Financial Sector Policies for 2017 and Beyond and Recent Economic Developments, Highlights of 2015 and Prospects for 2017, Central Bank of Sri Lanka).

INSURANCE INDUSTRY REVIEW



Source: Swiss Re Global Insurance Review 2016 and Outlook 2017/18, Swiss Re Economic Research and Consulting

GLOBAL INSURANCE INDUSTRY

The global insurance industry in the year 2016 stood resilient amidst the subdued growth patterns prevalent across nations. Real premium volumes continued to be buoyant, following the relatively stronger growth levels within the emerging market economies. Real premiums within the life insurance sector are expected to reach a year-on-year a growth of 5.4% in 2016 as against 5.0% in the year 2015. Non-life premiums are expected to grow by 2.4%.

Global non-life insurance

Following the current sluggish economic trends, the global non-life insurance sector registered a subdued performance in the year under review. Premiums from this sector is estimated to register a growth of 2.4% in 2016, representing a decline compared to the growth of 3.0% achieved in 2015.

Faced with weaker economic prospects and soft pricing issues, premiums within the advanced markets remained modest in the year 2016, with an estimated growth of 1.7%, down compared to the level of growth of 2.5% posted in the previous year. Premium growth in the US grew at a lesser rate than the previous year, whilst premiums in the Western Europe were led by Spain, Germany and the UK. Japan and Italy are expected to register negative results.

Emerging markets registered a steady performance in 2016, with premiums estimated to grow at 5.3%, ahead of the growth of 4.9% recorded in the previous year. The Middle East and North Africa (MENA) region posted a strong performance whilst the Central and Eastern Europe recovered from the contraction faced in the previous year. However, Latin American and the Sub Saharan African regions saw a slump in performance. Even the emerging market giant, China, did not perform as anticipated, posting a more subdued growth level.

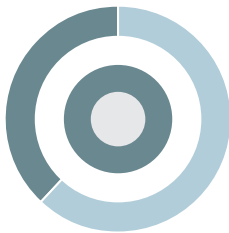
The underwriting profitability of the overall non-life insurance industry continued to be weak, following natural catastrophe losses and slump in reserve releases. The investment climate was not conducive which together with lower premiums and weaker underwriting profits did not generate the expected investment returns. This, in turn, did not reflect well on the overall operating profitability of the sector and the return on equity is estimated to fall to 6.0% as against 8.0% in 2015.

In a complex global economic scenario and geopolitical challenges, the non-life insurance sector may not realise its potential and is expected to continue with modest results in the ensuing years. The emerging markets are expected to lead the sector, whilst the advanced markets are expected to slow down. Non-life premium income is forecast to grow at a moderate 2.2% in 2017, down from 2.4% in 2016. However, premium growth is expected to pick-up in 2018 (Global Insurance Review 2016 and Outlook 2017/18, Swiss Re, Economic Research and Consulting).

INSURANCE INDUSTRY INDICATORS 2015	
Segmentation	: Life: 44% : Non-life: 56%
Premium growth	: 16.1%
Penetration	: 1.09% of GDP
Density	: Rs. 5,838

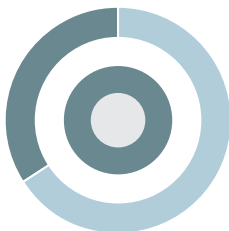
Source: Annual Report 2015, Insurance Board of Sri Lanka

COMPOSITION OF NON-LIFE INSURANCE INDUSTRY - 2015



Motor 62%
Non-motor 38%

COMPOSITION OF NON-LIFE INSURANCE INDUSTRY - 2016 (JAN-SEP)



Motor 66%
Non-motor 34%

INSURANCE INDUSTRY – SRI LANKA

The insurance industry has been steadily gaining momentum as a pivotal sector within the nation's development agenda. The industry in the recent years has strived to embrace best practices acclaimed internationally. The revised regulatory framework which is currently being implemented seeks to bring the industry into a level playing field for greater efficiency and long-term sustainability.

As at date, the industry has 30 licensed insurance organisations under the purview of the Insurance Board of Sri Lanka (IBSL)–12 within the life insurance business, 15 within the non-life insurance business and 3 within the both life and non-life business. Out of the total, 7 organisations are listed on the Colombo Stock Exchange.

Progressing steadily, the industry as a whole has been growing at an average of nearly 12% during the period 2011-2015. Total premium of both life and non-life insurance in 2015 registered a growth of 16.1%, reaching Rs. 122 billion. Total assets as at the end-year 2015 was Rs. 465 billion. Premiums in the first nine months of 2016, excluding National Insurance Trust Fund (NITF) recorded a growth of 17% to Rs. 102 billion. Yet, penetration levels continued to be modest—just above 1.0% in 2015, below that of the average global penetration of 6.2%. Insurance density, represented by the per capita premium stood at Rs. 5,838, representing an increase of 15.0% as against the preceding year.

Non-life insurance sector

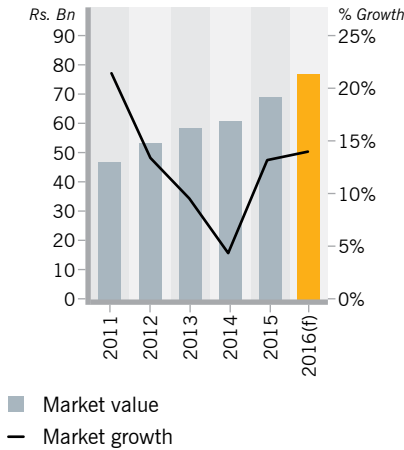
NON-LIFE INSURANCE INDUSTRY KEY INDICATORS	
<p>PREMIUM INCOME GROWTH</p> <ul style="list-style-type: none"> 2014: 4.3% 2015: 13.2% Jan-Sep 2016: 15.0% 	<p>MOTOR MARKET SHARE</p> <ul style="list-style-type: none"> 2014: 59% 2015: 62% Jan-Sep 2016: 66%
<p>NET CLAIMS RATIO</p> <ul style="list-style-type: none"> 2014: 60.5% 2015: 62.6% Jan-Sep 2016: 66.6% 	<p>NET COMBINED RATIO</p> <ul style="list-style-type: none"> 2014: 108.9% 2015: 98.7% Jan-Sep 2016: 106.5%

Source: Annual Report 2015, Insurance Board of Sri Lanka, statistics compiled by the Insurance Association of Sri Lanka and quarterly reports published by the Insurance Board of Sri Lanka

MANAGEMENT DISCUSSION AND ANALYSIS

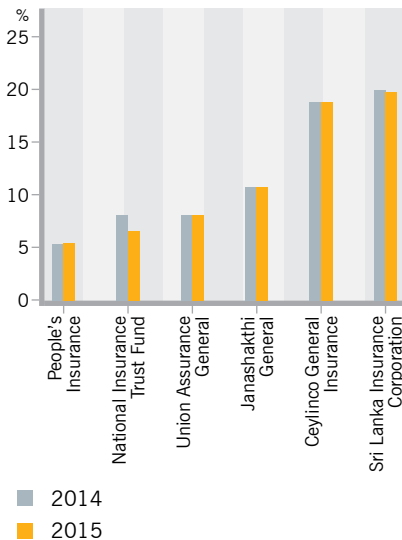
INSURANCE INDUSTRY REVIEW

**NON-LIFE INSURANCE
MARKET VALUE AND GROWTH**



Source: Annual Report 2015, Insurance Board of Sri Lanka and statistics compiled by the Insurance Association of Sri Lanka
Note: 2016(f) - forecast

TOP INSURERS - MARKET SHARE



Source: Annual Report 2015, Insurance Board of Sri Lanka

Premium income

With 30 insurance organisations, the market share of the non-life insurance sector in 2015 touched 56% of the overall industry. Following the growing demand in an emerging economic scenario, the non-life insurance sector has progressively moved ahead. Led by the motor segment, premiums in this sector continued to grow, posting an average growth of 12.4% during 2011-2015, including double-digit growth in some years. Yet, the macroeconomic challenges and the policies brought in to curtail motor vehicle imports to the country impacted the sector and stifled performance in the years 2013 and 2014. In the year 2015, premiums turned around to touch double-digit growth again, of 13.2% to Rs. 68,815 million compared to the mediocre growth of 4.3% achieved in 2014.

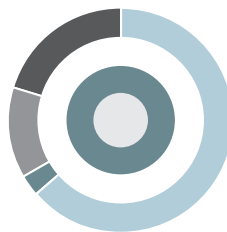
Sector premiums continued on the same trend in the first nine months of 2016 excluding National Insurance Trust Fund (NITF), growing by 15.2% compared with the corresponding period in the preceding year; and it is estimated to touch 13.9% by the year-end. Motor class and miscellaneous class were the main contributors to the sector performance.

Market share

Sustaining the market positioning, Sri Lanka Insurance Corporation Ltd. and Ceylinco General Insurance Ltd. upheld their ranking at number one and two respectively in the year 2015. Together, these two insurers accounted for almost 40% of the sector premium income. The third and the fourth positions continued to be held by Janashakti General Insurance Ltd. and Union Assurance General Ltd. Our organisation, with a market share of 5.29%, was ranked sixth in the sector.

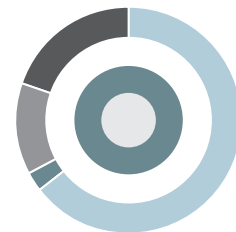
Class-wise analysis

**GROSS WRITTEN PREMIUM
CLASS SEGMENTATION -
2015**



Motor	64%
Marine	3%
Fire	13%
Misc	20%

**GROSS WRITTEN PREMIUM
CLASS SEGMENTATION -
2016(F)**



Motor	65%
Marine	3%
Fire	13%
Misc	19%

Source: Statistics compiled by the Insurance Association of Sri Lanka
Note: 2016(F) - Forecast

MOTOR CLASS - PREMIUM INCOME GROWTH



Source: Annual Report 2015, Insurance Board of Sri Lanka and statistics compiled by the Insurance Association of Sri Lanka
Note: 2016(f) - forecast

NON-MOTOR CLASS - PREMIUM INCOME GROWTH



Source: Annual Report 2015, Insurance Board of Sri Lanka and statistics compiled by the Insurance Association of Sri Lanka
Note: 2016(f) – forecast

Accounting for 65% of the total premium income in the year 2016 as per the Insurance Association of Sri Lanka, motor class remained the most dominant segment within the non-life insurance sector. This is expected to be case in the year under review as well. The non-motor class including fire, marine and miscellaneous sub classes took up 35% of share.

Reversing the downturn trends witnessed since the year 2012, motor class picked up in the year 2015—posting a noteworthy growth in premium income of almost 19% over the previous year to reach Rs. 42,585 million. The conducive tariff structure that prevailed for small vehicles and the accommodative monetary policy underlined the increase in motor vehicle registrations, in turn supporting the motor-class insurance performance.

This positive trend in motor class is not expected to completely spill-over to the year 2016. Given the restrictive policies brought in to curb the excessive motor vehicle imports to the country and the gradual tightening of monetary policy leading to higher interest rates, the motor segment is expected to perform below potential, although the outlook is still positive. The growth in motor premium for the first nine months excluding National Insurance Trust Fund (NITF) stood at 15.0% compared to the corresponding period in 2015. The forecast growth in premium income from motor-class is set at 15.3% for the year 2016.

Led by the miscellaneous sub-class, the non-motor class turned around from the slump experienced in 2014 and registered a growth of 4.7% in 2015, taking the premium income to Rs. 23,213 million. The market share stood at 36% of the non-life insurance sector, corresponding to a one-percentage point drop in share over 2014. The growth in premium income of this segment is estimated to touch 11.4% by the reporting year-end, 2016.

Miscellaneous sub-class including health and surgical, personal accident, air craft hull, bankers' indemnity, workmen compensation and cash in transit accounted for around 62.8% share within the non-motor segment in 2015, whilst taking up 21.2% share within the non-life insurance sector. Led by health and surgical, particularly under the private sector healthcare, this sub-class saw a better performance in the year 2015; with a growth of 4.7% compared to the negative result of 2.7% in the year 2014. Improving on this trend, the first nine months of the year 2016 excluding National Insurance Trust Fund (NITF) saw miscellaneous premiums record a noteworthy growth of 11.9% over the corresponding period in 2015. It is estimated that the growth will touch 10.8% by the year-end, 2016.

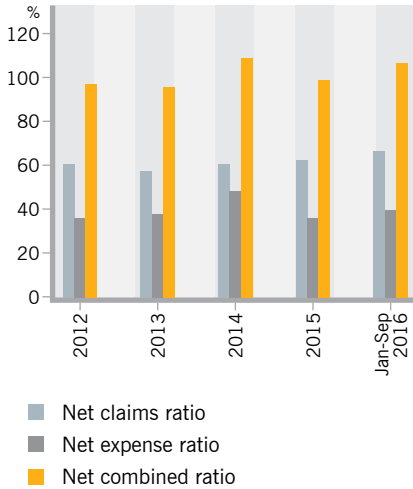
With a share of 28.3%, as the second largest contributor to the non-motor class, fire sub-class premiums improved by 3.5% compared to below 1.0% increase recorded in the year 2014. In the first nine months of the reporting year excluding National Insurance Trust Fund, fire posted an increase of 23.9% over the corresponding period of 2015. However, fire sub-class is estimated to report an increase of just 13.7% by the end of 2016.

Marine sub-class took up just 8.1% share of the non-motor class premium income. Marine premiums recorded an improvement of 7.8% in the year 2015. However, in the first nine of 2016 excluding National Insurance Trust Fund (NITF), marine sub-class recorded only an increase of 2% over the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

INSURANCE INDUSTRY REVIEW

CLAIMS AND EXPENSES - RATIO ANALYSIS



Claims and expenses

Claims within the non-life insurance sector registered an average growth of 11.7% during the period 2012-2015. In the year 2015, claims increased by 12.9% over the previous year. Cushioned by net earned premiums which grew by 9.2% to Rs. 54,148 million in 2015, net claims ratio was curtailed at 62.6% as against the ratio of 60.5% in 2014. In the first nine months of 2016 excluding National Insurance Trust Fund (NITF), net claims ratio was 66.6%.

Given the influx of motor accidents, net motor claims increased to Rs. 24,592 million in 2015 whilst the net claims ratio increased to 64.8% from 59.9% in 2014. Net claims ratios in terms of fire, improved by 12 percentage points to 45.8% as against 2014 whilst miscellaneous and marine sub-classes sustained similar ratios as the preceding year.

Net expenses including expenses in respect of Strike, Riot and Civil Commotion and Terrorism (SRCC & TC) covers in the year 2015 was curtailed by 18.6% over the previous year. Net expense ratio therefore registered a decline to 36% whilst net combined ratio was curtailed at 98.6%. The relatively lower ratios supported to cushion the underwriting results for the year 2015. This trend is expected to continue in the year 2016.

Industry vs company performance

Refer: Operational Performance Review, pages 66 to 69.

Well-positioned, our organisation stands as a leading insurer within the non-life insurance sector. Our operational and financial performance results are comparable with that of the industry averages in most of the key indicators.

Source: Annual Report 2015, Insurance Board of Sri Lanka, statistics compiled by the Insurance Association of Sri Lanka and quarterly reports published by the Insurance Board of Sri Lanka

NON-LIFE INSURANCE INDUSTRY			
<p>GWP GROWTH</p> <ul style="list-style-type: none"> 2015: 13.2% Jan-Sep 2016: 15.0% 	<p>NET CLAIMS RATIO</p> <ul style="list-style-type: none"> 2015: 62.6% Jan-Sep 2016: 66.6% 	<p>NET EXPENSE RATIO</p> <ul style="list-style-type: none"> 2015: 36.1% Jan-Sep 2016: 39.9% 	<p>NET COMBINED RATIO</p> <ul style="list-style-type: none"> 2015: 98.7% Jan-Sep 2016: 106.5%
PEOPLE'S INSURANCE PLC			
<p>GWP GROWTH</p> <ul style="list-style-type: none"> 2015: 10.8% 2016: 13.8% 	<p>NET CLAIMS RATIO</p> <ul style="list-style-type: none"> 2015: 69.1% 2016: 70.5% 	<p>NET EXPENSE RATIO</p> <ul style="list-style-type: none"> 2015: 23.2% 2016: 23.9% 	<p>NET COMBINED RATIO</p> <ul style="list-style-type: none"> 2015: 92.3% 2016: 94.4%

Source: Annual Report 2015, Insurance Board of Sri Lanka, statistics compiled by the Insurance Association of Sri Lanka and quarterly reports published by the Insurance Board of Sri Lanka

Note: Statistics of the non-life insurance industry for the period from January to September 2016 do not include details of the National Insurances Trust Fund

A large, solid red silhouette of a woman's head in profile, facing right. The silhouette is positioned on the right side of the image, with the text overlaid on the left side of the head.

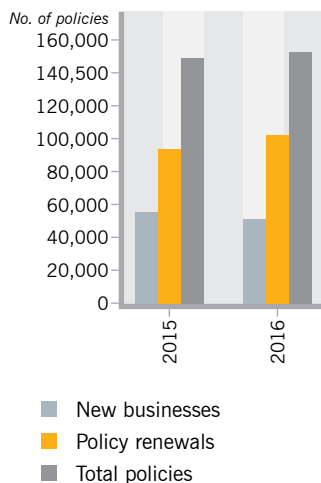
**TRUST
US WITH
YOUR
FUTURE**



UNCERTAIN AND OFTEN
DARK, WE WILL ILLUMINATE
YOUR FUTURE WITH A
MYRIAD POSSIBILITIES
THAT CAN BE ACHIEVED
WHILE WE LOOK AFTER
WHAT'S IMPORTANT.

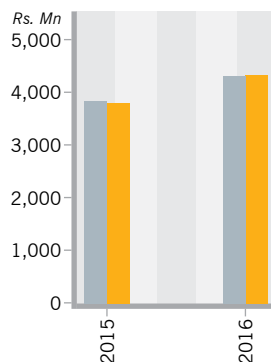
OPERATIONAL PERFORMANCE REVIEW

INSURANCE POLICIES



■ New businesses
 ■ Policy renewals
 ■ Total policies

GROSS WRITTEN PREMIUM



■ Budget
 ■ Actual

PORTFOLIO PERFORMANCE

PORTFOLIO KEY INDICATORS

NEW BUSINESS POLICIES

- 2016: 50,454
- 2015: 54,835

RENEWED POLICIES

- 2016: 101,282
- 2015: 93,370

GROSS WRITTEN PREMIUM

- 2016: Rs. 4,340 Mn
- 2015: Rs. 3,813 Mn

OVERALL PREMIUM GROWTH

- 2016: 14%
- 2015: 11%

MOTOR PREMIUM GROWTH

- 2016: 14%
- 2015: 12%

NON-MOTOR PREMIUM GROWTH

- 2016: 13%
- 2015: 5%

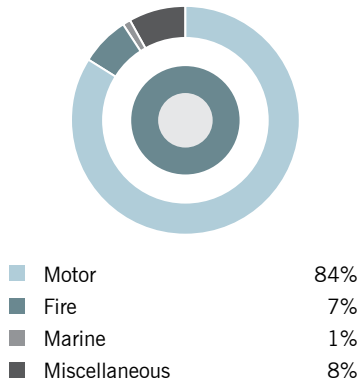
POLICIES

In keeping with our expansionary efforts, we saw our portfolio record a moderate growth in the year under review. The total number of active policies in 2016 reached 151,736, corresponding to an increase of 2% as against 148,205 active policies recorded in the year 2015. Out of the total policies, new business took up 33% whilst the balance 67% were policy renewals. Typically, new business was mostly generated from captive sources—customer referrals from the parent, PLC and through the bancassurance channel with People's Bank. This corresponded to 73% of the total policies. However, we saw an improvement in new business generated from non-captive sources through direct marketing initiatives—corresponding to the balance 27% as against 23% share registered in the previous year.

GROSS WRITTEN PREMIUM INCOME

Growing in value terms, our portfolio increased by 14%, registering gross premium income of Rs. 4,340 million in the financial year 2016 compared to Rs. 3,813 million achieved in 2015. This was well on par with our budgetary targets and exceeded the growth of 11% achieved in the previous year. Our growth is on par with the estimated industry average in 2016 of the Insurance Association of Sri Lanka.

**SEGMENTAL ANALYSIS
2016**



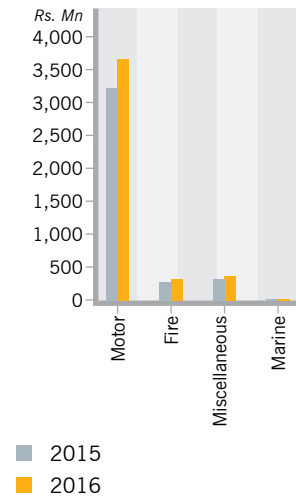
SEGMENTAL PERFORMANCE

Motor class

Reflecting the industry trends, motor class continued to dominate the portfolio composition. Out of the total gross premium income earned during the reporting year, motor class took up 84% share. This was in line with the share recorded in the previous year. Out of the premium income generated under motor class, commercial-purpose vehicles including buses and three-wheelers accounted for the highest share of 54%; followed by private car policies taking up 30% share. Motor cycles contributed to 4% of the total motor premium income.

The market complexities that continued to prevail—higher import tariff together with the restrictions brought in to curb motor vehicle imports to the country, particularly the loan to value ratio impacting motor leasing—were not conducive for the motor-class segment to perform at its potential and generate the anticipated results. The intense competition leading to price compromises further pressured the segment and continued to dampen results. However, the industry benefitted from the lower tariff structure that was in effect for small cars. Yet, given our dependence on commercial-based vehicles, this had a less impact on our motor-class performance. Nevertheless, our premium income in the motor class grew at 14%, reaching to Rs. 3,655 million, an improvement compared with the growth of 12% achieved in the previous year.

**GROSS WRITTEN PREMIUM
2016 AND 2015**



Non-motor class

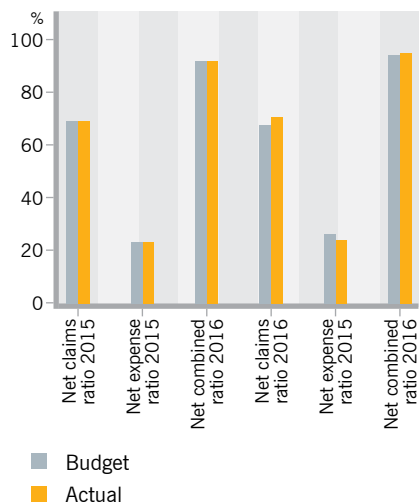
Sustaining its share, the non-motor segment accounted for 16% of the total portfolio value. Premium income generated from non-motor policies improved to Rs. 685 million, corresponding to an increase of 13% over the previous year. This was well-above the growth of 5% achieved by the non-motor class in the previous year.

- **Fire and engineering insurance:** As the third largest contributor to the overall premium income and accounting for nearly 45% of the non-motor class segment, fire and engineering insurance registered a noteworthy performance in the year under review. This sub-class earned a premium income of Rs. 312 million, up by nearly 11% as against the modest premium income of Rs. 279 million registered in the preceding year.
- **Marine insurance:** Accounting for less than 1% of the total premium earnings and 3% within the non-motor segment, marine insurance recorded a modest performance in the year review. Premium income of Rs. 18 million was well in line with the previous year.
- **Miscellaneous:** Comprising mainly of personal accident and health insurance, miscellaneous class stood as the second highest contributor to the overall premium earnings, whilst contributing 52% share, the highest, within the non-motor segment. In the reporting year, miscellaneous class sustained its level of growth at 14%, in line with the growth posted in the preceding year. Gross written premium generated from miscellaneous class stood at Rs. 355 million.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL PERFORMANCE REVIEW

NET CLAIMS, EXPENSE AND COMBINED RATIOS



CLAIMS, EXPENSES AND RATIO ANALYSIS

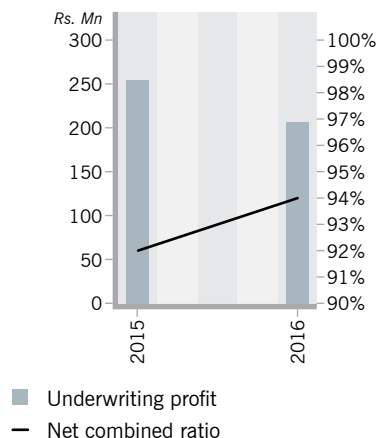
Net claims ratio

As a strategic priority, we are focused, conscientious and fair in settling and managing claims within our portfolio. Yet, in keeping with the market dynamics, we saw our claim settlements trend upwards in the year under review. In the reporting year, our net claims in absolute terms went up to Rs. 2,628 million, corresponding to a 16% increase over the prior year. This was more prominent with regard to motor-class claims, which took up almost 90% of the total claim settlements. Claims in this sub-sector increased by 14% over the previous year.

Non-motor claims with regard to marine, fire and engineering and miscellaneous sub classes also went up, recording a substantial increase of 53% as against 2015. Miscellaneous claims led by personal accidents and health claims took up the largest share, representing almost 88% of the non-motor claim settlements. Claims against fire sub-class, accounting for 12% of non-motor claims, however, recorded a 19% decline over the previous year. Marine sub-sector, on the other hand, saw a significant 155% increase, although the share remained less than one percent of the total non-motor claims.

Overall net claims ratio in the year stood at 70%, reflecting an increase over 69% ratio registered in 2015.

UNDERWRITING PROFIT AND NET COMBINED RATIO



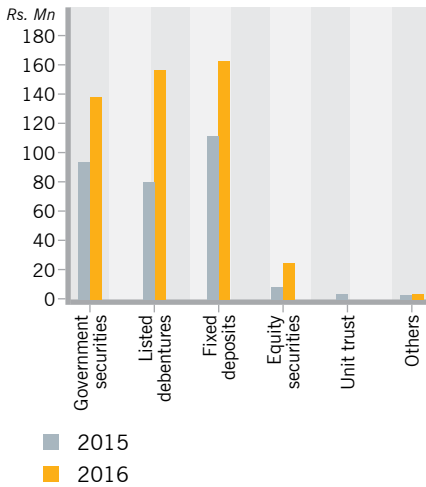
Net expense ratio

We remained focused in maintaining a lean cost structure captive business base and our distribution model maintained in collaboration with our parent, PLC, enabled us to be cost efficient and be competitive in our emerging industry. With expansionary measures in place, our expenses in the reporting year registered an increase of 17% as against the previous year. Staff expenses saw a significant increase followed by an increase in administrative expenses. Net expense ratio for the year stood at 24%, reflecting an increase of one percentage as against the ratio of 23% registered in the prior year, though this is well below the industry average of more than 35% reported in 2015.

Net combined ratio

With claims and overhead expenses on the rise, our combined ratio stood at 94% which reflected a two percentage point increase over the previous year's ratio of 92%. This, however, was below the industry norm, which was above 100% for most of the insurers. Net combined ratio of the industry in 2015, excluding SRCC and TC statistics, was 104%, indicating this position. Our underwriting profits in the year stood at Rs. 206 million, representing a decline of 19% over the previous year's result of Rs. 254 million. However, this was creditable in an industry where most other insurers were challenged to keep a positive underwriting result.

**INVESTMENT INCOME
COMPOSITION 2015 AND 2016**



Investment income

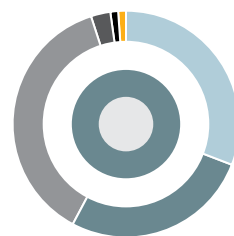
This year under review, as will be discussed under the governance section of this report, we initiated and set up our investment committee headed by the Managing Director. This committee supported us to make the most strategic choices in our investment mix in line with market signals and thus gives us optimum returns.

Fixed deposits accounted for the dominant share within our investment mix in the reporting year, taking up 34% share of the total investment income. This was followed by listed debentures and Government securities, accounting for 32% and 28% respectively. Our returns from equity investments were relatively low at 5% of the total investment income.

Backed by the rising trends in interest rates following tighter monetary policy signals, our fixed income securities in the year performed exceptionally well. Our overall investment income posted an outstanding increase of 62% over the previous year to reach Rs. 486 million. Interest income from debentures and fixed deposits registered a strong performance with increases of 93% and 46% respectively. Our exposures to Government securities also complemented our investment income, growing at an outstanding 48% over the previous year.

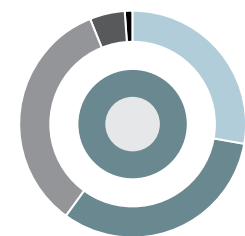
Our equity portfolio comprised investments in fundamentally-strong companies. The bearish trends that continued to afflict the Colombo Stock Exchange dampened the earning capacity from equity investments. Capital gains from listed shares in the year improved by Rs. 12 million to Rs. 11 million as compared to the loss of Rs. 1 million recorded in the previous year. Dividend income received on our equity investments stood at Rs. 14 million, similar to the income earned in the previous year.

**INVESTMENT INCOME
2015**



Government securities	31%
Listed debentures	27%
Fixed deposits	37%
Equity securities	3%
Unit trust	1%
Others	1%

**INVESTMENT INCOME
2016**



Government securities	28%
Listed debentures	32%
Fixed deposits	34%
Equity securities	5%
Others	1%

CAPITAL MANAGEMENT



FINANCIAL CAPITAL

Well-supported by the strength of our parent entities, we have built our expertise and strongly positioned our organisation amongst the top-ranking non-life insurers in the industry. Principled and disciplined, we are conscientious in our efforts to optimise the way we utilise our resources, create significant value and ensure sustainable returns to our valued shareholders.



RELATIONSHIP CAPITAL

As a service sector organisation, it is imperative that we build and nurture strong and long-lasting relationships, be it with our customers, investors, business partners and other key stakeholders. We are proactive and caring in our engagement and management style and tailor our solutions to meet their diverse expectations. This underpins the very sustainability of our business.



NATURAL CAPITAL

In a fast-paced world, it is now critical to be responsible in our actions to conserve our environment and reduce our carbon footprint. Well in line with our group policies, we stand firm in our commitment to be efficient in resource utilisation, effective in our solid waste management and lessen our impact on green-house-gas emissions.



SOCIAL CAPITAL

Intrinsic to our group ethos, our perspective on social responsibility is broad and inclusive. We support communities in need, particularly in areas where we operate, bring in best and current practices to our operations, comply with relevant laws and regulations and strive to be a responsible corporate citizen.



HUMAN CAPITAL

Our team, skilled, talented and dedicated, stands as our strength. We are deeply committed to ensure that we nurture a dynamic workplace—for all employees, irrespective of any social bias—to be empowered and confident in meeting their career aspirations, whilst taking our organisation to reach higher goals in the long-term.



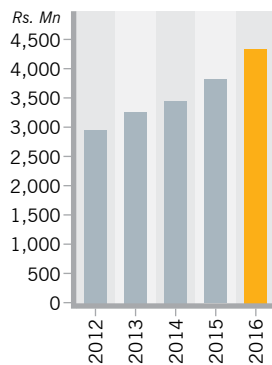
INTELLECTUAL CAPITAL

The strength and support we draw from our well-respected and acclaimed parent entities, the synergies present within our group and the key investments we make in systems and processes, define our competitiveness and positioning in an emerging market scenario. This fortifies our fundamentals, giving us the ability to create sustainable value in our corporate path.

FINANCIAL CAPITAL MANAGEMENT

We marked yet another remarkable year in 2016, continuing our success story. This year is significant for us as this is the first year we completed as a listed company on the Colombo Stock Exchange.

GROSS WRITTEN PREMIUM



FINANCIAL REVIEW

Income and Profitability

Financial Performance Highlights

We marked yet another remarkable year in 2016, continuing our success story. This year is significant for us as this is the first year we completed as a listed company on the Colombo Stock Exchange. Financial performance highlights of the past 5 years are provided below.

Financial Performance Indicator	2016 Rs. Mn	2015 Rs. Mn	2014 Rs. Mn	2013 Rs. Mn	2012 Rs. Mn
Gross written premium	4,340	3,813	3,441	3,251	2,944
Net earned premium	3,723	3,268	2,990	2,801	2,448
Net claims and expenses	(3,517)	(3,014)	(2,839)	(2,694)	(2,406)
Underwriting profit	206	254	152	107	42
Other revenue	527	349	421	394	282
Profit before income tax	733	603	573	501	324
Income tax expense	(75)	(139)	(123)	(130)	(89)
Profit for the year	658	464	450	371	235

Performance Overview

The Company recorded a gross written premium of Rs. 4,340 million during the year under review, posting a growth of 13.8% over the previous year. Underwriting profit decreased by 19%, but yet above Rs. 200 million to Rs. 206 million, amidst increased claims experienced during the year.

Nevertheless, other revenue consisting of interest income and dividend income, fair value gains and fee income significantly increased by 51% during the year, mainly due to higher interest income received amidst increase in market interest rates as well as additional interest income from the proceeds received from the IPO, helping us to record a growth of 22% in our profit before tax despite the decline in underwriting profit.

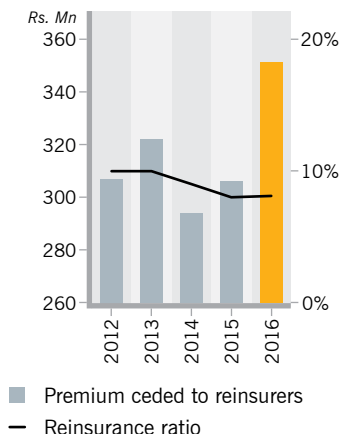
Increase in other revenue together with the 50% income tax waiver helped us to post an outstanding growth of 42% in profit after tax compared with the previous year.

Gross Written Premium

The Company wrote gross written premium (GWP) totalling to Rs. 4,340 million during the year of 2016, an increase of 14% compared to 2015. This was attributable to 14% growth in the motor segment and 13% growth in the non-motor segment. Miscellaneous and fire classes were the contributors to the growth of the non-motor segment, recording growth rates of 14% and 12% respectively. Motor insurance business segment contributed 84% towards the total GWP and non-motor business segment contributed 16%.

CAPITAL MANAGEMENT

FINANCIAL CAPITAL MANAGEMENT

PREMIUM CEDED TO REINSURERS
AND REINSURANCE RATIO

Premium Ceded to Reinsurers

During the year under review, reinsurance premium ceded increased by 15%. Accordingly, reinsurance ratio increased marginally from 8.0% to 8.1% which was caused by a minor change in the product mix.

The table below depicts the contribution made to reinsurers, including National Insurance Trust Fund (NITF) and the percentage of same as against GWP.

Indicator	2016	2015	2014	2013	2012
Gross written premium (Rs. Mn)	4,340	3,813	3,441	3,251	2,944
Premium ceded to reinsurers (Rs. Mn)	351	305	294	322	307
Reinsurance ratio	8.1%	8.0%	8.5%	9.9%	10.4%

Net Earned Premium

Net earned premium increased by 14% from Rs. 3,268 million in 2015 to Rs. 3,723 million in 2016 in line with the growth in GWP. Accordingly, Rs. 285 million was transferred to unearned premium reserve in 2016 compared to Rs. 234 million transferred in 2015.

Rs. 19 million was transferred to unearned reinsurance premium reserve in 2016 compared to transfer of negative Rs. 7 million in 2015. This is an accounting adjustment required to match the premiums over the policy period.

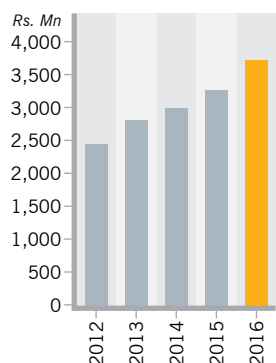
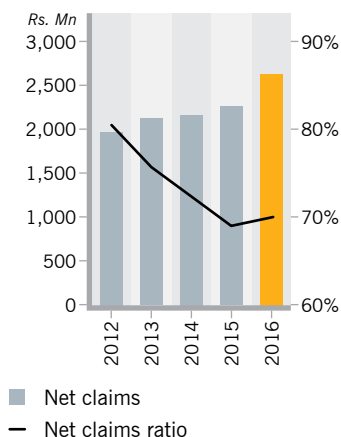
Insurance Claims

Gross claims paid increased by 15% to Rs. 2,582 million from Rs. 2,237 million in 2015 while net change in contract liabilities increased by Rs. 88 million to Rs. 113 million in 2016 from Rs. 25 million in 2015. Accordingly, total gross claims incurred amounted to Rs. 2,695 million in 2016 compared to Rs. 2,262 million in 2015, depicting an increase of 19% during the year.

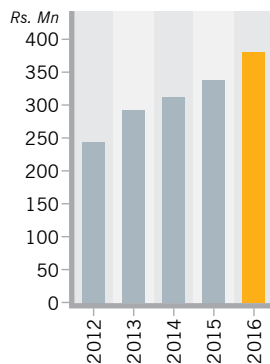
Claims recovered from reinsurers significantly increased by 50% to Rs. 57 million from Rs. 38 million in 2016 while the change in contract liabilities recoverable from reinsurers decreased by Rs. 43 million to Rs. 10 million negative from Rs. 33 million in 2015.

Net claims with the combination of the above, increased by 16% to Rs. 2,628 million in 2016 from Rs. 2,257 million in 2015. Accordingly, net claims ratio expressed as a percentage of net earned premium increased by one percentage point from 69% in 2015 to 70% in 2016 due to relatively high increase of 16% in net claims compared to 14% increase in net earned premium amidst higher claims experienced, especially in medical class and increased natural disasters.

NET EARNED PREMIUM

NET CLAIMS AND NET
CLAIMS RATIO

UNDERWRITING AND NET ACQUISITION COSTS



Underwriting and Net Acquisition Costs

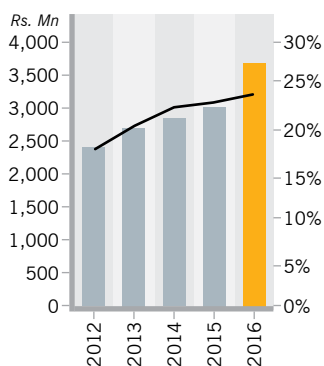
Underwriting and net acquisition costs comprise commission paid in respect of procuring business, net of reinsurance commission received in respect of reinsurance premium ceded to reinsurers. Underwriting and net acquisition costs increased by 12% to Rs. 380 million in 2016 from Rs. 338 million in 2015.

Other Operating and Administrative Expenses

Other operating and administrative expenses incurred in 2016 amounted to Rs. 508 million, growing by 21% from Rs. 419 million in 2015. This increase was mainly attributable to the expansion of business. General inflation added on to the increased overhead costs.

However, total of underwriting and net acquisition costs and other operating and administrative expenses as a percentage of net earned premium which is also known as net expense ratio, stood at 24% during the year under review, well below that of the industry net expense ratio of above 35%.

TOTAL CLAIMS AND EXPENSES AND NET EXPENSE RATIO



■ Total claims and expenses
— Net expense ratio

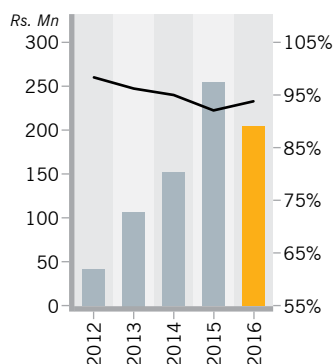
Underwriting Results

The Company recorded a commendable underwriting profit of Rs. 206 million during the year under review though it is below the previous year underwriting profit of Rs. 254 million. Increase in net claim ratio by one percentage point to 70% amidst higher claims and increase in expense ratio by one percentage point to 24%, resulting in net combined ratio reaching 94% in 2016 from 92% in 2015, were the contributory factors for the decline in underwriting profit.

Other Revenue

Other revenue increased by 51% from Rs. 349 million in 2015 to Rs. 527 million in 2016 mainly due to increase in interest and dividend income.

UNDERWRITING RESULTS AND NET COMBINED RATIO



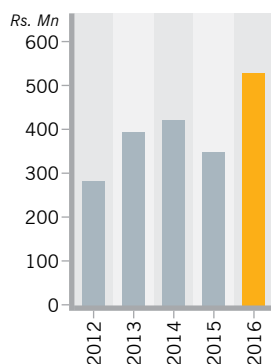
■ Underwriting results
— Net combined ratio

Interest income which represents the largest share in other revenue increased by 60% from Rs. 288 million in 2015 to Rs. 461 million in 2016 due to the proceeds received from the IPO and the rise of market interest rates during the year under review. Net fair value gain was Rs. 11 million in 2016 compared with the net fair value loss of Rs. 1 million recorded in 2015 mainly due to improved performance of the stock market during the year under review. Fee income consisting of policy fees and administrative fees charged from customers increased by 8% from Rs. 37 million in 2015 to Rs. 40 million in 2016, mainly in view of increased GWP.

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OTHER REVENUE



Income Tax Expense

Income tax expense reduced significantly by 46% from Rs. 139 million to Rs. 75 million though profit before tax increased only by 22% due to the waiver of 50% of the income tax liability available to the Company in view of the listing of its shares on the CSE. Accordingly, a tax rate of 14% was applicable for the year under review against a tax rate of 28% applicable for 2015.

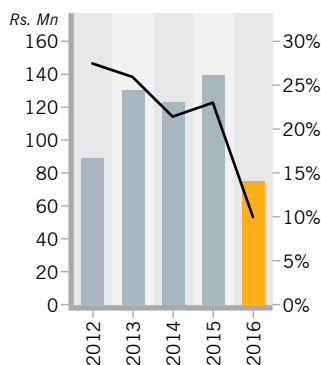
Profit After Tax

Profit after tax increased by 42% from Rs. 464 million in 2015 to Rs. 658 million in 2016 mainly due to increase in other revenue contributed by interest income and decrease in income tax expense though underwriting profits recorded a negative growth.

Earnings Per Share

The positive momentum of the Company's earnings per share (EPS) over the past years continued in 2016, showcasing the substantial value generated by the Company for its shareholders. EPS increased by 6% from Rs. 3.09 in 2015 to Rs. 3.29 in 2016 as profit attributable to the equity holders increased by 42%. However, the increase in the number of shares by 50 million as a result of the IPO restricted EPS growing by the same growth rate of profit after tax.

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATE

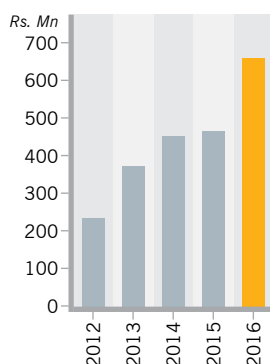


■ Income tax expense
— Effective income tax rate

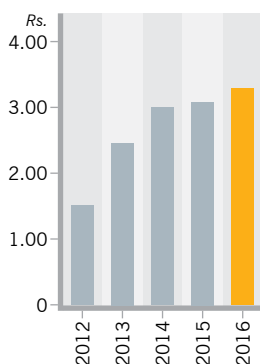
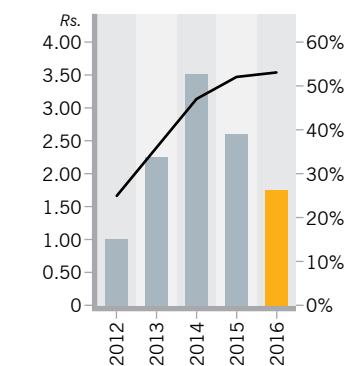
Dividend Per Share

Dividends continue to be the most important distribution mechanism to investors. The primary objective is to balance the shareholder expectations and company growth, in turn boosting the attractiveness of the Company's investments. This sets the significance to keep the dividend per share stable and increase it. The Company paid Rs. 300 million as an interim dividend and proposed a final dividend of Rs. 0.25 per share amounting to Rs. 50 million for the year ended 31st December 2016. Accordingly, the Company declared a total dividend of Rs. 350 million for the year 2016, paying out 53% as dividends as opposed to 52% paid out in 2015 as dividends.

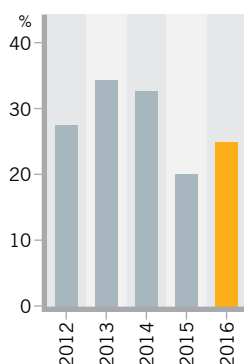
PROFIT AFTER TAX



Indicator	2016	2015
Dividend per share – interim (Rs.)	1.50	2.00
– final (Rs.)	0.25	0.60
Dividend pay-out ratio	53%	52%
Retention ratio	47%	48%

EARNINGS PER SHARE**DIVIDEND PER SHARE AND DIVIDEND PAYOUT RATIO**

■ Dividend per share
— Dividend pay-out ratio

RETURN ON EQUITY**Return on Equity**

Return on equity (ROE) measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The amount of net income returned as a percentage of shareholder's equity is referred as ROE and expressed as a percentage. The Company's ROE, taking other comprehensive income also into account increased from 20% in 2015 to 25% in 2016 mainly in view of the improved profitability.

Assets and Financial Position**Financial Position Highlights**

A company's financial position reflects the strength and stability. A summary of the financial position of the Company is given below.

	2016 Rs. Mn	2015 Rs. Mn	Growth %
Assets			
Intangible assets and property, plant and equipment	45	58	(22)
Financial investments	5,470	4,931	11
Reinsurance and insurance receivables	829	686	21
Other assets	238	221	8
Cash and cash equivalents	138	746	(82)
Total assets	6,720	6,642	1
Equity and liabilities			
Equity			
Stated capital	1,350	1,350	-
Revenue reserves	1,279	901	42
Total equity	2,629	2,251	17
Liabilities			
Insurance liabilities	3,558	3,167	12
Financial and other liabilities	417	1,145	(64)
Reinsurance payables	42	37	14
Bank overdraft	74	42	76
Total liabilities	4,091	4,391	(7)
Total equity and liabilities	6,720	6,642	1

CAPITAL MANAGEMENT

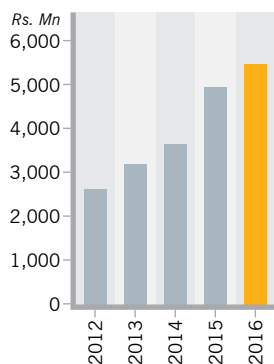
FINANCIAL CAPITAL MANAGEMENT

Financial Position Overview

Financial position of the Company was strong with an asset base of Rs. 6,720 million and net assets of Rs. 2,629 million which was supported by a stated capital of Rs. 1,350 million, including the capital of Rs. 750 million raised through the IPO. Investment portfolio grew by 11% to Rs. 5,470 million, crossing the Rs. 5 billion mark. Solvency position also improved significantly with the infusion of the capital through the IPO.

Assets

A strong asset base is required to ensure the regulatory minimum requirements and absorb 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 the business as well.

INVESTMENT PORTFOLIO

Indicator	2016	2015	Change	
			Absolute	%
Total assets (Rs. Mn)	6,720	6,642	78	1
Return on assets (%)	9.7	6.9	2.8	41

As reflected in the table above, total assets of the Company have grown marginally by 1%. The main reason for this low growth is inclusion of funds amounting to Rs. 685 million received in excess of the IPO size of Rs. 750 million in the assets as at 31st December 2015 which were refunded to investors in January 2016 upon the allotment of shares. The adjusted asset growth, excluding the excess funds received from the IPO is 13% which is almost in line with the growth of the business during the year under review.

Return on assets increased significantly by 41% mainly in view of the improved financial performance during year under review.

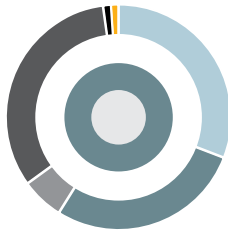
Investments

The Company strives to maintain an appropriate trade-off between risks and returns within its investment strategy. The Company always adhere to the stipulated regulated framework when making investment decisions. Investments and returns of investments are tabulated below.

Indicator	2016	2015	Change	
			Absolute	%
Investment portfolio (Rs. Mn)	5,470	4,931	539	11
Interest income and dividend income and net fair value gains/(losses) (Rs. Mn)	478	289	189	65
Total investment income as a percentage of average investments (%)	9.2	6.7	2.5	37

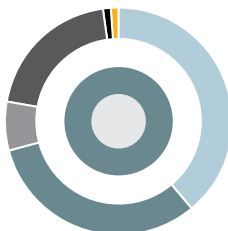
The total investment portfolio increased by 11% supported by the growth of the business and improved profitability. Income from investments, including gains/(losses) from available-for-sale financial investments which is represented by interest and dividend income and fair value gains increased substantially by 65% amidst investment of IPO proceeds, increased market interest rates and increased investments in listed debentures which provide higher interest rates. Fair value gains were Rs. 11 million as opposed to a loss of Rs. 1 million reported in 2015 due to improved performance of the stock market and the active engagement. As a result of significant increase of the investment income, investment income as a percentage of average investments increased by 2.5% to 9.2%.

COMPOSITION OF INVESTMENT PORTFOLIO 2016



Government securities	31%
Fixed deposits	28%
Listed equity securities	6%
Listed debentures	33%
Unit trust	1%
Other financial assets	1%

COMPOSITION OF INVESTMENT PORTFOLIO 2015



Government securities	39%
Fixed deposits	32%
Listed equity securities	7%
Listed debentures	20%
Unit trust	1%
Other financial assets	1%

Investment Instrument	2016		2015		Growth %
	Amount Rs. Mn	Composition %	Amount Rs. Mn	Composition %	
Government securities	1,687	31	1,952	39	14
Listed debentures	1,818	33	981	20	85
Fixed deposits	1,545	28	1,583	32	(2)
Listed equity securities	327	6	334	7	(2)
Unit trust	48	1	53	1	(9)
Other financial assets	45	1	28	1	61
Total financial investments	5,470	100	4,931	100	11

The Company has invested slightly above 90% in interest bearing instruments and also continued to increase investments in listed debentures in view of benefiting from the tax concessions during the year under review. Accordingly, investments in listed debentures which provided more attractive yields, both before and after tax, compared with the other short term investment instruments grew significantly by 85%, increasing its share of the total investment portfolio to 33% in 2016 from 20% in 2015. As a result, investment in listed debentures represented the largest share of the investment portfolio as at the end of the reporting period.

The Company also invests a significant portion of its investments in government securities which are considered risk free. Nevertheless, a minimum investment of 20% of the technical reserve is also required as per the insurance regulations. However, investment in government securities recorded a decline of 14% in 2016 mainly in view of the strategic focus on listed debentures. Investment in fixed deposits also reported a marginal decrease of 2% in 2016 compared with 2015 due to the same reason. Investment in listed equity securities also decreased marginally by 2%.

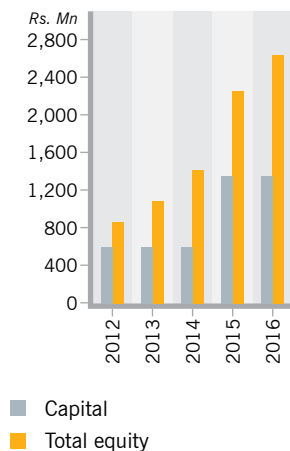
Capital

Strong capital backing from its shareholders creates a good foundation for a company to stand strongly in the market. In view of further strengthening its capital base, the Company raised Rs. 750 million through the IPO. With the share allotment taken place in January 2016, the stated capital of the Company increased to Rs. 1,350 million, making People's Insurance one of the strongest companies in terms of the capital as well in the non-life insurance industry. This additional capital enabled the Company to maintain its capital adequacy ratio (CAR) well above the minimum CAR specified by the IBSL under the risk-based capital regime which became effective from 2016 onwards.

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FINANCIAL CAPITAL MANAGEMENT

CAPITAL AND TOTAL EQUITY



Insurance Provisions

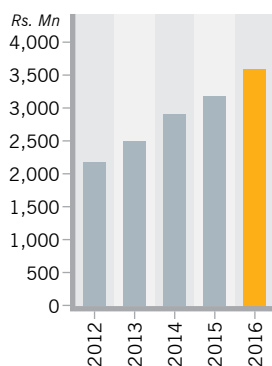
The Company has taken necessary action to ensure that the required insurance provisions are maintained at any given point of time as stipulated by the insurance regulator, the IBSL. The Company has obtained a certification from a professional actuarial firm, NMG Financial Services Consulting Pte Ltd. on the adequacy of incurred but not reported claims (IBNR) provision in relation to the claim liabilities of the Company as at 31st December 2016. This IBNR provision, together with the case reserves held by the Company is expected to be adequate to meet future liabilities in respect of claims obligations as at 31st December 2016.

At the end of each reporting period, insurance companies are required to carry out a liability adequacy test (LAT) according to Sri Lanka Financial Reporting Standards (SLFRS) 4 - Insurance Contracts. LAT is performed to assess the adequacy of the carrying amount of the unearned premium reserve (UPR). Consultant actuaries of the Company, NMG Financial Services Consulting Pte Ltd. has certified that UPR maintained by the Company is adequate in relation to the unexpired risks of the Company as at 31st December 2016.

Solvency Position

The Company's solvency position improved significantly in 2016 in view of the additional capital raised through the IPO. Accordingly, capital adequacy ratio (CAR) which measures the solvency position and prescribed at a minimum of 120% under the risk-based capital regime effective from 2016 onwards, improved significantly from 202% in 2015 to 323% in 2016. Total available capital (TAC) of the Company was also well above the required minimum TAC of Rs. 500 million prescribed in the risk-based capital regime. The following table depicts the compliance with the key requirements of the risk-based capital regime.

INSURANCE PROVISIONS

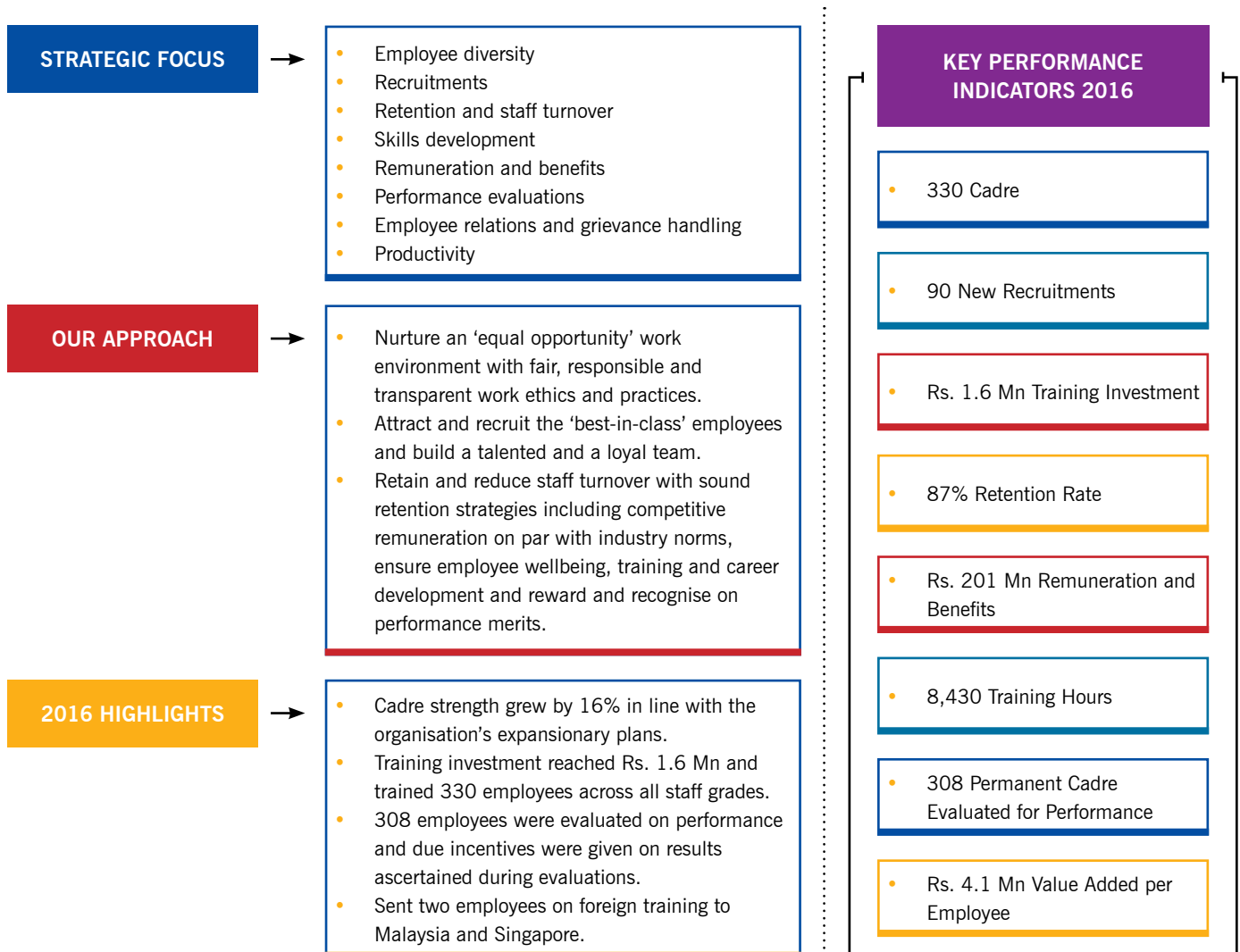


	2016	2015	Change
Capital adequacy ratio (CAR)	323%	202%	121%
Total available capital (TAC)	Rs. 2,643 Mn	Rs. 2,275 Mn	Rs. 368 Mn

HUMAN CAPITAL MANAGEMENT

In just seven years, we have progressed to reach the top tiers of our industry, accomplishing key milestones and meeting our corporate goals. The feats we have achieved aptly demonstrate the level of competence, talent, hard work and professionalism of our team. We stand unwavering in our commitment to develop, nurture and empower them, paving a steady and an equal-opportunity workplace with positive engagement.

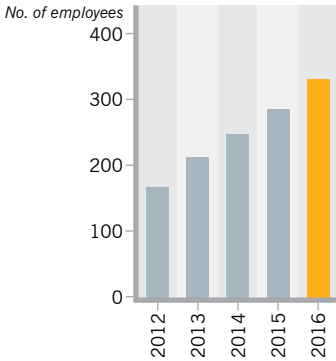
All human resources (HR) related functions are managed by the group HR team and our daily operations are guided by group HR policies and practices.



CAPITAL MANAGEMENT

HUMAN CAPITAL MANAGEMENT

**CADRE POSITION
2012-2016**



CADRE POSITION

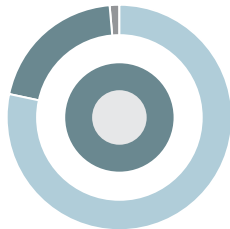
As an emerging player in the industry, we continued to expand in the year, taking the cadre position to 330 employees as at 31st December 2016. This represented a considerable increase of 16% compared to the position of 284 employees as at 31st December 2015.

EMPLOYEE DIVERSITY

As an 'equal opportunity' employer, we strive to nurture an open and an inclusive work culture, where employees are treated fairly and respected without prejudice. We have increasingly looked at striking a balance in our cadre composition, seeking to bring in greater diversity in terms of gender, age and ethnicity.

In the reporting year, we did not record any incidents of discrimination of employees on social and economic prejudices.

CONTRACT TYPE - 2016



Permanent	79%
Probation	20%
Contract	1%

Contract Type: Cadre is skewed towards permanent employees, reflecting greater job security and employee loyalty and commitment.

SERVICE ANALYSIS - 2016



Over 5 years	18%
3 to 5 years	27%
1 to 3 years	33%
Less than one year	22%

Service: Majority falls under 1-3 year service category, demonstrating the effectiveness of retention strategies. Higher turnover of younger employees reflects industry competitiveness.

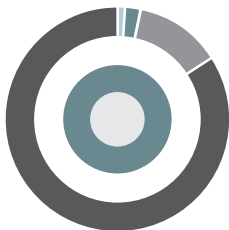
LOCATION - 2016



Western	57%
Uwa	4%
Southern	9%
Sabaragamuwa	6%
North	3%
North West	8%
North Central	3%
Eastern	3%
Central	7%

Location: Higher concentration of staff in the western province, although other provinces are fairly represented.

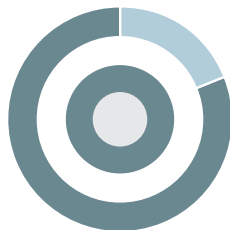
AGE - 2016



Over 50	1%
41 to 50 years	2%
31 to 40 years	13%
21 to 30 years	84%

Age: Majority falls under the age group between 21 to 30 years, bringing new age thinking and innovation to the Company. Fair representation of matured employees with expertise, stability and discipline.

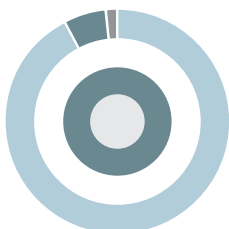
GENDER - 2016



Female	19%
Male	81%

Gender: Cadre is skewed towards male employees due to the higher concentration of non-executive staff. The executive grade is fairly represented in terms of gender. The management is represented by 31% female employees.

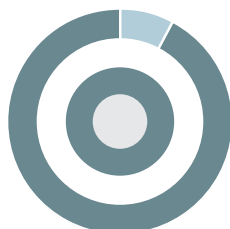
ETHNICITY - 2016



Sinhalese	92%
Tamil	6%
Muslim	2%

Ethnicity: Aligned to the demographic structure in the country, the cadre is skewed towards the majority Sinhalese with minor ethnic groups representing 8%.

GRADE - 2016



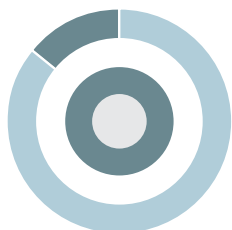
Executive	8%
Non-executive	92%

Employee Grade: Dominated by the non-executive grade employees who are mostly engaged in operations and sales.

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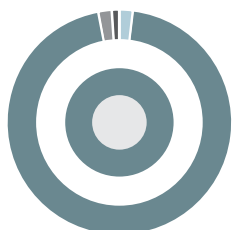
HUMAN CAPITAL MANAGEMENT

RECRUITMENTS - GENDER



Male 86%
Female 14%

RECRUITMENTS - AGE



Below 20 2%
20 to 30 years 95%
31 to 40 years 2%
41 to 50 years 1%

RECRUITMENT

Internal and External Recruitments			
	2016	2015	% Change
External recruitments	90	72	25
Inter-department transfers	3	2	50
Inter-company transfers	3	1	200
Promotions	81	121	(33)

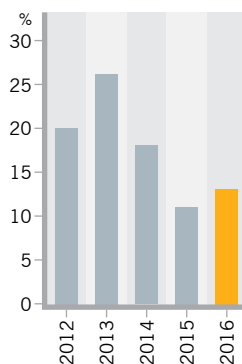
Advocating 'equal opportunity' and nurturing diversity, our aim is to build a versatile team. Our recruitments, therefore, are well-structured and competitive, enabling us to attract the 'best' talent to the organisation. Our selection process is purely based on merit, suitable to meet job responsibilities of the vacancies. Our evaluations and selections focus on qualifications, experience, aptitude, attitude and professionalism.

In the reporting year, we recruited 90 new employees to our cadre, almost 98% falling under the non-executive grade, mainly to fill in the vacancies within the marketing department and window offices at PLC branches in keeping with the organisation's expansion plans. Hence, our recruitment was skewed towards male employees who are more suitable for marketing and sales. Male recruits accounted for 86% of the total recruitments whilst 95% fell under 20-30 year age group category.

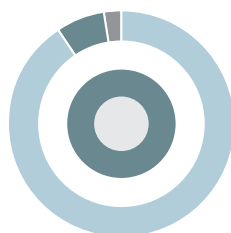
We give precedence to internal recruitments over external recruitments, if the necessary selection criteria are met to fulfil vacancies and job responsibilities. This entails cross-placements and transfers across the Group and promotions to higher grades for high-achievers. We rely on our performance evaluation scheme as discussed below to ensure that we recognise high-achievers, and give them the necessary training and confidence to take more challenging job roles. In the reporting year, we recorded 81 promotions. This included 18 female promotions, representing 22% of the total promotions. We also processed six inter-departmental and group transfers.

We also give priority to community recruitments as discussed under 'Social Capital – Community' section of this report. Nearly 75 of our new recruits were selected on this basis in the reporting year, reflecting 83% of the total recruitments and 17% increase over the previous year. Out of the community recruitments, 10 were female employees and 1 was taken for executive and management roles.

STAFF TURNOVER 2012-2016

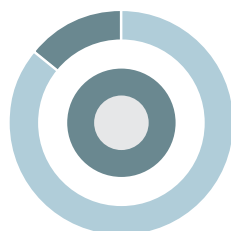


STAFF TURNOVER - AGE



20 to 30 years	39
31 to 40 years	3
41 to 50 years	1

STAFF TURNOVER - GENDER



Male	86%
Female	14%

RETENTION AND STAFF TURNOVER

In an intensely-competitive industry, it is crucial that we give top priority to employee retention. We are focused and invest well on paving the way for an enabling work environment—where employees are recognised for their performance; compensated in line with current market rates; given best training opportunities; and caring for their well-being by supporting them to balance their work-life with sound work practices.

With these retention measures in place, we have been able to progressively control our staff turnover, from 2012-2016, despite industry trends in a competitive backdrop. Out of the total cadre, 43 employees tendered their resignations in the year under review, whilst the organisation did not terminate the employment of anyone on disciplinary grounds. The highest turnover, typically, came from the male employee category, mostly falling between 20-30 year age group. The turnover ratio was sustained at healthy levels, whilst the retention rate stood creditably at 87%.

RETENTION AFTER MATERNITY

Our female employees are entitled for maternity leave benefits of 84 working days for the first and second children and 42 days for the third child as per the Shop and Office Employees Act. In the reporting year, two of our female employees availed maternity leave, corresponding to 3% of the total female cadre. Both employees who availed this facility reported back to work from maternity leave. The retention rate in this regard corresponded to 100 percent.

SKILLS DEVELOPMENT

Training – Key Indicators			
	2016	2015	% Change
Employees trained	330	284	16
Training hours	8,430	7,440	13
Average training hours per cadre	25.5	26.2	(3)
Training investment (Rs. Mn)	1.6	1.9	(16)
Training investment per employee (Rs.)	4,848	6,690	(28)

Gearing to face the challenges of a rapidly-changing business landscape, we focus on employee skills development as a strategic priority—empowering the employee and paving the path for long-term sustainability. Guided by our group HR policy, we believe and rely on training to build a well-rounded team, honing their technical and soft skills and nurturing their work ethic in line with our corporate ethos.

Our training is versatile, entailing on-the-job training, cross placement opportunities across the PLC Group, professional education scheme and structured training programmes. The training we extend is well-focused and structured to address the skills gap that stands in the way of achieving our goals. We closely engage our employees, especially during the performance evaluations, to ascertain the training needs both from the organisation's point of view and

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from the employees' point of view. Our training plan which is drawn up annually takes into account employees' feedback and the immediate supervisors' and managers' recommendations.

We continued in the year to extend quality training, focusing on a range of fields be it in insurance, accounting, finance, management, social responsibility and work-life balance. Our training encompassed all staff grade categories—management, executive and non-executives. The total training investment recorded as Rs. 1.6 million, whilst the total man hours trained stood at 8,430. We also continued to extend financial assistance to our staff to take up post-graduate level and professional studies.

Training Programmes – 2016					
Training Programme	Resource Person	Training Goals	Employees (Number)	Employee Grade	Training Hours
Better time management and work prioritisation	Mr. Mario Fonseka	Time management	74	Minor staff, non-executives, executives and line managers	584
Reinsurance training	UIB Asia Reinsurance Pte Ltd.	Reinsurance	2	Line managers	105
26th National CA Students' Conference	Panel of lecturers relating to various industries	Enhance skill and competence of CA Sri Lanka students	4	Both non-executives and executives	36
CMA National Management Accounting Conference	Panel of lecturers from the Institute of Certified Management Accountants of Sri Lanka (CMA)	Enhance awareness of private and public partnership	2	Non-executives	24
Empower investors - seminar series	Mr. Renuka Wijayawardhane	Enhance awareness of the global economical changes	2	Line managers and non-executives	4
Corporate Social Responsibility (CSR)	Mr. Eranda Ginige	Enhance awareness of CSR	1	Non-executives	9
Motivational workshop	Mr. Niomal Balasooriya	Positive thinking	146	Minor staff, executives and non-executives	1,168
Orientation programme	Internal resource persons	Enhance employee awareness on company	87	Non-executives	3,480
Seminar on e-filing of corporate income tax returns	Panel of lecturers from Inland Revenue Department (IRD)	E-filing of income tax returns	2	Non-executives	7
PI Special Forum	Internal resource persons	Enhance employee awareness on day-to-day office affairs	291	Minor staff, executives, non-executives and line managers	2,328
Developing managers for the future	Panel of lecturers from Postgraduate Institute of Management (PIM)	Enhance managerial skills of future managers	2	Non-executives	101

Training Programmes – 2016					
Training Programme	Resource Person	Training Goals	Employees (Number)	Employee Grade	Training Hours
Going Beyond	Mr. Dhammika Kalapuge	Improve employee motivation towards the work	65	Both executives and non-executives	567
Achieving Excellence in Integrated Reporting	Mr. Suresh Goonerathne and Prof. Lakshman R. Watawala	Enhance awareness of integrated reporting	2	Line managers	10
Seminar on application of VAT, SVAT PAYE & WHT	Panel of lecturers from Inland Revenue Department (IRD)	Enhance awareness of VAT, PAYE and WHT	2	Line managers and non-executives	7
Total training hours					8,430

Internal training

Carried out periodically by internal resource persons from the management and senior executive cadre, our internal training programmes cover specific and general training on sales and marketing, customer service, drawing up policy proposals, underwriting and claims management. In the reporting year, internal training reached out to 330 employees across the organisation, covering 2,328 training hours. We also gave three of our employees' exposure through work rotation, cross-placements and transfers within the Group and project participation.

Induction programme

New recruits are given a comprehensive training and orientation through an induction programme. The programme is carried out mainly by internal trainers both from the Company and the Group. An overall exposure is given on the functional aspects of the Company through rotational on-the-job training, covering all departments at the head office. The training covers products and processes along with an overview of the work culture, ethos and business practices. The codes of work ethics are given to all new recruits to ensure that they comply with the prescribed code of conduct. The programme also extends networking opportunities for new recruits to build relationships with their peers and superiors. An overview is also given on the operations of the parent company and the sister companies within the Group.

In the year under review, we carried out 21 induction programmes for 90 new recruits and covered 3,480 formal training hours.

External training

Seeking to give a more-rounded training and to enable employees to be current with the latest developments and best practices in the industry, we open up opportunities for our employees to participate in training programmes carried out by renowned resource professionals and private and government training institutions. This includes overseas training exposure for selected employees. In the reporting year, 304 employees were sent for external training, clocking in 2,622 training hours, including 60 foreign training hours. We incurred an external training investment of Rs. 1.6 million.

Professional education scheme

Instilling the importance of continuous learning and education, we encourage our staff to take up further studies and obtain professional and post-graduate level qualifications. We encourage them to take up courses related to insurance, actuarial sciences, finance, mathematics and business management. Staff under executive and above grades are eligible to obtain non-bonded financial assistance in this regard. In the reporting year, three staff members were studying under this scheme whilst two members completed their study courses. We invested Rs. 62,392 on this scheme, which represents a decrease of 49% over the previous year's investment.

CAPITAL MANAGEMENT

HUMAN CAPITAL MANAGEMENT



'Going Beyond'



'Better time Management and Work Prioritisation'



PI Special Forum



Orientation programme

REMUNERATION AND BENEFITS

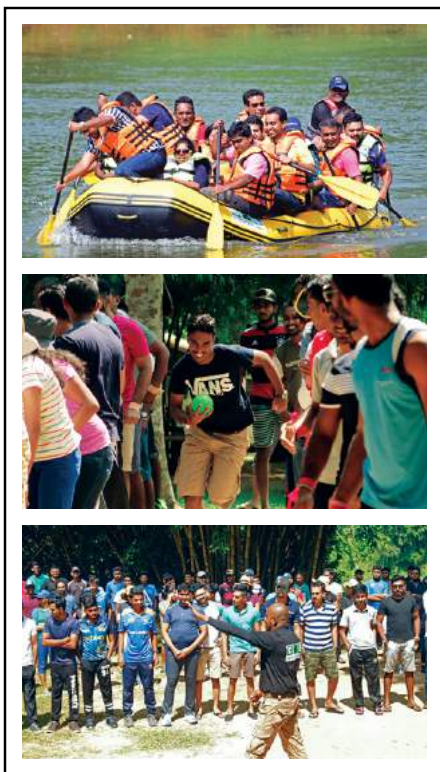
Staff Cost – Remuneration and Benefits			
	2016 Rs.	2015 Rs.	Change %
Remuneration	105,619,958	76,612,443	38
Bonuses	30,000,000	18,736,404	60
Other staff benefits	46,454,146	35,658,046	30
Employee Provident Fund	11,893,315	8,594,221	38
Employee Trust Fund	2,991,699	2,139,868	40
Defined benefit plan expenses	4,235,485	1,796,345	136

BENEFITS OF PERMANENT CADRE

- Medical insurance**
 Hospitalisation cover for the employee and immediate family, applicable for all staff grades
- Vehicle loans**
 Cars for executives and above grades and motor cycles for non-executive grades
- Telephone facilities**
 Applicable for marketing cadre and other selected employees
- Gymnasium facilities**
 Applicable for all grades
- Holiday bungalows at concessionary rates**
 Applicable for all grades
- Staff welfare society benefits**
 Death donations of Rs. 25,000 applicable for all grades



Members of the welfare society



Staff members participating in games at the annual get-together

In keeping with the PLC Group's remuneration policy and following industry norms, our employees are well compensated with all due benefits and incentives. Compensation is based on job responsibilities combined with expertise and experience. Annual increments are added adjusting for cost of living. All benefits and incentives, if not statutory, are based on performance merits ascertained during the performance evaluations held annually. The bonus scheme in place considers both performance and service period. Our compensation package also includes benefits to permanent employees, including vehicle loans, medical insurance cover, death donation and other welfare benefits.

Our total remuneration in the year under review stood at Rs. 106 million, recording an increase of 38% whilst, bonuses stood at Rs. 30 million. The monetary value of other staff benefits offered to permanent employees reached Rs. 46 million, an increase of 30% as against the prior year.

We are also diligent in meeting our statutory benefit obligations as per the laws stipulated in the relevant acts. A contribution of 12% of the basic salary is made to the Employee Provident Fund (EPF) whilst 3% is made to the Employee Trust Fund (ETF). In the reporting year, we contributed Rs. 15 million, for both EPF and ETF, reflecting an increase of 39% over the previous year. We were also conscientious in meeting employee's end-of-the term benefits as per the law set out under the Gratuity Act. The gratuity liability as at the year-end stood at Rs. 13 million.

PERFORMANCE EVALUATION

Upholding 'equal opportunity' values, performance evaluations are effectively used to establish a fair and a transparent work environment where employees are engaged, recognised for their hard work and incentivised based on their performance merits.

Carried out annually across all staff grades including the non-executives, performance evaluation is well structured and interactive. Performance is measured on pre-agreed collective targets as well as individual targets set for the year. Supervisors and managers closely interact and engage their team, assessing their performance against the set targets and give them their feedback and advice on developing their career path. High-achievers are mentored to take up more challenging tasks and develop their managerial skills to become future leaders of the organisation.

In the reporting year, we evaluated 308 permanent employees, representing 93% of the total cadre and 2% increase as against the previous year. Our total evaluations included 206 (with duplicate) female employee's evaluations, representing 33% of the total evaluated.

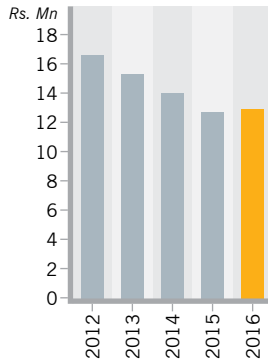
EMPLOYEE RELATIONS AND GRIEVANCE HANDLING

Nurturing an open and an interactive work culture, we are proactive in our engagement and seek to build positive relationships with our employees. Our performance evaluation scheme complemented by our flat cadre structure plays a pivotal role in this regard; opening up pathways for employees to interact freely—resolving their issues and concerns, and redressing their grievances. The healthy relations we maintain with our employees have given us a solid

CAPITAL MANAGEMENT

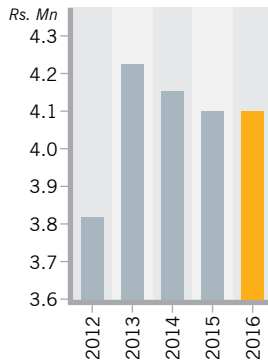
HUMAN CAPITAL MANAGEMENT

REVENUE PER EMPLOYEE



- 2016: Rs. 12.9 million
- 2015: Rs. 12.7 million

VALUE ADDED PER EMPLOYEE



- 2016: Rs. 4.1 million
- 2015: Rs. 4.1 million

platform to accomplish collective corporate goals, whilst empowering our employees to reach their individual ambitions.

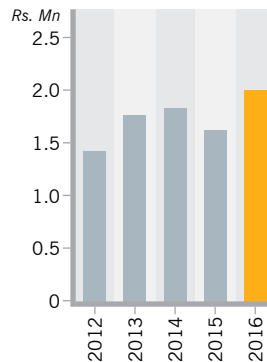
We also have a structured grievance redressal mechanism in place under the purview of our HR department at the head office. All grievances, including violations of fundamental rights and labour laws are addressed by our superiors and the management, and if in the event, the grievances are not resolved, we seek the mediation of the HR department at the PLC headquarters. In the reporting year, we did not record any grievances on labour practices as well as violations of fundamental rights under this formal mechanism.

Our employees are not covered by any collective bargaining agreements and there is no formal mechanism nor a minimum notice period to inform employees on any structural and operational changes taking place within the Company. However, we are keen and take necessary steps to keep our employees positively engaged in this regard. Our listing on the Colombo Stock Exchange in January 2016 along with the IPO stands as a testimony in this direction. We strived to educate our employees on the responsibility of being a public quoted company and closely interacted with them through staff meetings, circulars and the intranet to keep a positive dialogue and obtain their support on the changing status quo of the Company.

EMPLOYEE PRODUCTIVITY

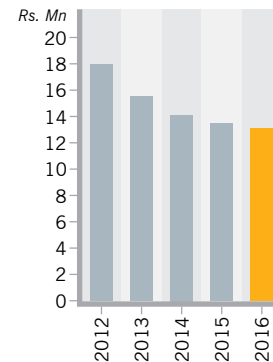
Complemented by our positive measures and initiatives to engage our employees and enable them to take on their responsibilities with motivation and dedication, our productivity continued to improve over the past seven years as demonstrated by key indicators. However, since the financial year 2013, reflecting industry complexities, most of the productivity indicators performed below potential with moderating trends. In the year 2016, some indicators represented an improvement as against the position in the previous year.

PROFIT PER EMPLOYEE



- 2016: Rs. 2.0 million
- 2015: Rs. 1.6 million

GWP PER EMPLOYEE



- 2016: Rs. 13.2 million
- 2015: Rs. 13.4 million



**TRUST
US WITH
YOUR
PLANS**

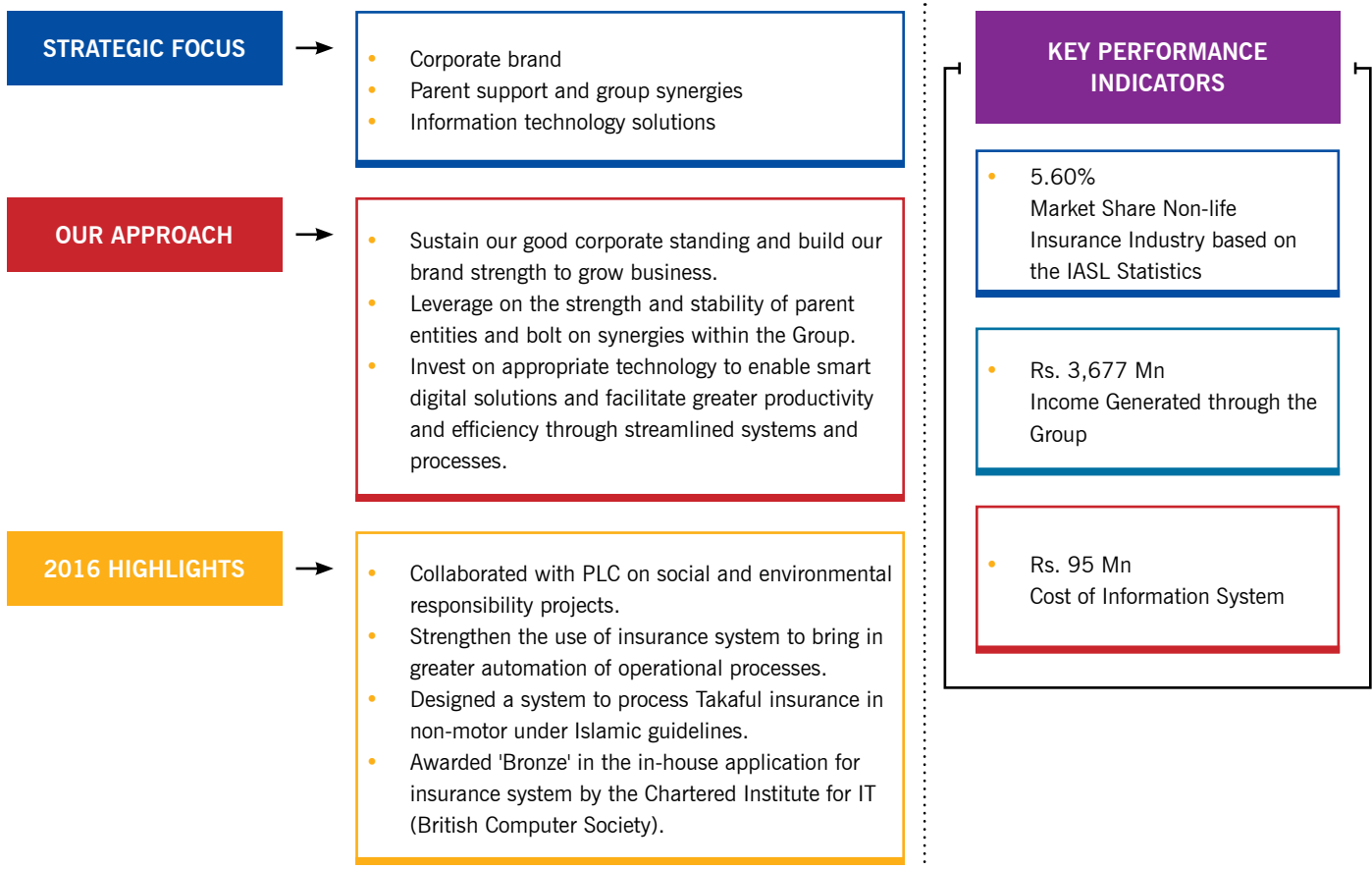


YOU'VE SPENT SO LONG
FORMULATING THEM AND
BUILDING YOUR ASSETS; LEAVE
IT TO US TO MAKE SURE THAT
THEY FALL SMOOTHLY INTO
PLACE.

CAPITAL MANAGEMENT

INTELLECTUAL CAPITAL MANAGEMENT

As a service organisation operating in a fast-paced and competitive business environment, we recognise the role of intellectual capital to be of strategic importance for our value creation process. For our organisation, intellectual capital covers the intangible assets—our brand, the support of our parent entities and collaborative ties within the Group and our investments in technology. It is imperative that we stay focused in strengthening and managing our intellectual capital base, essentially, supporting our efforts to improve our managerial skills, be productive, secure a competitive-edge and grow our market value in our burgeoning industry.



CORPORATE BRAND

Refer: *Relationship Capital – Customers – Marketing Communications and Promotions, page 100.*

<i>building lasting trust...</i>	<p>BRAND VALUES</p> <ul style="list-style-type: none"> • Service excellence • Professionalism • Result orientation • Loyalty
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Well-respected and strongly positioned within the banking and financial services domain, our parent entities, PLC and People's Bank, stand as our pillars in a complex and competitive industry environment. Their brand strength, business acumen, vast outreach, stability and corporate standing have supported our mainstay since our inception, creating significant pathways for us to grow, succeed and secure a sustainable future.

Corporate Standing			
	2016	2015	Variance
Market rank	7 ^(f)	6	(1)
Market share (%)	5.60 ^(f)	5.66	(0.06)

Note: f - forecast

Source: Annual Report 2015, Insurance Board of Sri Lanka and statistics compiled by the Insurance Association of Sri Lanka.

In an era where organisations are coming under increasing scrutiny and pressure from stakeholders, our sound corporate repute and standing we have nurtured over a span of seven years, and our brand which has been gaining its own identity, have essentially set the platform for our business to be competitive, grow and achieve our business goals. Therefore, we are committed, focused and strategic in our efforts and investments to align our day-to-day operations with ethical, social and environment responsible business practices along with good governance. This essentially underscores and reinforces our corporate standing and adding on to brand strength—winning the confidence of our customers and other stakeholders and ensuring a greater share of the market.

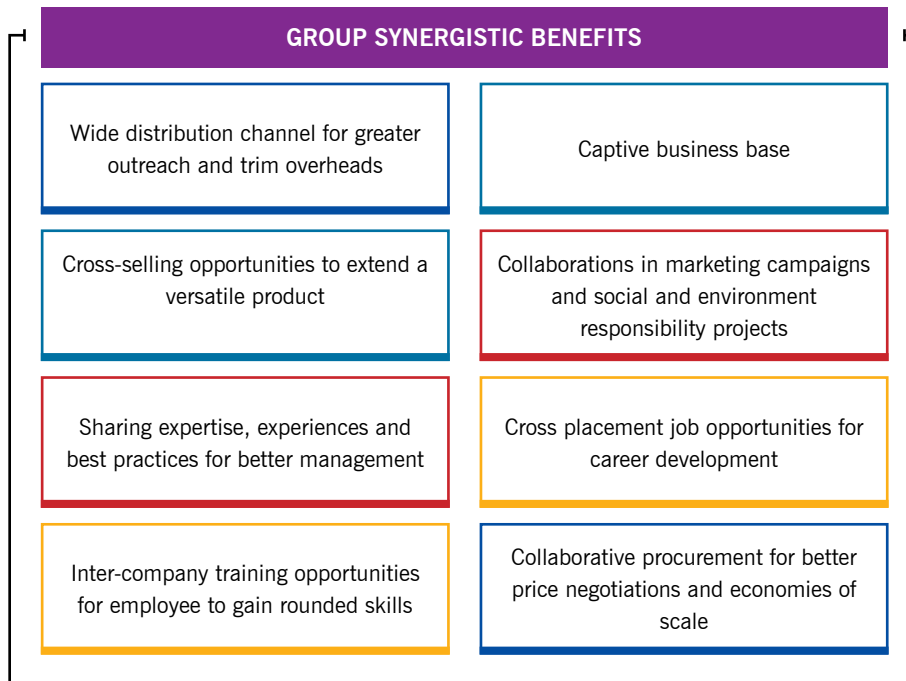
We also benefit from the significant synergies present within our group. We make every effort to strengthen our ties with our parent and sister companies and capitalise on the collaborative opportunities be it in terms of distribution, product offer, procurement, human resources development, marketing, and learning and sharing best business practices.

PARENT SUPPORT AND GROUP SYNERGIES

Group Synergies			
Key Indicators	2016	2015	Change %
Window offices established in PLC and People's Bank branches (Number)	116	109	6
Business generated through parent entities (Rs. Mn)	3,576	3,854	(7)
Business generated through sister companies (Rs. Mn)	101	55	84

CAPITAL MANAGEMENT

INTELLECTUAL CAPITAL MANAGEMENT



- Online customer information portal:** Designing a portal for customers to connect and access the Company '24x7' using their personal computers, tabs and smart phones.
- Official website:** Revamping the website to be more interactive and user-friendly along with an HTML version to enable access through smart phones.
- Business intelligence:** Designing an operational dashboard to enable the management to review and take decisions online through their tabs and smart phones.
- Mobile App:** Launched a mobile application for marketing officers to generate quotations to customers through smartphones and tabs.

INFORMATION TECHNOLOGY SOLUTIONS

Refer: *Relationship Capital – Customers – Product Information and Customer Privacy and Security of Data and Information, pages 99 to 101.*

As a forward-looking organisation, we rely on information technology (IT) to support our core operations, enabling us to keep our business agile and responsive in fast-evolving industry landscape. We are proactive and strategic in our investments to keep abreast of the latest developments in IT and adopt upgrades to enable trending digital solutions along with streamlined systems and processes for greater automation of operations. This has paved way productivity gains and complements our efforts to be customer centered and competitive.

Managed as a shared service function on a fee-based model, our IT operations come under the purview of the Group ICT department.

INSURANCE SYSTEM

IT - Latest Developments

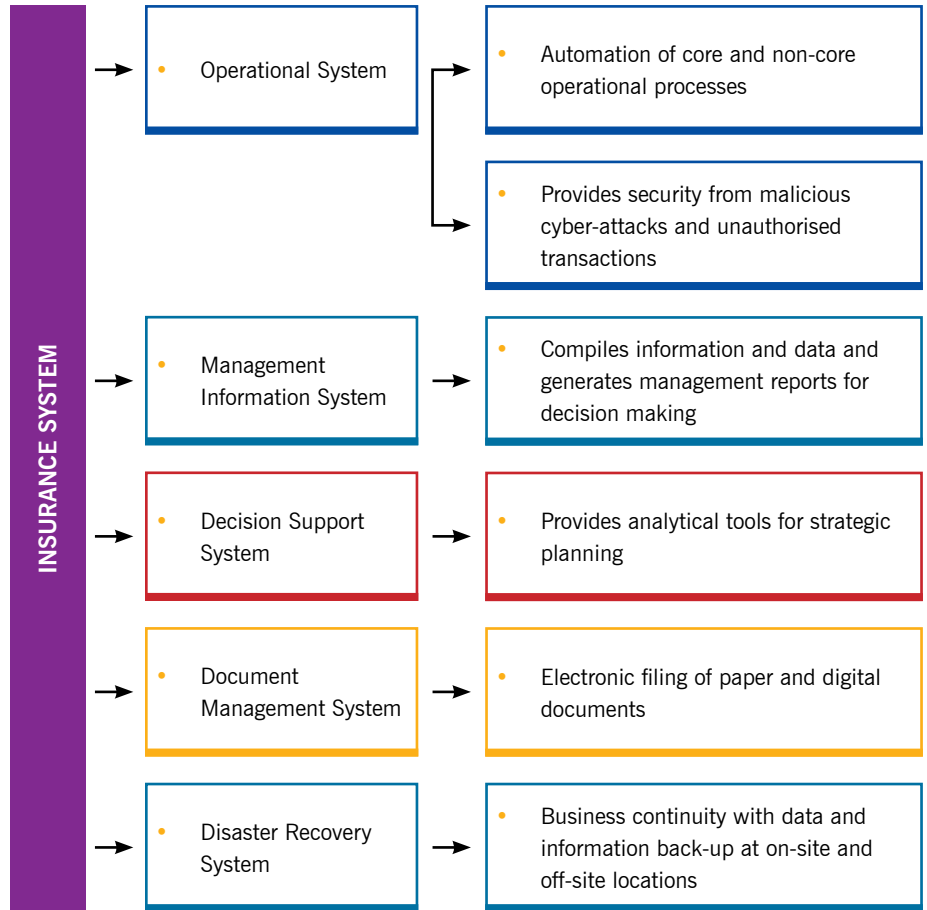
- Takaful system:** Designed and launched a new system to process non-motor Takaful insurance in line with Islamic finance under the Shari'ah guidelines.
- E-payments:** Developed an online payment gateway to accommodate insurance premiums.



Insurance system of People's Insurance PLC was awarded Bronze at 18th National Best Quality ICT Awards 2016



Certificate and trophy - 18th National Best Quality ICT Awards 2016



Developed in-house and centralised at the head office of PLC, the insurance system enables automation of all core and non-core operational processes across the organisation—the head office, regional branches and window offices. The core functions include motor and non-motor insurance covering aspects from generating quotations, processing policies and claims, underwriting and reinsurance; whilst non-core functions include human resources management, inventory controls and payroll. Processing of all transactions are carried out on a real-time basis.

Our operational, finance, marketing and administrative staff are well versed with the system. They are given periodic training opportunities in managing the system and the updates.

Apart from operational aspects, we also have in place a comprehensive management information system (MIS) which supports our management in the decision-making process both at the strategic level as well as at the daily operational level. The management is further supported by our decision support system enabling analytical tools for strategic planning.

CAPITAL MANAGEMENT

RELATIONSHIP CAPITAL MANAGEMENT

CUSTOMERS

Within a highly-competitive and fast-paced business landscape, we recognise the significance of being customer centric, essentially underscoring our integrated approach to value creation.

We prioritise our customers and aim at delivering our products responsibly and extending the best in service, thereby building a positive customer experience. We are proactive in our engagement with our customers and consistent in communicating and obtaining their feedback which supports us to cater to their diverse and changing needs with 'best-fit' products and services. We invest and rely on digital solutions to add value to products and stay committed in training our employees on developing and nurturing customer relationships. Top priority is given to maintaining quality and standards, whilst upholding best practices and complying with relevant rules and regulations to safeguard customer rights.

STRATEGIC FOCUS

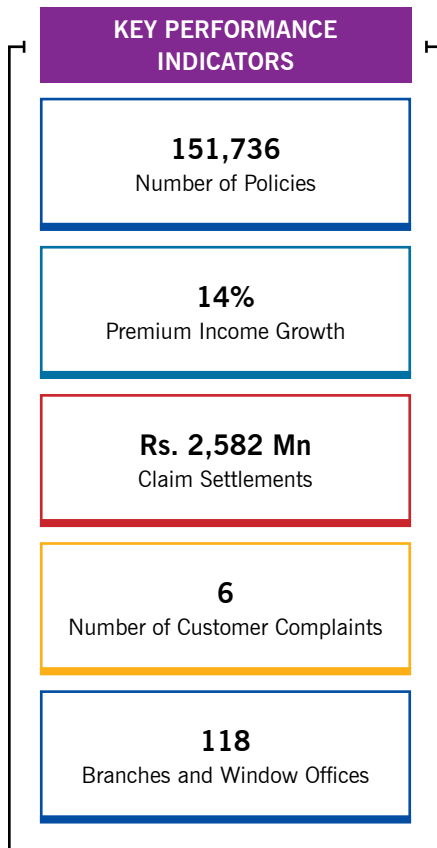
- Product accessibility
- Comprehensive product offer
- Fair pricing and claim settlements
- Product information
- Marketing and communication
- Customer privacy and security of information and data
- Compliance with laws, rules and regulations on products and services

OUR APPROACH

- Ensure product accessibility through a wide network of window offices within the parents' vast distribution channel and through selected regional branches in strategic locations
- Extend a versatile product, investing in new product development and value addition
- Train employees to extend the best in service and build a positive customer experience
- Consistent and continuous dialogue with customers and obtain timely feedback
- Manage customer complaints and address their grievances promptly
- Extend online and mobile application solutions for greater customer convenience and speedier service
- Ensure fair pricing and be efficient in settling claims
- Uphold customer privacy and ensure security of information and data
- Comply with legislature and regulations on product responsibility

2016 HIGHLIGHTS

- Ranked 6th in terms of premium income within the non-life insurance sector as per the available data from the Insurance Association, excluding National Insurance Trust Fund
- Established 7 new window offices and deployed 17 new marketing officers within the PLC's branch network
- Established an e-payment facility for online premium payments



Product accessibility

Giving us access to a greater customer base, we have in place a solid and a cost-effective distribution channel, covering key locations across the country. Apart from our head office and our two fully-fledged regional branches in Galle and Negombo, we are well supported by our parent, PLC's vast branch network. We have established customer touch points through our window offices placed within the PLC branches while our bancassurance ties with People's Bank further support us to have a wider outreach. Our distribution channel, in effect, stands as a pillar of strength—giving us a point of differentiation, which is more significant gaining market share in a highly-competitive business backdrop.

In the year under review, we placed 7 new window offices within the PLC branches and 17 newly-recruited marketing officers to represent our business. With the new additions, our total network as at the year-end comprised our head office, two regional branches, and 116 window offices at both PLC and People's Bank. Our distribution channel was manned by 178 employees along 19 brokers and 34 agents.

Distribution Network – 31st December 2016			
	Number of Offices	Districts	Marketing and Operational Staff
Direct Network			
Head office	1	Colombo	5
Regional offices	2	Galle and Negombo	4
Window Operations			
People's Bank	25		22
PLC	91		147

Comprehensive product offer

Over a span of seven years, we have nurtured our expertise and support services to offer a complete range of non-life insurance products. Reaching out to a wider market base, we bring in value-addition and innovation, tailoring to offer 'best-fit' product solutions to cover diverse lifestyle and business insurance requirements. Our synergistic collaborations with our parent, PLC, and our sister companies, further enhance and complement our ability to extend a more rounded solution—combining insurance along with other financial services.

In the reporting year, we looked at strengthening our new products—travel and Islamic insurance solutions which were launched in the preceding year. We looked into systems and processes, marketing and product branding, seeking to develop these products as fully-fledged solutions. We also brought in another product to our portfolio—solar insurance to cover the loans taken to set up solar panels.

CAPITAL MANAGEMENT

RELATIONSHIP CAPITAL MANAGEMENT

LIFESTYLE INSURANCE PRODUCTS

- **Motor Vehicle Insurance**

Covers accident losses and legal liability to third party for injuries and property damage. Optional covers are available under the comprehensive policy to cover riot and strikes, terrorism and malicious damage.

- **Home Insurance**

Covers losses to property from fire, domestic explosion, natural disasters, impact by vehicles/aircraft, home accidents, breakage of glass, burglary, cost of alternative accommodation and loss of rents. Optional covers include malicious damage, riot and strikes, terrorism, fire damage to electrical appliances, personal and family accidents and compensation for domestic employees.

- **Personal Accident Insurance**

Covers bodily injuries and deaths arising from an accident.

- **Travel Insurance**

Whether you are travelling for business, on holiday, to see loved ones or on a pilgrimage, provides a comprehensive cover, including overseas medical assistance, loss of travel documents, luggage and personal effects, personal accident and trip delay.

- **Solar Panels (Photo Voltaic) Insurance**

Provides a wide cover including accidental damage to solar panel and connected inverter.

BUSINESS INSURANCE PRODUCTS

Commercial Fire

Covers losses to property by fire and lightning. Extended cover is available for natural disasters, explosions, malicious and impact damage, strike, riot and terrorism.

Plate glass

Covers against accidental breakage of plate glass.

Fidelity Guarantee

Covers losses due to employees' fraudulent practices and dishonesty within a business.

Contractor's Risk

Covers losses to contract work and material at site and legal liability for third party work.

Public Liability

Covers legal liability for accidental bodily injury and losses to property, legal fees and expenses within a business.

Marine (Cargo)

Covers losses to goods in transit by land, sea or air.

Travel

Covers losses due to medical emergencies, airline cancellation, lost luggage, flight accidents during overseas travel.

Business Interruption (Consequential Loss)

Covers loss of profits and fixed charges arising from the interruption to business due to fire.

Burglary

Covers losses to property by burglary.

Machinery/Electronic Equipment

Covers unforeseen damage to machinery due to accidents during operations, at rest, cleaning, inspection, overhaul or relocation.

Workmen's Compensation

Covers bodily injury or disease of employees during the employment period.

Motor Vehicle

Covers losses caused by accidents and legal liability to third party for bodily injury and property damage. Optional covers are available under the comprehensive policy to cover riot and strikes, terrorism and malicious damage.

Goods in Transit

Covers loss of goods due to fire, theft or accidents whilst being transported, loaded or unloaded from vehicles.

Takaful Insurance

Covers losses due to accidents and legal liability to third party for bodily injury and property damage in line with Islamic finance principles.

SME Solutions

Specially designed to cover the needs of small and medium business establishments; the cover includes loss or damages to the property caused by fire, lightning and domestic explosions and is usually extended to cover loss or damages due to storms and flooding, earthquake (including tsunami), explosions, malicious damages, impact damages, burst pipes, strikes, riots and terrorism, etc.

Public Liability Insurance, Product Liability

Covers the insured's legal liabilities for accidental bodily injury or illness to persons and property damage to any third party. Also covers legal fees, costs and expenses that may incur from the accidents.

Professional Indemnity

Provides protection against losses to clients due to failure in degree of exercising reasonable care by professionals.

Solar Panels (Photo Voltaic) Insurance

Provides a wide cover including accidental damage to solar panel and connected inverter.

With top priority given to customer centricity and essentially differentiating us and setting us apart in the industry, we are conscientious and fair in our claim settlements. We have the capability and integrity to ensure that we abide by our contractual obligations in settling claims.

Fair pricing and claim settlements

Claim Settlements – 2016				
	Claims Department	Claims Panel	Insurance Ombudsman	Total
Claims lodged (Number)	40,986	97	6	41,089
Claims settled (Number)	40,425	97	2	40,524
Claim settlements (Rs. Mn)	2,318	262	2	2,582

As a principled organisation and striving towards sustainable value creation, we are committed to uphold integrity and responsibility in our product delivery. The necessity in this regard is more pronounced in an industry such as ours where there is intense competition and insurers are tempted to resort to unethical business practices. Thus, we recognise and stand steadfast in our efforts to be disciplined, consistent and cautious in our underwriting operations seeking to strike a good balance between premium pricing and claim risks. We have a competent team under the able guidance of a senior manager to overlook the underwriting operations.

With top priority given to customer centricity and essentially differentiating us and setting us apart in the industry, we are conscientious and fair in our claim settlements. We have the capability and integrity to ensure that we abide by our contractual obligations in settling claims. We are supported by a team of professional valuation assessors attached to our sister company, People's Leasing Fleet Management Ltd.; they facilitate us with fair valuations. This, together with the digital solutions we deploy, enables us to be more efficient and speedier in our claim settlements. The entire claim settlements process is subject to periodic audits by the internal audit department, ensuring that we maintain highest standards in settling claims and thereby safeguarding against fraudulent transactions, if any and minimising leakages.

Disputed and higher threshold claims are managed by our claims panel inclusive of manager legal and heads of departments. Unresolved claims, if any, are forwarded to the Insurance Ombudsman, a body established jointly by the Insurance Association and the Insurance Board of Sri Lanka (IBSL).

In the year under review, we settled 40,524 claims in total, accounting for almost 99% of the total claims lodged. Out of the total claims settled, 97 were evaluated by the claims panel whilst 6 claim disputes were duly forwarded to the Insurance Ombudsman.

Product information

■ GRI G4-PR3 – G4-PR4 ■

Refer: *Statutory and Regulatory Bodies – Work Ethics, page 112.*

PRODUCT INFORMATION COVERAGE IN POLICY DOCUMENTS

- Definitions of key terms
- Premium payments and duration
- Extent of cover and exceptions
- Additional covers available
- Third party liability
- Claims settlement process
- Management fees and ancillary charges
- Terms, conditions and legal obligations

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Fully aware of our fiduciary role as a top tier insurer, we stand committed to ensure responsible practices in our product delivery. We give due consideration and seek to establish a reliable platform for our customers to be informed when making decisions on obtaining insurance solutions and securing claims against their policies.

We give top priority to customer engagement, focusing on one-to-one discussions and written correspondence, especially when drawing up contracts and during claims processing. Our customer relationship officers along with our insurance agents are well trained in this regard. They have the necessary knowledge and competence to create awareness and advice on product solutions with ‘best-fit’ options to suit varied customer requirements and their income levels. Our policy on work ethics and the code established for sales persons as discussed in detail under ‘Work Ethics’,

clearly state the importance of being sensitive and responsive to customers’ right to information on our products and services.

Our policies and related legal documentation entail covenants, terms and conditions covering all aspects of their dealings and transactions with our organisation. Fees and other ancillary charges along with periodic premium payment obligations are duly communicated to all customers prior to finalising the contractual obligations. We have in place the necessary internal systems, processes, procedures and controls to ensure that we are in effect responsible in upholding our commitment to disseminate due information on our products and service in a timely manner. Our call centre, official website and communication materials further support us in our efforts to keep our customers informed in making right decisions on their insurance requirements.

In the reporting year, we did not report on any incidents of non-compliance with regulations and voluntary codes with respect to product information.

Call Centre

Fully equipped with state-of-the-art equipment and facilities, our 24x7 call centre is pivotal in supporting our efforts to be proactive in engaging our customers. It provides our customers an ideal platform to interact and communicate with our service representatives–facilitating access to information, to give their feedback, and obtain due solutions to their concerns. This is more significant in motor claims where customers can report an accident in a timely manner, obtain help in initiating the claim, and enabling the processing of the claim for prompt results.

Our call centre is located at our parent, PLC’s head office and is manned by a team of well-trained customer service representatives.

Official website and online facilities

OFFICIAL WEBSITE - INTERACTIVE AND USER-FRIENDLY FEATURES

- Company profile
- Distribution network
- Product offer - business and lifestyle
- How to make premium payments and claims lodgings
- Access to travel insurance plans, proposals and quotations
- E-payment gateway
- Contact us and ‘call back’ option
- Frequently asked questions

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Our official website, ‘www.peoplesinsurance.lk’ gives us a platform to establish our online presence and reach out to customers with greater engagement. Our website is interactive and informative, showcasing relevant content on the Company profile, products on offer and other user-friendly features.

CAPITAL MANAGEMENT

RELATIONSHIP CAPITAL MANAGEMENT

Currently, we are in the process of revamping our official website. More interactive features will be included such as trilingual facilities and a customer information portal. The website will have an HTML version which will be compatible with smart phones. Our revamped website along with a new 'look and feel' in line with our branding is expected to be launched soon.

SMS Alerts

We use a short message service (SMS) gateway to reach out to our customers and keep them informed of current developments. Our SMS alerts notify customers on the latest product promotions; send reminders for timely premium payments and inform on the status of their claims, particularly with respect to motor and medical policies.

Marketing communications and promotions

■ GRI G4-PR7 ■

We are conscientious in our approach to marketing communications and promotions—following best practices and upholding integrity, accountability and fair competition. Our marketing initiatives look to enhance our brand strength for 'top-of-the-mind' recall and promote our product range on offer, significant to gain greater market share within the non-captive retail sector, in an intensely competitive backdrop.

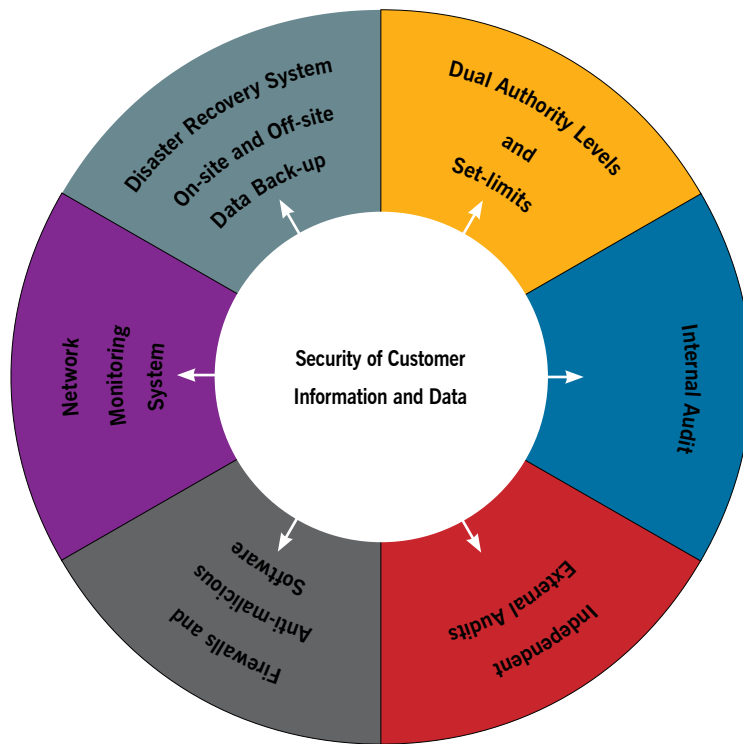
Our marketing mix is a combination of above-the-line activities mainly on print media as well as below-the-line activities entailing one-to-one promotions, seminars, road shows and distribution of brochures and leaflets on product information. Some of the campaigns are jointly organised and carried out with our parent and sister companies. In the

reporting year, we invested a total of Rs. 0.9 million on marketing promotions—18 door-to-door campaigns in 11 districts.

In the year under review, the Company did not incur any incident of non-compliance with regulations and voluntary codes with respect to marketing communications.

Customer privacy and security of information and data

■ GRI G4-PR7 ■



As an insurance service provider, we are privy to our customers' personal information and data. Well-aligned to our Group ethos, we stand committed and responsible in respecting and safeguarding customer identity, their privacy along with confidentiality of information and data.

Customer information and data are not shared with third parties including with the Group companies without the prior written consent or without a legal agreement. In the event information and data are shared on agreement, the third part institutions are bound legally to maintain confidentiality.

Information and data are however shared within statutory and regulatory boundaries under the purview of our regulators, inter-alia, the IBSL, the Central Bank of Sri Lanka (CBSL), the Securities and Exchange Commission of Sri Lanka (SEC) and the Colombo Stock Exchange (CSE). In effect, we submit a quarterly report to our regulator on customers and all transactions above Rupees one million in compliance with the Know Your Customer policy and under the Anti-Money Laundering Law. Consequently, this report is presented through the industry regulator to the CBSL.

We have in place a well-structured business continuity plan with necessary systems and processes to safeguard our customer information and data. Our disaster recovery system entails a systematic back-up at both on-site and off-site locations along with an SMS facility to notify the server administrators to safeguard data from a power failure. The network monitoring system identifies and rectifies glitches, traffic build-up and prevents unwarranted online activity. We also keep an audit track with the support of the security module entailed within the core system. This has dual authority levels and set-limits to ensure the security of key transactions. Necessary firewalls and anti-malicious software are in place to protect information and data from any malicious attacks.

We are also conscientious in audit practices on information security. Periodic audits and vulnerability assessments are carried out on our systems, software programmes and processes by both the internal audit department, external auditors and other auditing and certification bodies. In the

reporting year, group internal audit carried out a structured audit and the findings were duly addressed by our ICT department, attached to our parent company. We also have in place an external assurance from Messrs. Det Norkse Veritas Sri Lanka for security management, complying with the standards of ISO/IEC27001:2013.

In the reporting year, we did not record any complaints on breaching customer privacy and on loss of data and information.

Compliance – products and services

■ GRI G4-PR9 ■

In the year under review, we did not record any fines for non-compliance with laws and regulations with respect to products and services.

BUSINESS PARTNERS

■ GRI G4-12 ■

BUSINESS PARTNERS	
<ul style="list-style-type: none"> • Insurance agents • Insurance brokers • Reinsurers • Reinsurance brokers • General suppliers 	<ul style="list-style-type: none"> • Banks and financial institutions • Vehicle dealers and agents • Vehicle assessors and valuers • Actuaries

Our value creation process is intertwined with our business partners ranging from brokers, agents, reinsurers, reinsurance brokers, vehicle assessors and valuers, banks and financial institutions, vehicle dealers and agents and general suppliers of IT systems, hardware, software, stationery, furniture and fittings and other goods and services. They play a pivotal role in our efforts, collaborating with us to establish a leading positioning with our emerging industry. Therefore, it is highly warranted that we are focused and consistent in building strong and loyal relationships with the best-in-class, high performing and responsible business partners who could in turn support our quest to achieve operational excellence and secure a competitive advantage in the industry.

CAPITAL MANAGEMENT

RELATIONSHIP CAPITAL MANAGEMENT

STRATEGIC FOCUS	<ul style="list-style-type: none"> • Nurture ties with insurance agents and brokers. • Secure quality ties with reinsurers and reinsurance brokers. • Procurement and general suppliers.
OUR APPROACH	<ul style="list-style-type: none"> • Closely engage and build relationships with business partners who have adopted best practices in their operations, with a 'best-fit' to our core value system. • Select business partners on their corporate standing, professionalism, quality and standards, cost factors, on-time delivery and responsiveness to suit our business requirements. • Assess the operations of business partners to ensure that they follow best practices and comply with legislature and regulations on labour management, human rights, products, environmental and social aspects.
2016 HIGHLIGHTS	<ul style="list-style-type: none"> • Closely engaged and strengthened ties with insurance agents and brokers and supported them with commissions and fees. • Monitored insurance agent operations and compliance with the Code of Ethical Conduct for Sales Persons. • Secured reinsurance from internationally-acclaimed and well-rated reinsurance organisations. • Expended Rs. 36 million on general procurement following best practices.

Nurturing ties with insurance agents and brokers

Refer: *Statutory and Regulatory Bodies – Work Ethics, pages 112 to 113.*

Insurance Agents – Performance			
	2016	2015	% Change
Insurance agents (Number)	34	21	62
Premium income generated (Rs. Mn)	153	65	135
Commissions paid (Rs. Mn)	13	5	160

We had 34 insurance agents registered and working under our purview, covering 16 key districts spread across the island by the end of the year under review. All our agents have been sat for the exam conducted by Sri Lanka Institute of Insurance (SLII) and are bound to abide by the rules set out by the industry regulator, the IBSL. Apart from this, the agents have to follow and comply with our Code of Ethical Conduct for Sales Persons set out under our organisation's Policy of Work Ethics. Our branch co-ordination and agent management department extends the necessary training to all our agents on the product as well as on their job responsibilities and the professionalism required in discharging their duties. In the year under the review, we did not record any incidents of non-compliance to the Code of Conduct as well as with respect to the agent rules set by the IBSL.

In terms of their operational performance, our insurance agents in the year generated premium income of Rs. 153 million, representing 3.5% share of our total premium income; and a 135% increase compared to the level generated by them in the preceding year.

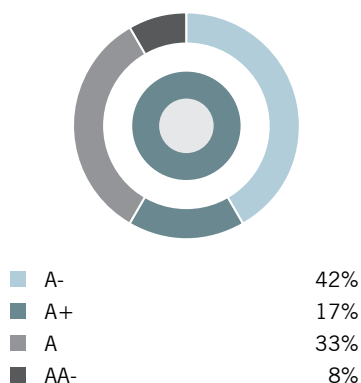
In terms of their operational performance, our insurance agents in the year generated premium income of Rs. 153 million, representing 3.5% share of our total premium income; and a 135% increase compared to the level generated by them in the preceding year. We paid Rs. 13 million as commissions to our agents which reflected a 160% increase over the previous year.

Insurance Brokers – Performance			
	2016	2015	% Change
Insurance brokers (Number)	19	22	(14)
Premium income generated (Rs. Mn)	40	19	111
Broker fees (Rs. Mn)	5	2	150

We also maintain relationships with a solid network of brokering organisations registered with the IBSL. Our selections are strictly guided by their level of competency, their corporate standing and ethical values that underscore their operational success. We are proactive in our engagement and collaborate effectively to secure direct business. As at the year-end, we had dealings with 19 brokers and the premium income generated through this channel stood at to Rs. 40 million, accounting for 1% share of the premium income; reflecting 111% increase over the previous year. The brokering fees in the year reached Rs. 5 million, an increase of 150% over 2015.

Secure quality ties with reinsurers

RATING ANALYSIS - REINSURERS



Reinsurers - 2016			
Name of Company	Country	Rating	Rating Agency
Asia Capital Reinsurance Group Pte Ltd.	Singapore	A-	A. M. Best
Everest Reinsurance Company	Singapore	A+	A. M. Best
First Capital Insurance Ltd.	Singapore	A	A. M. Best
General Insurance Corporation of India	India	A-	A. M. Best
Labuan Reinsurance (L) Ltd.	Malaysia	A-	A. M. Best
Lloyd's	Singapore	A	A. M. Best
Malaysian Reinsurance Berhad	Malaysia	A-	A. M. Best
MAPFRE Asistencia	India	A	Standard & Poor
Swiss Reinsurance Company Ltd.	Switzerland	A+	A. M. Best
Trust International Insurance & Reinsurance Company B. S. C	Bahrain	A-	A. M. Best
XL Insurance Co Ltd.	Singapore	A	A. M. Best
National Insurance Trust Fund	Sri Lanka	AA-	Fitch

CAPITAL MANAGEMENT

RELATIONSHIP CAPITAL MANAGEMENT

Reinsurance Cover

Our business exposure is covered by only highly-rated and high-performing reinsurance organisations. We are careful and firm in our policy of selecting our reinsurers who have the necessary corporate stature and standing with profound reinsurance expertise. As at the year-end, we have built solid relationships with reinsurers including brokering reinsurance companies. All of these organisations are rated at 'A-' or above, by internationally acclaimed rating agencies. Reinsurance premium for the year reached Rs. 351 million, representing an increase of 15% over 2015.

Procurement and selecting general suppliers**■ GRI G4-EC9 ■**

Significant and substantial general procurement including IT equipment, air conditioning chairs and tables is usually carried out as a shared function with the logistics department of our parent, PLC. This paves way for us to benefit from economies of scale, complementing our lean cost structure and in turn, supporting us to achieve bottom-line profits. Minor procurement comprising materials and support services comes under the direct purview of our organisation. As a group policy, we give due preference to local suppliers.

Best practices underscore our procurement process. This includes calling for tenders and three competitive quotations followed by technical evaluations on quality basis or quality-cost basis, as deemed appropriate. The technical specifications will look to ensure that there is quality, reliability, timely delivery and cost benefits along with conformance to relevant environmental and social aspects.

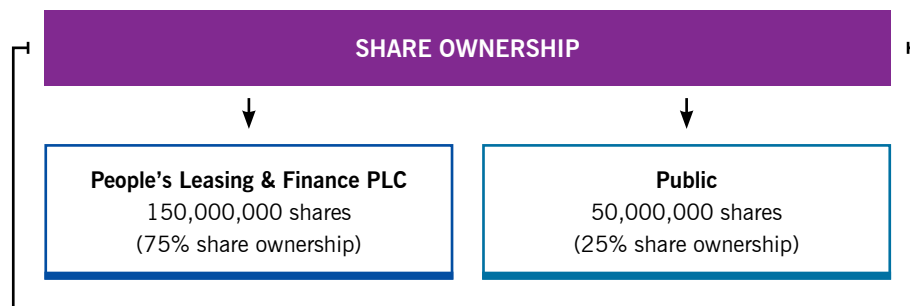
In the reporting year, we incurred a sum of Rs. 36 million on procuring general supplies including major and minor procurement. This represented 20% decrease over the previous year. Almost 100% of procured items were locally sourced.

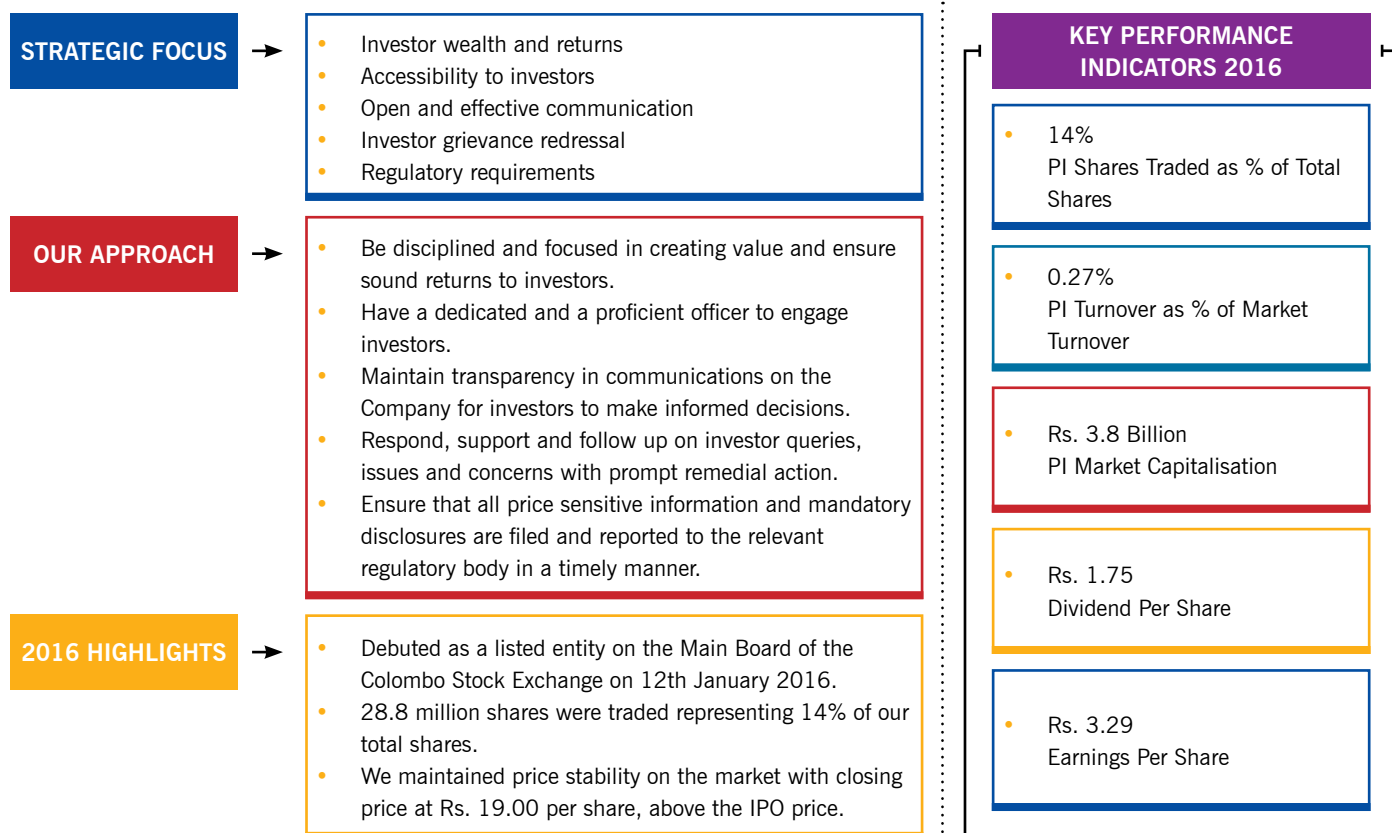
Procurement – General Supplies					
Type	Description	2016 (Rs. Mn)	2015 (Rs. Mn)	% Change	% of Local Procurement
Major procurement	IT hardware and software	9	30	(70)	100
Minor supplies	Paper and printing materials	21	11	91	100
Services	Security and janitorial	6	4	50	100
Procurement expenditure		36	45	(20)	

INVESTORS

Following the initial public offering of 50 million ordinary shares at Rs. 15 per share, our organisation completed its listing on the Main Board of the Colombo Stock Exchange on 12th January 2016. As a public quoted company, our Board of Directors and members of the management team fully recognise the fiduciary responsibility to our investors—People's Leasing & Finance PLC as the parent and majority shareholder with 75% of share ownership as well as to our institutional and retail shareholders taking up 25% stake.

We give utmost priority to operate with strategic insight and well aligned with best business practices, relevant rules and regulations; thereby protect their investment, enhance wealth creation and extend optimal returns. To this end, we are committed to closely and positively engage our investors and meet their expectations in terms of investor returns and paving the way for transparent platform for investor dealings.





Investor wealth and returns

Stock market performance

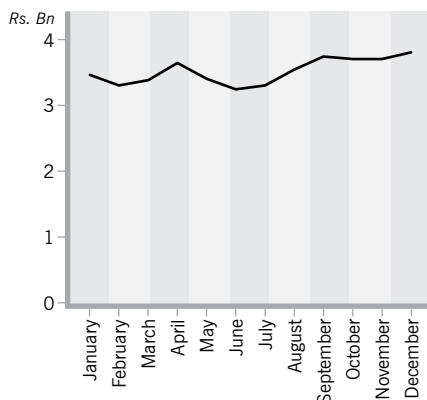
Stock Market Indicators	2016	2015
All Share Price Index	6,228	6,895
S&P SL 20 Index	3,496	3,626
Market capitalisation (Rs. Bn)	2,745	2,938
Average daily turnover (Rs. Mn)	737	1,060
Foreign outflows (Rs. Mn)	74,199	89,784
Rights issues (Number)	6	16
Listings (Number)	4	2

In a challenging macroeconomic and socio-political landscape where investors were in a quandary in balancing out mixed sentiments, the capital market in the year 2016 remained sluggish and performed way below its potential. The market grappled, inter-alia, with policy signals towards a tighter stance in monetary policy directing market interest rates to adjust upwards; weaker Rupee trends against the US Dollar; and greater foreign outflows partly due to uncertainties within the investment climate and partly due to the stronger market signals from the advanced nations, particularly the United States of America. This spurred greater price volatility and declining trend whilst market capitalisation and turnover registered a decline.

CAPITAL MANAGEMENT

RELATIONSHIP CAPITAL MANAGEMENT

MARKET CAPITALISATION



Earnings and dividends

Maximising shareholder wealth, we continued to be focused in our strategy and action to achieve sound top-line and bottom-line earnings. In the reporting year, amidst the challenges of our business landscape, we were successful in growing our top-line and managing to post positive underwriting results and bottom-line profits. We posted Rs. 658 million as profit after tax for the financial year under review; our earnings per share increased by 6 percentage points to 3.29 whilst price earnings ratio touched 5.8.

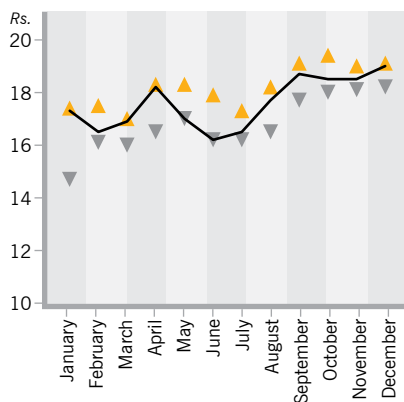
With steady profits, our dividends for the year is estimated to touch at Rs. 350 million, including Rs. 300 million as interim dividends and proposed final dividend of Rs. 50 million. Our dividend pay-out ratio stood at 53%.

Share performance

Amidst a bearish capital market backdrop in the year under review, our shares on the market performed creditably and managed to maintain price stability. As at the year-end, 31st December 2016, our share price closed at Rs. 19.00, representing a 27% increase against the IPO price of Rs. 15.00. The highest price stood at Rs. 19.40 whilst the lowest touched Rs. 14.70.

In the year under review, 28.8 million shares were traded for Rs. 489 million. Our market capitalisation touched Rs. 3.8 billion, accounting for 0.13% of the entire CSE market capitalisation.

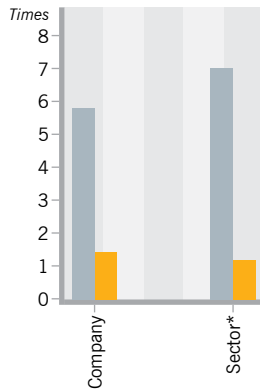
SHARE PRICE MOVEMENT



- ▲ Closing price
- High price
- ▼ Low price

	Company	Banking, Finance and Insurance Sector
Market capitalisation (Rs. Bn)	3.8	654
Dividend yield (%)	9.2	3.3
P/E ratio (Times)	5.8	7.0
Price to book value (Times)	1.4	1.2

INVESTOR RATIOS - COMPANY VS SECTOR



* Banking, Finance and Insurance Sector

- P/E ratio
- Price to book value

Accessibility to investors

Investor relations at our organisation come under the purview of the Chief Operating Officer together with the assistance of the finance department. The finance team is responsible to maintain an effective dialogue with investors and respond to their queries and accommodate their requests for publicly available information. Corporate affairs division of our parent, PLC, is responsible for ensuring that the mandatory disclosures along with price sensitive information of the Company are filed with the CSE and the SEC. Alternatively, our Managing Director and the Board of Management are open and committed to engage with investors, if and when the need arises.

Investor grievance redressal

We have established a formal mechanism to redress investor complaints and concerns. Under this mechanism, our investor relations team—as the first point of contact—is responsible to handle all investor complaints with prompt remedial action. In the event of unresolvable issues and disputes, the Board is delegated and available to intervene and redress investor concerns.

Open communication

Clear, consistent and open communication on the Company and its investment proposition is imperative for investors to make informed decisions. It is crucial that investors are aware and understand the business environment, business model, strategy, operational and financial performance and the long-term outlook and prospects. Having recognised the significance, we have in place the necessary procedures for timely communication, particularly of price sensitive information including quarterly financial statements and our Annual Report. We also maintain an official website with a dedicated investor relations page to make available an online communication channel. The Annual General Meeting along with one-to-one meetings are ideal for open and interactive communication with our investors.

We held our first Annual General Meeting as a listed entity on 28th June 2016 and successfully addressed investor concerns. We did not convene any other meetings with our investors.

Regulatory disclosures

Refer: *Statutory and Regulatory Bodies and Governance Report, pages 111 and 139 to 168.*

Committed to upholding best practices, we are conscientious in meeting our mandatory and voluntary regulatory requirements with due disclosures filed with the CSE and the SEC. The disclosures that are key and useful for investor decision-making are set out in the section of shareholder information on pages 270 to 274.

CAPITAL MANAGEMENT

SOCIAL CAPITAL MANAGEMENT

STRATEGIC FOCUS

- Community service
- Community recruitment

OUR APPROACH

- Support communities to enable the needy through philanthropic and civic conscious initiatives.
- Extend community-based recruitment opportunities, especially in key areas where we operate.

2016 HIGHLIGHTS

- 115 employees volunteered with 486 volunteer hours to carry out our community service projects.
- 65 employees participated in the 'Walk for Road Safety', an awareness building campaign organised by PLC.
- 83% of our new recruits joined the organisation under the community recruitment policy.

COMMUNITY

As a fundamental part of our corporate ethos and aligned to the values upheld by our parent, PLC, and the Group, we stand committed to be an exemplary corporate citizen. We strive to uphold our responsibility to the community, particularly in areas where we operate—closely engaging and building positive relationships through community-related initiatives and considerations in our daily business operations. This is well aligned to our integrated approach we seek to take in our value creation process.

Community service

Following through with our commitment to steer our operations beyond profits, we continued in the year with our community service initiatives, seeking to support the underprivileged people and victims of natural disasters. Aligned to our business operations, we also advocated road safety in collaboration with our parent, PLC. Our investment in community service stood at Rs. 0.6 million.



We strive to uphold our responsibility to the community, particularly in areas where we operate—closely engaging and building positive relationships through community-related initiatives and considerations in our daily business operations. This is well aligned to our integrated approach we seek to take in our value creation process.



Donation of dry rations for the flood and earth slip victims in Aranyaka

Donated dry rations for the flood and earth-slip victims of Aranyaka through the Buddha Rashmi Vesak Kalapaya organised by the Gangarama temple, Colombo - May 2017

- Recipients: 50 families
- Cost incurred: Rs. 150,000
- Participation: 5 employees
- Employee volunteer hours: 18

Financial assistance given to organise the Kelaniya Duruthu Perahara

- Cost incurred: Rs. 125,000



Donation of food and essential items to the Child Development Centre, Moratuwa

Joined the 'Walk for Road Safety' organised by PLC and collaborated in creating awareness on accidents and the importance of being disciplined in following road rules - August 2016

- Cost incurred: Rs. 148,000
- Participation: 65 employees
- Employee volunteer hours: 357

Donated stationery and school items to underprivileged students studying at the Thanthirimale Maha Vidyalaya, Anuradhapura and financial assistance given to organise 'Achievers Day', Sujatha Balika Vidyalaya and 'Pirith and Alms Giving' ceremony, St. Mary's Balika Maha Vidyalaya

- Cost incurred: Rs. 17,500

Financial assistance given to organise the Research Symposium 2016, Department of Demography, University of Colombo and Sports Day, University of Kelaniya

- Cost incurred: Rs. 45,000



Participation in walk for road safety, organised by PLC

Donated food and essential items to the Child Development Centre, Moratuwa - October 2016

- Cost incurred: Rs. 89,000
- Participation: 20 employees
- Employee volunteer hours: 94

CAPITAL MANAGEMENT

SOCIAL CAPITAL MANAGEMENT

Community recruitments

As an integral part of our recruitment strategy, we give due precedence to community recruitment. We look at opening up our vacancies to people living in the areas where we operate, particularly targeting the youth. This works well for our organisation, nurturing employee loyalty and commitment, whilst complementing our efforts to be closer in our engagement with the communities, thus enabling positive relationships and gains on market share.

In the year under review, 75 new recruits were employed based on our community recruitment strategy, including 10 female employees and one at the executive and management level. This corresponded to a 17% increase over the previous year. Community recruitments represented 83% share of the total new recruits taken on board this year and represented 18% growth over the previous year.

STATUTORY AND REGULATORY BODIES AND ASSOCIATIONS

Refer: *Governance Report, pages 129 to 168.*

As a public quoted company, we recognise the significance and our obligations to society, upholding trustworthiness, responsibility and ethical corporate conduct. This is well engrained within our corporate ethos and complements our role as a flagship subsidiary of a leading and a well-respected group within the financial services domain. Henceforth, we give due precedence to compliance with voluntarily as well as those mandatory rules, regulations and legal requirements set by relevant statutory and regulatory agencies.

STRATEGIC FOCUS

- Statutory and regulatory compliance
- Work ethics
- Memberships
- Compliance with laws, rules and regulations

OUR APPROACH

- Maintain sound relations with relevant ministries, Government agencies, regulatory and statutory bodies by complying with their policies, directives, rules, regulations and procedures applicable to the Company and to the industry.
- Keep abreast and respond positively to the current developments within the legal and regulatory framework.
- Extend compliance training to relevant employees and be systematic in documentation.
- Ensure corporate and employee conduct, aligning with current regulatory trends and sound practices in business and governance.
- Take up a positive role in associations and lobby for industry issues.

2016 HIGHLIGHTS

- Complied with the revised regulatory requirements under the amended Regulation of Insurance Industry Act.
- Duly paid our tax obligations to the Department of Inland Revenue.

KEY PERFORMANCE INDICATORS 2016

Rs. 93 Mn
Corporate Tax Paid

Having responded positively to the current regulatory framework, we are fully in compliance with the revised requirements set out under the amended Insurance Act.

Regulatory and Statutory Compliance

Insurance Board of Sri Lanka (IBSL)

Duly registered and licensed under the IBSL, our organisation is governed by the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011. We are bound to abide and comply with the mandatory set of rules and regulations set under the above mentioned Act and the amendments therein. Having responded positively to the current regulatory framework, we are fully in compliance with the revised requirements set out under the amended Insurance Act.

COMPLIANCE WITH INSURANCE REGULATORY REVISIONS	
<p>SEGREGATION OF COMPOSITE INSURERS - LIFE AND NON-LIFE BY FEBRUARY 2015</p> <p>Compliance Status: Not applicable</p>	<p>MINIMUM PAID-UP SHARE CAPITAL TO BE RS. 500 MILLION BY FEBRUARY 2015</p> <p>Compliance Status: Paid up share capital as at the year-end stood at Rs. 1,350 Mn.</p>
<p>LIST ON THE COLOMBO STOCK EXCHANGE BY FEBRUARY 2016</p> <p>Compliance Status: Listed on the Main Board of the Colombo Stock Exchange with a public float of 25% since 12th January 2016.</p>	<p>TRANSITION FROM SOLVENCY REGIME TO RISK-BASED CAPITAL REGIME BY JANUARY 2016</p> <p>Compliance Status: Successfully adopted risk-based capital regime with minimum requirements being comfortably met.</p>

Capital Market Agencies

Refer: *Governance Report, pages 139 to 168.*

Recognising our role as a public quoted company, we are disciplined in meeting our mandatory and voluntary regulatory requirements prescribed by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Colombo Stock Exchange (CSE). During the year under review, we sought to move towards greater compliance with the continuous listing requirements of the CSE and ensured that we were diligent in filing the mandatory disclosures. We looked at improving our governance as per the guidelines set out in the Code of Best Practices on Corporate Governance jointly issued by the ICASL and the SEC. This year under review, we set up our investment committee to oversee our investment decision-making.

CAPITAL MANAGEMENT

SOCIAL CAPITAL MANAGEMENT

BUSINESS ETHICS POLICY

The business ethics policy of People’s Insurance which is based on the Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the People’s Leasing Group ethics policy sets forth the values, desired expectations and ethics of service that shall guide and support the Board of Directors, senior management, employees and external resources such as agents, loss assessors/adjusters in all their professional activities with the Company. It will also serve to maintain and enhance public confidence and integrity in the Company, and strengthen respect for, and appreciation of, the role played by the Company within the wider local, national and international community.

TWELVE-POINT FRAMEWORK - SALIENT FEATURES

- Compliance
- Honesty, fairness and diligence
- Financial strength
- Information to policyholders and potential policyholders
- Relationship with intermediaries
- Relationship with community and public
- Protection of company information
- Protection of proper use of company assets
- Conflict of interest
- Safety, health and environment
- Personal obligations
- Resolution procedure and reporting of violations

Inland Revenue

As a responsible insurance service provider, it is imperative that we are conscientious in keeping with our tax obligations. We are disciplined and accountable in keeping good records and assessing our tax liability with accuracy. Our financial statements are duly audited by independent and reputed external auditors. In the reporting year, we settled a sum of Rs. 93 million as income tax payments.

WORK ETHICS

■ GRI G4-56 ■

Duly endorsed by the Board and the Management, our organisation and the way we do business are guided by the ‘Policy on Business Ethics’. Under this policy, our business is carried out within a twelve-point framework covering all aspects of our operations and our responsibilities toward meeting our stakeholder concerns and expectations.

Code of Conduct

■ GRI G4-S03 – G4-S04 – G4-S05 ■

CODE OF ETHICAL CONDUCT FOR OFFICE STAFF

Salient Features

- Standard of personal behaviour
- Behaviour during work
- Anti-money laundering
- Improper payments
- Communication and information
- Conflicts of interests
- Raising matters of concerns

CODE OF ETHICAL CONDUCT FOR SALES PERSONS

Salient Features

- Ethical conduct in explaining the contract
- Reasonable observation on disclosure of underwriting information
- Ethical conduct in collecting money, documentation and settlement of claims

In line with our ‘Policy on Business Ethics’, we have in place two codes of conduct for our employees and intermediaries—‘Code of Ethical Conduct for Office Staff’ and ‘Code of Ethical Conduct for Sales Persons’. The two codes act as blue-prints to guide the office staff as well as marketing and sales staff including insurance agents; clearly setting out the principles, standards and professionalism required in discharging their daily duties. This essentially reinforces our mainstay.

All employees, new recruits and agents registering with the Company are required to pledge compliance with the two codes. Staff training programmes, including induction sessions for new recruits and agent training focus on educating and internalising the guidelines set under the codes along with the policy. The codes are accessible on the intranet, covering window

operations, regional branches and the head office. The internal audit department closely monitors and carries out periodic checks and audits to ensure employee compliance. The findings on non-compliance to the codes, including corruption and fraudulent business activities are submitted to the Board for deliberations and due disciplinary action is taken on any violations. The Company also reports to the IBSL in this regard in the form of a compliance statement. There were no incidents of corruption recorded in the year under review.

Whistle-blower mechanism

■ GRI G4-58 ■

We have in place an organised whistle-blower mechanism under the purview of our Board Audit Committee. The mechanism provides clear protection to the whistle-blower with confidentiality of his/her identity maintained during and after the investigation proceedings, unless otherwise directed by relevant statutory and regulatory bodies.

Our employees are encouraged to make use of this system to report on any illegal activities, unethical business practices and improper behaviour which would violate our codes of conduct and corporate values, thereby, compromising our good reputation and standing in the broader society. In the reporting year, employees did not report on any incidents of corruption, fraudulent, illegal and unethical activities under this mechanism.

Anti-competition

■ GRI G4-S07 ■

Refer: *Customers – Fair Premiums and Claim Settlements, page 98.*

We operate in an intensely-competitive industry. We have to compete with our peer organisations to gain market share and grow our top-line. Yet, we are responsible in this regard and stand committed to uphold free and fair competition. We purely rely on our expertise, parent and group support, brand and our solid corporate standing we have earned over the span of seven years in operations to market and promote our products and services. Our 'Policy on Business Ethics' clearly guides us to be ethical in all our business dealings. We strive to maintain fair premiums without resorting to under-cutting.

In the reporting year, we were not subject to any legal action for anti-competitive practices and activities.

MEMBERSHIPS

■ GRI G4-16 ■

As a subsidiary of a leading financial services provider in the country and a leading insurer within the non-life insurance industry, the onus is on us to take up an advocacy role and support the industry policy making. Henceforth, we take a proactive role as member of the Insurance Association of Sri Lanka and we look to positively respond and lobby for industry-wide issues and concerns; and supporting the measures taken to bring in quality and standards to uplift the industry. Our exemplary corporate conduct and stewardship truly complement our advocacy role and our presence in the industry.

We also hold a training partnership with the Institute of Chartered Accountants of Sri Lanka. This year under review, we continued to extend training opportunities to three students under this partnership.

COMPLIANCE - SOCIETY

■ GRI G4-S08 ■

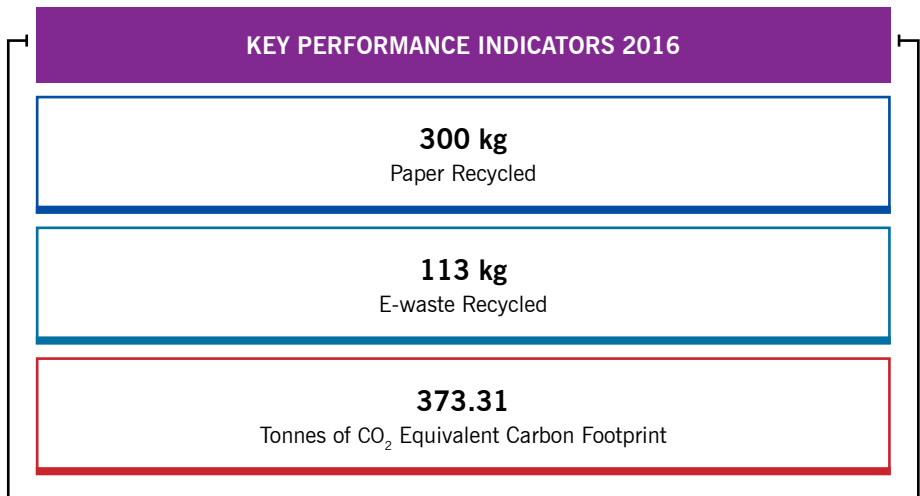
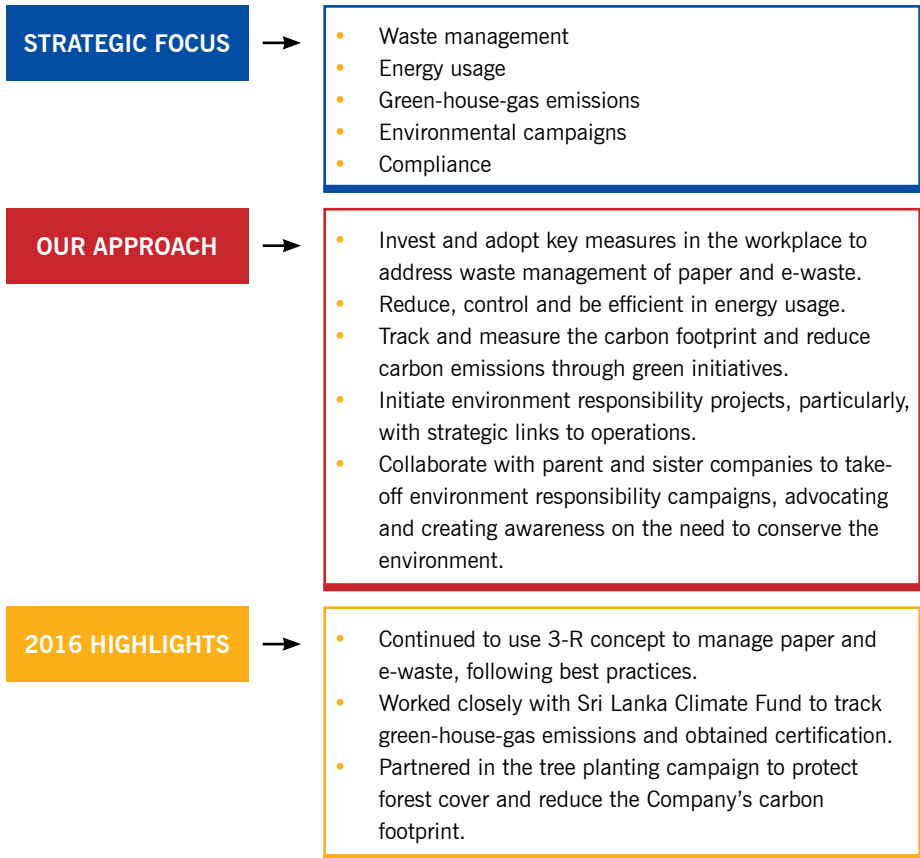
In the year under review, we did not record any fines or non-monetary sanctions for non-compliance with laws and regulations.

CAPITAL MANAGEMENT

NATURAL CAPITAL MANAGEMENT

In a rapidly-changing socio-economic backdrop, where there is rampant exploitation of natural resources resulting in environmental pollution, climate change and global warming, it is critical that we embrace greater sustainability in the way we live and the way we do business.

As part of a responsible group and as a leading organisation in the industry, we are concerned and have increasingly looked at prioritising environmental responsibility in our operational strategy. This is well in line with our efforts to bring in an integrated approach to value creation.



E-waste, including discarded computers, printers, mobile phones and other electronic appliances, is collected and recycled through an e-waste exporting organisation that certifies the recycling process, in line with internationally accepted norms. In the reporting year, 113 kilograms of e-waste were collected and sent for recycling.

WASTE MANAGEMENT

■ GRI 4-EN23 ■

Waste Management			
	2016	2015	% Change
Paper consumption (kg)	8,640	7,270	19
Paper sent for recycling (kg)	300	704	(57)
E-waste collected and sent for recycling (kg)	113	44	157

'Less paper' workplace

As an insurance service provider, we use paper extensively in the workplace, be it in generating insurance proposals and quotations, processing of policies, claims, legal documentation and record keeping. Striving to minimise our paper usage and move towards a 'less paper' operation, we continued to follow the '3R' concept, seeking to bring in measures to – 'reduce, reuse and recycle' paper. The support we have from our employees in this regard is noteworthy.

We rely on technology to give us more comprehensive solutions to manage our paper waste and support our endeavour to minimise our environmental footprint. Automation of operations remained pivotal in facilitating a 'less paper' office environment. We use email along with online options through the intranet and the official website for correspondence, processing of policies and claims, marketing and even training. Our document management system plays a key role in facilitating electronic filing of paper and digital documents.

Recycling of waste paper is done systematically. The collection and storage points are conveniently located within the work areas at the head office whilst the administration department is responsible for sending waste paper for recycling. We have a contractual agreement in place with Amana Paper Collections (Pvt) Ltd. for recycling of paper. In the reporting year, we sent 300 kilograms of waste paper for recycling.

E-waste

Well aware of the environmental hazards, we are careful and conscious of disposing electronic waste (e-waste) responsibly. E-waste, including discarded computers, printers, mobile phones and other electronic appliances, is collected and recycled through an e-waste exporting organisation that certifies the recycling process, in line with internationally accepted norms. In the reporting year, 113 kilograms of e-waste were collected and sent for recycling.

Considering both economic and environmental facets, we are conscientious in tracking and controlling our energy consumption. Even though the impact of energy usage is relatively less as an insurance service provider, we are proactive in our efforts to conserve and be energy efficient in our day-to-day operations.

ENERGY USAGE**■ GRI G4-EN3 – G4-EN6 ■**

Energy Usage			
Energy Source	Consumption Level		
	2016	2015	% Change
Internal			
Energy – electricity (kWh)	357,372	260,625	37
Energy Intensity – electricity usage per employee (kWh)	1,083	918	18
External			
Energy used – fuel (litres)	8,263	7,599	9

Considering both economic and environmental facets, we are conscientious in tracking and controlling our energy consumption. Even though the impact of energy usage is relatively less as an insurance service provider, we are proactive in our efforts to conserve and be energy efficient in our day-to-day operations. In the reporting year, we continued to follow sound energy practices across the organisation; including controlling our electricity consumption, using energy efficient appliances, particularly, air conditioning, and investing in automation of operational processes.

Well in line with our efforts in this regard, in the reporting year we looked to strengthen our energy efficient motor insurance portfolio including hybrid and electric vehicles. We also introduced a new product to cover the risks involved in obtaining loan facilities to set up solar panels.

Our electricity consumption in the year reached to 357,372 kilowatt-hours whilst fuel consumption reached to 8,263 litres.

EMISSIONS**■ GRI G4-EN15 – G4-EN21 ■**

As a non-life insurer, skewed towards the motor segment, seeking to reduce green-house gas emissions has a strategic fit with our operations and complements our goal to reduce our carbon footprint.

Aligned to our parent, PLC's carbon neutral initiatives, we work closely with a carbon consulting firm, Sri Lanka Climate Fund, to measure and obtain certification in line with 'GHG Protocol, ISO 14064:2006' standards. Accordingly, our carbon and green-house gas emissions were duly tracked and measured across the organisation including the head office, regional offices in Galle and Negombo, the motor centre and the call centre. This was carried out under three scopes, covering direct and indirect green house gas emissions.

Our carbon footprint in the reporting year stood at 373.31 tonnes of CO₂ equivalent with an intensity of 1.13 tonnes of CO₂ equivalent per employee. Compared to our footprint ascertained in the preceding year, this year's footprint increased by 240.41 tonnes of CO₂ equivalent due to the significant increase in the country's emission factor on electricity, which is applied in computing the carbon footprint and the expansion of business activities.

	Greenhouse Gas Verification Statement ISO 14064-1:2006 Sri Lanka Climate Fund Ministry of Mahaweli Development and Environment	
Certifies that the GHG Inventory developed based on Historical data submitted by People's Insurance PLC		
is at Reasonable Level of Assurance* according to the requirements of ISO 14064-1:2006 as shown in the inventory given below.		
Certificate No	: SLCF/CFP/0027	
Date of Certification	: 16/03/2017	
Period of Assessment:	01.01.2016 – 31.12.2016	
Selected boundary	: Operationally controlled business operations of People's Insurance PLC	
Greenhouse Gas Inventory – 2015/2016		
Scope 1 – Direct GHG Emissions (GHG emissions from company owned vehicles for business purposes travels, Emissions from Refrigerants)	:	31.34 tonnes of CO₂ equivalent
Scope 2 – Energy Indirect GHG Emissions (GHG emissions from purchased electricity)	:	182.26 tonnes of CO₂ equivalent
Scope 3 – Indirect other GHG Emissions (GHG emissions from electricity Transmission & Distribution loss, Overseas Business Travel, Employee commuting to and from work, Business purpose transportation from outsourced vehicles, Municipal water pumping, Emission from stand by Generators and paper recycling)	:	159.71 tonnes of CO₂ equivalent
TOTAL GHG Emissions	:	373.31 tonnes of CO₂ equivalent
		
 Chief Executive Officer Sri Lanka Climate Fund		
<small>Exclusions: GHG emissions from Food waste disposal and GHG emissions related to transport office items Reasonable level of assurance- Materiality threshold is below 5% Period of Validity: 16/03/2017 - 31/12/2017</small>		

CAPITAL MANAGEMENT

NATURAL CAPITAL MANAGEMENT

Our carbon footprint in the reporting year stood at 373.31 tonnes of CO₂ equivalent with an intensity of 1.13 tonnes of CO₂ equivalent per employee. Compared to our footprint ascertained in the preceding year, this year's footprint increased by 240.41 tonnes of CO₂ equivalent due to the significant increase in the country's emission factor on electricity, which is applied in computing the carbon footprint and the expansion of business activities.

Our operations did not record emissions of ozone-depleting substances and NO_x, SO_x and other significant air emissions.

Green House Gas Emissions and Intensity			
Scope	Description	Emission (Tonnes of CO ₂ Equivalent)	
		2016	2015
Scope 1: Direct GHG Emissions	Emission from company-owned vehicles-business purposes	7.88	10.79
	Emissions from refrigerants	23.46	-
	Employee travel to and from office via company-owned vehicles	-	7.04
	Total - scope 1	31.34	17.83
Scope 2: Indirect GHG Emissions	Purchased electricity	182.26	62.20
	Total - scope 2	182.26	62.20
Scope 3: Other Indirect GHG Emissions	Emissions from water consumption	0.47	0.32
	Paper recycling	0.02	0.02
	Overseas business travel	0.76	1.41
	Business purpose travels (outsourced vehicles)	11.00	9.45
	Electricity T and D Loss	22.78	8.09
	Employee commuting	124.27	33.00
	Emission from generators	0.41	0.58
	Total - scope 3	159.71	52.87
	Carbon footprint (Scope 1+2+3)	373.31	132.90
	Carbon footprint intensity – emissions per employee	1.13	0.47

ENVIRONMENTAL CAMPAIGN

We gave a firm commitment and initiated the tree planting campaign. This programme is carried out in partnership with the Sri Lanka Climate Fund.

The main aim is to support the Government to expand national forest cover from current extent of 29% to 32% while supporting the nation to achieve sustainable development goals. This campaign also supports our efforts to reduce our corporate's carbon footprint with carbon credits.

COMPLIANCE

■ GRI G4-EN29 ■

In the reporting year, we were not subjected to any fines or non-monetary sanctions for non-compliance with environmental laws and regulations.

FUTURE OUTLOOK, PLANS AND TARGETS

FUTURE OUTLOOK

Insurance Industry

With Sri Lanka striving to reap higher economic goals in the medium to long term, the insurance industry outlook is positive and is expected to move towards stronger ground. The higher per-capita income and resultant changes expected within our socio-economic landscape, including in the periphery, will fuel demand and open up a range of market opportunities—increasing penetration levels and leading to greater prosperity.

The industry is currently going through a transitional phase, still grappling with and adjusting to the recent revisions within the regulatory framework. The insurers across the board, particularly within the non-life insurance sector where competition is intense, face grave challenges in navigating through the complexities of the industry backdrop. Compromised pricing by some insurers and higher claim settlements and expenses are exerting pressure on the industry's underwriting results and profitability. The acute shortage of technical experts further intensifies the industry woes, definitely holding back insurers from successfully taking on the challenges and embracing best international practices.

The most dominant segment in the industry, motor class, is expected to be hampered in performing at its optimal level. The imbalances within our macroeconomic environment, including the uncertainty of monetary policy, depreciating exchange rate, ad-hoc import tariffs and restrictions on the motor industry, may dampen the efforts to increase premiums from this sub-sector and the underwriting results.

A tighter monetary policy which may prevail in the year 2017 is expected to bolster the interest income from fixed term securities notwithstanding tax uncertainties, in turn cushioning the underwriting weaknesses. However, the capital market remains sluggish, unlikely to pick-up in the short-term and therefore, cannot be relied upon to boost investment earnings of the industry.

Company

Over the past seven years, we have nurtured our mainstay and geared our operations to be a significant player in the non-life insurance sector. We have the key facets to complement our corporate journey—the backing of the two most respected organisations within the financial services sector, our parent entities; the synergies we can leverage within the Group; our cost-effective distribution channel and our market potential both from the captive and non-captive sources; along with our expertise and discipline. Our fundamentals are solid and will underscore our capacity and competence to take on the challenges that may be posed by our complex business environment.

In the short to medium term, we will continue with our five-pronged strategy. We will look to secure a greater top-line growth—reinforcing our captive market through our parent entities whilst being focused in our efforts to bolt on market gaps within the non-captive market. To this end, we will invest well on expanding our distribution in right locations; marketing our products and being smart in our brand communications; and making the most of the advancing technology to streamline processes and extend efficient insurance solutions. We intend to collaborate with our group even further—tapping into the synergistic business opportunities; leveraging on scale; and achieving mutually-sought-after goals.

We will continue to give top priority with due investments to maintain the quality of our portfolio and ensure right pricing with well-calculated underwriting decisions. We will seek to meet claims efficiently to minimise leakages, whilst keeping our overheads trim. We will continue to uphold a well-balanced investment strategy, closely following monetary policy and the resultant interest rate trends along with capital market developments.

Complementing our integrated approach to value creation, we will closely engage our key stakeholders and brace our sustainability measures as an integral part of our operations. Developing our employees with right skills, good remuneration, performance based incentives and welfare will be imperative in this context. We will give precedence to risk management and internal controls to ensure that we maintain financial stability. We will continue to move towards greater compliance to mandatory and voluntary regulations and codes set by our regulators and statutory bodies. This includes our compliance with the revised regulatory insurance act, continuing listing requirements and the good governance code.

FUTURE OUTLOOK, PLANS AND TARGETS

Set out below are the salient strategy and key actions planned for the year 2017.

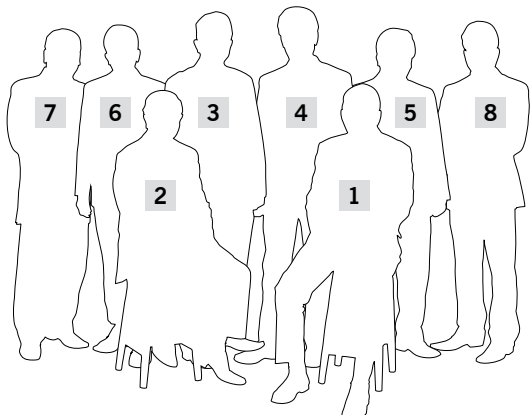
Strategy, Key Actions and Targets – 2017		
	Proposed Key Actions	Targets
Strategy 1 Top-line Growth	<ul style="list-style-type: none"> • Further collaborate to secure group business • Set up branches and window offices in strategic locations • Recruit new marketing officers • Leverage on the marketing communication campaign planned to build brand value • Extend focused training for employees and agents on customer care • Set up a customer information portal • Use online and SMS platform for product promotions • Revamp official website to be more interactive with users • Leverage on the online payment platform • Promote the new solar panel insurance product 	<ul style="list-style-type: none"> • Growth in premium income: 12% • Growth in motor class: 12% • Growth in non-motor class: 11% • New regional offices: 2 • New window offices: 5 • New marketing recruits: 30
Strategy 2 Underwriting and Financial Discipline	<ul style="list-style-type: none"> • Improve claims management through streamlined work processes • Invest on current technology to facilitate smart insurance solutions and efficiency in operations • Source fair and accurate valuations from People's Leasing Fleet Management Ltd. • Leverage on cost-effective distribution model • Make smart-investment decisions in consultation with the Investment Committee 	<ul style="list-style-type: none"> • Net claims ratio: Between 69% to 70% • Combined ratio: Between 96% to 97% • Increase in investment income: 18%
Strategy 3 Employee Development	<ul style="list-style-type: none"> • Recruit more employees to support expansionary plans • Invest in strategic training for rounded-skills • Encourage staff to study under the professional development programme 	<ul style="list-style-type: none"> • Increase recruitments by: 78 • Staff turnover: Less than 10% • Training investment to increase by: 87% • Appraise the performance: More than 90% of the total cadre
Strategy 4 Risk Management, Good Governance and Compliance	<ul style="list-style-type: none"> • Strengthen the internal audit function within the Company • Jointly work with PLC's enterprise risk management to strengthen risk controls, monitoring and management • File necessary disclosures with the regulatory boards on the Company's performance, latest developments and plans • Be current and comply with the mandatory and voluntary rules, regulations and codes 	<ul style="list-style-type: none"> • Increase the number of Independent Directors • Regular meetings and review of the sub-committees
Strategy 5 Social and Environmental Responsibility	<ul style="list-style-type: none"> • Invest on well-focused social responsibility initiatives • Continue to work with the Sri Lanka Climate Fund to minimise the corporate's carbon footprint • Continue to collaborate with PLC to take-off environmental and road safety campaigns 	<ul style="list-style-type: none"> • Increase CSR investment up to Rs. 2 million • Recycle paper: 1,000 kilograms • Recycle e-waste: 150 kilograms • Carbon footprint intensity per employee: 1 tonne • Employee volunteer hours: 600

STEWARDSHIP

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STEWARDSHIP

BOARD OF DIRECTORS



1

Mr. Jehan P. Amaratunga*Non-Executive, Non-Independent Chairman*

Mr. Amaratunga assumed duties as the Chairman of People's Insurance PLC in July 2010. He presently serves as the Group 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 (CSE) and also serves as a Director of People's Bank, People's Leasing & Finance PLC, JAT Holdings (Pvt) Ltd. and Sri Lanka Institute of Information Technology (SLIIT). He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and a Fellow Member of the Institute of Chartered Management Accountants, UK (FCMA). He was awarded First in Order of Merit Prize at the final level examination of the ICASL. Mr. Amaratunga has over 32 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 ICASL in 1987. He was also a Member of the Governing Council of the Institute of Chartered Accountants of Sri Lanka in the Year 1988 and the Governing Council of the University of Colombo from April 2015 to November 2016.

2

Mr. D. P. Kumarage*Managing Director/Executive Director*

Mr. Kumarage was appointed as the Managing Director of People's Insurance PLC 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 35 years of 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 finalist of the Chartered Institute of Management Accountants, UK. He is the Vice President of the Asian Leasing and Finance Association and was the Chairman of the Leasing Association of Sri Lanka. In addition, he serves as a Non-Executive Director of People's Merchant Finance PLC and Lanka Ashok Leyland PLC.

3

Mr. N. Vasantha Kumar*Non-Executive, Non-Independent Director*

Mr. N. Vasantha Kumar was appointed as a Director of People's Insurance PLC in May 2011. He presently serves as the CEO/GM of People's Bank and is a Director of People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited, People's Leasing Fleet Management Limited, People's Travels (Private) Limited, People's Merchant Finance PLC, Credit Information Bureau, National Payment Council, Lanka Financial Services Bureau, Financial Ombudsman Sri Lanka (Guarantee) Limited and Sri Lanka Bankers' Association (Guarantee) Limited.

He is a member of the Governing Board of the Institute of Bankers of Sri Lanka. He holds a Master's Degree in Business Administration and counts over 36 years of experience in treasury management. He is a past president of the Association of Primary Dealers and of the Sri Lanka Forex Association and served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

STEWARDSHIP

BOARD OF DIRECTORS

4

Mr. Lakshman Abeysekera
Non-Executive, Independent Director

Mr. Lakshman Abeysekera, Chartered Accountant, was appointed as a Non-Executive Independent Director of People's Insurance PLC on 20th October 2015. He possesses over 27 years of experience in accounting and management. He currently functions as a Non-Executive Director of SANASA Development Bank PLC and Director of JanRich Foods Limited and NovEx Pharmaceuticals Limited. He has held the positions of Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Accountant at Hoechst (Ceylon) Limited and was the Senior Accountant at Lankem Ceylon Limited. Mr. Abeysekera is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Fellow Member of the Association of Accounting Technicians of Sri Lanka and a Former Governing Council Member of AAT Sri Lanka. He has an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura.

5

Mr. S. P. K. Gunarathne
Non-Executive, Independent Director

Mr. Gunarathne, an Attorney-at-Law by profession, has extensive experience in legal affairs, leadership and management. He presently serves as a Board Member of the Road Development Authority and Institute of Post Harvesting Technology. He also functions as a panel lawyer for Rajarata Development Bank and the Municipal Council of Anuradhapura. He has also served as a legal officer at Urban Development Authority. He possesses a Bachelor of Law (LLB) from the Faculty of Law, University of Colombo and holds a National Certificate in English for Commerce, Industry and Further Education issued by the Ministry of Higher Education and a Certificate for Rural Development issued by the University of Sri Jayawardenepura.

6

Mr. N. P. Karunaratne
Non-Executive, Independent Director

Mr. Karunaratne is a senior administrative officer with over 30 years' experience in administration and management. He has served as adviser/coordinating secretary to the Road Development Authority, as an administrative officer at the Mahaweli Economic Agency and as an executive officer at the Transport Ministry. He possesses a B. A. (Special) Degree in Sociology from the Faculty of Arts, University of Sri Jayawardenepura and has also served as a council member of the Sabaragamuwa University of Sri Lanka.

7

Mr. W. M. Abeyrathna Bandara
Non-Executive, Independent Director

Mr. Abeyrathna Bandara, a professional in the field of leadership and strategic planning is a trained teacher, lecturer and principal. He is a former Chairman/Managing Director of Gamipubuduwa Organisation. He possesses a Bachelor of Education Degree (Secondary Education) from the National Institute of Education, Bachelor of Arts from the Bhiksu University of Sri Lanka and a Diploma in History from the University of Kelaniya.

8

Mr. Rohan Pathirage
Company Secretary

Mr. Pathirage was appointed as the Company Secretary of People's Insurance PLC 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 New Zealand.

SENIOR MANAGEMENT TEAM



Mr. Nimal Perera
Chief Operating Officer

Mr. Perera joined People's Insurance in September 2009 as the Chief Operating Officer. Prior to his appointment, he served as General Manager (General Insurance) at Asian Alliance Insurance PLC. He has over 47 years of experience in the insurance industry, both in Sri Lanka and overseas. He was a CEO/General Manager of the National Insurance Corporation Limited, HNB Assurance PLC, Union Assurance PLC (General Manager - General Insurance) and Fidé Insurance Limited, Malawi.

Mr. Perera is a Fellow of the Chartered Insurance Institute. He is a Member of the Asia-Pacific Risk and Insurance Association and Pan-Asia Risk and Insurance Management Association.



Ms. Jeevani Kariyawasam
Chief Manager - Operations

Ms. Kariyawasam joined People's Insurance in October 2009 and has been in charge of the operations of the Company since then. She counts over 22 years of experience in the insurance industry, including experience at National Insurance Corporation Limited and HNB Assurance PLC.

Ms. Kariyawasam holds a BSc. Honours Degree in Bio Science from the University of Colombo. She is an Associate of the Chartered Insurance Institute, UK.



Mr. Nilushan Somarathna
Senior Manager - Finance

Mr. Somarathna joined People's Insurance in August 2012 and has been heading the finance department since then. Prior to joining the Company, he served as Manager - Finance at Union Assurance PLC. He has over 13 years of finance and audit experience, including previous experience at Union Assurance PLC and PricewaterhouseCoopers.

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

STEWARDSHIP

SENIOR MANAGEMENT TEAM



Mr. Hareendra Dissanayaka
Senior Manager - Motor Claims

Mr. Dissanayaka joined People's Insurance in October 2009. He started his career at HNB Assurance PLC and counts over 13 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.



Ms. Kanthi Kempitiya
Senior Manager - Motor Underwriting

Ms. Kempitiya joined People's Insurance in October 2009. She has more than 34 years of experience in the insurance industry, including the areas of underwriting, claims, administration and business development.

Ms. Kempitiya 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.



Ms. Shalika de Silva
Senior Manager - Legal

Ms. Shalika de Silva joined People's Insurance PLC in July 2012 and has been heading the legal department since then. Prior to joining to the Company, she served at Union Assurance PLC and Amana Bank Limited in managerial capacity. She counts over 20 years of experience in insurance, leasing, finance and banking sectors.

She is an Attorney-at-Law, Notary Public, registered Company Secretary and Commissioner for Oaths.

MANAGEMENT TEAM



Mr. Dulip Dissanayake
Manager - Finance



Ms. Sumudu Bandara
Manager - Non-Motor Claims



Mr. Gayan Kurupita
Manager - Internal Audit



Mr. Gemunu Vithanage
Assistant Manager - Fire and Miscellaneous Underwriting



Mr. Sashika Jayathilaka
Assistant Manager - Reinsurance



Mr. Kosala Jayarathna
Motor Engineer

SUPPORT SERVICE TEAM

**Mr. Prabath Gunasena***Deputy General Manager - ICT (Group)*

Mr. Gunasena joined People's Leasing & Finance PLC in 1999 and has been the head of the ICT department for the past 16 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. He is presently serving as Deputy General Manager - ICT and Head of ICT for the PLC Group.

**Mr. Uresh Jayasekara***Chief Manager - Human Resources (Group)*

Mr. Jayasekara 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 and he is sole Sri Lankan winner of the prestigious Japanese scholarship in the year 2014 for the Leadership Development Programme under the HIDA - Osaka, Japan. He also holds a Master's Degree in Business Administration (MBA) specialised in Human Resources Management from the University of Colombo. He has more than 17 years of experience in the field of human resources including garments, hospital and financial sectors. He functions as the Chief Manager - Human Resources and Head of HR for the PLC Group.

**Mr. Danushka Liyanage***Associate Business System Architect*

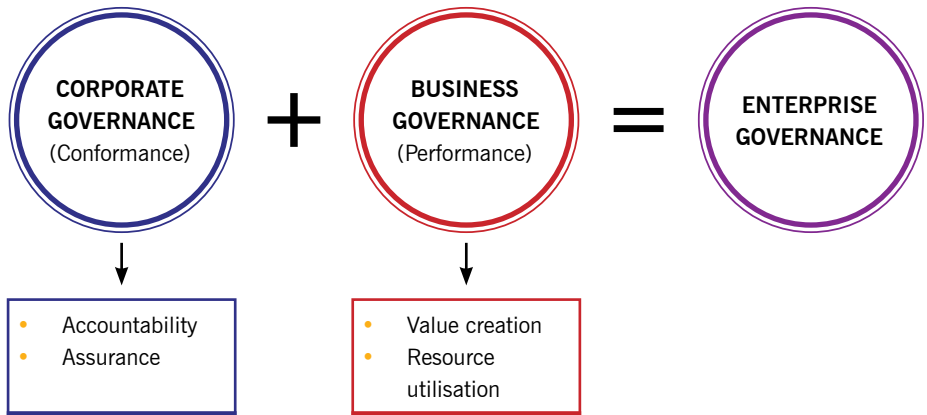
Mr. Liyanage joined People's Leasing & Finance PLC in September 2010. He possesses over 10 years of experience in the insurance industry. Prior to joining the Company, he worked as Assistant Manager - ICT at Ceylinco Insurance PLC. Danushka holds a BSc. Honours Degree in Computing and Information Systems from the Lincoln University, UK.

GOVERNANCE REPORT

The Company balances the two dimensions of performance roles of formulating the strategy and policy together with conformance roles of accountability, monitoring and control, which thus evidences the Company's pursuit of creating value and accumulating financial and non-financial wealth for its stakeholders.

Enterprise governance is at the core of the corporate philosophy of People's Insurance. It entails a framework on corporate governance (conformance) and business governance (performance) aspects. The Company balances the two dimensions of performance roles of formulating the strategy and policy together with conformance roles of accountability, monitoring and control, which thus evidences the Company's pursuit of creating value and accumulating financial and non-financial wealth for its stakeholders.

This signifies that the conformance and performance aspects of governance should be identified at the inception in the Board room and continued down the line throughout its value creation process. Accordingly, the Board is of the firm view that good corporate governance on its own cannot make the organisation successful, hence balancing the two dimensions of conformance and performance needs to be addressed to ensure long-term success of the Company.



CORPORATE GOVERNANCE

GOVERNANCE HIGHLIGHTS - 2016

- Listed on the Main Board of the Colombo Stock Exchange as required by the amended Regulation of Insurance Industry Act
- Strengthened the capital base of the Company with Rs. 750 million raised through the Initial Public Offering (IPO)
- Successfully adopted the Risk-Based Capital (RBC) regime implemented by the Insurance Board of Sri Lanka effective from 2016 with minimum requirements being comfortably met
- Took the initiative to establish the internal audit function directly under the supervision of the Company instead as a shared function with the Group
- Set up an investment committee with investment policy and charter
- Developed and adopted a sustainability charter
- Implemented a formal mechanism to handle customer complaints together with a customer complaint policy

STEWARDSHIP

GOVERNANCE REPORT

STATEMENT OF COMPLIANCE

We believe that good ethical behaviour is a reflection of strong corporate governance practices which earn stakeholder trust. This trust is critical to sustaining performance and enhancing shareholder value.

We voluntarily practice the requirements stipulated in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) while endeavouring to comply with the rule numbers 7.6 and 7.10 of the Listing Rules issued on corporate governance by the Colombo Stock Exchange (CSE).

During the financial year under review, the Board composition changed due to the vacation of office by Ms. Fathima Farah Hussain, Non-Executive, Independent Director on 10th May 2016. As such, during the period under review, the Board sub-committees could not regularly function due to non-availability of the quorum. However on 17th January 2017, three new Non-Executive, Independent Directors were appointed to the Board and as of the reporting date, the Board sub-committees were duly reconstituted.

The Company's extent of compliance with each section of the Code of Best Practice

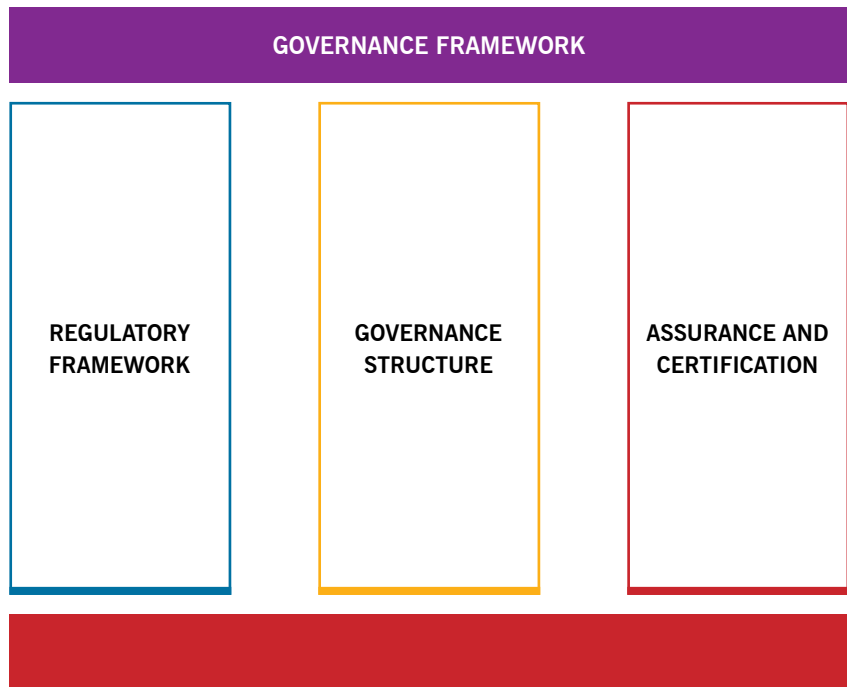
on Corporate Governance issued jointly by the ICASL and SEC and rule numbers 7.6 and 7.10 of the Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE) is provided on pages 139 to 168.

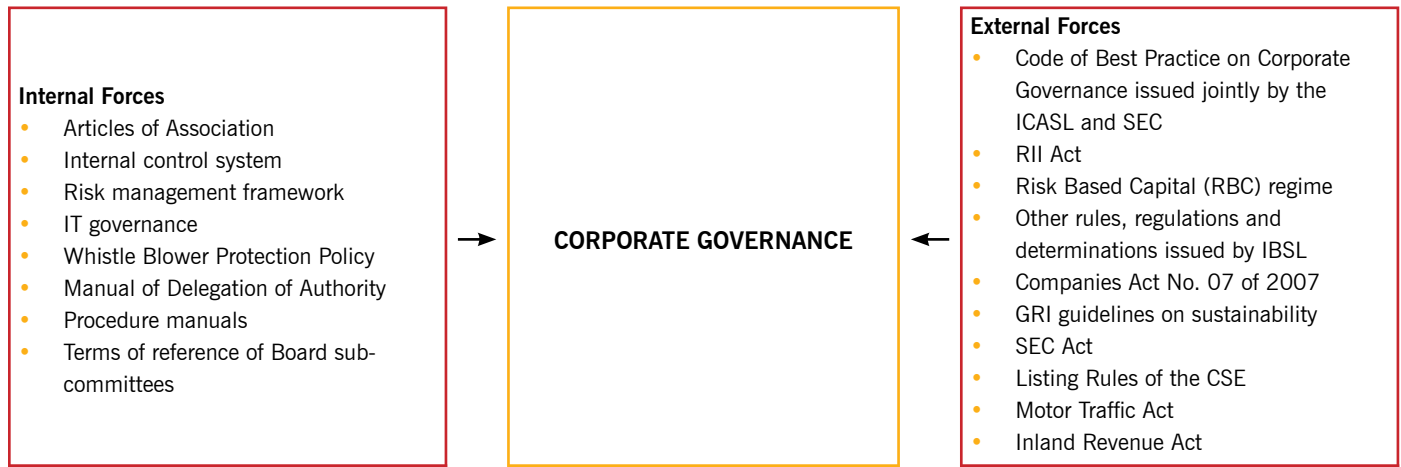
GOVERNANCE FRAMEWORK

The ultimate responsibility for good governance rests with the Board of Directors. The Board has in place a governance structure and a process to monitor its effectiveness in order to effectively fulfill this responsibility. In this regard, the Company has taken the necessary steps to design its corporate governance framework to protect the interest of all the stakeholders. The governance framework consists of a regulatory framework, governance structure and assurance and certification sources.

Regulatory Framework

Our corporate governance framework is guided by both external and internal regulatory forces which ultimately protects the interests of all our stakeholders. The following diagram depicts the manner in which the external forces influence and internal forces strengthen our corporate governance framework.





Internal Forces

Articles of Association

The Company is governed by its Articles of Association which were amended to conform to the provisions of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (SEC Act), Listing Rules of the Colombo Stock Exchange (CSE) and Rules of the Central Depository System to facilitate the listing of the shares of the Company on the Main Board of the CSE and fulfilling the continuing listing requirements thereafter.

Internal Controls

At People's Insurance, the system of internal controls is designed to provide reasonable assurance regarding the achievement of the following objectives;

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations

The first category addresses the entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

The Company has implemented effective systems to secure integrity of internal controls. 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.

Risk Management 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 risk management framework is further elaborated in the Enterprise Risk Management report.

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IT Governance

The Company considers IT governance as an integral part of its corporate governance. The IT governance of our company systematically gets the involvement of the Board, management, staff and customers. We believe that it establishes the framework used by the Company to establish transparent accountability of individual decisions and ensures the traceability of decisions to assigned responsibilities. Our IT strategy has been aligned with the Company's strategy for effective governance. The Company's Enterprise Resource Planning (ERP) system enables the Company to enhance its operational efficiency, functionality and security among other benefits. The Board has also taken initiatives to conduct an independent review of IT application controls in view of enhancing IT governance.

Whistleblower Protection Policy

A formal whistle-blower 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 whistle blowing employee is kept confidential and the information disclosed by him or her is disclosed to another party strictly only on a 'need to know' basis.

Manual of Delegation of Authority and Procedure Manuals

The Board has delegated its financial authority to the Managing Director and the management which is comprehensively documented in the Manual of Delegation

of Authority (MDA). The MDA 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 MDA is reviewed on an on-going basis in light of changing circumstances and amendments are made based on the Board of Directors' approval. Procedure manuals for main processes such as claims, underwriting and reinsurance smooth and streamline the functions of the operations enhancing the governance framework.

Terms of reference of Board Sub-committee

Board Audit Committee, Remuneration and Nomination Committee and Related Party Transactions Review Committee contribute to the strengthening of governance framework of which details are illustrated on pages 136 to 137.

External Forces

The Company's level of compliance to relevant external regulations are presented in the succeeding sections of this report as;

- Code of Best Practice on Corporate Governance issued jointly by the SEC and ICASL from pages 139 to 163.
- Listing Rules of the CSE from pages 164 to 168.
- GRI guidelines on sustainability from pages 288 to 293.

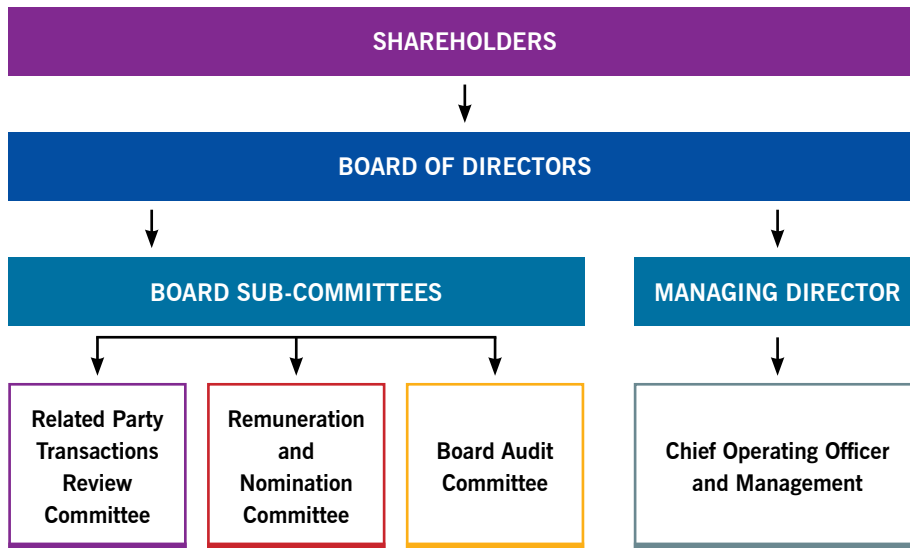
Risk-Based Capital Regime

A risk-based capital regime was implemented in Sri Lanka by the IBSL, replacing the solvency margin rule based regime with effect from 1st January 2016. 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 introduced to Sri Lanka includes credit risk, concentration risk, reinsurance risk, market risk, insurance liability risk and operational risk.

The Company was able to successfully adopt RBC regime and maintain the Capital Adequacy Ratio (CAR) and Total Available Capital (TAC) well above the minimum CAR of 120% and minimum TAC of Rs. 500 million stipulated by the IBSL. The Company has also set up necessary processes in place to report under the risk-based capital regime.

Governance Structure

The governance structure of People's Insurance allows effective and efficient decision making while interconnecting elements in governance. It is enabled by having the right balance of authority and power throughout the organisation. It comprises the process and structures which affect the way an organisation is directed, managed and monitored and its activities are reported.



Governance Chain

Shareholders

Shareholders participate in supervision and control of the Company and exercise their right to speak and vote at Annual General Meetings. Shareholders' rights to influence the Company centre on certain fundamental corporate changes, such as the election/removal of Board members, suggesting amendments to the Company's Articles of Association, approving of major transactions, approval or election of auditors, distribution of profits and other basic issues as specified in the Companies Act.

One of the main objectives of the Board of Directors of People's Insurance is to represent, formulate and realise the interests and expectations of its shareholders who are the owners of the Company and in fulfilling the expectations of the shareholders, the Company's primary objective is to maximise the shareholders' value by maintaining a satisfactory return on equity and healthy distribution of dividends and efficient and effective communication about the affairs of the Company.

Communication with shareholders

All our stakeholders are encouraged to have continuous dialogue with the management and the Board through an open door policy practiced in the Company. The Company facilitates

institutional investors, brokers and financial analysts to collect required information and maintain constant dialogue in order to decide their perceived value of the Company. However, the Board and the management strictly adhere to the statutory and ethical guidelines regarding their responsibility of maintaining confidentiality of price sensitive information.

Annual General Meeting

Since an Annual General Meeting (AGM) allows the shareholders to directly communicate with the Board of the Company, it is regarded as the most effective mode of communication with all shareholders. An AGM is held each year as required by the provisions of the Companies Act to give the shareholders an opportunity to actively participate in the most crucial decisions of the Company, including approving of its financial statements and appointment of auditors. The 7th Annual General Meeting of the Company was held on the 28th of June 2016 at People's Bank Staff Training College Auditorium, having given them fifteen (15) working days' notice in advance of the meeting as required by the Companies Act.

Annual Report

The Company's Annual Report is the main document that is used to disclose corporate information to the shareholders. The Company discloses financial and non-financial information on a voluntary basis exceeding the expectations of regulatory requirements.

The Company's Annual Reports were presented with certificates and awards locally as well as abroad constantly, starting from the very first Annual Report of the Company for 2012. The Company's most recent Annual Report was also presented

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with a Compliance Award at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka (ICASL), the Silver Award at the 15th Vision Awards annual report competition organised by the League of American Communication Professionals (LACP), USA and Certificate of Merit by the Institute of Certified Management Accountants Sri Lanka (CMA) for excellence in reporting.

Further, quarterly financial statements, dividend declarations and other required information is published in the CSE website for the reference of all shareholders.

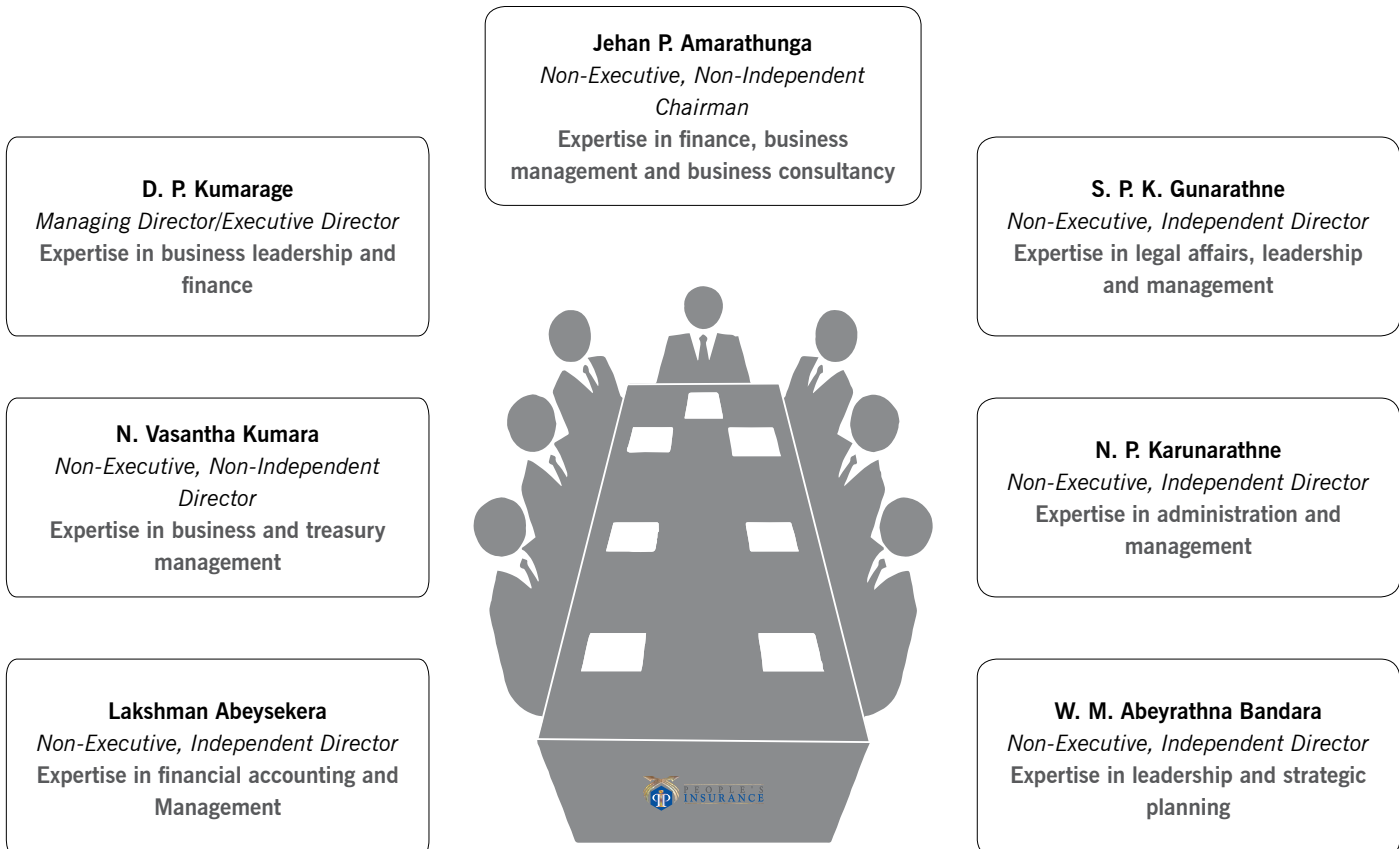
Board of Directors

The Board is highest decision making body and is ultimately responsible for governance. The Board of Directors sets the strategic objectives of the Company, determines its operational policies and performance criteria and delegates to the management for detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board is collectively responsible for the long-term success of the Company and is accountable to shareholders and other stakeholders for financial and operational performance.

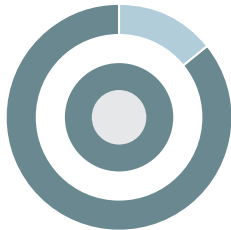
Boardroom Table

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 Executive, Non-Executive and Independent, Non-Independent balance is maintained in the boardroom.

As of the reporting date, the boardroom table is as follows;

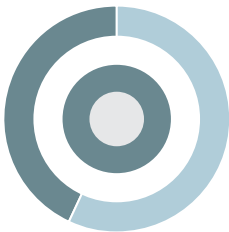


EXECUTIVE/NON-EXECUTIVE DIRECTORS COMPOSITION



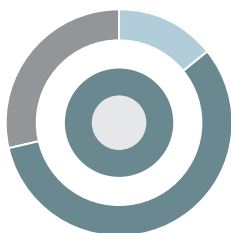
Executive Directors	1
Non-Executive Directors	6

INDEPENDENT/NON-INDEPENDENT DIRECTORS COMPOSITION



Independent Directors	4
Non-Independent Directors	3

AGE OF DIRECTORS

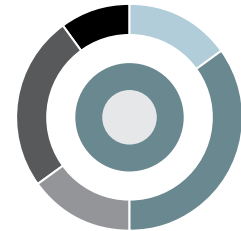


Less than 50 years	1
50-60 years	4
60-70 years	2

Board Time Utilisation

Board meetings are held on a monthly basis. The Board spends a substantial amount of time in evaluation of the Company's strategies and provides guidance to the management on a regular basis. In addition, the Board evaluates the Company's performance at each meeting. The Board also reviews compliance with applicable regulations on a monthly basis, particularly considering the fact that the Company is under the purview of the Insurance Board of Sri Lanka and its stringent regulations. The Board also discusses a wide variety of subjects depending on the circumstances. The main areas focused with the subjects discussed during the year are presented as follows.

BOARD TIME UTILISATION



Performance	15%
Business strategy	35%
Governance	15%
Finance	25%
People strategy	10%

BOARD OF DIRECTORS MAIN AREAS OF FOCUS IN 2016

PERFORMANCE

- Monthly management accounts and monthly and quarterly performance reviews
- Performance analysis of the direct marketing units
- Competitor analysis
- Investment decisions and performance review
- Business alliances
- Review of major claims
- Branding and advertising
- Three years' strategic corporate plan
- Budget for 2017

CONFORMANCE

- Approval for financial statements, reinsurance arrangements, bank accounts, agreements, etc.
- Regulatory compliance report
- Appointment of new specified officer
- Appointment of external auditors
- Sustainability charter
- Investment committee charter and policy

SHAREHOLDER ORIENTATION

- Interim and final dividends
- Shareholder engagement via annual report and AGM

CUSTOMER ORIENTATION

- Introduction of new product, solar panel insurance
- Increase of customer contact points
- Customer complaint policy

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Directors' attendance at meetings during the financial year 2016

The Board usually meets on a monthly basis and additional Board meetings are held whenever it is necessary. The Company held 13 meetings during the year under review.

Name of Directors	18-Jan	17-Feb	10-Mar	11-May	8-Jun	8-Jul	20-Jul	9-Aug	31-Aug	18-Oct	1-Nov	30-Nov	8-Dec
Mr. Jehan P. Amaratunga	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	x	✓	✓
Mr. N. Vasantha Kumar	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	x
Mr. D. P. Kumarage	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Lakshman Abeysekara	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Ms. Fathima Farah Hussain, Independent, Non-Executive Director resigned on 10th May 2016 and Mr. W. M. Abeyrathna Bandara, Mr. N. P. Karunaratne and Mr. S. P. K. Gunaratne were appointed as Non-Executive, Independent Directors of the Company on 17th January 2017 subject to the IBSL approval which was received on 3rd April 2017.

Board Sub-committees

Board Audit Committee, Remuneration and Nomination Committee and Related Party Transactions Review Committee function as Board sub-committees with Directors who possess the requisite qualification and experience.

	Board Audit Committee	Remuneration and Nomination Committee	Related Party Transactions Review Committee
Composition	Two Non-Executive, Independent Directors One Non-Executive, Non-Independent Director	Two Non-Executive, Independent Directors One Non-Executive, Non-Independent Director	Two Non-Executive, Independent Directors One Executive, Non-Independent Director
Chairman	Mr. Lakshman Abeysekara	Mr. Jehan P. Amaratunga	Mr. N. P. Karunaratne
Other Members	Mr. N. Vasantha Kumar Mr. W. M. Abeyrathna Bandara	Mr. Lakshman Abeysekara Mr. S. P. K. Gunaratne	Mr. D. P. Kumarage Mr. S. P. K. Gunaratne
Invitees	Managing Director, Chief Operating Officer, Senior Manager - Finance	Managing Director or Chief Operating Officer	None

	Board Audit Committee	Remuneration and Nomination Committee	Related Party Transactions Review Committee
Main Functions	<ul style="list-style-type: none"> Ensuring that a good financial reporting system is in place and well managed in order to give accurate, appropriate and timely information to all key parties 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 	<ul style="list-style-type: none"> Responsibility for the remuneration policy and its specific application to the Executive Directors and key management personnel Make recommendations to the Board on the remuneration and incentive framework of the Executive Directors and key management personnel on their remuneration and incentive awards Evaluate the performance of the Executive Directors and key management personnel, management development plans and succession planning of the Company Responsibility for formalising the strategic human resource policy Recommend and ensuring that appropriate service contacts are available for the executive Directors and key management personnel Determine the terms of any compensation package in the event of early termination of the contact of any Executive Directors or key management personnel Identify few suitable candidates to the Board, for the purpose of appointing the most suitable candidate/s to fill any vacancy/ vacancies of the Board and consider all re-appointments to the Board Provide advice and recommendations to the Board or the Chairman (as the case may be) on any say such appointment or reappointment 	<ul style="list-style-type: none"> Review in advance all proposed related party transactions of the Company except those explicitly exempted in the Code of Best Practices on Related Party Transactions December 2013 Adopt policies and procedures to review related party transactions of the Company Determine whether such related party transaction require the approval of the Board or shareholders of the Company If related party transactions are on-going (recurrent related party transactions), the committee shall establish guidelines for senior management to follow in its on-going dealing with the relevant related party If there is any potential conflict in any related party transaction, the committee may recommend the creation of a special committee to review and approve the proposed related party transaction Ensure that immediate market disclosures and disclosures in the Annual Report

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Managing Director

The MD is entrusted with the management of the Company's operations with decision making authority and he is accountable to the Board. He is responsible for the Board to recommend the Company's strategy and its subsequent implementation, to ensure that appropriate internal controls are in place to manage and assess risk and that they are fully complied with.

Chief Operating Officer and Management

Chief Operating Officer (COO) and his team to follow through corporate mission and sincerely hope they would continue to reach greater goals in the ensuing year. COO functions as the executive in charge of the day-to-day management of the Company. The management team is responsive and flexible and seeks to take proactive measures to improve the level of customer satisfaction in response to aggressive competitor moves.

Assurance and Certification**Internal Audit**

Internal audit process is carried out by the 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 Board Audit Committee reviews the assignments conducted in accordance with the annual internal audit plan guided by the Board Audit Committee.

External Audit

External auditors are appointed annually at the Company's Annual General Meeting. The current external auditors of the Company are Messrs. Ernst & Young, a leading firm of Chartered Accountants. Financial statements of the Company for the year ended 31st December 2016 have been audited by Messrs. Ernst & Young and they have issued an unqualified audit opinion in respect of the financial statements for the year.

Actuarial Certification

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 Company adopts undiscounted 75% confidence level basis since 2013, in determination of its claim and premium liabilities according to the actuarial valuation principles and is one of the very few insurance companies in Sri Lanka to follow this basis. Prior to 2013, the Company adopted the central estimate actuarial valuation basis for both premium and claim liabilities. Undiscounted 75% confidence level basis includes a provision of risk margin for adverse deviation and usually requires a company to have more provisions for claim and premium liabilities in order to absorb unexpected losses that may occur, to a greater extent. Hence undiscounted 75% confidence level basis in actuarial valuation provides a greater degree of confidence on the adequacy of provisions in respect of premium and claim liabilities of an insurance company. In view of this, the Company is confident that the provisions made for claim and premium liabilities are adequate to meet future obligations. The certification of the actuary regarding the claims and premium liabilities is presented on page 196.

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

The Company strives to follow best practices recommended in the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC.

The Company's level of compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC is provided below.

SECTION 1: THE COMPANY**A. Directors****A.1 The Board****PRINCIPLE**

- Every public company should be headed by an effective Board, which should direct, lead and control the Company.

The Board plays an active role in setting the direction for the Company and the process of implementation of strategies and seeks to exercise leadership, integrity and judgment in pursuit of its strategic goals and objectives to achieve long term sustainability, growth and prosperity for the Company.

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's performance is reviewed periodically with the performance indicators, budgets and necessary action is taken by the Board when deemed necessary.

The members of the Board consist of professionals with a diverse background and expertise in respective areas with commendable skills and experience. As at the annual report date, the Board comprises seven Directors of whom six Directors function as Non-Executive Directors, including the Chairman. The Managing Director (MD) who functions as the only Executive Director is in charge of the overall management of the Company.

The profiles of the Board members are provided on pages 122 to 124.

A.1.1 Frequency of Board meetings**PRINCIPLE**

- The Board should meet regularly, at least once in every quarter of a financial year

The Board usually meets on a monthly basis and additional Board meetings are held whenever it is necessary. The Company held 13 meetings during the year under review.

Please refer table on Directors' attendance for the Board meetings in 2016 on page 136.

A.1.2 Responsibilities of the Board**PRINCIPLE**

- The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board should be responsible for the following matters including:

i. Ensuring the formulation and implementation of a sound business strategy

The Board sets short to medium and long term strategies in pursue of vision and mission statement of the Company. Corporate plans and budgets are developed by the management and approved by the Board on a regular basis. The Board has delegated authority and responsibility to the management to develop and implement corporate plans, strategies and annual budgets and carry out daily operations of the Company.

ii. Ensure the MD and management team possess the skills, experience and knowledge to the implement strategy

The MD and the management team possess essential knowledge and skills with widespread experience in the insurance industry. The Board actively monitored that the MD and the management team continue to have the right balance and capability of skills, experience and knowledge to accomplish their responsibilities. The Board gets involved in the recruitment of senior management in accordance with the highest standard of competence.

The profiles of the MD and senior management are presented on pages 122 to 123 and 125 to 126.

iii. Ensure the adoption of an effective MD and senior management succession strategy

The structure of the Company facilitates subordinates to replace senior management positions where necessary. The Company also invests in human resources development which enables employees to develop their careers. In terms of the policy decision made by the Board, succession for the key managerial positions primarily focuses on developing and grooming people internally.

iv. Ensure effective systems to secure integrity of information, internal controls, business continuity and risk management

The Company has implemented effective systems to secure integrity of information, internal controls and risk management. The Board has delegated its authority to monitor the effectiveness mechanisms and procedures to the management, internal and external auditors and independent expert consultants, with appropriate improvement as necessary. Accordingly, the Company has adopted a set of internal control policies, approved by the Board, to evaluate the methods and procedures. The Board Audit Committee is empowered by the Board to oversee the financial reporting, internal controls, internal audit, whistle blowing and assessment of independence and performance of external auditors.

The main role of the Board Audit Committee is disclosed on pages 179 to 180.

v. Ensure that compliance with laws, regulations and ethical standards

The Company is in compliance with all applicable laws and regulations and adheres to the highest level of ethical standards, which serves as a code of business conducts and ethics applicable to the Company.

vi. Ensure that all stakeholders interests are considered in corporate decisions

Consideration of stakeholder interests in corporate decision making, strategic decisions are evaluated by paying due attention towards stakeholder group (shareholders, customers, employees, regulators, community and the environment) interests. The Board always makes an effort to minimise negative impacts on the stakeholders in the corporate decision-making process.

vii. Recognise sustainable business development in corporate strategy, decisions and activities

The Board recognises the importance of sustainable business development in the corporate strategy, decisions and activities. Accordingly, a significant consideration is given by the Company to its stakeholders including community and the environment when business strategies are formulated, decisions are made and business activities are carried out in order to create a value creation process.

Details are presented in the Stakeholder Engagement and Materiality Assessment on pages 34 to 43.

viii. Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations

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 the preparation and presentation of its financial statements with effect from the financial year commencing from 1st January 2012 onwards. The Company also adopted accounting standards and changes which were subsequently introduced which were effective after 1st January 2012.

Financial statements of the Company are also 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.

ix. Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation

The Board makes every endeavour to fulfill their stewardship obligations on behalf of the stakeholders.

A.1.3 Act in accordance with the laws and regulations relevant to the organisation and procedures to obtain independent advice**PRINCIPLE**

- The Board collectively, and Directors individually, must act in accordance with the laws of the country and there should be a procedure agreed by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense

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.

A.1.4 Access, functions and removal of the company secretary**PRINCIPLE**

- All Directors should have access to the advice and services of the Company Secretary and the need for the removal of the Company Secretary to be a matter for the Board as a whole

All Directors have access to the advice and services of the Company Secretary who possesses the required qualifications as stipulated in the Companies Act No. 07 of 2007. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are complied with. The appointment and removal of Company Secretary rests with the Board as a whole.

A.1.5 Independent judgment of Directors**PRINCIPLE**

- All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct

All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business. The Board draws on the strengths of each Director without placing undue reliance on any one individual.

A.1.6 Dedication of adequate time and effort to matters of the Board and the Company**PRINCIPLE**

- Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged

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. As far as possible the Company endeavors to circulate the Board papers amongst its members at least 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.

The number of meetings attended by each Director is presented on page 136 and the details of time spent by the Board during the year with main areas discussed are provided on page 135.

A.1.7 Training and continuous development of Directors**PRINCIPLE**

- Every Director should receive appropriate training when first appointed to the Board and subsequently as necessary

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.

The Directors are also kept abreast of applicable legislation and regulations, changes to rules, latest trends, standards and codes as well as relevant regulatory changes and development in the insurance industry.

A.2 The Chairman and Managing Director**PRINCIPLE**

- There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decisions

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 and is charged with the responsibility of providing leadership to the Board whilst the MD serves as an Executive Director responsible for the management and operations of the Company with the support of the Company's management.

A.2.1 Justification and disclosure of the decision to combine the posts of Chairman and Managing Director in one person**PRINCIPLE**

- The posts of Chairman and Managing Director vested in one person should be justified

The roles of Chairman and MD are segregated in order to maintain a clear division of responsibilities.

A.3 Chairman's role**PRINCIPLE**

- The Chairman should preserve order and facilitate the effective discharge of Board functions

The Chairman provides leadership and facilitates effective discharge of Board functions as the person for responsible for running the Board.

A.3.1 Responsibilities of Chairman to conduct Board proceedings in a proper manner**PRINCIPLE**

- The Chairman should conduct Board proceedings in a proper manner and ensure that;

The Chairman encourages effective participation of the Directors towards the strategic decision making process in order to make collective decisions and maintain the balance power. Different views of the Directors are valued to take strategically viable decisions and to ensure that stakeholders' interests are not adversely affected. Overall, the Chairman is responsible for preserving of good corporate governance and running the Board in an orderly effective manner.

- Effective participation of Executive and Non-Executive Directors
- Effective contribution of Directors within their respective capabilities
- A balance of power between Executive and Non-Executive Directors
- The views of Directors on issues under consideration are ascertained
- The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders

A.4 Financial acumen**PRINCIPLE**

- The Board should ensure the availability within of those with sufficient financial acumen and knowledge

The Board comprises members with academic and professional qualifications in finance, accounting management and financial services with extensive experience in various aspects of financial management. Two members of the Board are Chartered Accountants, including the Chairman.

The profiles of Board of Directors are set out on pages 122 to 124.

Expertise of each Director is summarised on page 134.

A.5 Board balance**PRINCIPLE**

- The Board to have a balance of Executive and Non-Executive Directors

Six out of seven Directors on the Board are Non-Executive Directors whereas four Directors are independent. The Chairman functions as a Non-Executive Director whilst the MD functions as the only Executive Director on the Board, ensuring the Board Balance.

A chart reflecting the above is depicted on page 135.

A.5.1 Number of Executive and Non-Executive Directors**PRINCIPLE**

- The Board should include at least two Non-Executive Directors or one third of the total number of Directors, whichever is higher

As mentioned above, the majority of the Board comprises of Non-Executive Directors who bring a wealth of knowledge and experience, covering a wide spectrum of topics and their views carry a significant weight in the Board's decision making process.

A.5.2 Number of Independent Directors**PRINCIPLE**

- The Board should include two or one third of Non-Executive Directors appointed, whichever is higher, to be 'independent'

Four out of six Non-Executive Directors are 'independent'. Please refer Boardroom table on page 134.

A.5.3 Criteria to evaluate independence of Non-Executive Directors**PRINCIPLE**

- For Director to be deemed independent, such Director should be independent of management and free of any business or other relationship

All Independent, Non-Executive Directors met the criteria for independence as per the Code of Best Practice on Corporate Governance (Code) and the Listing Rules and are therefore deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of his/her unfettered and independent judgment.

A.5.4 Annual declaration of Non-Executive Directors**PRINCIPLE**

- Each Non-Executive Director should submit an annual declaration regarding independence/non-independence against specified criteria

All Non-Executive Directors have submitted the declaration of independence or non-independence against specified criteria as per the Code.

A.5.5 Annual determination of independence/non-independence of each Non-Executive Directors**PRINCIPLE**

- The Board should make an annual determination as to the independence or non-independence of Non-Executive Directors and should be set out in the Annual Report the names of the Directors determined to be 'independent'

The Board considers on an annual basis the independence or non-independence of the Non-Executive Directors, based on the declarations made by the said Directors and other information available to the Board.

A.5.6 Appointment of an Alternate Director**PRINCIPLE**

- Appointment of an Alternate Director by a Non-Executive/Independent Director

There were no Alternate Directors appointed by any Non-Executive or Independent Director.

A.5.7 Appointment of Senior Independent Director (SID)**A.5.8 Availability of a SID for confidential discussion with other Directors****PRINCIPLE**

- In the event of the Chairman and MD is same person the Board should appoint a SID and SID should make himself available for confidential discussions with other Directors

The requirement to appoint a SID does not arise as the roles of the Chairman and MD are separate.

A.5.9 Responsibility of Chairman to hold meetings only with Non-Executive Directors**PRINCIPLE**

- The Chairman should hold meetings with the Non-Executive Directors as necessary and at least once each year

Even though the Managing Director (MD) 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, the necessity has not risen for the Non-Executive Directors to meet separately in addition to the monthly Board meetings.

A.5.10 Recording of Directors' concern in the board minutes**PRINCIPLE**

- Matters which cannot be unanimously resolved should be recorded in the Board minutes

All proceedings at Board meetings are recorded by the Company Secretary and minutes of the Board meetings are circulated to all Directors. The Directors' concerns pertaining to unresolved matters are discussed and duly recorded in the Board minutes and further discussions on these matters are pursued at the next Board meeting with a view of resolving them.

A.6 Supply of information**PRINCIPLE**

- The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties

All financial and non-financial information are analysed and presented to the Board to make informed and accurate decisions.

A.6.1 Management obligation for providing the Board with appropriate and timely information**PRINCIPLE**

- Obligation of the management to provide the Board with appropriate and timely information and Directors should make further inquiries where necessary. The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings

The management provides accurate, timely, relevant and comprehensive financial and non-financial information on a monthly basis 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.

A.6.2 Preparation of minutes, agenda and Board papers prior to the Board meeting**PRINCIPLE**

- The minutes, agenda and Board papers required for a Board meeting should ordinary be provided to Directors at least seven days before the meeting, to facilitate its effective conduct

The Company Secretary ensures that the agenda and Board papers to be tabled at Board meetings are prepared and circulated at least one week prior to Board meetings together with the minutes of the previous meeting.

A.7 Appointments to the Board**PRINCIPLE**

- There should be a formal and transparent procedure for the appointment of new Directors to the Board

Appointment of Directors takes place in terms of the Articles of Association of the Company.

A.7.1 Establishment of a nomination committee**PRINCIPLE**

- A Nomination Committee should be established in order to make recommendations on all new appointments to the Board. The Chairman and members of the Nomination Committee should be identified in the Annual Report

A Remuneration and Nomination Committee comprising two Non-Executive, Independent Directors and one Non-Independent, Non-Executive Director is in place in order to make recommendations on all new appointments to the Board.

Details and composition of the Remuneration and Nomination Committee are provided on pages 136 to 137. Due to the reconstitution of the Board of Directors, the Remuneration and Nomination Committee was unable to discharge its duties during the period under review.

A.7.2 Assessment of board composition**PRINCIPLE**

- The Nomination Committee or the Board should annually assess Board composition

The Board as a whole assesses its own composition to ascertain whether the experience and the exposure of the Board members are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken into consideration in the appointment of new Directors.

A.7.3 Disclosure of profiles of newly appointed Directors**PRINCIPLE**

- Appointment of a new Director to the Board should be forthwith disclosed to shareholders

All appointments of new Directors are informed to the shareholders and the IBSL with sufficient details, via immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report. Prior approval for appointment of new Directors is obtained from the IBSL in terms of the applicable regulations.

A.8 Re-election**PRINCIPLE**

- All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years

In terms of Article 27 (2) of the Articles of Association of the Company, all Directors including the Chairman are subject to re-election by shareholders at the first opportunity after their appointment.

Accordingly, at the previous Annual General Meeting, Mr. L. Abeysekera, Non-Executive Independent Director was re-elected by the shareholders in terms of the Articles 27 (2) of Association of the Company.

A.8.1 Appointment of Non-Executive Directors for specified terms subject to re-election**PRINCIPLE**

- Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal

The Non-Executive Directors are not appointed for a specified time period; they are nevertheless subject to re-election at the Annual General Meeting in terms of the Articles of Association.

A.8.2 All Directors to be subject to re-election by the shareholders at the first appointment and re-election thereafter**PRINCIPLE**

- All Directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of more than three years

In terms of the Article 27 (8) of the Articles of Association of the Company, 1/3 of the Directors except the Managing Director/Joint Managing Directors subject to retirement and re-election by shareholders at the Annual General Meeting.

Accordingly, at the previous Annual General Meeting, Mr. J. P. Amaratunga, Non-Executive Director was re-elected by the shareholders in terms of the Articles 27 (8) of Association of the Company.

A.9 Appraisal of Board performance**PRINCIPLE**

- Board should periodically appraise their own performance

The Board recognises that it is necessary to periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged. The Board has a self-evaluation process in place that encourages all Directors to make a full and active contribution to the Board's affairs.

A.9.1, A.9.2, A.9.3 Board appraisal**PRINCIPLE**

- The Board should annually appraise itself on its performance
- The Board should undertake an annual self-evaluation of its own performance and of its committees
- The Board should state how performance evaluation have been conducted, in Annual Report

The Board carries out an annual review, headed by the Chairman. All 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 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

A.10 Disclosure of information in respect of Directors**PRINCIPLE**

- Shareholders should be kept advised of relevant details in respect of Directors

The Company places importance on the disclosure of information with accuracy, completeness, transparency and equality for financial statements. The Annual Report contains relevant details pertaining to all Board members.

A.10.1 Requirement for the Annual Report to set out the details of Directors**PRINCIPLE**

- The Annual Report of the Company should set out the following information in relation to each Director;

- Profiles of each Director, including their qualifications, expertise and Directorships

The profiles of all Board members are presented on pages 122 to 124.

- Details on Directors status, attendance at Board and their other Board seats or equivalent positions

Attendance of Directors at Board meetings is presented on page 136.

- Details of related party transactions of the Directors

Notes to the financial statements presented on page 262 to 267.

A.11 Appraisal of MD**A.11.1 Financial and non-financial targets****A.11.2 Performance of the MD****PRINCIPLE**

- The Board is required, at least annually to assess the performance of the MD
- Financial and non-financial targets to be achieved by the MD should be set at the commencement of the fiscal year
- Performance of MD is to be evaluated against the targets set by the Board at the end of each fiscal year

The Board sets financial and non-financial 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.

B. Directors' remuneration

B.1 Remuneration procedure

PRINCIPLE

- Companies should establish a formal and transparent procedure for developing policy on executive remuneration and no Director should be involved in deciding his own remuneration

The Board has established formal and transparent procedure for developing policy on remuneration for directors. There is a formal process for approving remuneration for Executive and Non-Executive Directors with the establishment of Remuneration and Nomination Committee. No Director is involved in deciding their own remuneration.

B.1.1 – B.1.5 Remuneration committee and determining remuneration of Directors

PRINCIPLE

- Appointment and Composition of the Remuneration Committee
- Disclosure of Chairman and members of the Remuneration Committee
- Determination of remuneration for Non-Executive Directors
- Ability to consult the Chairman and/or MD and seek professional advice by the Committee

The Remuneration and Nomination Committee acts within agreed terms of reference. The Chairman of the Board chairs the Remuneration and Nomination Committee.

The Composition and the role of Remuneration and Nomination Committee is given on pages 136 to 137.

Due to a reconstitution of the Board of Directors, the Remuneration and Nomination Committee was unable to discharge its duties during the period under review.

B.2 THE level of make up of remuneration

B.2.1 – B.2.9 Level of remuneration and executive share options

PRINCIPLE

- Level of remuneration should be sufficient to attract Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be linked to corporate and individual performance

The Board is aware that the level and make up of remuneration affect human motivations and decisions, and consequently, risk outcomes that are ultimately borne by shareholders. Remuneration must therefore reflect value delivered, adjusted appropriately for risk assumed.

The level of remuneration is decided in terms of the PLC Group Policy. Accordingly, effective from 31st August 2016, Directors remuneration was aligned to be on par with its parent company, People's Leasing & Finance PLC. The Company does not have any share option scheme for the Directors or employees at present.

B.3 Disclosure of remuneration**B.3.1 Requirement to disclose the remuneration policy and details of remuneration of the Board in the Annual Report****PRINCIPLE**

- The Company's Annual Report should contain a statement of remuneration policy and details of remuneration of the Board as a whole
- The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a statement of remuneration paid to Executive and Non-Executive Directors

Directors' fees and remuneration are disclosed on page 264.

C. Relations with Shareholders**C.1 Constructive use of annual general meeting and conduct of general meetings****PRINCIPLE**

- Board should use the AGM to communicate with shareholders and encourage their participation

The Board encourages all shareholders to attend and actively participate in the AGM. The shareholders may raise any queries they have with the Directors. The Chairman, the Chief Operating Officer, Chief Financial Officer and the Chairmen of the principal committees of the Company are present at the AGM to answer any queries.

C.1.1 Consideration of proxy votes**PRINCIPLE**

- All proxy votes should be counted

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.

C.1.3 Availability of Board sub-committee Chairman to answer queries**PRINCIPLE**

- The Chairmen of the Audit Committee and Remuneration and Nomination Committee should be available to answer questions at the AGM

The Chairmen of the Board Audit Committee and Remuneration and Nomination Committee are available to answer questions at the AGM.

C.1.4 Circulation of notice of AGM**PRINCIPLE**

- Notice of the AGM and related papers should be sent to shareholders as determined by statute, before the meeting

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.

C.1.5 Procedures governing voting at AGM**PRINCIPLE**

- A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting

Instructions on appointing a proxy with regard to representation of shareholders at the AGM to ensure the voting right are sent to each shareholder. Further, at the AGM, the shareholders are advised on the manner in which voting will be conducted on resolutions proposed thereat.

C.2 Communication with shareholders**PRINCIPLE**

- The Board should implement effective communication with shareholders

The Company implements communication through effective channels to reach all shareholders of the Company to build up strong relationships and to disseminate timely information.

C.2.1, C.2.2 Communication channel to reach shareholders**C.2.3 Company's communication policy and methodology****PRINCIPLE**

- There should be a channel to reach all shareholders of the Company in order to disseminate timely information and disclose the policy and methodology of communication with shareholders

All financial information are released to the shareholders through the Annual Report, Annual General Meeting, financial and other notices when required through the Colombo Stock Exchange and the corporate website. The implementation of the policy and the methodology is done through the adoption of the above mentioned channels of communication.

Communication channels to reach shareholders are presented on page 35.

C.2.4 Contact person for communication purposes**PRINCIPLE**

- The Company should disclose the contact person for such communication

The Company Secretary and the MD will be the main contact persons with regard to any public disclosures. Further, the Chief Financial Officer can also be contacted with regard to any clarifications on financial information published.

C.2.5 Process to make Directors aware of major issues and concerns of shareholders**PRINCIPLE**

- There should be a process to make all Directors aware of major issues and concerns of shareholders and this process should be disclosed

The Company Secretary maintains records of all correspondence received from shareholders and direct the same to the appropriate channel. If there are any major issues and/or concerns raised by shareholders they are referred to the Board.

C.2.6 Person to be contacted on shareholder matters**PRINCIPLE**

- There should be identification of a person to contact in relation to shareholder matters

The relevant person to contact in relation to shareholder matters is the Company Secretary whose details are given on inner back cover.

C.2.7 Formulation of a process for responding to shareholders and disclosure on them**PRINCIPLE**

- The process of responding to shareholder matters should be formulated by the Board and disclosed

Upon receipt of instructions from the Board or other relevant channel on issues/concerns referred to them by the shareholders, the Company Secretary responds as directed.

Major and material transactions**C.3.1 Disclosure of major and material transactions which have a material impact on net assets****PRINCIPLE**

- Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter the Company net assets base

During the year, there were no major or material transactions engaged in or committed to by the Company as prescribed by Section 185 of the Company Act No. of 2007 that required communication with shareholders.

D. Accountability and audit**D.1 Financial reporting****PRINCIPLE**

- The Board should present a balance and understandable assessment of the Company's financial position, performance and prospects

The financial statements present a balanced and understandable assessment of the Company. The Company position, performance and prospects have been discussed in detail in the following reports.

- Chairman's Message on pages 12 to 15.
- Managing Director's Review on pages 16 to 19.
- Chief Operating Officer's Review on pages 20 to 23.
- Management Discussion and Analysis on pages 44 to 120.

D.1.1 Responsibility of the Board for statutory and regulatory reporting**PRINCIPLE**

- The Board responsibility to present a balanced assessment extends to interim and other price-sensitive public reports and reports to regulators

The responsibility of the Board in respect of financial reporting is stated in the Statement of Directors' Responsibility for Financial Reporting on pages 193 to 194.

D.1.2 Directors' report**PRINCIPLE**

- The Directors' Report in the Annual Report should contain certain declarations to the effect set out in the Code

Director's declaration on the Company's governance is disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on page 173.

D.1.3 Responsibilities of the Board and auditors for preparation of financial statements**PRINCIPLE**

- The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements, together with a statement by the auditors about their reporting responsibilities. Further, the Annual Report should contain a report/statement on internal control

Directors' responsibility in preparation and presentation of financial statements are disclosed in the Statement on Directors' Responsibility for Financial Reporting on pages 193 to 194.

Directors' Statement on Internal Control is set out on page 178.

Auditor's responsibility over the financial statements is set out in the Independent Auditor's Report on page 197.

D.1.4 Inclusion of a 'Management Discussion and Analysis' report**PRINCIPLE**

- The Annual Report should contain a Management Discussion and Analysis

The Annual Report contains a Management Discussion and Analysis. The requirements in detail are provided in the following reports.

Description	Reference
Industry structure and developments	<ul style="list-style-type: none"> • Management Discussion and Analysis on pages 60 to 64.
Opportunities and threats	<ul style="list-style-type: none"> • Management Discussion and Analysis on pages 45 to 47.
Risks and concerns	<ul style="list-style-type: none"> • Enterprise Risk Management on pages 185 to 190.
Internal control systems and their adequacy	<ul style="list-style-type: none"> • Enterprise Risk Management on pages 185 to 190. • Board Audit Committee Report on pages 179 to 180. • Director's Statement on Internal Control page 178.
Social and environmental protection activities carried out by the Company	<ul style="list-style-type: none"> • Management Discussion and Analysis on pages 108 to 110 and 114 to 118.

Description	Reference
Financial performance	<ul style="list-style-type: none"> Management Discussion and Analysis on pages 71 to 78.
Material developments in human resource/industrial relations	<ul style="list-style-type: none"> Management Discussion and Analysis on pages 79 to 88.
Prospects for the future	<ul style="list-style-type: none"> Chairman's Message on pages 14 to 15. Managing Director's Review on pages 18 to 19. Chief Operating Officer's Review on page 23. Management Discussion and Analysis on pages 119 to 120.

D.1.5 Declaration of going concern by Directors

PRINCIPLE

- The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. The matters to which the Board should give due consideration when adopting the going concern assumption are set out in the Code

This information is provided in the Annual Report of the Board of Directors on the Affairs of the Company on page 177.

D.1.6 Extraordinary General Meetings if the net assets of the Company fall below half of the shareholders' fund

PRINCIPLE

- If the net assets of the Company fall below 50% of the volume of the shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting (EGM) to notify shareholders

This type of a situation has not arisen during the period under review. However, in the event such a situation arises, an EGM would be called to inform shareholders.

D.1.7 Adequate and accurate disclosure of related party transactions

PRINCIPLE

- The Board should adequately disclose related party transactions in the Annual Report

The Company has a related party transactions policy in place. This policy provides detailed procedures on identification of related parties and related party transactions, review, approval or ratification of transactions and disclosures in financial statements.

A Related Party Transactions Review committee was established in 2015 and details of the committee are presented in the Related Party Transactions Review Committee Report on page 181.

Related party transactions are disclosed on pages 262 to 267.

D.2 Internal control**PRINCIPLE**

- The Board should have a process of risk management and a system of internal control to safeguard shareholders' investments and the Company's assets

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.

D.2.1 Review of effectiveness of internal control system and review of the risks**PRINCIPLE**

- The Directors should conduct an annual review of risks facing the Company and the effectiveness of the system of internal controls

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 programs and updates them periodically.

D.2.2 Need to have an internal audit function**PRINCIPLE**

- Companies should have an internal audit function

The Company has an internal audit function which is headed by an experienced and qualified professional.

D.2.3 Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls**PRINCIPLE**

- The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls

The Board Audit Committee is empowered by the Board of Directors to oversee the financial reporting, internal controls, internal audit, whistle blowing and assessment of independence and performance of external auditors.

The functions of the Board Audit Committee are presented on pages 179 to 180.

D.2.4 Responsibility of Directors in maintaining a system of internal control**PRINCIPLE**

- Responsibility of Directors in maintaining a sound system of internal control and content of Statement of Internal Control

Responsibility of Directors in maintaining a system of internal control is provided in the Directors' Statement of Internal Control on page 178.

D.3 Audit committee**PRINCIPLE**

- The Board establishes formal and transparent arrangements for considering how they should select and apply accounting policies, financing reporting and internal control principles and maintaining an appropriate relationship with the Company's auditors.

The Board of Directors has delegated their responsibility on selection and application of accounting policies, financial reporting and internal control principles to the Board Audit Committee whose functions are carried out in accordance with documented terms of reference. The Board Audit Committee maintains an appropriate relationship with the Company's auditors.

D.3.1 Composition of the audit committee**PRINCIPLE**

- The Audit Committee should comprise exclusively of Non-Executive Directors, a majority of whom should be independent

The Board Audit Committee comprises three Non-Executive Directors of whom two Directors are Independent.

Details of the Board Audit Committee are provided on pages 179 to 180.

D.3.2 Independence and objectivity of the auditors**PRINCIPLE**

- The duties of the Audit Committee should include keeping under review the scope and results of the audit, its effectiveness, independence and objectivity of the auditors

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.

D.3.3 Written terms of reference**PRINCIPLE**

- Audit Committee should have a written terms of reference, dealing with its authority and duties

The Board Audit Committee has written terms of reference which is line with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC.

D.3.4 Disclosures: name of Directors on the Audit Committee and basis of determination of independence of external auditors**PRINCIPLE**

- The Annual Report should disclose the names of Directors comprising the Audit Committee, a determination of independence of the auditors and a report by the Committee

The names of the Directors of the Board Audit Committee and its functions and meetings are disclosed in the Board Audit Committee Report on pages 179 to 180.

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 177.

D.4 Code of business conduct and ethics for Directors**PRINCIPLE**

- Companies must adopt a Code of Business Conduct and Ethics for Directors, and key management personnel and must promptly disclose any waivers of the Code

The Company believes that ethics are an integral part of good corporate governance and has adopted a code of business conduct and ethics. Therefore, it practices established business ethics across all sections of the Company.

D.4.1 Disclosure on presence of Code of Business Conduct and Ethics**PRINCIPLE**

- The Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and key management personnel should be disclosed in the Annual Report with an affirmative declaration of compliance

The Company has adopted a code of business conduct and ethics that is applicable to all employees of the Company. There were no material violations of the Code of business conduct and ethics during the year.

D.4.2 Affirmation by the Chairman that there is no violation of the Code of Business Conduct and Ethics**PRINCIPLE**

- The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics

The required affirmation is provided in the Annual Report of the Board of Directors on the Affairs of the Company on page 173.

D.5 Corporate governance disclosures**PRINCIPLE**

- Directors are required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance

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 the ICASL and SEC.

D.5.1 Inclusion of a corporate governance report in the Annual Report**PRINCIPLE**

- The Directors should include in the Company's Annual Report a Corporate Governance Report

This report on governance on pages 129 to 170 serves this purpose.

SECTION 2: SHAREHOLDERS**E. Institutional investors****E.1 Shareholders voting****PRINCIPLE**

- Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice

All shareholders are encouraged to participate at Annual General Meetings and cast their votes.

E.1.1 Regular and structured dialogue with shareholders**PRINCIPLE**

- A regular and structured dialogue should be conducted with shareholders

The AGM is used as a forum to have a structured, objective dialogue with shareholders.

E.2 Evaluation of governance disclosures**PRINCIPLE**

- Evaluation institutional investors should be encouraged to give due weight to relevant governance arrangements

Sufficient attention has been given to the interests of institutional investors. The Governance Report in the Annual Report set out the Company's governance arrangements.

F. Other investors**F.1 Investing/divesting decisions****PRINCIPLE**

- Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing or diverting decisions

Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or diverting decisions. The Annual Report and other publications contain sufficient information to make an informed decision.

F.2 Shareholder voting**PRINCIPLE**

- Individual shareholders should be encouraged to participate in general meetings of companies and exercise their voting rights

All shareholders are encouraged to participate at Annual General Meetings and cast their votes.

G. Sustainability Reporting

PRINCIPLE

- The Company should carry out the sustainability reports on economic, environment, labour practices, society, product responsibility, stakeholders identification, engagement and effective communication and sustainable reporting as part of the Company's reporting process

The Company recognises that a sustainability report presents the organisation's value and governance model and demonstrate the link between its strategy and its commitment to a sustainable global economy.

Ref.	Description	Reference
G.1.1	Economic sustainability	Page 31
G.1.2	Environment	Pages 114 to 118
G.1.3	Labour practice	Pages 79 to 88
G.1.4	Society	Pages 108 to 113
G.1.5	Product responsibility	Pages 95 to 101
G.1.6	Stakeholder identification, engagement and effective communication	Pages 34 to 43
G.1.7	Sustainable reporting and disclosure as part of the Company's reporting process	Pages 288 to 293

STEWARDSHIP

GOVERNANCE REPORT

COMPLIANCE WITH REQUIREMENTS OF RULE 7.6 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

RULE REF.	INFORMATION REQUIRED TO BE DISCLOSED	ANNUAL REPORT SECTION REFERENCE
7.6 (i)	Names of persons who during the financial year were Directors of the Company	Please refer Annual Report of the Board of Directors on the Affairs of the Company on page 175.
7.6 (ii)	Principal activities of the entity and any changes therein	Please refer Annual Report of the Board Directors on the Affairs of the Company on page 172 and Note 1 in Notes to the Financial Statements on page 204.
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Please refer Shareholder Information on page 270. The Company has not issued any non-voting shares.
7.6 (iv)	The public holding percentage	Please refer Shareholder Information on page 271.
7.6 (v)	A statement of each Director's holding and CEO's holding in shares of the entity at the beginning and end of each financial year	Please refer Shareholder Information on page 271.
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Company	Please refer Enterprise Risk Management report on pages 185 to 190 and Management Discussion and Analysis on pages 45 to 47.
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Company	During the financial year, there were no material issues pertaining to employees and industrial relations of the Company.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Company land holdings and investment properties	The Company does not possess any land holding and investment properties.
7.6 (ix)	Number of shares representing the entity's stated capital	Please refer Note 27 on page 237 under the Notes to the Financial Statements.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings	Please refer Shareholder Information on page 272.

RULE REF.	INFORMATION REQUIRED TO BE DISCLOSED	ANNUAL REPORT SECTION REFERENCE
7.6 (xi)	<p>The following ratios and market price information:</p> <p>EQUITY</p> <ol style="list-style-type: none"> 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year) <p>DEBT (only if listed)</p> <ol style="list-style-type: none"> 1. Interest rate of comparable government security 2. Debt/equity ratio 3. Interest cover 4. Quick asset ratio 5. The market prices and yield during the year 6. Any changes in credit rating 	<p>Please refer Shareholder Information on page 273.</p> <p>The Company does not have any listed debts.</p>
7.6 (xii)	<p>Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value;</p>	<p>There were no significant change in the Company's fixed assets. Please refer pages 227 to 228.</p> <p>The Company does not have any immovable property.</p>
7.6 (xiii)	<p>Details of funds raised through a public issue, right issue and a private placement</p>	<p>Please refer Annual Report of the Board of Directors on the Affairs of the Company on page 175.</p>
7.6 (xiv)	<p>Information in respect of Employee Share Ownership or Stock Option Schemes</p>	<p>The Company does not have any employee share ownership or stock option schemes at present.</p>
7.6 (xv)	<p>Disclosures pertaining to corporate governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules</p>	<p>Please refer pages 166 to 168.</p>
7.6 (xvi)	<p>Related party transactions exceeding 10% of the Equity or 5% of the total assets of the entity as per audited financial statements, whichever is lower</p>	<p>The Company did not have any related party transaction exceeding this threshold during the year under review.</p>

STEWARDSHIP

GOVERNANCE REPORT

COMPLIANCE WITH REQUIREMENTS OF RULE 7.10 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE AS OF THE ANNUAL REPORT DATE

RULE REF.	REQUIREMENT	DETAILS OF THE COMPANY'S ACTION FOR COMPLIANCE
7.10.1	NON-EXECUTIVE DIRECTORS	
a.	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	Six out of seven Directors are Non-Executive.
b.	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting	At the conclusion of the last AGM, three out of four Directors were Non-Executive.
c.	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of change	No changes occurred in the ratio of Non-Executive Directors.
7.10.2	INDEPENDENT DIRECTORS	
a.	Two or one third of Non-Executive Directors, whichever is higher, should be independent	Four out of Seven Directors are independent.
b.	Each Non-Executive Director should submit a declaration of Independence/Non-Independence in the prescribed format	All Non-Executive Directors have submitted the required declarations.
7.10.3	DISCLOSURES RELATING	
a.	Names of Independent Directors should be disclosed in the Annual Report	Please refer the Directors' profiles on pages 122 to 124.
b.	In the event a Director does not qualify as independent as per rules on cooperate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report	No such situation has arisen during the year.
c.	A brief resume of each Director should be published in the Annual Report including the areas of expertise	Please refer the profiles of Board of Directors on pages 122 to 124.

RULE REF.	REQUIREMENT	DETAILS OF THE COMPANY'S ACTION FOR COMPLIANCE
d.	In the event of an appointment of a new Director, a brief resume of such Director should be submitted immediately to the CSE for dissemination to the public	Profiles of the three new Directors appointed were forwarded to the CSE upon receiving the IBSL approval for their appointments.
7.10.4	CRITERIA FOR DEFINING INDEPENDENCE	
a - h	Requirement for meeting criteria to be independent	All the Independent Directors of the Company met the criteria for independence specified in this rule.
7.10.5	REMUNERATION COMMITTEE	
a.	<p>The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher</p> <p>One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors</p>	<p>The Remuneration and Nomination Committee comprises three Non-Executive Directors out of whom two are Independent, Non-Executive Directors.</p> <p>Mr. Jehan P. Amaratunga, Non-Executive, Non-Independent Director functions as the Chairman of the Remuneration and Nomination Committee.</p>
b.	Functions of the Remuneration Committee shall be to recommend the remuneration of the Chief Executive officer and the Executive Directors	Please refer page 137.
c.	<p>The Annual Report shall set out:</p> <ul style="list-style-type: none"> • The names of the Directors that comprise the remuneration committee • A statement of remuneration policy • Aggregate remuneration paid to Executive and Non-Executive Directors 	<p>Please refer pages 136 to 137 for the composition of the Remuneration and Nomination Committee.</p> <p>The Company's reward strategies and remuneration structure is design to attract, motivate and retain high calibre people, at all levels of the organisation, in a highly-competitive environment.</p> <p>Please refer the Annual Report of the Board of Directors on the Affairs of the Company on page 176.</p>

STEWARDSHIP

GOVERNANCE REPORT

RULE REF.	REQUIREMENT	DETAILS OF THE COMPANY'S ACTION FOR COMPLIANCE
7.10.6	AUDIT COMMITTEE	
a.	<p>The Audit Committee shall comprise a minimum of two Independent, Non-Executive Directors, or a majority of Independent, Non-Executive Directors, whichever is higher</p> <p>One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board</p> <p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings</p> <p>The Chairman or one member of the Committee should be a member of a recognised professional accounting body</p>	<p>The Board Audit Committee consists of three Non-Executive Directors out of whom two are Independent, Non-Executive Directors.</p> <p>Mr. Lakshman Abeysekera, a Non-Executive, Independent Director functions as the Chairman of the Committee.</p> <p>The Managing Director, Chief Operating Officer and Senior Manager - Finance attend the Board Audit Committee meetings by invitation.</p> <p>Mr. Lakshman Abeysekera, who functions as the Chairman of the Board Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and Association of Accounting Technicians of Sri Lanka.</p>
b.	The functions of the Audit Committee shall be set out in section 7.10 of the Listing Rules	Please refer Board Audit Committee Report on pages 179 to 180.
c.	<p>The Annual Report shall set out;</p> <ul style="list-style-type: none"> • The names of the Directors who comprise the Audit Committee • The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination • A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules 	Please refer Board Audit Committee Report on pages 179 to 180.

PERFORMANCE GOVERNANCE

The performance dimension centres on strategy and value creation. This tends to take a forward-looking view. The focus is on helping the Board to make strategic decisions, to understand its appetite for risk and its key performance drivers. The primary responsibility with regard to performance governance lies with the Board, which pays keen attention to the performance of the Company from different perspectives. The Board sub-committees i.e. Board Audit Committee, Remuneration and Nomination Committee and Related Party Transactions Review Committee strengthen the supervision in this regards. Further, the Company maintains a performance-based culture within the Company. Achieving a panacea of good corporate governance that is linked strategically with performance management has enabled the Company to focus on the key drivers that move business forward.

Progress Study and Key Performance Indicators

The performance of the Company as a whole is measured against these targets set by the Company's annual plan on a monthly basis by the Board and Management. Class-wise and aggregated key performance indicators are used for the above purpose. Benefits and rewards to employees are also linked to their performance.

The following table depicts the performance governance mechanism of the Company:

Area of operation	Performance Governance Mechanism
Corporate plan and budget	<ul style="list-style-type: none"> Review of the corporate plan by the Board Review of the actual results against the budget by the Board on a monthly basis Review the actual and budgeted key performance indicators by management on a monthly basis
Underwriting and reinsurance	<ul style="list-style-type: none"> Implementation of internal controls in line with procedural manuals Update procedural manuals based on the environmental and regulatory changes Review the processes and relevant key performance indicators at monthly management meetings
Claims management	<ul style="list-style-type: none"> Implementation of internal controls in line with procedural manuals Update procedural manuals based on the environmental and regulatory changes Reference of high valued claim files to claims panel Review the processes and relevant key performance indicators at monthly management meetings Follow a prudent claims reserving policy and obtaining quarterly actuarial valuations
Business development, direct marketing and commission process	<ul style="list-style-type: none"> Review the processes and relevant key performance indicators at monthly management meetings Payment of commissions subject to the IBSL approved maximum rates Maintain healthy relationships with the parties who introduce businesses to achieve set targets Implementation of internal controls
Finance and related processes	<ul style="list-style-type: none"> Implementation of internal controls according to the Manual of Delegation of Authority Segregation of duties and delegation of authority according to Manual of Delegation of Authority Forecast results and budget review Attend the Board meetings by the Chief Financial Officer

STEWARDSHIP

GOVERNANCE REPORT

Area of operation	Performance Governance Mechanism
Investment management	<ul style="list-style-type: none"> • Constitute an investment committee • Obtain Board approval for the key investment decisions • Obtain investment committee approval prior to making an investment • Review relevant key performance indicators at monthly management meetings • Forecast results and implement remedies in order to achieve the set targets • Close monitoring on risk and compliance on investment decisions • Implementation of internal controls according to the Manual of Delegation of Authority
Information Technology (IT) and IT governance	<ul style="list-style-type: none"> • Review the processes and get user feedback from other departments in monthly management meetings • IT help desk • Group monitoring on IT Governance • Offline check on each internal system developments prior to go live • Independent audit on ISO certification on IT at group level
Human Resources	<ul style="list-style-type: none"> • Performance evaluation of employees • Conduct employee orientation programs • Identify and organise employee and management training programs • Appointment of dedicated HR staff from the group HR Department to communicate HR related issues • Develop and enhance employee code of conduct practices among employees • Conduct employee exit interviews • Frequent dissemination of information on HR policies and practices through HR portal and e-mails
Risk management	<ul style="list-style-type: none"> • Prepare the Risk Dash Board quarterly • Frequent monitoring of key risks identified and implementation of risk mitigating • Risk Dash Board is reviewed by the Group Risk Management Committee • Adoption of risk-based capital regime reporting as per the IBSL regulations • Incorporate impact to risk-based capital in decision making of the Company
Legal and compliance	<ul style="list-style-type: none"> • Tabling a monthly compliance report to the Board on the Company's compliance with applicable laws and regulations • Table a compliance report at the Board meeting • Update monthly compliance checklist on all applicable regulations and returns • Consider the compliance aspect in all decision making
Sustainability approach	<ul style="list-style-type: none"> • Adopt a sustainability charter • Incorporate sustainability in other business aspects • Include corporate social responsibility expense into the budget

STATEMENT OF 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 (Risk Based Capital) Rules 2015 is disclosed below.

As at 31 December	2016 Rs. Mn	2015 Rs. Mn
Capital Adequacy Ratio		
Total available capital	2,643	2,275
Risk-based capital required	818	1,127
Capital adequacy ratio (CAR)	323%	202%
Regulatory minimum CAR	120%	120%
Total Available Capital		
Total available capital (TAC)	2,643	2,275
Regulatory minimum TAC	500	500
Excess over minimum TAC	2,143	1,775

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	2016 Rs. Mn	2015 Rs. Mn
Approved Assets		
Approved assets maintained	5,188	4,831
Technical reserves	3,205	2,871
Approved assets in excess of the technical reserves	1,983	1,960
Investment in Government Securities		
Investment in Government securities (20% of the technical reserves)	641	574
Investment in Government securities	1,686	1,952
Excess over the required investment in Government securities	1,045	1,378

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The details set out herein provide information required by Section 168 of the Companies Act No. 07 of 2007 ('Companies Act') to be set out in the Annual Report of the Board of Directors on the Affairs of the Company and are guided by recommended best accounting practices.

GENERAL

The Board of Directors of People's Insurance PLC ('the Company') has pleasure in presenting this report to the shareholders together with the audited financial statements for the year ended 31st December 2016 of the Company and the Independent Auditor's Report thereon in compliance with the requirements of the Companies Act. People's Insurance PLC 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.

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 03.

The Company's parent company is People's Leasing & Finance PLC.

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision and mission are provided on page 02. The Company's business activities have been carried out within the framework of the vision and mission statement, which reflects our

commitment to the highest ethical standards and integrity as set out in the Code of Business Conduct and Ethics, and in conformity with the values of the Company stated on page 91 of this report.

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.

In line with the principal activity of the Company, we have obtained the approval from the Insurance Board of Sri Lanka to issue non-life Takaful products to our customers. This operation is setup as a window operation under the Company's main operation.

CHANGES TO THE COMPANY OWNERSHIP STRUCTURE

As per section 52(1) of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 (RII Amendment Act), every insurance company in existence when the RII Amendment Act came into operation is required to have itself listed within five years from the effective date of the said RII Amendment Act on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987. Accordingly, in compliance with this requirement, the Company carried out an Initial Public Offering (IPO) in December 2015 through which 50 million new ordinary shares of the Company were issued to the public at Rs. 15 per share. Accordingly, the shareholding percentage of People's Leasing & Finance PLC in the Company decreased to 75% from 100%. Subsequent to the IPO, the ordinary shares of the Company were listed on the Main Board of the Colombo Stock Exchange on 12th January 2016. Accordingly, in terms of Section 11(3) of the Companies Act, the Company changed its name to People's Insurance PLC with effect from 12th February 2016 and obtained a new registration number namely PB 3754 PQ.

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 12 to 15), Managing Director's Review (pages 16 to 19), Chief Operating Officer's Review (pages 20 to 23) and Management Discussion and Analysis (pages 66 to 78 and 119 to 120). These reports form an integral part of the Annual Report of the Board of Directors and together with the audited financial statements reflect the state of the affairs of the Company.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is presented in the Chairman's Message (pages 14 to 15), Managing Director's Review (pages 18 to 19), Chief Operating Officer's Review (page 23) and Management Discussion and Analysis (pages 119 to 120).

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The financial statements duly signed by the Directors are provided on pages 198 to 268 and Independent Auditor's Report on the financial statements is provided on page 197.

SYSTEM OF INTERNAL CONTROLS

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

CORPORATE GOVERNANCE

The Board of Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, the Board has provided the necessary resources and installed appropriate processes and

procedures in compliance with the relevant code of best practice issued by the regulatory and professional bodies. The Board has ensured that the Company complied with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka ('SEC') and the Institute of Chartered Accountants of Sri Lanka ('ICASL'). The measures taken in this regard and information to fulfil disclosure requirements of the above code, directions and the Listing Rules of the Colombo Stock Exchange ('CSE') are set out in the Governance Report on pages 139 to 168 of this Annual Report.

Further, the Directors declare that:

- The Company has not engaged in any activity which contravenes laws and regulations.
- All material interests in contracts involving the Company have been declared by the Directors and they have refrained from voting on matters in which they were materially interested.
- The Company has made all endeavours to ensure the equitable treatment of shareholders.
- The business is a going concern.
- A review of internal controls covering financial, operational and compliance controls and risk management has been conducted and the Directors have obtained a reasonable assurance of their effectiveness and successful adherence.

BOARD SUB-COMMITTEES

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

- Board Audit Committee
- Remuneration and Nomination Committee
- Related Party Transactions Review Committee

The composition of each Board sub-committee is given on page 136.

RELATED PARTY TRANSACTIONS

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

Such transactions disclosed by the Directors are given in Note 41 to the financial statements on pages 264 to 268 and form a part of the Annual Report of the Board of Directors. As required by the Code of Best Practices on Related Party Transactions issued

STEWARDSHIP

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

by the SEC, a new Board sub-committee was setup to review the related party transactions of the Company. Thus, the responsibility for reviewing the related party transactions of the Company is now under the purview of the Related Party Transactions Review Committee and some of the responsibilities that were previously assigned to the Board Audit Committee in respect of related party transactions have now been transferred to the Related Party Transactions Review Committee. During the year, there were no transactions which exceeded 10 percent of the equity or 5 percent of the total assets which require immediate disclosure to the CSE and separate disclosure in the Annual Report. The Company has complied with the requirements of the Code of Best Practices on Related Party Transactions issued by SEC and has complied with all disclosure requirements as per the Code.

The Related Party Transactions Review Committee consists of three Directors, including two Independent, Non-Executive Directors.

REMUNERATION AND NOMINATION COMMITTEE

The details of the Remuneration and Nomination Committee is given on pages 136 to 137 of this Annual Report.

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 179 to 180.

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 182 to 190.

AUDITOR'S REPORT

Independent Auditor's Report on the financial statements is given on page 197.

TURNOVER

The Company underwrote an amount of Rs. 4,340 million in 2016 (Rs. 3,813 million in 2015) as gross written premium.

FINANCIAL RESULTS

The Company recorded a net profit of Rs. 658 million for the year. A synopsis of the Company's performance is presented below.

	2016 Rs. '000'	2015 Rs. '000'
Profit after taxation	657,997	464,167
Profit brought forward from previous year	900,994	810,041
Super gain tax	-	(99,360)
Share issue transaction cost	-	(22,969)
Profit available for appropriation	1,558,991	1,151,879
Appropriations		
Final dividend paid in respect of previous year	(120,000)	(120,000)
Interim dividend paid in respect of current year	(150,000)	(120,000)
Other comprehensive income	(9,534)	(10,885)
Un-appropriated profit carried forward	1,279,457	900,994

DIVIDENDS

An interim dividend of Rs. 0.75 per share was paid in October 2016 and a second interim dividend of Rs. 0.75 per share was paid in March 2017. The Directors also recommended a final dividend of Rs. 0.25 per share for the financial year ended 31st December 2016.

The Board of Directors ensured that the Company would meet the requirement of the solvency test in terms of Section 56(3) of the Companies Act No. 07 of 2007 immediately after the payment of the said interim dividends and would ensure the compliance with the Solvency Test after the payment of the said final dividend as well. 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 thereby strictly conforming to the above statutory provision.

PROVISION FOR TAXATION

The tax position of the Company is disclosed in Note 16 (page 224) to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment are shown in Note 20 (pages 227 to 228).

RESERVES

The movement in reserves during the year is set out in the Statement of Changes in Equity on page 201.

INVESTMENTS

Details of investments held by the Company are disclosed in Note 21 (pages 228 to 234) to the financial statements.

STATED CAPITAL AND SHAREHOLDERS' FUNDS

In compliance with the Companies Act, the financial statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital.

During the year under review, the Company issued 50,000,000 ordinary shares at Rs. 15 each and raised Rupees seven hundred fifty million (Rs. 750,000,000). The primary objective of the issue was to obtain a listing for the ordinary voting shares of the Company on the Colombo Stock Exchange (CSE) to comply with the regulatory requirement of the Insurance Board of Sri Lanka. The entirety of the monies raised through the issue, subsequent to meeting all expenses in relation to the same was invested in fixed deposits, debentures, listed shares and treasury bills during the remaining period of the year ended 31st December 2016.

SHARE INFORMATION

Information relating to earnings, dividends and net assets per share is given in the Five Year Summary on page 278.

SUBSTANTIAL SHAREHOLDINGS

People's Leasing & Finance PLC held 75% of the ordinary voting shares as at 31st December 2016. The list of top 20 shareholders, number of shares held, percentage of their respective holding and the public holding percentage are given under the title Shareholder Information on pages 270 to 272 of this Annual Report.

INFORMATION TO SHAREHOLDERS

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

BOARD OF DIRECTORS**Profiles**

Names of the Board of Directors together with their profiles including skills and experience are set out on pages 122 to 124 of this Annual Report.

Resignations and Appointments

Ms. Fathima Farah Hussain, Independent, Non-Executive Director tendered her resignation on 10th May 2016 and Mr. W. M. Abeyrathna Bandara, Mr. N. P. Karunarathne and Mr. S. P. K. Gunarathne were appointed to the Board of the Company as Independent, Non-Executive Directors on 17th January 2017 respectively.

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.

STEWARDSHIP

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Directors' Interests in Transactions

The Directors of the Company have made general declarations as provided for in section 192 (2) of the Companies Act. Arising from this, details of contracts in which they have an interest are found in Note 41 on pages 262 to 267, under related party transactions.

Directors' Interests in Shares

The Directors have disclosed to the Board their shareholding in the Company and any acquisitions or disposals thereof. The Directors' individual shareholding in the Company as at 31st December 2016 and 31st December 2015 are given below.

Name of Director	Number of Shares	
	As at 31st December 2016	As at 31st December 2015
Jehan P. Amaratunga	Nil	Nil
N. Vasantha Kumar	Nil	Nil
D. P. Kumarage	125,000	Nil
Lakshman Abeysekera	Nil	Nil
Fathima Farah Hussain*	Nil	Nil
W. M. Abeyrathna Bandara	Nil	Nil
N. P. Karunarathne	Nil	Nil
S. P. K. Gunarathne	Nil	Nil

* Resigned on 10th March 2016

Remuneration to Directors

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

	2016 Rs. '000	2015 Rs. '000
Executive Director's fees and emoluments	375	230
Non-Executive and Non-Independent Directors' fees and emoluments	600	420
Non-Executive, Independent Directors' fees and emoluments	350	-
Total	1,325	650

Directors' Meetings

Details of Directors' meetings are presented on page 136.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Company to reflect the true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Companies Act, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto. The Statement of Directors' Responsibility for Financial Reporting provided on pages 193 to 194 forms an integral part of this report.

RELATED PARTY TRANSACTIONS

There are no related party transactions which exceed the lower of 10% of equity or 5% of the total assets of the Company. However, the Directors have disclosed the transactions that could be classified as related party transactions in terms of the Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosures which is adopted in the presentation of the financial statements and accordingly given in Note 41 on pages 262 to 267 to the financial statements.

DONATIONS

During the year under review, the Company made donations amounting to Rs. 574,500 in terms of the Resolution passed at the last Annual General Meeting. The corporate social responsibility initiatives of the Company are presented in 'Social Capital' and 'Natural Capital' given on pages 108 to 118.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company has complied with all applicable laws and regulations. A separate paper on regulatory compliance is submitted to the Board on a monthly basis.

Further, the Company complies with the Financial Transaction Reporting Act No. 06 of 2006 and the Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 by sending a monthly report to the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka (CBSL).

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 other than those arising in the normal course of conducting insurance business.

EVENTS AFTER THE REPORTING DATE

Details of events after the reporting date are provided in Note 43 (page 267) 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 SEC and ICASL 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. 1,707,865 (2015 - Rs. 1,628,880) was payable to them as audit fees during the year under review and a sum of Rs. 1,212,227 (2015 - Rs. 1,686,169) 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.

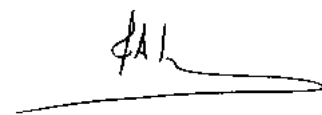
APPOINTMENT OF AUDITORS

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.

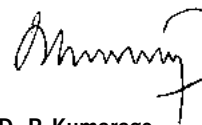
ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the People's Bank Staff Training College Auditorium 38, D. R. Wijewardena Mawatha, Colombo 10 on 30th June 2017 at 3.30 p.m. The Notice of the Meeting relating to the 8th Annual General Meeting is given on page 296.

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

26th April 2017
Colombo

STEWARDSHIP

DIRECTORS' STATEMENT ON INTERNAL CONTROL

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

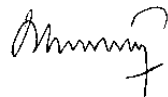
- Committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The internal audit department checks for compliance with policies and procedures and the effectiveness of the internal control systems on an on-going basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on significant processes, 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 internal audit department, 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 179 to 180.
- In assessing the internal control system, the Company continued to review and update procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company. The internal audit department continued to verify the suitability of design and effectiveness of these procedures and controls on an on-going basis.

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. Kumara
Managing Director



Lakshman Abeysekera
Chairman - Board Audit Committee

26th April 2017
Colombo

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee ('the Committee') of People's Insurance PLC comprises three Directors of whom two are Independent, Non-Executive Directors. The Committee is responsible to the Board of Directors in its general oversight of financial reporting, internal controls, whistleblowing and functions relating to internal and external audits.

COMPOSITION OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee comprises the following Directors;

- Mr. Lakshman Abeysekera (Non-Executive, Independent Director) - Chairman
- Mr. W. M. Abeyrathna Bandara (Non-Executive, Independent Director)
- Mr. N. Vasantha Kumar (Non-Executive, Non-Independent Director)

The Chairman of the Board Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Association of Accounting Technicians of Sri Lanka with over 25 years' experience in accounting, finance and management and is an Independent, Non-Executive Director. Profiles of the members are given on pages 122 to 124.

MEETINGS

The meetings of the Committee are held on a quarterly basis and the Managing Director, Chief Operating Officer and Senior Manager - Finance attend meetings by invitation. During the period under review, due to a reconstitution of the Board of Directors, the Committee was unable to meet on a regular basis. However all of the audit functions were

duly monitored by the Audit Committee Chairman and the Main Board of Directors and going forward the Committee will endeavour to regularise it. The Manager - Internal Audit acts as the Secretary to the Board Audit Committee.

OBJECTIVE AND ROLE OF THE BOARD AUDIT COMMITTEE

The main objective of the Board Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by;

- Ensuring that an appropriate financial reporting system is in place to provide accurate, appropriate and timely information to the management, regulatory authority and shareholders.
- Ensuring that Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), Regulation of Insurance Industry Act, Companies Act and other related laws and regulations.
- Monitoring the Company's internal controls and risk management systems to ensure that those are operating effectively.
- Ensuring that the conduct of the business is in compliance with applicable laws and regulations and policies of the Company.
- Monitoring the performance of internal and external audit functions including assessment of their independence and objectivity.
- Evaluating the Company's ability to continue as a going concern in to the foreseeable future.

AUTHORITY

The Committee has the explicit authority to investigate into any matter, including call any employee to be questioned at a meeting of the Committee, full access to information and authority to obtain external professional advice, at the Company's expense.

INTERNAL AUDIT

During the year, necessary actions have been taken to establish an in-house internal audit department with a view of further strengthening the control environment and compliance requirements.

The Board Audit Committee monitors the effectiveness of internal audit function by reviewing the adequacy of the scope, functions, independence and resources of the internal audit department.

EXTERNAL AUDIT

The Board Audit Committee evaluates the independence, objectivity and performance of external auditors. The Committee also reviews audited financial statements, letter of representation issued to the external auditors and the external auditors' Management Letter and management response thereto.

STEWARDSHIP

BOARD AUDIT COMMITTEE REPORT

WHISTLE BLOWING AND FRAUD

The Company's whistle blower protection policy intends serving a wide-spread informal channel for the corporate fraud risk management. An employee, who observes or notices any improper or illegal activity or unethical practices in the Company or receives credible information of the same, may forthwith report the same to the Board Audit Committee. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, as even anonymous complaints are looked at.

CONCLUSION

The Board Audit Committee is satisfied that internal controls and the procedure in place for assessing and managing risk are adequately designed and operate effectively and are of the view that they provide reasonable assurance that the Company's assets are safeguarded; and that the financial statements are reliable.

**Lakshman Abeysekera***Chairman – Board Audit Committee*

26th April 2017

Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Related Party Transactions Review Committee (RPTRC) was formed by the Board as a Board committee to discuss and approve all proposed related party transactions of the Company that do not fall within the exceptions stipulated in Rule 27 of the Code of Best Practices on Related Party Transactions.

The composition of the RPTRC is as follows.

- Mr. N. P. Karunarathne (Non-Executive, Independent Director) – Chairman
- Mr. S. P. K. Gunarathne (Non-Executive, Independent Director)
- Mr. D. P. Kumarage (Executive Director)

MEETINGS

Whilst the RPTRC is expected to meet at least quarterly, due to a reconstitution of the Board of Directors during the financial year under review, the RPTRC did not meet.

DECLARATION

Related party transactions that took place during the year in terms of the Sri Lanka Accounting Standards are disclosed in the financial statements and have been approved by the Board of Directors. It may also be noted that there were no related party transactions that occurred during the year which required approval of the shareholders of the Company as determined in Rule 13 of the Code of Best Practices on Related Party Transactions. However, please refer the Annual Report of the Board of Directors in the Affairs of the Company, page 176 for the declaration by the Board of Directors that no related party transaction falling within the ambit of the Listing Rules which required an immediate market disclosure was entered into by the Company during year ended 31st December 2016.

POLICIES AND PROCEDURES ADOPTED BY RPTRC

Since RPTRC did not meet during the financial year under review nor had any transaction that was in its purview to review and report to the Board of Directors, the RPTRC did not adopt any policy or procedure during the financial year under review. However, the duties and role of RPTRC as stipulated in the terms of reference consist of the following:

- Review in advance all proposed related party transactions of the Company except those explicitly exempted in the Code of Best Practices on Related Party Transactions - December 2013.
- Adopt policies and procedures to review related party transactions of the Company.
- Determine whether such related party transactions require the approval of the Board or shareholders of the Company as determined in Rule 13 of the Code of Best Practices on Related Party Transactions - December 2013, and if necessary forward the same for their approval.
- If related party transactions are ongoing, the Committee shall establish guidelines for senior management to follow in its ongoing dealings with the relevant related party. Thereafter, the Committee on an annual basis shall review and assess ongoing relationships with the related party to see that they are in compliance with the Committee's guidelines and that the related party transactions remain appropriate.
- Ensure that no Director of the Company shall participate in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the related party transaction to the Committee.
- If there is any potential conflict in any related party transaction, the Committee may recommend the creation of a special committee to review and approve the proposed related party transaction.
- Ensure that immediate market disclosures and disclosures in the Annual Report as required by the Code of Best Practices on Related Party Transactions - December 2013 are made in a timely and detailed manner.



N. P. Karunarathne

Chairman - Related Party Transaction Review Committee

26th April 2017
Colombo

ENTERPRISE RISK MANAGEMENT

OVERVIEW

Enterprise Risk Management (ERM) is a process where the Board of Directors, management and other personnel, set and apply strategy across the organisation to identify potential events that may impact the entity, and manage these risks within its risk appetite to provide reasonable assurance on achieving the corporate's objectives. A successful ERM initiative can mitigate the likelihood and consequences of risks materialising in its core business, as well as deliver benefits through informed strategic decisions and increased operational efficiency. Effective risk management is at the heart of an insurer's business, and is the key driver in creating value to all stakeholders.

We firmly believe that risk management is a proactive process rather than a reactive process. We encourage an integrated risk management culture within our company by keeping everyone concerned, aware and accountable of the risks that they may bring into the Company with their actions. This is particularly important for us as an insurer which is in the business of covering risks of others. We consider a number of factors, many of which can have a significant strategic impact. These range from marketing position, changing consumer demand to strategic investments, stakeholder communications and investor relations. Often, these risks tend to prompt management to focus on what could go wrong.

RISK GOVERNANCE

Risk governance bridges the gap between corporate governance and risk management and is fully aligned with the objective of long-term value optimisation of a company. The ultimate responsibility for setting our risk appetite, communication of the risk

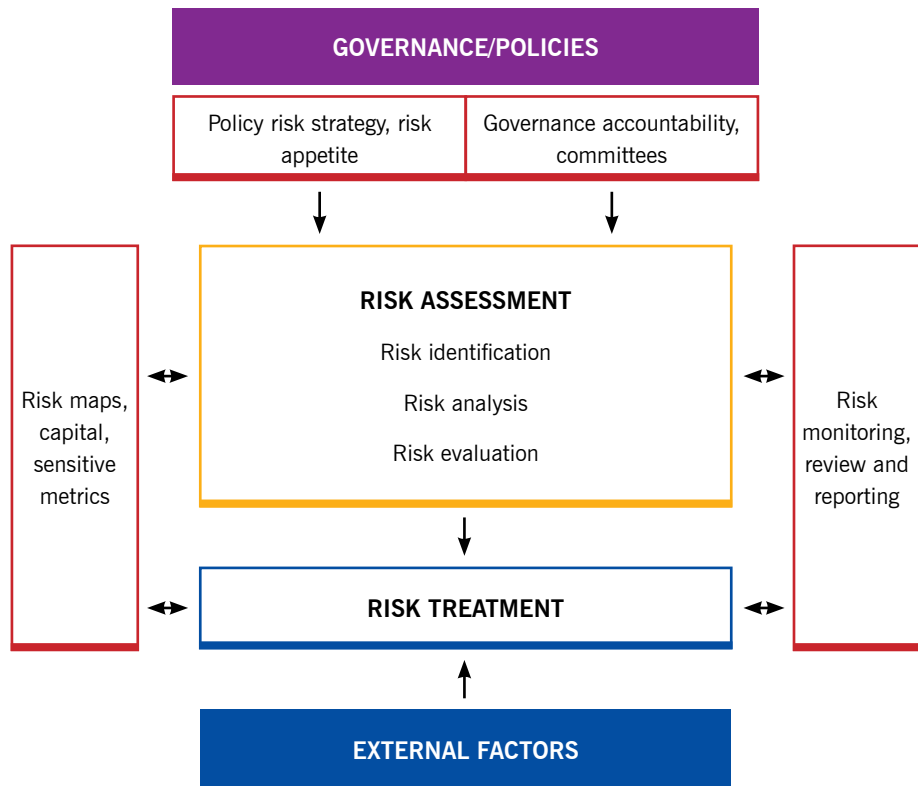
management strategy and accordingly, approving of policies come under the purview of our Board. In line with the delegations granted by the Board, our Board Audit Committee reviews specific risks and receive regular reports on risk management, which include the Company's policies, standards, soundness of internal controls, infrastructure and regulatory compliance.

We have an internal audit function in place 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.

Our enterprise risk management committee represented by the management is responsible for assessing, measuring and managing the risk exposure of our organisation. In addition, our risks are assessed and monitored at the group level, by the Integrated Risk Management Committee of our 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

Our risk management process is diagrammatically presented below;



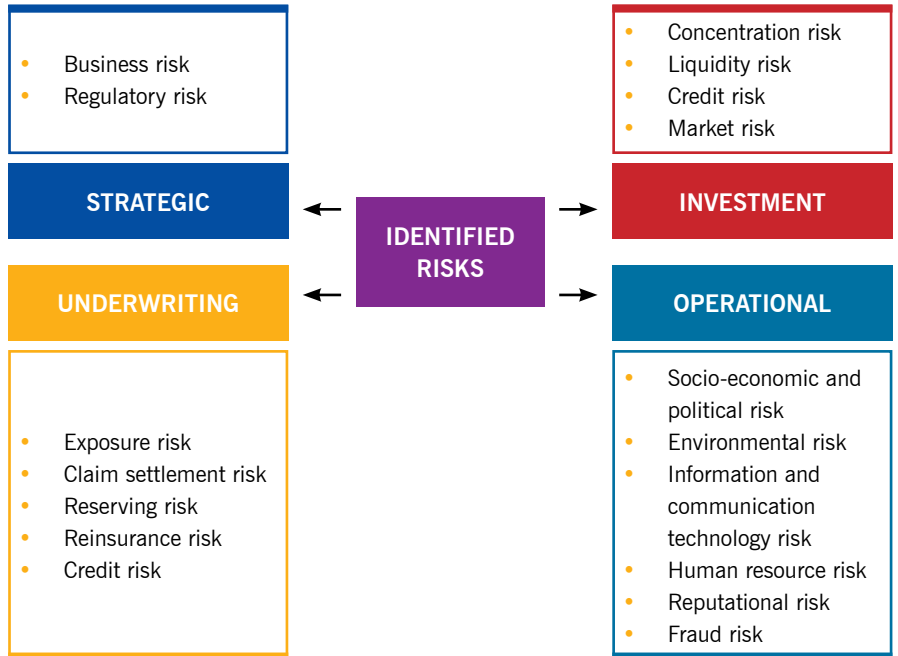
RISK ASSESSMENT

Our risk management framework consists of strategic, assumed and operational risks that are inherent within the insurance business. Our risk assessment process is based on the impact and likelihood of occurrence of risks and managing those risks through risk mitigating strategies. The key steps of our risk identification process are as follows:

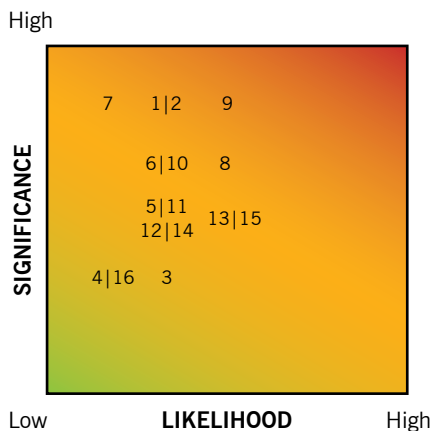
- Continuous monitoring of internal and external environments;
- Identify and categorise risks in terms of their source, their impact on operations and the preferred strategies for dealing with them;
- Rate the risks based on the likelihood of occurrence and possible consequences or impacts; and
- Prioritise the risks.

Risk analysis is effectively used to rate identified risks by considering the likelihood and consequences; and subsequently, prioritised or ranked, enabling further analysis.

The general risk exposure of our organisation as an insurance entity is diagrammatically presented below.



Our risk analysis and evaluation on the significance and likelihood are illustrated as follows;



Risk Category	Significance			Likelihood		
	High (5)	Medium (4 – 2)	Low (1)	High (5)	Medium (4 – 2)	Low (1)
1) Business risk	5				2	
2) Exposure risk	5				2	
3) Fraud risk		2			2	
4) Reinsurance risk		2				1
5) Liquidity risk		3			2	
6) Reputational risk		4			2	
7) IT risk	5					1
8) Concentration risk		4			3	
9) Regulatory risk	5				3	
10) Socio economic and political risk		4			2	

STEWARDSHIP

ENTERPRISE RISK MANAGEMENT



Risk Category	Significance			Likelihood		
	High (5)	Medium (4 – 2)	Low (1)	High (5)	Medium (4 – 2)	Low (1)
11) Credit risk		3			2	
12) Reserving risk		3			2	
13) Market risk		3			3	
14) Claims settlement risk		3			2	
15) Human resource risk		3			3	
16) Environment risk		2				1

RISK TREATMENT

Risk treatment is the activity of selecting and implementing appropriate control measures to modify the risk. Risk treatment includes as its major element, risk control (or mitigation), but extends further to, for example, risk avoidance, transfer and sharing. 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 that compliance with laws and regulations is not an option to an insurer, but key to the sustenance of the organisation in the long-run. We are aware of the applicable laws and regulations and have 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, is considered an integral component of our enterprise governance system.

The key strategies followed to manage our risks are:

- 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

■ GRI G4-14 ■


Monitoring and reviewing ensure that the organisation monitors its risk performance and learns from experience. Communication and consultation is another important mechanism of feedback of risk management, as well as part of the supporting framework. We monitor the risks quarterly by way of a risk dashboard presented to the Integrated Risk Management Committee and it is communicated to our Board, if there is a major impact on our operations.

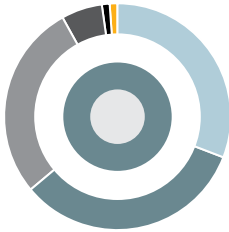
A summary of the controls that have been adopted and implemented to manage risks that are generally faced by insurance companies is given in the following table.

Risk	Controls
Strategic Risks	
<p>Business Risk This relates to poor strategic business decisions. Business risk may arise if the corporate strategy is not compatible with the market and customer expectations, or with socio economic/political parameters.</p>	<ul style="list-style-type: none"> • The Company's budget is approved by the Board on an annual basis. • Strategic plans are reviewed by the Board on an on-going basis.
<p>Regulatory Risk This arises when the Company is not in compliance with the regulatory requirements which are subject to change from time to time.</p>	<ul style="list-style-type: none"> • The management reviews the 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	
<p>Exposure Risk The risk of accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium.</p>	<ul style="list-style-type: none"> • Follow and adhere the Manual of Delegation of Authority (MDA) which establishes limits for underwriting authority. • Profitability, pricing and terms and conditions of the policies are reviewed by the management on an on-going basis. • Underwriting staff scrutinises all relevant information and documents before granting covers. • Underwriter training is extended to train staff in their underwriting duties. • Underwriters work within a formally documented limit of authority including segregation of duties. • In case of a need for reinsurance support, cover is not confirmed until the reinsurance cover is confirmed by the reinsurer.
<p>Claims Settlement Risk This refers to the risk of possible disputes which may arise at the time of settling claims.</p>	<ul style="list-style-type: none"> • Customers are advised on adequacy of sum insured and covers, deductibles, special terms and conditions, etc. • Claims Manual is 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 pre-defined authority limits. • Information is cross checked from various sources.

STEWARDSHIP

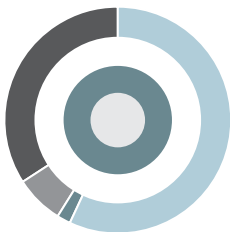
ENTERPRISE RISK MANAGEMENT

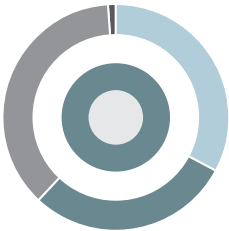
Risk	Controls																
<p>Reserving Risk This risk refers to unexpected or unbudgeted increases in claims, emanating from business written prior to the current underwriting year.</p>	<ul style="list-style-type: none"> • Claims handling staff create necessary reserves as soon as information is received. • Reserves are updated as and when further information is received. • Reserves are reviewed periodically. • An independent, professional actuary is in place 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. 																
<p>Reinsurance Risk This refers to the risk of inadequate transfer of underwriting risks to reinsurers and the inability to meet their commitments due to insufficient financial stability.</p>	<ul style="list-style-type: none"> • Reinsurance is obtained from 'A' rated and well-respected reinsurers and from the National Insurance Trust Fund (NITF). • 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. <p>Reinsurance receivable as at 31st December 2016 by rating is illustrated below.</p> <table border="1" data-bbox="581 884 1208 1078"> <tbody> <tr> <td>AA-</td> <td>23%</td> </tr> <tr> <td>A+</td> <td>2%</td> </tr> <tr> <td>A</td> <td>5%</td> </tr> <tr> <td>A-</td> <td>70%</td> </tr> </tbody> </table> <p style="text-align: center;">REINSURANCE RECEIVABLE BY RATING</p>  <table data-bbox="581 1464 938 1599"> <tbody> <tr> <td>■ AA-</td> <td>23%</td> </tr> <tr> <td>■ A+</td> <td>2%</td> </tr> <tr> <td>■ A</td> <td>5%</td> </tr> <tr> <td>■ A-</td> <td>70%</td> </tr> </tbody> </table>	AA-	23%	A+	2%	A	5%	A-	70%	■ AA-	23%	■ A+	2%	■ A	5%	■ A-	70%
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<p>Credit Risk This arises when the customers or intermediaries do not settle their dues as per the contractual obligations to the Company.</p>	<ul style="list-style-type: none"> • 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. 																

Risk	Controls												
<p>Investment Risks</p> <p>Concentration Risk This refers to the risk arising from the lack of diversification, investing too heavily in one industry, one geographic area, or one type of security.</p>	<ul style="list-style-type: none"> • The Board reviews the Company's investment portfolio on a monthly basis. • A stringent process is in place to monitor the single investment exposure limits at entity level and group level prescribed by the Insurance Board of Sri Lanka. • A significant amount of total investments is made in government securities which are considered risk free. • A careful analysis is done before investing in equity investments. <p>The composition of the Company's investment portfolio as at 31st December 2016 is given below.</p> <table border="1" data-bbox="630 788 1255 1064"> <tbody> <tr> <td>Corporate debts</td> <td>33%</td> </tr> <tr> <td>Government securities</td> <td>31%</td> </tr> <tr> <td>Fixed deposits</td> <td>28%</td> </tr> <tr> <td>Listed equity securities</td> <td>6%</td> </tr> <tr> <td>Unit trust</td> <td>1%</td> </tr> <tr> <td>Others</td> <td>1%</td> </tr> </tbody> </table> <p>INVESTMENT COMPOSITION</p>  <ul style="list-style-type: none"> ■ Government securities ■ Corporate debts ■ Fixed deposits ■ Listed shares ■ Unit trust ■ Others 	Corporate debts	33%	Government securities	31%	Fixed deposits	28%	Listed equity securities	6%	Unit trust	1%	Others	1%
Corporate debts	33%												
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Unit trust	1%												
Others	1%												

STEWARDSHIP

ENTERPRISE RISK MANAGEMENT

Risk	Controls								
<p>Liquidity Risk This arises when a security or asset cannot be traded in the market on time to prevent or minimise a loss.</p>	<ul style="list-style-type: none"> • Investment durations are diversified depending on the cash flow needs of the Company. • Cash flow analysis is done prior to investments are made. • Maturity periods of the investments are regularly reviewed. <p>Maturity analysis of government securities, corporate debt and fixed deposits as at 31st December 2016 is given below.</p> <table border="1" data-bbox="581 645 1208 838"> <tbody> <tr> <td>0-6 months</td> <td>57%</td> </tr> <tr> <td>7-12 months</td> <td>2%</td> </tr> <tr> <td>1-2 years</td> <td>7%</td> </tr> <tr> <td>More than 2 years</td> <td>34%</td> </tr> </tbody> </table> <p>MATURITY ANALYSIS OF GOVERNMENT SECURITIES,CORPORATE DEBTS AND FIXED DEPOSITS</p>  <ul style="list-style-type: none"> ■ 0-6 months ■ 7-12 months ■ 1-2 years ■ More than 2 years 	0-6 months	57%	7-12 months	2%	1-2 years	7%	More than 2 years	34%
0-6 months	57%								
7-12 months	2%								
1-2 years	7%								
More than 2 years	34%								

Risk	Controls								
<p>Credit Risk This refers to the potential that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms.</p>	<ul style="list-style-type: none"> • Credit rating of the respective investee or issue is evaluated prior to investing. • A stringent process is in place to monitor the single investment exposure limits prescribed by the Insurance Board of Sri Lanka. <p>Analysis of investments in government securities, fixed deposits and corporate debts with credit ratings of the investees as at 31st December 2016 is given below.</p> <table border="1" data-bbox="630 645 1256 838"> <tr> <td>Risk free*</td> <td>33%</td> </tr> <tr> <td>AAA to AA-</td> <td>29%</td> </tr> <tr> <td>A+ to A-</td> <td>37%</td> </tr> <tr> <td>BBB+ to BB-</td> <td>1%</td> </tr> </table> <p>* Government securities were assumed to be credit risk free instruments</p> <p>GOVERNMENT SECURITIES, CORPORATE DEBTS AND FIXED DEPOSITS INVESTMENTS BY RATING</p>  <ul style="list-style-type: none"> ■ Risk free ■ AAA to AA- ■ A+ to A- ■ BBB+ to BB- 	Risk free*	33%	AAA to AA-	29%	A+ to A-	37%	BBB+ to BB-	1%
Risk free*	33%								
AAA to AA-	29%								
A+ to A-	37%								
BBB+ to BB-	1%								
<p>Market Risk This refers to the risk of losing value of investments due to adverse movement in asset prices.</p>	<ul style="list-style-type: none"> • Investment decisions are based on fundamentals rather than on speculation. • 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. 								

Risk	Controls
Operational Risks	
<p>Socio-economic and Political Risk This refers to the negative impact on operations due to changes in the socio economic and political environment and the investment climate.</p>	<ul style="list-style-type: none"> • The socio-economic and political variables are evaluated during the corporate planning sessions. • 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.
<p>Environmental Risk This refers to actual or potential adverse impacts on operations and product responsibility with respect to emissions, waste and resource depletion.</p>	<ul style="list-style-type: none"> • Sustainability Charter and a team are in place to promote and give leadership, inter alia, to environmental based campaigns and initiatives and monitor and take mitigation action to prevent negative impacts on the environment. • Paper waste and e-waste are systematically collected and sent for responsible recycling on a periodic basis. • Guided by the carbon footprint initiative advocated by the parent company, measures are in place to monitor and record carbon emissions and thus ascertain the footprint.
<p>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.</p>	<ul style="list-style-type: none"> • Maintain a 'back up' system at an off-site location in order to prevent data losses. • 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.
<p>Human Resource Risk This risk relates to high staff turnover especially of competent staff or shortage of qualified personnel.</p>	<ul style="list-style-type: none"> • 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 are 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.
<p>Reputational Risk This risk arises when an event or incident could damage the image of the Company.</p>	<ul style="list-style-type: none"> • 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.
<p>Fraud Risk This refers to the risk of not having a sound internal control system to avoid misappropriation of assets or fraudulent financial reports.</p>	<ul style="list-style-type: none"> • 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. • A whistle blowing procedure is in place where any employee who suspects wrong doing at work can report his/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.

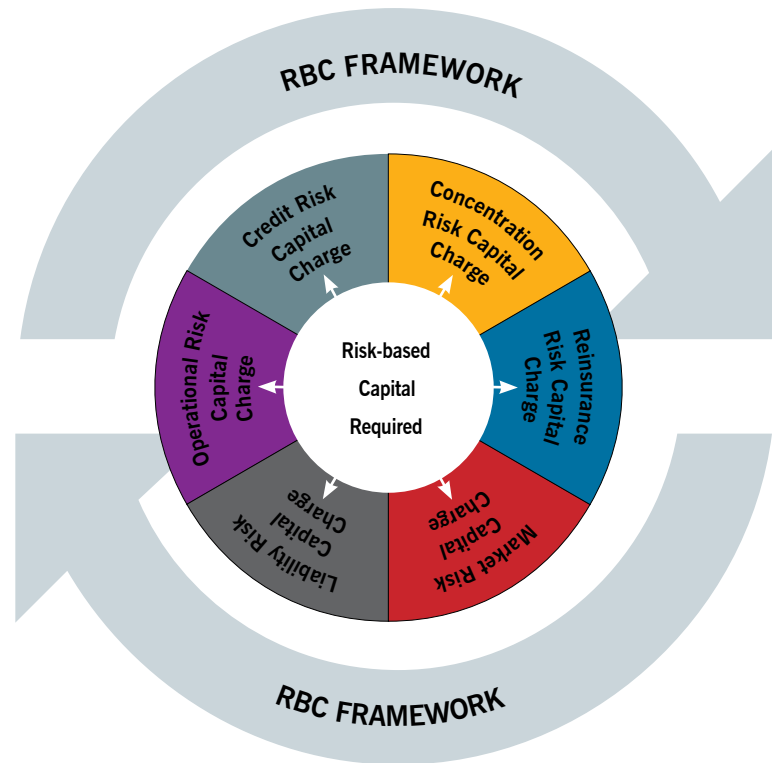
RISK-BASED CAPITAL REGIME

A risk-based minimum capital regime developed by the Insurance Board of Sri Lanka (IBSL) for the insurance industry was implemented with effect from 1st January 2016.

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, market, liability 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 Capital Adequacy Ratio (CAR) is set at 120% below which supervisory actions are taken to resolve the financial position of an insurer. Total Available Capital (TAC) comprises Tier 1 and Tier 2 capital and is subject to deductions. Minimum TAC has been prescribed as Rs. 500 million.

We successfully completed 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. We also used an advanced template to calculate the CAR based on the draft risk-based capital framework as a proactive measure during this time period. We successfully completed the parallel run which ended on 31st December 2015, supporting us to adopt the risk-based capital regime comfortably. The funds raised through our IPO further strengthened our capital base and thereby, improved our CAR significantly. As a result, we were able to maintain our CAR above 300% level in all four quarters during the year under review. We also consider the potential impact on risk-based capital in all relevant current activities engaged in, in order to assess the adequacy of the capital.



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STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the financial statements of the Company in accordance with the provisions of the Companies Act No. 07 of 2007 ('Companies Act') is set out in this statement. The responsibilities of the external auditors in relation to the financial statements are set out in the Independent Auditor's Report given on page 197.

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

The financial statements comprise the statement of financial position as at 31st December 2016, 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 2016; and
2. The financial performance 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.
4. The information required by and otherwise complies with the Companies Act No. 07 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority are provided in full.

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

The financial statements of the Company have been certified by the Chief Financial Officer, the officer responsible for their preparation as required by section 150(1)(b) of the Companies Act. In addition, the financial statements of the Company have been signed by two Directors on 27th March 2017 as required by Section 150(1)(c) of the Companies Act and other regulatory requirements. In compliance with section 148(1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which explain the Company's transactions and 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 2016 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act and Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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

As required under section 56(2) of the Companies Act No. 7 of 2007, the Board of Directors wish to confirm that they have authorised the distribution of the interim dividends paid as well as the proposed final dividend after being satisfied that the Company will be able to satisfy the solvency test immediately after such distributions are made in accordance with section 57 of

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

the Companies Act No. 7 of 2007 and have obtained in respect of dividends paid and proposed in respect of which approval is now sought, certificates of solvency from the external auditors.

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

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

COMPLIANCE REPORT

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

By order of the Board



Rohan Pathirage
Company Secretary

26th April 2017
Colombo

MD'S AND CFO'S RESPONSIBILITY STATEMENT

The financial statements are presented in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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

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

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

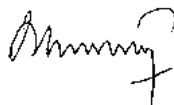
The financial statements of the Company were audited by Messrs. Ernst and Young, Chartered Accountants and their report is given on page 197 of this Annual Report.

We confirm that;

1. To the best of our knowledge, the financial statements, significant accounting policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the cash flows of the Company during the period under review.
2. The Company has adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements.
3. The Company has complied with all applicable laws, regulations and prudential requirements and there is no material non-compliance.
4. There are no material litigations that are pending against the Company other than those disclosed in Note 44 of the financial statements of this Annual Report.
5. All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at 31st December 2016 have been paid or where relevant provided for.



Nilushan Somarathna
Chief Financial Officer



D. P. Kumarage
Managing Director

26th April 2017
Colombo

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



PEOPLE'S INSURANCE PLC 31 DECEMBER 2016 NET IBNR AND LAT CERTIFICATION

I hereby certify that the undiscounted 75% confidence level IBNR provision of LKR 409,416,874, inclusive of Claims Handling Expenses, is adequate in relation to the Claim Liability of People's Insurance PLC as at 31 December 2016, net of reinsurance. This provision applies to claims from Accident Years 2010 to 2016. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2016, 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 of LKR 2,216,720,105 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of People's Insurance PLC as at 31 December 2016, 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.

A handwritten signature in black ink, appearing to read 'Matthew Maguire'.

Matthew Maguire

Fellow of the Institute of Actuaries of Australia (FIAA)

For and on behalf of NMG Consulting

Dated: 7 February 2017

INDEPENDENT AUDITORS' REPORT



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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eyst@lk.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PEOPLE'S INSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of People's Insurance PLC, ("the Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of 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

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- a) The basis of opinion and Scope and Limitations of the audit are as stated above.
- b) In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - The financial statements of the Company, comply with the requirements of Section 151 of the Companies Act.

As required by Section 47(2) of the regulation of Insurance Industry Act, No.43 of 2000, we state that, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

27 March 2017
Colombo

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

Principal: T P M Ruberu FCMA FCCA

STATEMENT OF INCOME

For the year ended 31 December

	Note	Page	2016 Rs.	2015 Rs.
Revenue	3	219	4,250,108,228	3,617,209,197
Gross written premium	4	219	4,339,579,669	3,813,271,656
Net change in reserve for unearned insurance premium	5	219	(284,749,349)	(233,573,271)
Gross earned premium			4,054,830,320	3,579,698,385
Premium ceded to reinsurers	6	220	(350,721,288)	(304,969,079)
Net change in reserve for unearned reinsurance premium	7	220	19,123,881	(6,789,280)
Net earned premium			3,723,232,913	3,267,940,026
Claims and expenses				
Net claims	8	220	(2,628,295,063)	(2,257,436,973)
Underwriting and net acquisition costs	9	221	(380,484,389)	(337,631,756)
Other operating and administrative expenses	10	221	(508,318,624)	(419,175,966)
			(3,517,098,076)	(3,014,244,695)
Underwriting results			206,134,837	253,695,331
Other revenue				
Fee income	11	222	39,778,436	37,183,722
Interest and dividend income	12	222	474,954,272	301,754,272
Net fair value gains/(losses)	13	223	11,024,380	(1,406,653)
Other income	14	223	1,118,227	11,737,830
			526,875,315	349,269,171
Profit before tax	15	223	733,010,152	602,964,502
Income tax expense	16	224	(75,012,884)	(138,797,208)
Profit for the year			657,997,268	464,167,294
Basic earnings per share	17	225	3.29	3.09
Dividend per share - Interim	18	226	1.50	2.00
- Final	18	226	0.25	0.60

The notes to the financial statements as set out on pages 204 to 268 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December		2016	2015
	Note	Rs.	Rs.
Profit for the year		657,997,268	464,167,294
Other comprehensive income			
Other comprehensive income to be reclassified to statement of income in subsequent periods:			
Net change in fair value of available-for-sale financial assets	21	(8,116,758)	(10,473,902)
Deferred tax effect on above		539,536	(578,094)
		(7,577,222)	(11,051,996)
Other comprehensive income not to be reclassified to statement of income in subsequent periods:			
Actuarial gains/(losses) on defined benefit obligations	32	(2,718,395)	166,793
Deferred tax effect on above		761,150	-
		(1,957,245)	166,793
Other comprehensive income for the year, net of tax		(9,534,467)	(10,885,203)
Total comprehensive income for the year, net of tax		648,462,801	453,282,091

The notes to the financial statements as set out on pages 204 to 268 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	Page	2016 Rs.	2015 Rs.
Assets				
Intangible assets	19	226	23,388,110	36,164,330
Property, plant and equipment	20	227	21,388,037	21,600,023
Deferred tax asset	35	242	1,871,693	-
Financial investments	21	228	5,469,881,112	4,931,438,835
Reinsurance receivables	22	234	104,504,736	94,907,488
Insurance receivables	23	235	724,191,001	591,448,312
Deferred expenses	24	236	220,580,020	200,827,593
Other assets	25	236	16,003,150	20,016,352
Cash and cash equivalents	26	237	138,335,984	745,691,980
Total assets			6,720,143,843	6,642,094,913
Equity and liabilities				
Equity				
Stated capital	27	237	1,350,000,000	1,350,000,000
Retained earnings	28	238	1,287,638,683	899,641,415
Available-for-sale reserves	29	238	(5,624,721)	1,952,501
Other reserves	30	238	(2,557,028)	(599,783)
Total equity			2,629,456,934	2,250,994,133
Liabilities				
Insurance contract liabilities	31	238	3,557,794,382	3,166,616,516
Employee defined benefit obligations	32	240	12,920,220	6,027,515
Other financial liabilities	33	242	345,362,131	1,034,275,097
Other liabilities	34	242	36,973,162	24,448,328
Reinsurance payable			41,432,353	36,820,195
Income tax payable			21,960,225	75,219,452
Deferred tax liability	35	242	-	5,940,989
Bank overdraft	36	243	74,244,436	41,752,688
Total liabilities			4,090,686,909	4,391,100,780
Total equity and liabilities			6,720,143,843	6,642,094,913

The notes to the financial statements as set out on pages 204 to 268 form an integral part of these 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



N. Vasantha Kumar
Director

STATEMENT OF CHANGES IN EQUITY

Note	Page	Stated capital Rs.	Retained earnings Rs.	Available- or-sale reserves Rs.	Other reserves Rs.	Total Rs.
Balance as at 1 January 2015		600,000,000	797,803,529	13,004,499	(766,576)	1,410,041,452
Adjustment for super gain tax	37	244	-	99,360,657	-	(99,360,657)
Adjusted balance as at 1 January 2015		600,000,000	698,442,872	13,004,499	(766,576)	1,310,680,795
Issue of ordinary shares pending allotment		750,000,000	-	-	-	750,000,000
Expenses related to issue of ordinary shares		-	(22,968,751)	-	-	(22,968,751)
Profit for the year		-	464,167,294	-	-	464,167,294
Other comprehensive income		-	-	(11,051,998)	166,793	(10,885,205)
Dividends paid during the year		-	(240,000,000)	-	-	(240,000,000)
Balance as at 31 December 2015		1,350,000,000	899,641,415	1,952,501	(599,783)	2,250,994,133
Issue of ordinary shares pending allotment		(750,000,000)	-	-	-	(750,000,000)
Ordinary shares allotted		750,000,000	-	-	-	750,000,000
Profit for the year		-	657,997,268	-	-	657,997,268
Other comprehensive income		-	-	(7,577,222)	(1,957,245)	(9,534,467)
Dividends paid during the year		-	(270,000,000)	-	-	(270,000,000)
Balance as at 31 December 2016		1,350,000,000	1,287,638,683	(5,624,721)	(2,557,028)	2,629,456,934

The notes to the financial statements as set out on pages 204 to 268 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December

Note	2016 Rs.	2015 Rs.
Operating activities		
Premium received from customers	4,158,370,004	3,739,795,196
Reinsurance premium paid	(346,109,125)	(330,411,466)
Claims paid	(2,581,898,150)	(2,237,231,243)
Reinsurance receipts in respect of claims	132,662,006	67,206,593
Interest received	410,260,353	301,232,235
Dividends received	13,773,917	13,303,456
Other operating cash flows	(1,501,323,447)	44,122,259
Cash flows from operating activities	A 285,735,558	1,598,017,030
Gratuity paid	(61,175)	-
Income tax paid	(92,634,139)	(112,145,955)
Super gain tax paid	-	(99,360,657)
Net cash flows from operating activities	193,040,244	1,386,510,418
Investing activities		
Purchase of liquid investments	(14,659,950,205)	(12,763,232,431)
Purchase of other investments	(7,958,602,878)	(2,148,726,039)
Sale of liquid investments	16,056,024,326	12,025,385,428
Sale of other investments	6,008,513,057	1,542,264,488
Purchase of property, plant and equipment	(8,872,288)	(6,067,624)
Net cash flows used in investing activities	(562,887,988)	(1,350,376,178)
Net cash flows before financing activities	(369,847,744)	36,134,240
Financing activities		
Issue of ordinary shares pending allotment	-	750,000,000
Expenses related to issue of ordinary shares	-	(22,968,751)
Ordinary dividends paid	(270,000,000)	(240,000,000)
Net cash flows used in financing activities	(270,000,000)	487,031,249
Net increase/(decrease) in cash and cash equivalents during the period	B (639,847,744)	523,165,489

The notes to the financial statements as set out on pages 204 to 268 form an integral part of these financial statements.

NOTES TO THE STATEMENT OF CASH FLOWS

For the year ended 31 December

Note	2016 Rs.	2015 Rs.
A. Cash flows generated from operating activities		
Profit before tax	733,010,152	602,964,502
Unrealised loss on quoted equities at market value	5,575,599	10,665,054
Provision for employee defined benefit obligations	4,235,485	1,796,345
Depreciation and amortisation expenses	21,860,494	23,174,342
Provision - Insurance receivables	4,255,928	1,872,255
Changes in working capital		
(Increase)/decrease in reinsurance receivables	(9,597,248)	42,374,956
Increase in insurance receivables and other assets	(128,133,238)	(75,789,660)
Increase in deferred expenses	(19,752,425)	(20,061,334)
Increase in insurance liabilities	391,177,866	265,484,370
Increase/(decrease) in other liabilities	(716,897,055)	745,536,200
Cash flows from operating activities	285,735,558	1,598,017,030
B. Increase in cash and cash equivalents		
Cash and cash equivalents	26 138,335,984	745,691,980
Bank overdraft	36 (74,244,436)	(41,752,688)
Net cash and cash equivalents as at 31 December	64,091,548	703,939,292
Less: Net cash and cash equivalents as at 1 January	703,939,292	180,773,803
Net increase/(decrease) in cash and cash equivalents during the period	(639,847,744)	523,165,489

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting entity

People's Insurance PLC (previously known as People's Insurance Limited - up to 12 February 2016) is a public limited liability company incorporated 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 03. Ordinary shares of the Company were listed on the Colombo Stock Exchange (CSE) on 12 January 2016.

1.2 Parent entity and ultimate parent entity

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

1.3 Principal activities and nature of operations

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

1.4 Responsibility for financial statements

The Board of Directors is responsible for preparation and presentation of these financial statements.

1.5 Number of employees

The staff strength of the Company as at 31 December 2016 was 330 (2015 - 284).

1.6 Approval of financial statements by the Board of Directors

The financial statements of the Company for the year ended 31 December 2016 were approved and authorised for issue on 27 March 2017 in accordance with the resolution of the Board of Directors on 27 March 2017.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000 and the listing rules of the CSE.

The financial statements include the following components:

- a statement of income and statement of comprehensive income providing information on the financial performance of the Company for the year under review (pages 198 to 199);
- a statement of financial position providing information on the financial position of the Company as at the year-end (page 200);
- a statement of changes in equity depicting all changes in shareholders' equity (page 201);
- a statement of cash flows providing information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows (pages 202 to 203); and
- notes to the financial statements comprising accounting policies and other explanatory information (pages 204 to 268).

2.2 Basis of measurement

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

Item	Basis of measurement	Note no.	Page reference
Financial investments at fair value through profit or loss	Fair value	21.1	229 to 230
Financial investments - Available-for-sale	Fair value	21.3	233
Employee defined benefit obligations	Present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	32	240 to 242
Insurance contract liabilities	Values are determined in accordance with internationally accepted actuarial principles	31	238 to 240

2.3 Presentation of financial statements

The assets and liabilities of the Company in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement period is presented in Note 40 (Risk management framework – exposure to liquidity risk). No adjustments have been made for inflationary factors affecting the financial statements.

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

2.4 Functional and presentation currency

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

2.5 Materiality and aggregation

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

2.6 Significant accounting judgments, estimates and assumptions

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

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

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

2.6.1 Going concern

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

2.6.2 Valuation of 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 (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder method, Bornheutter-Ferguson method and Frequency/Severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

NOTES TO THE FINANCIAL STATEMENTS

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

The net carrying value at the reporting date of non-life insurance contract liabilities which includes case reserves held by the Company and the incurred but not reported (IBNR) claims on undiscounted 75% confidence level is Rs. 1,236,569,541 (2015 - Rs. 1,133,441,610).

2.6.3 Fair value of financial instruments

Determination of fair values of financial assets and financial liabilities recorded on the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical techniques. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values.

2.6.4 Valuation of employee benefit obligations

Cost of defined benefit obligations (gratuity) is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used by the actuary in the estimates are contained in Note 32.

2.6.5 Deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimate based on the tax laws and interpretations.

2.6.6 Impairment of deferred acquisition cost

An impairment review of deferred acquisition cost (DAC) is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of income. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

2.6.7 Assessment of impairment

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates; hence, they are subject to uncertainty.

2.6.8 Provisions for liabilities and contingencies

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

2.6.9 Transfer pricing

The Company is subject to income taxes and other taxes including transfer pricing regulations. Prevailing uncertainties with respect to the interpretation of respective transfer pricing regulations necessitated using management judgment to determine the impact of transfer pricing regulations. Accordingly, critical judgments and estimates were used in applying the regulations in aspects including but not limited to identifying associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism. The current tax charge is subject to such judgments. Differences between estimated income tax charge and actual payable may arise as a result of management's interpretation and application of transfer pricing regulations.

2.7 Summary of significant accounting policies

2.7.1 Insurance and investment contracts

SLFRS 4 - Insurance Contracts, requires contracts written by insurer to be classified as either 'Insurance contracts' or 'Investment contracts' depending in the level of insurance risk transferred.

2.7.1.1 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.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts. Therefore, classified as insurance contracts under the SLFRS 4 - Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the reporting date.

Statement of Income**2.7.2 Revenue recognition****2.7.2.1 Gross written premium**

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

Rebates that form part of the premium rate, such as no claim rebates, are deducted from the gross written premium.

2.7.2.2 Reinsurance premium

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is 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.

2.7.2.3 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 premium is calculated on the 365 basis.

2.7.2.4 Unearned reinsurance premium reserve

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

2.7.2.5 Fees and commission income

Policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

2.7.2.6 Interest income

Interest income is recognised in the statement of income as it accrues and is calculated by using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

2.7.2.7 Dividend income

Dividend income is recognised when the right to receive the dividend is established.

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2.7.2.8 Net fair value gains

Net fair value gains 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.

2.7.2.9 Profit or loss on sale of property, plant and equipment

Profit or loss on sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified under other income.

2.7.3 Claims and expenses recognition**2.7.3.1 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 outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported 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 a quarterly basis to ensure a more realistic estimation of the future liability based on past experience and trends.

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

2.7.3.2 Reinsurance claims

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

2.7.3.3 Deferred acquisition expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

2.7.3.4 Other expenses

Other expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment are charged to the statement of income.

Share issue expenses which are incremental and directly attributable are charged against the reserves in the statement of changes in equity and other expenses are charged to the statement of income.

2.7.4 Underwriting results

Underwriting results represent the difference between premium earned on insurance policies and expenses incurred and claim expenses.

2.7.5 Taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in the statement of income except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

2.7.5.1 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. 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. The management periodically evaluates positions taken in the tax returns with

respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2.7.5.2 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.

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 the statement of income is recognised outside statement of income. 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.

2.7.5.3 Withholding tax on dividends

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

2.7.5.4 Economic service charge

As per the provisions of the Economic Service Charge Act No. 13 of 2006, economic service charge (ESC) is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed receivable ESC amount can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

However with the amendment made to the above mentioned Act, if a company in relation to any relevant quarter commencing on or after 1 April 2012, where such part of the taxable income as consists of profits from any trade, business, profession or vocation assessed under the provisions of Inland Revenue Act No. 10 of 2006 is more than zero, the relevant turnover for such quarter is considered as zero.

2.7.6 Foreign currency translation

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

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

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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.

Statement of financial position

2.7.7 Intangible assets

2.7.7.1 Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is initially measured at cost and subsequently stated at cost less accumulated amortisation and accumulated impairment losses, if any.

2.7.7.2 Subsequent expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

2.7.7.3 Amortisation

Intangible assets with finite lives are amortised over the useful economic life. Amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates.

Amortisation expense on intangible assets with finite lives is recognised in the statement of 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

2.7.7.4 De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of such intangible assets is included in the statement of income when the item is derecognised.

2.7.8 Property, plant and equipment

2.7.8.1 Basis of recognition

Property, plant and equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year.

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

2.7.8.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Company applies the cost model to plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

2.7.8.3 Repairs and maintenance

Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

2.7.8.4 Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Depreciation charge begins when an asset is available for use. The estimated useful lives are as follows.

Asset class	Useful life
Computer hardware	5 years
Office equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years

2.7.8.5 De-recognition

Carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from it. Gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the statement of income when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

2.7.9 Other assets - Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

2.7.10 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher

of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

2.7.11 Financial assets – non-derivatives**2.7.11.1 Initial recognition and measurement**

The Company initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

The Company de-recognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Company is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Depending on the intention and ability to hold the invested assets, the Company classifies its non derivative financial assets into following categories:

- Fair value through profit or loss (FVTPL);
- Loans and receivables (L&R);
- Available-for-sale (AFS) financial assets; and
- Held to maturity (HTM), as appropriate

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However, the Company did not have any investment classified as held to maturity investments as at the reporting date.

The Company's existing non-derivative financial assets and their classifications are summarised in the table below.

Financial asset	Category			
	AFS	HTM	L&R	FVTPL
Treasury bills	√			
Treasury bonds	√			
Debentures			√	
Fixed deposits			√	
Reverse repurchase agreements			√	
Unit trusts	√			
Listed equity securities				√
Saving accounts			√	
Staff loans and rent deposits			√	

Income and expenses are presented on a net basis only when permitted under SLFRS/LKAS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

2.7.11.2 Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. Attributable transaction costs are recognised in the statement of income as incurred. These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value.

Changes in fair value are recorded in 'fair value gains and losses' in the statement of income. Interest is accrued and presented in 'interest and dividend income' using the effective interest rate (EIR). Dividend income is recorded in the 'interest and dividend income' when the right to the payment has been established. The Company will evaluate its financial assets at fair value through profit or loss (held for trading) by considering whether the intent to sell them in the near term is still appropriate.

Available-for-sale financial assets

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

After the initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income (OCI) in the available-for-sale reserve. Interest earned whilst holding available-for-sale investments is reported as 'interest and dividend income' using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the statement of income as 'interest and dividend income' when the right of the payment has been established. When the asset is de-recognised, cumulative gain or loss is in the statement of income and other comprehensive income is transferred to the statement of income. If the asset is determined to be impaired, the cumulative loss is recognised in the statement of income and removed from the available-for-sale reserve.

Loans and receivables

Loans and receivables are 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 EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. EIR amortisation is included in the statement of income arising from impairment are recognised as an expense in the statement of income.

Gains and losses are recognised in the statement of income when the investments are de-recognised or impaired, as well as through the amortisation process. Loans

and receivables comprise investments in fixed deposits, debentures, reverse repurchase agreements, staff loans, rent deposits and savings accounts.

2.7.12 Non-derivative financial liabilities

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument. A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in the statement of income as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in the statement of income. Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

2.7.13 Amortised cost measurement

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.7.14 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or,
- In the absence of the principal market, in the most advantageous market for the asset or liability

Fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. For units in unit trusts, fair value is determined by reference to published bid-values. If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique.

Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations

and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the statement of income on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable is not recognised in the statement of income immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and

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include adjustments to take account of the credit risk of the Company and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Company believes a third-party market participant would take them into accounting pricing a transaction.

2.7.15 Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

- Impairment of financial 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.

- Impairment of 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.

- Impairment of 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.

2.7.16 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 de-recognised 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;

- 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.

2.7.17 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.

2.7.18 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance receivables represent balances due from reinsurance companies. Amounts recoverable from

reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

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.

2.7.19 Reinsurance receivables

Reinsurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. 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.

2.7.20 Insurance receivables

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

2.7.21 Deferred expenses

Deferred acquisition costs

Costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, deferred acquisition costs (DAC) for non-life insurance is amortised over the period on the basis unearned premium is amortised .

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

DAC is de-recognised when the related contracts are either expired or cancelled.

2.7.22 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.

NOTES TO THE FINANCIAL STATEMENTS

2.7.23 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand and demand deposits readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the statement of cash flows. In the statement of financial position, bank overdrafts are included under liabilities.

2.7.24 Insurance contract liabilities***Non-life insurance contract liabilities***

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

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

As required by SLFRS 4 - Insurance Contracts, the Company performs a liability adequacy test (LAT) in respect of non-life contract liabilities with the assistance of an external actuary.

2.7.25 Other financial liabilities

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Other financial liabilities consist of amount due to related parties and other creditors including accruals and outstanding commission payable.

2.7.26 De-recognition of financial liabilities and insurance payable

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

2.7.27 Employee benefits***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined plans***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 plan 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.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses are charged or credited to the statement of comprehensive income in the period in which they arise. The assumptions based on which the results of the actuarial valuation was determined, are included in Note 32 to the financial statements.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

The provision of the Company is not externally funded.

Defined contribution plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to the Employees' Provident Fund under the Employees' Provident Fund Act No. 15 of 1958 as amended and Employees' Trust Fund under the Employees' Trust Fund Act No. 46 of 1980, covering all employees are recognised as an employee benefit expense in 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.

2.7.28 Provisions

General

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

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

2.7.29 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.

2.7.30 Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

2.7.31 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.7.32 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

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

2.7.33 Proposed dividends

Dividends proposed by the Board of Directors after the reporting date are not recognised as a liability and are only disclosed as a note to the financial statements (Note 43 on page 267).

2.7.34 Earnings per share

The Company presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.7.35 Statement of cash flows

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

NOTES TO THE FINANCIAL STATEMENTS

banks. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

2.8 New Standards and interpretation not yet adopted

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

- **Sri Lanka Financial Reporting Standard (SLFRS) 9 - Financial Instruments: Classification and Measurement**

SLFRS 9 replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. However, based on the amendments to SLFRS 4 - Insurance Contracts, issued by the CA Sri Lanka on 24th November 2016, the entities whose predominant activity is issuing insurance contracts are permitted to defer the full application of SLFRS 9 until earlier of 2021 due to forthcoming Insurance Contract standard which is currently expected to commence in 2020.

Further, applying above temporary exemption for companies within on group structure could result in companies preparing financial information under both LKAS 39 and SLFRS 9. Management will have to consider the costs and complexities of these situations at the Group and stand-alone reporting levels. Therefore, pending the completion of the detailed impact analysis, possible impact from SLFRS 9 is not reasonably estimable as of the reporting date.

- **Sri Lanka Financial Reporting Standard (SLFRS) 15 - Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 - Revenue, LKAS 11 - Construction Contracts and IFRIC 13 - Customer Loyalty Programmes. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Pending the completion of the detailed impact analysis, possible impact from SLFRS 15 is not reasonably estimable as of the reporting date.

3 REVENUE

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Net earned premium	3,723,232,913	3,267,940,026
Other revenue	526,875,315	349,269,171
	4,250,108,228	3,617,209,197

4 GROSS WRITTEN PREMIUM

Gross written premium (GWP) represents the premium charged by the Company to underwrite risks. GWP is accounted on an accrual basis. Premium income for the year by major classes of business is as follows;

For the year ended	31.12.2016			31.12.2015		
	Basic Rs.	*SRCC/TC Rs.	Total Rs.	Basic Rs.	*SRCC/TC Rs.	Total Rs.
Motor	3,125,288,338	529,758,730	3,655,047,068	2,742,500,008	463,742,915	3,206,242,923
Fire	203,747,208	107,416,743	311,163,951	177,693,059	100,867,824	278,560,883
Marine	18,247,828	(10,722)	18,237,106	17,621,719	33,622	17,655,341
Miscellaneous	352,176,955	2,954,589	355,131,544	307,975,739	2,836,770	310,812,509
	3,699,460,329	640,119,340	4,339,579,669	3,245,790,525	567,481,131	3,813,271,656

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

5 NET CHANGE IN RESERVE FOR UNEARNED PREMIUM

Net change in reserve for unearned insurance premium represents the net portion of the GWP transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.

NOTES TO THE FINANCIAL STATEMENTS

6 PREMIUM CEDED TO REINSURERS

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Class-wise		
Motor	(108,063,056)	(88,481,369)
Fire	(187,164,014)	(177,676,962)
Marine	(17,142,492)	(16,387,569)
Miscellaneous	(38,351,726)	(22,423,179)
	(350,721,288)	(304,969,079)
Payee-wise		
National Insurance Trust Fund		
Compulsory reinsurance cessions	(53,036,889)	(43,674,514)
Strike, Riot, Civil Commotion and Terrorism cover	(173,931,658)	(159,387,365)
Foreign reinsurers	(123,752,741)	(101,907,200)
	(350,721,288)	(304,969,079)

7 NET CHANGE IN RESERVE FOR UNEARNED REINSURANCE PREMIUM

Net change in reserve for unearned reinsurance premium represents the net portion of the reinsurance premium transferred to the unearned reinsurance premium reserve during the year to cover the unexpired period of the policies.

8 NET CLAIMS

For the year ended	Note	31.12.2016 Rs.	31.12.2015 Rs.
Claims paid	8.1	(2,581,898,150)	(2,237,231,242)
Claims recovered from reinsurers	8.2	56,731,017	37,779,244
Net change in contract liabilities	8.3	(103,127,930)	(57,984,975)
		(2,628,295,063)	(2,257,436,973)

8.1 Claims paid

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Motor	(2,322,038,583)	(1,981,026,846)
Fire	(52,464,120)	(65,860,841)
Marine	(1,947,283)	(1,449,700)
Miscellaneous	(205,448,164)	(188,893,855)
	(2,581,898,150)	(2,237,231,242)

8.2 Claims recovered from reinsurers

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Motor	43,715,697	428,167
Fire	11,440,162	15,265,229
Marine	1,552,452	1,085,848
Miscellaneous	22,706	21,000,000
	56,731,017	37,779,244

8.3 Net change in contract liabilities

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Gross change in insurance claims outstanding	(112,918,157)	(25,121,817)
Change in reinsurance recoverable on claims outstanding	9,790,227	(32,863,158)
	(103,127,930)	(57,984,975)

9 UNDERWRITING AND NET ACQUISITION COSTS

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Acquisition cost	(435,286,149)	(387,888,561)
Change in deferred acquisition cost	22,141,946	21,381,345
	(413,144,203)	(366,507,216)
Reinsurance commission	35,049,336	30,195,719
Change in unearned commission reserve	(2,389,522)	(1,320,259)
Net earned commission	32,659,814	28,875,460
	(380,484,389)	(337,631,756)

10 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

For the year ended	Note	31.12.2016 Rs.	31.12.2015 Rs.
Staff expenses	10.1	(201,194,603)	(143,537,327)
Administrative expenses		(281,007,599)	(250,592,043)
Depreciation and amortisation		(21,860,494)	(23,174,341)
Net impairment loss		(4,255,928)	(1,872,255)
		(508,318,624)	(419,175,966)

NOTES TO THE FINANCIAL STATEMENTS

10 OTHER OPERATING AND ADMINISTRATIVE EXPENSES (CONTD.)**10.1 Staff expenses**

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Wages and salaries	(135,619,958)	(95,348,847)
Defined benefit plan expenses	(4,235,485)	(1,796,345)
Staff benefit expenses	(46,454,146)	(35,658,046)
Contributions made to the Employees' Provident Fund (EPF)	(11,893,315)	(8,594,221)
Contributions made to the Employees' Trust Fund (ETF)	(2,991,699)	(2,139,868)
	(201,194,603)	(143,537,327)

11 FEE INCOME

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Policy fees	26,756,400	25,685,380
Administration fees	13,022,036	11,498,342
	39,778,436	37,183,722

12 INTEREST AND DIVIDEND INCOME

For the year ended	Note	31.12.2016 Rs.	31.12.2015 Rs.
Interest income	12.1	461,180,355	288,450,816
Dividend income	12.2	13,773,917	13,303,456
		474,954,272	301,754,272

12.1 Interest income

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Interest income from available-for-sale financial assets		
Treasury bills	104,830,486	67,878,878
Treasury bonds	6,222,222	8,537,665
Interest income from loans and receivables		
Debentures	155,643,709	80,479,584
Fixed deposits	162,909,049	111,212,271
Reverse repurchase agreements	27,242,375	17,203,537
Staff loans	2,421,304	2,297,559
Others	1,911,210	841,322
	461,180,355	288,450,816

12.2 Dividend income

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Dividend income from available-for-sale financial assets		
Unit trust	-	3,786,444
Dividend income from financial assets at fair value through profit or loss		
Listed equity securities	13,773,917	9,517,012
	13,773,917	13,303,456

13 FAIR VALUE GAINS AND LOSSES

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Net fair value gains/(losses) from financial assets at fair value through profit or loss		
- Realised	16,599,979	3,434,242
- Unrealised	(5,575,599)	(4,840,895)
	11,024,380	(1,406,653)

14 OTHER INCOME

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Other income	1,118,227	11,737,830
	1,118,227	11,737,830

15 PROFIT BEFORE TAX

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

For the year ended	Note	31.12.2016 Rs.	31.12.2015 Rs.
Auditors' remuneration - Statutory audit services		1,707,865	1,628,880
- Other services		1,212,227	1,686,169
Amortisation of intangible assets	19	12,776,220	12,776,220
Depreciation of property, plant and equipment	20	9,084,274	10,398,120
Directors' emoluments		1,325,000	650,000
Share issue transaction cost not directly attributable to the share issue		-	8,237,538

NOTES TO THE FINANCIAL STATEMENTS

16 INCOME TAX EXPENSE

Major components of income tax expense for the year ended 31 December as follows;

16.1 Tax recognised in statement of income

	Note	31.12.2016 Rs.	31.12.2015 Rs.
Current income tax			
Income tax on current year's profits		(81,408,319)	(147,818,274)
Over/(under) provision for income tax in respect of previous year		(116,561)	807,265
		(81,524,880)	(147,011,009)
Deferred tax			
Reversal of deferred tax liability	35.3	2,526,931	7,767,180
Origination of deferred tax asset	35.3	3,985,065	446,621
		6,511,996	8,213,801
Income tax expense		(75,012,884)	(138,797,208)

16.2 Reconciliation of effective tax rate

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Profit for the year	657,997,268	464,167,294
Income tax expense	81,524,880	147,011,009
Deferred taxation reversal	(6,511,996)	(8,213,801)
Profit before income tax	733,010,152	602,964,502
At the statutory income tax rate of 14% (2015 - 28%)		
Income exempt from tax	(172,380,267)	(108,509,571)
Aggregate allowable expenses	(17,906,123)	(11,825,892)
Aggregate disallowable expenses	38,764,234	45,293,368
	581,487,996	527,922,407
Statutory tax rate	14%	28%
Tax at applicable rate	(81,408,319)	(147,818,274)
Net deferred taxation reversal	6,511,996	8,213,801
Over/(under) provision for income tax in respect of previous year	(116,561)	807,265
Income tax expense	(75,012,884)	(138,797,208)

16.3 According to the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto, any company which is liable to pay income tax at the rate of 28%, lists its shares on the Colombo Stock Exchange (CSE) by way of a minimum Initial Public Offering (IPO) through which not less than 20% of its shares is issued to the general public on or before 1 April 2017, the income tax rate will be reduced by 50% for the year of assessment in which the such shares are listed and for another two years of assessment, provided that such company after listing continues to maintain a minimum public float of 20%.

Accordingly, 25% of the shares of the Company was offered and issued to the general public by way of an IPO in December 2015 and shares of the Company were listed on the CSE in January 2016. As at 31 December 2016, the public float of the Company's shares was 24.94% while the Company was liable for income tax at 28% (before the tax reduction). Hence, the Company was considered eligible for the 50% tax reduction as per the said Act during the reporting period and income tax was calculated at the rate of 14% (2015 - 28%).

17 BASIC EARNINGS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the net profit after tax for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For the year ended	31.12.2016	31.12.2015
Profit for the period (Rs.)	657,997,268	464,167,294
Weighted average number of shares	200,000,000	150,000,000
Basic earnings per share (Rs.)	3.29	3.09
Weighted average number of shares		
Issued ordinary shares as at 1 January	150,000,000	60,000,000
Effect of share split	-	90,000,000
Shares issued during the year	50,000,000	-
	200,000,000	150,000,000

17.1 Diluted earnings per share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is same as the basic earnings per share stated above.

NOTES TO THE FINANCIAL STATEMENTS

18 DIVIDENDS

For the year ended	31.12.2016	31.12.2015
Interim dividends		
First interim dividend paid (Rs.)	150,000,000	120,000,000
Second interim dividend paid (Rs.)	150,000,000	-
	300,000,000	120,000,000
Number of ordinary shares	200,000,000	60,000,000
Interim dividend per share (Rs.)	1.50	2.00
Final dividend		
Final dividend proposed (Rs.)	50,000,000	120,000,000
Number of ordinary shares	200,000,000	200,000,000
Final dividend per share (Rs.)	0.25	0.60

Note: The Company issued 50,000,000 ordinary shares in January 2016, increasing the total number of shares to 200,000,000 subsequent to the share split carried out in October 2015 which also resulted in an increase in the number of shares to 150,000,000 from 60,000,000. The final dividend in respect of 2015 was paid to all 200,000,000 shares as approved at the Annual General Meeting held in June 2016.

18.1 Second interim dividend paid

Subsequent to the reporting date, the Board of Directors of the Company has approved and paid a second interim dividend of Rs. 0.75 per share for the financial year ended 31 December 2016. In accordance with Sri Lanka Accounting Standard (LKAS) 10 - Events after the Reporting Period, this second interim dividend has not been recognised as a liability as at 31 December 2016.

18.2 Final dividend proposed

Subsequent to the reporting date, the Board of Directors of the Company has proposed a final dividend of Rs. 0.25 per share for the financial year ended 31 December 2016 to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard (LKAS) 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31 December 2016.

19 INTANGIBLE ASSETS

	Software Rs.
Cost	
As at 1 January 2015	64,021,180
As at 31 December 2015	64,021,180
As at 31 December 2016	64,021,180
Accumulated amortisation	
As at 1 January 2015	15,080,630
Amortisation during the year	12,776,220
As at 31 December 2015	27,856,850
Amortisation during the year	12,776,220
As at 31 December 2016	40,633,070
Carrying amount	
As at 31 December 2015	36,164,330
As at 31 December 2016	23,388,110

19.1 There were no fully amortised intangible assets which are still in use or idle intangible assets as at the reporting date. No restrictions exist on the title of the intangible assets and no items pledged as securities for liabilities. There were no acquisition of intangible assets and capitalised borrowing costs of intangible assets during 2016.

19.2 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment indicators of intangible assets as at 31 December 2016. Based on the assessment, no impairment indicators were identified.

20 PROPERTY, PLANT AND EQUIPMENT

	Computer hardware Rs.	Equipment Rs.	Furniture and fittings Rs.	Motor vehicles Rs.	Total Rs.
Cost					
As at 1 January 2015	21,743,010	25,786,402	9,864,510	110,755	57,504,677
Additions during the year	3,035,400	2,979,041	53,183	-	6,067,624
Disposals during the year	-	-	(290,000)	-	(290,000)
As at 31 December 2015	24,778,410	28,765,443	9,627,693	110,755	63,282,301
Additions during the year	6,280,900	2,397,438	-	193,950	8,872,288
As at 31 December 2016	31,059,310	31,162,881	9,627,693	304,705	72,154,589
Accumulated depreciation					
As at 1 January 2015	11,213,153	13,862,841	6,298,661	73,836	31,448,491
Depreciation during the year	4,128,356	4,776,390	1,471,223	22,151	10,398,120
Depreciation on disposals	-	-	(164,333)	-	(164,333)
As at 31 December 2015	15,341,509	18,639,231	7,605,551	95,987	41,682,278
Depreciation during the year	4,059,948	3,973,637	1,026,223	24,466	9,084,274
As at 31 December 2016	19,401,457	22,612,868	8,631,774	120,453	50,766,552
Carrying amount					
As at 31 December 2015	9,436,901	10,126,212	2,022,142	14,768	21,600,023
As at 31 December 2016	11,657,853	8,550,013	995,919	184,252	21,388,037

20.1 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment (PPE) amounting to Rs. 8,872,288 (2015 - Rs. 6,067,624). Cash payments amounting to Rs. 8,872,288 (2015 - Rs. 6,067,624) were made during the year to purchase PPE.

NOTES TO THE FINANCIAL STATEMENTS

20 PROPERTY, PLANT AND EQUIPMENT (CONTD.)**20.2 Fully depreciated PPE in use**

PPE also includes fully depreciated assets which are in the use of normal business activities. Initial cost of fully depreciated PPE which are still in use as at the reporting date, is as follows:

As at	31.12.2016	31.12.2015
Computer hardware	8,043,710	4,003,710
Equipment	10,613,759	9,202,763
Furniture and fittings	4,733,228	3,987,050
	23,390,697	17,193,523

20.3 Title restriction on PPE

There are no restrictions that existed on the title of PPE of the Company as at the reporting date.

20.4 PPE pledged as security for liabilities

There were no items of PPE pledged as securities for liabilities as at the year ended 31 December 2016 (2015 - Nil).

20.5 Capitalisation of borrowing cost

There were no capitalised borrowing costs relating to the acquisition of PPE during the year (2015 - Nil).

20.6 Temporarily idle PPE

There were no temporarily idle property as at the year ended 31 December 2016 (2015 - Nil).

20.7 Assessment of impairment of PPE

The Board of Directors has assessed the potential impairment indicators of PPE as at 31 December 2016. Based on the assessment, no impairment indicators were identified.

21 FINANCIAL INVESTMENTS

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

As at	Note	31.12.2016 Rs.	31.12.2015 Rs.
Fair value through profit or loss	21.1	327,269,438	333,570,843
Loans and receivables	21.2	3,695,529,206	3,528,479,543
Available-for-sale	21.3	1,447,082,468	1,069,388,449
		5,469,881,112	4,931,438,835

The following table consists of the fair values of the financial investments together with their carrying values.

Fair value through profit or loss investments and available-for-sale investments have been valued at fair value. Loans and receivable investment have been valued at amortised cost.

As at	Carrying value		Fair value	
	31.12.2016 Rs.	31.12.2015 Rs.	31.12.2016 Rs.	31.12.2015 Rs.
Fair value through profit or loss	327,269,438	333,570,843	327,269,438	333,570,843
Loans and receivables	3,695,529,206	3,528,479,543	3,518,865,760	3,538,136,343
Available-for-sale	1,447,082,468	1,069,388,449	1,447,082,468	1,069,388,449
	5,469,881,112	4,931,438,835	5,293,217,666	4,941,095,635

Analysis of financial investments based on characteristics

Following notes provide disclosures of the financial investments based on characteristics of the each class of instruments.

21.1 Fair value through profit or loss

As at	31.12.2016 Rs.	31.12.2015 Rs.
Listed equity securities	327,269,438	333,570,843
	327,269,438	333,570,843

Details of investment in listed equity securities are given below.

As at	31.12.2016		31.12.2015	
	No. of shares	Carrying value/ fair value	No. of shares	Carrying value/ fair value
Sector and Company				
Bank, finance and insurance				
Hatton National Bank PLC	101,740	19,330,600	100,000	17,790,000
Commercial Bank of Ceylon PLC	271,390	37,438,780	245,476	33,336,572
National Development Bank PLC	60,855	9,493,380	60,855	11,811,956
Sampath Bank PLC	691,094	179,960,878	647,865	160,670,520
Sector total	1,125,079	246,223,638	1,054,196	223,609,048
Diversified holdings				
John Keells Holdings PLC	338,072	49,020,440	295,813	52,684,295
Hemas Holdings PLC	-	-	50,000	4,645,000
Melstacorp PLC	200,000	11,860,000	-	-
Sunshine Holdings PLC	50,000	2,330,000	-	-
Sector total	588,072	63,210,440	345,813	57,329,295

NOTES TO THE FINANCIAL STATEMENTS

21 FINANCIAL INVESTMENTS (CONTD.)

21.1 Fair value through profit or loss (Continued)

As at Sector and Company	31.12.2016		31.12.2015	
	No. of shares	Carrying value/ fair value	No. of shares	Carrying value/ fair value
Health care				
Asiri Hospital Holdings PLC	-	-	500,000	12,000,000
The Lanka Hospitals Corporation PLC	-	-	25,000	1,507,500
Sector total	-	-	525,000	13,507,500
Beverage food and tobacco				
Distilleries Company of Sri Lanka PLC	-	-	100,000	24,600,000
Sector total	-	-	100,000	24,600,000
Chemicals and pharmaceuticals				
CIC Holdings PLC	87,000	5,916,000	50,000	5,015,000
Sector total	87,000	5,916,000	50,000	5,015,000
Motors				
United Motors Lanka PLC	50,000	4,300,000	50,000	4,595,000
Sector total	50,000	4,300,000	50,000	4,595,000
Manufacturing				
Kelani Cables PLC	20,000	2,600,000	35,000	4,487,000
Teejay Lanka PLC	75,000	3,210,000		
Sector total	95,000	5,810,000	35,000	4,487,000
Plantations				
Horana Plantations PLC	20,000	358,000	20,000	428,000
Sector total	20,000	358,000	20,000	428,000
Land and Property				
Overseas Reality (Ceylon) PLC	72,568	1,451,360	-	-
Sector total	72,568	1,451,360	-	-
Total	2,037,719	327,269,438	2,180,009	333,570,843

21.2 Loans and receivables

As at	Note	Carrying value		Fair value	
		31.12.2016 Rs.	31.12.2015 Rs.	31.12.2016 Rs.	31.12.2015 Rs.
Repurchase agreements		287,285,426	935,537,054	287,285,426	935,537,053
Staff loans		22,462,615	23,914,016	17,255,279	24,006,231
Rent deposit		1,530,610	1,664,114	1,530,610	1,664,114
Fixed deposits	21.2.1	1,545,134,386	1,583,541,877	1,552,128,770	1,607,964,477
Savings accounts		21,081,992	2,542,719	21,081,992	2,542,719
Listed debentures	21.2.2	1,818,034,177	981,279,763	1,639,583,683	966,421,749
		3,695,529,206	3,528,479,543	3,518,865,760	3,538,136,343

21.2.1 Fixed deposits

As at	Note	Carrying value	
		31.12.2016 Rs.	31.12.2015 Rs.
Licensed commercial banks	21.2.1.1	960,374,295	992,244,237
Licensed specialised banks		-	158,470,772
Registered finance companies	21.2.1.2	584,760,091	432,826,868
		1,545,134,386	1,583,541,877

21.2.1.1 Licensed commercial banks

As at	Carrying value	
	31.12.2016 Rs.	31.12.2015 Rs.
Fixed deposits with related parties - People's Bank	64,814,122	59,136,055
Other banks	895,560,173	933,108,182
	960,374,295	992,244,237

21.2.1.2 Registered finance companies

As at	Carrying value	
	31.12.2016 Rs.	31.12.2015 Rs.
Fixed deposits with related parties - People's Leasing & Finance PLC	206,738,166	126,502,951
Other finance companies	378,021,925	306,323,917
	584,760,091	432,826,868

NOTES TO THE FINANCIAL STATEMENTS

21 FINANCIAL INVESTMENTS (CONTD.)

21.2.2 Listed debentures

As at Institution	Carrying value	
	31.12.2016 Rs.	31.12.2015 Rs.
People's Leasing & Finance PLC		
16.75% 500,000 debentures redeemable on 26.03.2018	54,232,860	54,230,539
17.00% 500,000 debentures redeemable on 26.03.2018	58,573,042	58,540,750
Merchant Bank of Sri Lanka & Finance PLC		
17.50% 938,800 debentures redeemable on 27.03.2018	110,442,279	110,377,062
Housing Development Finance Corporation (HDFC) Bank of Sri Lanka		
14.50% 99,500 debentures redeemable on 14.12.2019	-	10,314,268
Sampath Bank PLC		
13.00% 298,000 debentures redeemable on 04.12.2018	31,756,071	31,755,735
13.40% 298,000 debentures redeemable on 04.12.2018	33,810,880	33,798,504
8.25% 1,250,000 debentures redeemable on 14.12.2019	135,353,346	135,323,049
9.90% 500,000 debentures redeemable on 18.12.2020	50,560,092	50,562,901
Abans PLC		
14.00% 500,000 debentures redeemable on 20.12.2016	-	53,535,248
National Development Bank PLC		
13.00% 75,700 debentures redeemable on 19.12.2018	8,066,677	8,066,618
13.40% 75,700 debentures redeemable on 19.12.2018	8,587,928	8,584,908
Zero coupon 282,800 debentures redeemable on 24.06.2020	20,291,369	18,784,209
DFCC Bank PLC		
8.50% 646,600 debentures redeemable on 19.08.2017	66,655,706	66,639,828
9.40% 332,100 debentures redeemable on 10.06.2020	35,005,890	34,928,918
10.625% 1,000,000 debentures redeemable on 18.03.2019	108,301,677	-
12.75% 1,000,000 debentures redeemable on 09.11.2023	101,810,208	-

As at Institution	Carrying value	
	31.12.2016 Rs.	31.12.2015 Rs.
Seylan Bank PLC		
8.00% 1,000,000 debentures redeemable on 22.12.2018	100,193,484	104,036,749
MTD Walkers PLC		
9.75% 500,000 debentures redeemable on 30.09.2018	51,211,327	51,215,469
Commercial Credit & Finance PLC		
10.40% 1,000,000 debentures redeemable on 10.12.2020	100,614,464	100,585,008
Sanasa Development Bank		
10.30% 500,000 debentures redeemable on 31.12.2020	52,621,842	50,000,000
Commercial Bank PLC		
10.75% 2,000,000 debentures redeemable on 08.03.2021	206,648,964	-
12% 421,900 debentures redeemable on 27.10.2021	43,060,980	-
Hatton National Bank PLC		
11.25% 2,000,000 debentures redeemable on 01.11.2023	216,916,823	-
13% 193,300 debentures redeemable on 01.11.2023	19,721,986	-
Nations Trust Bank PLC		
12.65% 2,000,000 debentures redeemable on 09.11.2023	203,596,282	-
	1,818,034,177	981,279,763

21.2.3 Impairment of loans and receivable financial investments

At the reporting date, there were no loans and receivables that were overdue and impaired.

21.3 Available-for-sale

As at	Fair value/carrying value	
	31.12.2016 Rs.	31.12.2015 Rs.
Treasury bills	1,348,155,370	960,930,530
Unit trust	48,352,898	52,536,919
Treasury bond	50,574,200	55,921,000
	1,447,082,468	1,069,388,449

21.3.1 Impairment of available-for-sale financial investments

At the reporting date, there were no available-for-sale financial investments that were overdue and impaired.

NOTES TO THE FINANCIAL STATEMENTS

21 FINANCIAL INVESTMENTS (CONTD.)**21.4 Movement in financial investments**

	Fair value through profit or loss Rs.	Loans and receivables Rs.	Available- for-sale Rs.	Total Rs.
As at 1 January 2015	228,202,390	2,464,562,014	952,151,035	3,644,915,439
Purchases	432,411,241	19,343,847,632	3,590,116,701	23,366,375,574
Maturities	(309,077,919)	(18,279,930,103)	(3,462,405,385)	(22,051,413,407)
Fair value gains/(losses) recorded in statement of income	(17,964,869)	-	-	(17,964,869)
Fair value gains/(losses) recorded in statement of comprehensive income	-	-	(10,473,902)	(10,473,902)
As at 31 December 2015	333,570,843	3,528,479,543	1,069,388,449	4,931,438,835
Purchases	73,085,390	17,622,158,860	2,471,911,986	20,167,156,236
Maturities	(73,811,196)	(17,455,109,197)	(2,086,101,209)	(19,615,021,602)
Fair value gains/(losses) recorded in statement of income	(5,575,599)	-	-	(5,575,599)
Fair value gains/(losses) recorded in statement of comprehensive income	-	-	(8,116,758)	(8,116,758)
As at 31 December 2016	327,269,438	3,695,529,206	1,447,082,468	5,469,881,112

21.5 Determination of fair value

Methodologies and assumptions used to determine fair value of the financial investments are disclosed in Notes 39.1 to 39.3 to the financial statements.

21.6 Disclosure of financial risk

The Company's exposure to credit, currency and interest rate risks related to investments are disclosed in Note 40 to the financial statements.

21.7 Financial investments pledged as security

As at 31 December 2016, following financial investments were pledged as securities by the Company.

- (i) The Company has obtained a bank overdraft facility from People's Bank by pledging a fixed deposit amounting to Rs. 10,000,000.
- (ii) The Company has obtained a bank guarantee for Rs. 2,000,000 from People's Bank by pledging a fixed deposit amounting to Rs. 2,000,000.

22 REINSURANCE RECEIVABLES

As at	31.12.2016 Rs.	31.12.2015 Rs.
Reinsurance receivables on outstanding claims	104,504,736	94,907,488

The carrying value of reinsurance receivables approximates the fair value at the reporting date.

22.1 Reinsurance receivables on outstanding claims

This includes reinsurance reserve of claims that has not been paid yet and hence, the reinsurance portion of receivable that has not materialised.

22.2 Collateral details

The Company does not hold collateral as security against potential default by reinsurance counter parties.

22.3 Assessment of impairment of reinsurance receivables

The Board of Directors has assessed the potential impairment indicators of reinsurance receivables as at 31 December 2016. Based on the assessment, no impairment indicators were identified. Please refer Note 40 for reinsurer ratings.

22.4 Risk management

Please refer Note 40 for risk management measures taken relating to reinsurance.

23 INSURANCE RECEIVABLES

As at	Note	31.12.2016 Rs.	31.12.2015 Rs.
Policyholders		60,788,830	67,117,198
Related parties	23.1	627,787,109	509,986,527
Agents, brokers and intermediates		45,631,680	20,105,277
		734,207,619	597,209,002
Less: Provision for impairment	23.2	(10,016,618)	(5,760,690)
Insurance receivable net of impairment		724,191,001	591,448,312

23.1 Insurance receivables from related parties

As at	31.12.2016 Rs.	31.12.2015 Rs.
People's Leasing & Finance PLC	588,154,175	498,424,914
People's Bank	25,452,217	33,943
People's Microfinance Limited	12,921,707	10,075,967
Other related parties	1,259,010	1,451,703
	627,787,109	509,986,527

23.2 Impairment movement

As at	31.12.2016 Rs.	31.12.2015 Rs.
Opening balance	5,760,690	3,914,731
Provision made during the year	4,255,928	1,845,959
Closing balance	10,016,618	5,760,690

The carrying value of insurance receivables approximates the fair value at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

23 INSURANCE RECEIVABLES (CONTD.)**23.2 Collateral details**

The Company does not hold any collateral as security against potential default by policyholders.

23.3 Assessment of impairment of insurance receivables

The Board of Directors has assessed potential impairment loss of insurance receivables as at 31 December 2016. Based on the assessment, it was concluded that there is no requirement for an additional impairment loss provision other than amounts provided.

24 DEFERRED EXPENSES

	2016 Rs.	2015 Rs.
Reserve for deferred acquisition expenses		
As at 1 January	212,197,329	190,815,736
Increase in deferred acquisition expenses	22,141,951	21,381,593
As at 31 December	234,339,280	212,197,329
Reserve for deferred reinsurance commission		
As at 1 January	11,369,736	10,049,477
Increase in deferred reinsurance commission	2,389,524	1,320,259
As at 31 December	13,759,260	11,369,736
	220,580,020	200,827,593

25 OTHER ASSETS

As at	31.12.2016 Rs.	31.12.2015 Rs.
Non-financial assets		
Advances, deposits and prepayments	12,676,911	16,216,114
Inventory	2,244,060	1,964,070
Other receivables	1,082,179	1,836,168
	16,003,150	20,016,352

25.1 Loans to Directors

No loans have been granted to the Directors of the Company.

26 CASH AND CASH EQUIVALENTS

As at	31.12.2016 Rs.	31.12.2015 Rs.
Cash in hand	135,149	120,380
Balances at bank	138,200,835	745,571,600
	138,335,984	745,691,980

26.1 For the purpose of the statement of cash flows, cash and cash equivalents include cash in hand and balance at bank net of outstanding bank overdrafts. Cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

As at	Note	31.12.2016 Rs.	31.12.2015 Rs.
Cash in hand and balances at bank		138,335,984	745,691,980
Bank overdraft	36	(74,244,436)	(41,752,688)
		64,091,548	703,939,292

27 STATED CAPITAL

	2016		2015	
	No. of shares	Rs.	No. of shares	Rs.
Balance as at 1 January	150,000,000	1,350,000,000	60,000,000	600,000,000
Effect of share split	-	-	90,000,000	-
Pending allotment	-	(750,000,000)	-	750,000,000
Shares issued during the year	50,000,000	750,000,000	-	-
Balance as at 31 December	200,000,000	1,350,000,000	150,000,000	1,350,000,000

In January 2016, the Company issued 50,000,000 ordinary shares (2015: Nil) which were pending for allotment as at 31 December 2015. As a result of this new share issue, number of shares of the Company has increased to 200,000,000 as at 31 December 2016 (2015: 150,000,000).

27.1 Rights of ordinary shareholders

All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the Company.

NOTES TO THE FINANCIAL STATEMENTS

28 RETAINED EARNINGS

	2016 Rs.	2015 Rs.
Balance as at 1 January (adjusted for super gain tax)	899,641,415	698,442,872
Profit for the year	657,997,268	464,167,294
Expenses related to issue of ordinary shares	-	(22,968,751)
Dividends paid	(270,000,000)	(240,000,000)
Balance as at 31 December	1,287,638,683	899,641,415

29 AVAILABLE-FOR-SALE RESERVES

	2016 Rs.	2015 Rs.
Balance as at 1 January	1,952,501	13,004,499
Other comprehensive income for the year	(7,577,222)	(11,051,998)
Balance as at 31 December	(5,624,721)	1,952,501

29.1 Available for-sale-reserves comprise the cumulative net change in the fair value of available-for-sale financial assets and is carried forward until the respective assets are de-recognised or impaired.

30 OTHER RESERVES

	2016 Rs.	2015 Rs.
Balance as at 1 January	(599,783)	(766,576)
Other comprehensive income for the year	(1,957,245)	166,793
Balance as at 31 December	(2,557,028)	(599,783)

31 INSURANCE CONTRACT LIABILITIES

As at	Note	31.12.2016 Rs.	31.12.2015 Rs.
Provision for net unearned premium	31.2	2,216,720,105	1,938,267,412
Provision for gross outstanding claims	31.3	895,970,538	813,614,237
Provision for gross incurred but not reported (IBNR) claims	31.4	445,103,739	414,734,867
		3,557,794,382	3,166,616,516

31.1 Insurance contract liabilities

As at	31.12.2016			31.12.2015		
	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.
Provision for net unearned premium	2,290,665,375	(73,945,270)	2,216,720,105	1,993,088,802	(54,821,390)	1,938,267,412
Outstanding claims provision for gross outstanding claims	895,970,538	(72,829,188)	823,141,350	813,614,237	(51,100,818)	762,513,419
Provision for gross incurred but not reported (IBNR) claims	445,103,739	(31,675,548)	413,428,191	414,734,867	(43,806,676)	370,928,191
	3,631,739,652	(178,450,006)	3,453,289,646	3,221,437,906	(149,728,884)	3,071,709,022

31.2 Provision for net unearned premium

	2016			2015		
	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.
As at 1 January	1,993,088,802	(54,821,390)	1,938,267,412	1,759,515,531	(61,610,670)	1,697,904,861
Premium written during the year	4,352,406,888	(350,721,288)	4,001,685,600	3,813,271,656	(304,969,079)	3,508,302,577
Premium earned during the year	(4,054,830,315)	331,597,408	(3,723,232,907)	(3,579,698,385)	311,758,359	(3,267,940,026)
As at 31 December	2,290,665,375	(73,945,270)	2,216,720,105	1,993,088,802	(54,821,390)	1,938,267,412

31.3 Provision for gross outstanding claims

	2016			2015		
	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.
As at 1 January	813,614,237	(51,100,818)	762,513,419	800,605,066	(73,560,225)	727,044,841
Claims incurred in the current accident year	2,664,254,451	(78,459,387)	2,585,795,064	2,250,240,413	(15,319,837)	2,234,920,576
Claims paid during the year	(2,581,898,150)	56,731,017	(2,525,167,133)	(2,237,231,242)	37,779,244	(2,199,451,998)
As at 31 December	895,970,538	(72,829,188)	823,141,350	813,614,237	(51,100,818)	762,513,419

NOTES TO THE FINANCIAL STATEMENTS

31 INSURANCE CONTRACT LIABILITIES (CONTD.)**31.4 Provision for gross incurred but not reported claims**

	2016			2015		
	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.	Gross liabilities Rs.	Reinsurance Rs.	Net liabilities Rs.
As at 1 January	414,734,867	(43,806,676)	370,928,191	402,622,227	(63,722,226)	338,900,001
Provision made during the year	30,368,872	12,131,128	42,500,000	12,112,640	19,915,550	32,028,190
As at 31 December	445,103,739	(31,675,548)	413,428,191	414,734,867	(43,806,676)	370,928,191

31.5 Reconciliation between insurance contract liabilities and technical reserves

As at	31.12.2016 Rs.	31.12.2015 Rs.
Insurance contract liabilities	3,557,794,382	3,166,616,516
Deferred expenses	(220,580,020)	(200,827,593)
Reinsurance on case reserves	(72,829,188)	(51,100,818)
Reinsurance on IBNR provision	(31,675,548)	(43,806,676)
Technical reserves	3,232,709,626	2,870,881,429

31.6 Liability adequacy test

A liability adequacy test (LAT) was performed by NMG Financial Services Consulting Pte Limited, a firm of professional actuaries as at 31 December 2016 as required by SLFRS 4 - Insurance Contracts in order to assess the adequacy of the carrying amount of the provision for unearned premium. The valuation is based on internationally accepted actuarial methods and is performed on a quarterly basis. According to the report issued by NMG Financial Services Consulting Pte Limited, the liability carried forward by the Company was adequate. Hence, no provision was made for premium deficiency for the year ended 31 December 2016 (2015 - Nil).

31.7 Valuation of IBNR and IBNER

The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting Pte Limited as at 31 December 2016.

31.8 Changes in assumptions

There were no material estimation changes from valuation previous valuation done for balance as at 31 December 2015.

32 EMPLOYEE DEFINED BENEFIT OBLIGATIONS**32.1 Defined benefit plans - Provision for employee benefits**

As at	31.12.2016 Rs.	31.12.2015 Rs.
Present value of unfunded obligation	12,920,220	6,027,515

32.2 Movement in the present value of the employee benefits

	Note	2016 Rs.	2015 Rs.
As at 1 January		6,027,515	4,432,438
Expenses recognised in statement of income	32.2.1	4,235,485	1,796,345
Payments during the year		(61,175)	(34,475)
Actuarial gain/(loss) recognised in statement of comprehensive income	32.2.2	2,718,395	(166,793)
As at 31 December		12,920,220	6,027,515

32.2.1 Expenses recognised in statement of income

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Interest cost	1,136,864	398,919
Current service cost	3,098,621	1,397,426
	4,235,485	1,796,345

32.2.2 Expenses recognised in statement of comprehensive income

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Actuarial gain/(loss) recognised in statement of comprehensive income	(2,718,395)	166,793

32.2.3 Valuation of employee benefit obligations

As at 31 December 2016, gratuity liability was actuarially valued under the Projected Unit Credit method by Smiles Global (Private) Limited, a firm with actuarial expertise as required by LKAS 19 - Employee Benefits.

32.2.4 Principal actuarial assumptions used

	2016	2015
(a) Discount rate	12%	10%
(b) Salary increase	10%	8%
(c) Incidence of withdrawal	8%	8%
(d) Expected average future working life of the active participant (years)	10.85	14.1

NOTES TO THE FINANCIAL STATEMENTS

32 EMPLOYEE DEFINED BENEFIT OBLIGATIONS (CONTD.)**32.2 Sensitivity analysis**

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment liability measurement.

As at	31.12.2016		31.12.2015	
	Increase Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.
Discount rate 1%	(799,724)	919,644	(619,779)	758,117
Future salary growth 1%	943,829	(833,237)	751,046	(624,694)

33 OTHER FINANCIAL LIABILITIES

As at	Note	31.12.2016		31.12.2015	
		Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Other creditors including accrued expenses		162,408,258	162,408,258	858,479,969	858,479,969
Outstanding commission payable		159,504,186	159,504,186	139,278,623	139,278,623
Amounts due to related parties	33.1	23,449,687	23,449,687	36,516,505	36,516,505
		345,362,131	345,362,131	1,034,275,097	1,025,540,697

33.1 Amounts due to related parties

As at	31.12.2016 Rs.	31.12.2015 Rs.
People's Leasing Fleet Management Limited	335,227	38,477
People's Leasing & Finance PLC	23,114,460	36,478,028
	23,449,687	36,516,505

34 OTHER LIABILITIES

As at	31.12.2016 Rs.	31.12.2015 Rs.
Government levies payable	36,973,162	24,448,328

35 DEFERRED TAX ASSET/(LIABILITY)

As at	Note	31.12.2016 Rs.	31.12.2015 Rs.
Deferred tax assets	35.1	5,794,283	1,966,666
Deferred tax liabilities	35.2	(3,922,590)	(7,907,655)
		1,871,693	(5,940,989)

As at	Statement of financial position			
	31.12.2016		31.12.2015	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
35.1 Deferred tax asset				
Employee benefits	10,201,825	2,856,511	6,027,515	1,687,705
Debtors impairment	9,700,896	1,358,125	-	-
Actuarial loss recognised in other comprehensive income	2,718,395	761,151	-	-
Fair value gains recognised in other comprehensive income	5,846,408	818,497	1,859,743	278,961
	28,467,524	5,794,283	7,887,258	1,966,666
35.2 Deferred tax liability				
Property, plant and equipment	(27,151,142)	(3,922,590)	(45,017,477)	(7,907,655)
	(27,151,142)	(3,922,590)	(45,017,477)	(7,907,655)
Recognised net deferred tax asset/(liability)		1,871,693		(5,940,989)

35.3 Change in deferred tax asset/liability

For the year ended 31 December	Statement of income		Other comprehensive income	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Deferred tax asset				
Employee benefits	(1,168,806)	-	-	-
Debtors impairment	(1,358,125)	(446,621)	-	-
Actuarial loss	-	-	(761,150)	-
Fair value gains	-	-	(539,536)	578,094
	(2,526,931)	(446,621)	(1,300,686)	578,094
Deferred tax liability				
Property, plant and equipment	(3,985,065)	(7,767,180)	-	-
	(3,985,065)	(7,767,180)	-	-
Total	(6,511,996)	(8,213,801)	(1,300,686)	578,094

36 BANK OVERDRAFT

As at	31.12.2016 Rs.	31.12.2015 Rs.
Bank overdraft	74,244,436	41,752,688

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

NOTES TO THE FINANCIAL STATEMENTS

37 SUPER GAIN TAX

As per the provisions of Part III of the Finance Act No. 10 of 2015 which was certified on 30 October 2015, the Company was liable for super gain tax (SGT) of Rs. 99,360,657. According to the Act, SGT shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of SGT was accounted in 2015, in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES BASED ON THE REMAINING MATURITIES AT THE REPORTING DATE

As at	31.12.2016			31.12.2015		
	Carrying amount Rs.	Less than 12 months Rs.	More than 12 months Rs.	Carrying amount Rs.	Less than 12 months Rs.	More than 12 months Rs.
Assets						
Intangible assets	23,388,110	-	23,388,110	36,164,330	-	36,164,330
Property, plant and equipment	21,388,037	-	21,388,037	21,600,023	-	21,600,023
Deferred tax asset	1,871,693	-	1,871,693	-	-	-
Financial investments	5,469,881,112	3,198,595,895	2,271,285,217	4,931,438,835	3,995,266,831	936,172,004
Reinsurance receivables	104,504,736	104,504,736	-	94,907,488	94,907,488	-
Insurance receivables	724,191,001	724,191,001	-	591,448,312	591,448,312	-
Deferred expenses	220,580,020	220,580,020	-	200,827,593	200,827,593	-
Other assets	16,003,150	16,003,150	-	20,016,352	20,016,352	-
Cash and cash equivalents	138,335,984	138,335,984	-	745,691,980	745,691,980	-
Total assets	6,720,143,843	4,402,210,786	2,317,933,057	6,642,094,913	5,648,158,556	993,936,357
Equity and liabilities						
Equity						
Stated capital	1,350,000,000	-	1,350,000,000	1,350,000,000	-	1,350,000,000
Revenue reserves	1,279,456,934	-	1,278,366,815	900,994,133	-	900,994,133
Total equity	2,629,456,934	-	2,628,366,815	2,250,994,133	-	2,250,994,133
Liabilities						
Insurance contract liabilities	3,557,794,382	3,484,239,832	73,554,550	3,166,616,516	3,104,457,241	62,159,275
Employee defined benefit obligations	12,920,220	-	12,920,220	6,027,515	-	6,027,515
Other financial liabilities	345,362,131	345,362,131	-	1,034,275,097	1,034,275,097	-
Other liabilities	36,973,162	36,973,162	-	24,448,328	24,448,328	-
Reinsurance payable	41,432,353	41,432,353	-	36,820,195	36,820,195	-
Income tax payable	21,960,225	21,960,225	-	75,219,452	75,219,452	-
Deferred tax liability	-	-	-	5,940,989	-	5,940,989
Bank overdraft	74,244,436	74,244,436	-	41,752,688	41,752,688	-
Total liabilities	4,090,686,909	4,004,212,139	86,474,770	4,391,100,780	4,316,973,001	74,127,779
Total equity and liabilities	6,720,143,843	4,004,212,139	2,715,931,704	6,642,094,913	4,316,973,001	2,325,121,912

39 ACCOUNTING CLASSIFICATION AND FAIR VALUE

Financial assets and liabilities based on the accounting classification with their carrying values and fair values are tabulated below.

As at		31.12.2016				
		Fair value through profit or loss Rs.	Available-for-sale Rs.	Loans and receivables Rs.	Total carrying amount Rs.	Fair value Rs.
Note						
Financial assets						
Financial investments	21					
Measured at fair value		327,269,438	1,447,082,468	-	1,774,351,906	1,774,351,906
Measured at amortised cost		-	-	3,695,529,206	3,695,529,206	3,518,865,760
Reinsurance receivables	22	-	-	104,504,736	104,504,736	104,504,736
Insurance receivables	23	-	-	724,191,001	724,191,001	724,191,001
Cash cash equivalents	26	-	-	138,335,984	138,335,984	138,335,984
Total		327,269,438	1,447,082,468	4,662,560,927	6,436,912,833	6,260,249,387
Financial liabilities						
Reinsurance payable		-	-	41,432,353	41,432,353	41,432,353
Other financial liabilities (excluding Government levies)	33	-	-	345,362,131	345,362,131	345,362,131
Bank overdraft	36	-	-	74,244,436	74,244,436	74,244,436
		-	-	461,038,920	461,038,920	461,038,920
As at		31.12.2015				
		Fair value through profit or loss Rs.	Available-for-sale Rs.	Loans and receivables Rs.	Total carrying amount Rs.	Fair value Rs.
Note						
Financial assets						
Financial investments	21					
Measured at fair value		333,570,843	1,069,388,449	-	1,402,959,292	1,402,959,292
Measured at amortised cost		-	-	3,528,479,543	3,528,479,543	3,538,136,343
Reinsurance receivables	22	-	-	94,907,488	94,907,488	94,907,488
Insurance receivables	23	-	-	591,448,312	591,448,312	591,448,312
Cash cash equivalents	26	-	-	745,691,980	745,691,980	745,691,980
Total		333,570,843	1,069,388,449	4,960,527,323	6,363,486,615	6,373,143,415
Financial liabilities						
Reinsurance payable		-	-	36,820,195	36,820,195	36,820,195
Other financial liabilities (excluding Government levies)	33	-	-	1,034,275,097	1,034,275,097	1,034,275,097
Bank overdraft	36	-	-	41,752,688	41,752,688	41,752,688
		-	-	1,112,847,980	1,112,847,980	1,112,847,980

NOTES TO THE FINANCIAL STATEMENTS

39 ACCOUNTING CLASSIFICATION AND FAIR VALUE (CONTD.)**39.1 Determination of fair value and fair value hierarchy**

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

- **Level 1:**

Listed/quoted (adjusted) prices in active markets for identical instruments are available. The Company measures the fair value of a financial instrument using active listed/quoted prices or dealer price quotations and managers buying price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

- **Level 2:**

Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- **Level 3:**

Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Non-market observable input means that fair values are determined, in whole or in part, using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

39.2 Fair value measurement

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

As at 31 December

2016

	Level 1	Level 2	Level 3	Total
Assets measured at fair value;				
Financial investments carried at fair value				
Listed equity securities	327,269,438	-	-	327,269,438
Available-for-sale financial assets				
Treasury bills	1,348,155,370	-	-	1,348,155,370
Unit trust	48,352,898	-	-	48,352,898
Treasury bond	50,574,200	-	-	50,574,200
Assets measured at amortised cost and fair values are disclosed*;				
Loans and receivables				
Repurchase agreements	-	287,285,426	-	287,285,426
Staff loans	-	17,255,279	-	17,255,279
Rent deposits	-	1,530,610	-	1,530,610
Fixed deposits	-	1,552,128,770	-	1,552,128,770
Savings accounts	-	21,081,992	-	21,081,992
Listed debentures	-	1,639,583,683	-	1,639,583,683
Total financial assets	1,774,351,906	3,518,865,760	-	5,293,217,666

As at 31 December

2015

	Level 1	Level 2	Level 3	Total
Assets measured at fair value;				
Financial investments carried at fair value				
Listed equity securities	333,570,843	-	-	333,570,843
Available-for-sale financial assets				
Treasury bills	960,930,530	-	-	960,930,530
Unit trust	52,536,919	-	-	52,536,919
Treasury bond	55,921,000	-	-	55,921,000
Assets measured at amortised cost and fair values are disclosed*;				
Loans and receivables				
Repurchase agreements	-	935,537,053	-	935,537,053
Staff loans	-	24,006,231	-	24,006,231
Rent deposits	-	1,664,114	-	1,664,114
Fixed deposits	-	1,607,964,477	-	1,607,964,477
Savings accounts	-	2,542,719	-	2,542,719
Listed debentures	-	966,421,749	-	966,421,749
Total financial assets	1,402,959,292	3,538,136,343	-	4,941,095,635

* Fair values are determined based on the assumptions given in Note 39.3.

39.3 Financial instruments not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets/liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair value due to their short term nature. This assumption is also applied to savings accounts without a specific maturity.

Assets	Liabilities
Cash in hand and balances at bank	Bank overdraft
Repurchase agreements	Outstanding commission payable
Fixed deposits with less than three months remaining maturity	Amounts due to related parties
Savings accounts	Other creditors including accrued expenses
Insurance receivables	Reinsurance payable
Reinsurance receivables	

NOTES TO THE FINANCIAL STATEMENTS

39 ACCOUNTING CLASSIFICATION AND FAIR VALUE (CONTD.)**Fixed deposits with more than three months remaining maturity and debentures**

The fair values are estimated based on discounted cash flows using rates currently available for similar instruments on similar term, credit risk and remaining maturities.

Staff loans

Fair values are computed based on the interest rate that prevailed at reporting date.

40 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 counter-party to a financial instrument fails to meet its contractual obligations in accordance with agreed terms and arises principally from the Company's premium receivables, reinsurance receivables, investments in debt securities and deposits with financial institutions such as time deposits, demand deposits, etc.

Management of credit risk - Insurance receivables

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 Insurance Board of Sri Lanka (IBSL) into consideration when developing the aforementioned credit policy. As a result of rigors 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.

Management of credit risk - Reinsurance Receivables

Credit risk with regard to reinsurance receivables is mitigated by selecting the reinsurers with higher credit ratings and reviewing their ratings periodically. The following table depicts the reinsurers with receivable balances as at 31 December 2016 with their credit ratings.

Reinsurer	Rating	Issuing agency
Asia Capital Reinsurance Group Pte Ltd, Singapore	A- (Negative)	A. M. Best
General Insurance Corporation of India, Mumbai, India	A- (Stable)	A. M. Best
Malaysian Reinsurance Berhad, Kuala Lumpur, Malaysia	A- (Stable)	A. M. Best
Labuan Reinsurance Ltd, Labuan, Malaysia	A- (Stable)	A. M. Best
Swiss Reinsurance Company Ltd, Singapore Branch	A+ (Stable)	A. M. Best
Trust International Insurance & Reinsurance Company B.S.C, Bahrain	A- (Stable)	A. M. Best
XL Insurance Co Ltd, Singapore Branch	A	A. M. Best

In addition to the above reinsurers, the Company makes the compulsory contributions to the National Insurance Trust Fund, rated 'AA-' by Fitch Ratings, on a regular basis.

Management of credit risk - Financial investments (Except listed equity securities)

The Company evaluates the credit ratings of the respective investee and/or respective issue prior to the investment decision are 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 monitor the single investment exposure limits prescribed by the regulator, IBLS.

Management of credit risk - Cash at bank

The Company's exposure to credit risk with relevant to cash and cash equivalents is minimal since these balances are maintained at banks and finance companies with high credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)**Credit exposure**

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2016 and 2015 is the carrying amounts of respective financial instruments.

The table below provides information regarding the credit risk exposure of the Company's financial instruments by classifying them according to the credit ratings of counter parties obtained from Fitch Ratings Lanka, RAM Ratings Lanka and A. M. Best.

As at 31 December 2016

	Neither past-due nor impaired				Past-due but not impaired	Total
	Risk free	AAA to AA-	A+ to A-	BBB+ to BB-		
Available-for-sale financial assets						
Investments in Government securities	1,398,729,570	-	-	-	-	1,398,729,570
Unit trust	-	-	-	-	48,352,898	48,352,898
Loans and receivables						
Repurchase agreements	287,285,426	-	-	-	-	287,285,426
Debentures	-	539,613,832	1,227,209,019	51,211,326	-	1,818,034,177
Fixed deposits	-	919,961,599	625,172,787	-	-	1,545,134,386
Savings accounts	-	21,081,992	-	-	-	21,081,992
Staff loans and rent deposits	-	-	-	-	23,993,225	23,993,225
Insurance receivables	-	597,450,368	-	-	113,872,088	734,207,619
Reinsurance receivables	-	23,657,598	80,847,138	-	-	104,504,736
Cash and cash equivalents	-	127,682,381	10,518,454	-	135,149	138,335,984
Total	1,686,014,996	2,229,447,770	1,943,747,398	51,211,326	186,353,360	6,119,660,013

As at 31 December 2015

	Neither past-due nor impaired				Past-due but not impaired	Total
	Risk free	AAA to AA-	A+ to A-	BBB+ to BB-		
Available-for-sale financial assets						
Investments in Government securities	1,016,851,530	-	-	-	-	1,016,851,530
Unit trust	-	-	-	-	52,536,919	52,536,919
Loans and receivables						
Repurchase agreements	935,537,054	-	-	-	-	935,537,054
Debentures	-	223,148,351	629,961,846	128,169,565	-	981,279,763
Fixed deposits	-	758,682,527	793,583,285	31,276,066	-	1,583,541,877
Savings accounts	-	2,542,719	-	-	-	2,542,719
Staff loans and rent deposits	-	-	-	-	25,578,130	25,578,130
Insurance receivables	-	498,184,768	-	-	84,338,969	597,209,002
Reinsurance receivables	-	26,782,109	68,125,379	-	-	94,907,488
Cash and cash equivalents	-	745,571,600	-	-	120,380	745,691,980
Total	1,952,388,584	2,254,912,074	1,491,670,510	159,445,631	162,574,398	6,035,670,462

Collateral adequacy

As a general principle, the Company endeavours to obtain adequate collateral to secure its investments as applicable. The Company focuses on quality and responsibility of such collateral to mitigate potential credit losses. Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. A reasonable margin of safety is maintained in collateral values as follows.

	2016 Rs.	2015 Rs.
Carrying value of investments in repurchase agreements	287,285,426	935,537,054
Fair value of collateral	316,617,897	1,023,359,827
Excess value of collateral	29,332,471	87,822,773

- **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 following controls are in place to mitigate liquidity risk which is faced by the Company.

- i. 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.
- ii. 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 duration are diversified depending on the cash flow needs of the Company and maturity periods are regularly reviewed. Cash flow analysis is done prior to investments are made.
- iii. 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.
- iv. Availability of a stand-by overdraft facility to be used only in the event of an emergency.
- v. Determining the maturity profiles of insurance contract liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities.
- vi. Planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)**Exposure to liquidity risk**

The Company monitors the liquidity position of the Company to assess funding requirements. Liquid assets include cash and short term investments and bills purchased. The Company also monitors maturity profile of its assets and liabilities.

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities are provided below.

As at 31 December 2016

Financial assets/liabilities	0-6 months	7-12 months	1-2 years	Over 2 years	No stated maturity	Total
Financial assets						
Fair value through profit or loss						
Listed equity securities	-	-	-	-	327,269,438	327,269,438
Available-for-sale financial assets						
Investments in						
Government securities	1,348,155,370	-	-	50,574,200	-	1,398,729,570
Investment in unit trust	-	-	-	-	48,352,898	48,352,898
Loans and receivables						
Repurchase agreements	287,285,426	-	-	-	-	287,285,426
Debentures	-	49,235,450	398,631,770	1,787,662,816	-	2,235,530,036
Fixed deposits	1,490,834,858	60,670,816	-	-	-	1,551,505,674
Savings accounts	-	-	-	-	21,081,992	21,081,992
Staff loans and rent deposits	7,152,567	4,496,858	6,892,601	9,562,725	-	28,104,751
Insurance receivables (gross)	734,207,619	-	-	-	-	734,207,619
Reinsurance receivables	104,504,736	-	-	-	-	104,504,736
Balances at bank	138,200,835	-	-	-	-	138,200,835
Total	4,110,341,411	114,403,124	405,524,371	1,847,799,741	396,704,328	6,874,772,975
Financial liabilities						
Reinsurance payable	41,432,353	-	-	-	-	41,432,353
Insurance contract liabilities	2,733,409,118	750,830,662	5,658,042	67,896,560	-	3,557,794,382
Other financial liabilities	345,362,131	-	-	-	-	345,362,131
Bank overdraft	74,244,436	-	-	-	-	74,244,436
Total	3,194,448,088	750,830,664	5,658,042	67,896,560	-	4,018,833,302

As at 31 December 2015

Financial assets/liabilities	0-6 months	7-12 months	1-2 years	Over 2 years	No stated maturity	Total
Financial assets						
Fair value through profit or loss						
Listed equity securities	-	-	-	-	333,570,843	333,570,843
Available-for-sale financial assets						
Investments in						
Government securities	804,873,512	177,132,700	5,600,000	66,800,000	-	1,054,406,212
Investment in unit trust	-	-	-	-	52,536,919	52,536,919
Loans and receivables						
Repurchase agreements	935,537,054	-	-	-	-	935,537,054
Debentures	-	163,503,583	157,841,478	918,102,150	-	1,239,447,211
Fixed deposits	1,218,374,074	393,987,760	-	-	-	1,612,361,834
Savings accounts	-	-	-	-	2,542,719	2,542,719
Staff loans and rent deposits	3,070,092	2,907,337	7,069,008	11,186,863	-	24,233,300
Insurance receivables	597,209,002	-	-	-	-	597,209,002
Reinsurance receivables	94,907,488	-	-	-	-	94,907,488
Cash in hand and balance at bank	745,691,980	-	-	-	-	745,691,980
Total	4,399,663,202	737,531,380	170,510,486	996,089,013	388,650,481	6,692,444,562
Financial liabilities						
Reinsurance payable	36,820,195	-	-	-	-	36,820,195
Insurance contract liabilities	2,051,381,017	1,055,214,532	20,006,989	40,013,978	-	3,166,616,516
Other financial liabilities	1,034,275,097	-	-	-	-	1,034,275,097
Bank overdraft	41,752,688	-	-	-	-	41,752,688
Total	3,164,228,997	1,055,214,532	20,006,989	40,013,978	-	4,279,464,496

- **Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk is an aggregation of,

- Interest rate risk
- Currency risk
- Equity price risk

- Interest rate risk**

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

Floating rate instruments typically expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)**Management of interest rate risk**

In order to mitigate the interest rate risk faced by the Company, the management follows the guidelines set out in the investment policy which is regularly reviewed by the Investment Committee. Among such guidelines, following guidelines included to mitigate the interest rate risk faced by the Company.

- i. Preferred investment horizon for the investment portfolio limited to maximum of ten years from the time of investment.
- ii. Forecasting and monitoring future cash inflows and outflows when formulating investment strategies.
- iii. Relative amounts of the each portfolio will be determined by the Company's liquidity position, availability of market values, individual securities' risk/return profiles.

However, the Company does not have any variable rate interest bearing financial assets and financial liabilities as at the reporting date. Therefore, the Company is only exposed to fair value interest rate risk during the period.

Sensitivity analysis - 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 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 basis points and +/-200 basis points.

Change in variables	2016		2015	
	Impact on *PBT Rs.	Impact on equity Rs.	Impact on *PBT Rs.	Impact on equity Rs.
+100 basis points	(5,092,728)	(5,092,728)	(2,300,912)	(2,300,912)
-100 basis points	5,092,728	5,092,728	2,319,504	2,319,504
+200 basis points	(10,185,456)	(10,185,456)	(4,583,514)	(4,583,514)
-200 basis points	10,185,456	10,185,456	4,657,889	4,657,889

*PBT - Profit before tax

Exposure to interest rate risk

Following tables summarise the exposure to the interest rate risk by the Company.

31 December 2016

	Fixed interest	Variable interest	Non-interest bearing	Total
Financial assets				
Loans and receivables	3,693,998,596	-	1,530,610	3,695,529,206
Available-for-sale	1,398,729,570	-	48,352,898	1,447,082,468
Fair value through profit or loss	-	-	327,269,438	327,269,438
Cash and cash equivalents	-	-	138,335,984	138,335,984
Total financial assets	5,092,728,166	-	515,488,930	5,608,217,096
Financial liabilities				
Insurance contract liabilities	-	-	3,557,794,382	3,557,794,382
Other financial liabilities	-	-	345,362,131	345,362,131
Other liabilities	-	-	36,973,162	36,973,162
Reinsurance payable	-	-	41,432,353	41,432,353
Bank overdraft	-	-	74,244,436	74,244,436
Total financial liabilities	-	-	4,055,806,464	4,055,806,464

31 December 2015

	Fixed interest	Variable interest	Non-interest bearing	Total
Financial assets				
Loans and receivables	3,526,815,429	-	1,664,114	3,528,479,543
Available-for-sale	1,016,851,530	-	52,536,919	1,069,388,449
Fair value through profit or loss	-	-	333,570,843	333,570,843
Cash and cash equivalents	-	-	745,691,980	745,691,980
Total financial assets	4,543,666,959	-	1,133,463,856	5,677,130,815
Financial liabilities				
Insurance contract liabilities	-	-	3,166,616,516	3,166,616,516
Other financial liabilities	-	-	1,034,275,097	1,034,275,097
Other liabilities	-	-	24,448,328	24,448,328
Reinsurance payable	-	-	36,820,195	36,820,195
Bank overdraft	-	-	41,752,688	41,752,688
Total financial liabilities	-	-	4,303,912,824	4,303,912,824

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)**b) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Company's principal transactions are carried out in Sri Lankan Rupees (Rs.) and hence, its exposure to foreign exchange risk arises primarily with respect to reinsurance recoveries and US Dollars denominated assets developed out of aforementioned recoveries.

Management of currency risk

The currency risk faced by the Company is minimal since no material liabilities or assets were recorded on foreign currency denominated as at the reporting date.

Sensitivity analysis - Currency risk

The tables below indicate the currencies to which the Company had significant exposures as at 31 December 2016 and the effect to the gains/ (losses) in case of a market exchange rates up/drop by 1%. The analysis below calculates the effect of a reasonably possible movement of the currency rate against the Rs., with all other variables held constant, on the statement of income and equity.

Change in variable	2016		2015	
	Impact on PBT Rs.	Impact on equity Rs.	Impact on PBT Rs.	Impact on equity Rs.
5% strengthening of Rupee	3,375,856	3,375,856	3,261,336	3,261,336
5% weakening of Rupee	(3,375,856)	(3,375,856)	(3,261,336)	(3,261,336)

Exposure to currency risk

Asset/liability	31 December 2016		31 December 2015	
	Amount in foreign currency	Amount in Rs.	Amount in foreign currency	Amount in Rs.
Assets				
Fixed deposits	338,119	51,502,358	432,332	63,751,611
Saving accounts	105,139	16,014,766	10,003	1,475,111

Equity price risk

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in market prices, other than those occurring due to interest rate risk or currency risk, is referred to as equity price risk. Accordingly, the equity price risk affects the Company's investments in equity instruments.

Management of equity price risk

In order to mitigate the equity price risk faced by the Company, the management follows the guidelines set out in the investment policy. The Company's investment policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure. Compliance with the policy is monitored and the exposure and instances of non-compliance are reported to the Board of Directors. The policy is reviewed regularly for pertinence and for changes in the risk environment. The Company manages its equity price risk by investing in relatively less volatile sectors and in different sectors.

Sensitivity analysis - Equity price risk

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%.

Change in variable	2016		2015	
	Impact on PBT Rs.	Impact on equity Rs.	Impact on PBT Rs.	Impact on equity Rs.
10% increase in equity market prices	32,726,944	32,726,944	33,357,084	33,357,084
10% decrease in equity market prices	(32,726,944)	(32,726,944)	(33,357,084)	(33,357,084)
20% increase in equity market prices	65,453,888	65,453,888	66,714,169	66,714,169
20% decrease in equity market prices	(65,453,888)	(65,453,888)	(66,714,169)	(66,714,169)

Exposure to equity price risk

Sector	31.12.2016		31.12.2015	
	Rs.	%	Rs.	%
Banks, finance and insurance	246,223,638	75.24	223,609,048	67.03
Diversified holdings	63,210,440	19.31	57,329,295	17.19
Health care	-	-	13,507,500	4.05
Beverage, food and tobacco	-	-	24,600,000	7.37
Chemicals and pharmaceuticals	5,916,000	1.81	5,015,000	1.50
Motors	4,300,000	1.31	4,595,000	1.38
Manufacturing	5,810,000	1.78	4,487,000	1.35
Plantations	358,000	0.11	428,000	0.13
Land and property	1,451,360	0.44	-	-
Total	327,269,438	100.00	333,570,843	100.00

- 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.

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)**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 considered risk free. A careful analysis is done before investing in equity investments. A stringent process is in place to monitor single investment exposure limits prescribed by IBSL. In addition, the Board of Directors reviews the Company's investments portfolio on a monthly basis.

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

Category	2016		2015	
	Composition	Rs.	Composition	Rs.
Government securities	31%	1,686,014,996	40%	1,952,388,584
Listed debentures	33%	1,818,034,177	20%	981,279,763
Fixed deposits	28%	1,545,134,386	32%	1,583,541,877
Listed equity securities	6%	327,269,438	6%	333,570,843
Unit trusts	1%	48,352,898	1%	52,536,919
Others	1%	45,075,217	1%	28,120,849
Total	100%	5,469,881,112	100%	4,931,438,835

(ii) Insurance risks

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.

The Company considers insurance risk to be a combination of the following components.

- Product design risk
- Underwriting risk
- Reinsurance risk
- Claims risk

Operational risk	Mitigation strategies
<p>Product design risk</p> <p>Company issues general insurance contracts such as motor, fire and engineering, marine and miscellaneous. Product designs of the portfolio may be outdated due to changes in the climate leading to natural disasters, behavioral trends of people due to changing life styles and steady escalation of costs in respect of spare parts in the industry.</p>	<p>Diversification of insurance contracts across a large geographical areas.</p> <p>Variability of risk is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk.</p> <p>Strategies are periodically reviewed and suitable action taken.</p> <p>Constant watch on internal and external factors that may impede planned objectives.</p>
<p>Underwriting risk</p> <p>Underwriting risk generally refers to the risk of loss on underwriting activity in the insurance. In insurance, underwriting risk may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy, or from factors wholly out of the underwriter's control.</p>	<p>Improve knowledge and skills of the underwriting staff.</p> <p>Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.</p> <p>Review profitability, pricing, terms and conditions of various products.</p> <p>Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.</p>
<p>Reinsurance risk</p> <p>Reinsurance risk refers to the inability of the ceding company or the primary insurer to obtain insurance from a reinsurer at the right time and at an appropriate cost.</p>	<p>Global trusted and stable portfolio of reinsurance companies which are rated highly used for reinsurance placements.</p> <p>Very close and professional relationship is maintained with all reinsurers.</p> <p>Provisions are made for long outstanding reinsurance receivables.</p> <p>Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set-off against payables on time.</p>
<p>Claims risk</p> <p>The risk of actual claims or the timing thereof, may differ from expectations.</p>	<p>Claim intimation is done through the call centre which works 24x7 basis.</p> <p>Customers are advised of consequence of inadequate sum insured and excesses.</p> <p>Cross check information from various issues and segregation of approval and payment duties.</p> <p>Qualified independent actuary carries out independent valuation on a quarterly basis in order to assess adequacy of reserves made in relation to IBNR and IBNER claims.</p> <p>Significant outstanding claims are subjected to monthly reviews by the management and the Board of Directors.</p>

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)

The table below sets out the concentration of insurance claim liabilities by type of the contract.

As at	31.12.2016			31.12.2015		
	Gross liabilities	Reinsurance receivable	Net liabilities	Gross liabilities	Reinsurance receivable	Net liabilities
Motor	1,037,795,830	31,619,602	1,000,176,228	934,189,155	32,248,191	901,940,964
Marine	3,369,146	2,297,185	1,071,961	2,477,912	1,657,057	820,855
Fire	112,639,329	64,401,241	48,238,088	116,503,348	57,124,027	59,379,321
Miscellaneous	193,269,972	6,186,708	187,083,264	175,178,695	3,878,221	171,300,474
	1,341,074,277	104,504,736	1,236,569,541	1,228,349,110	94,907,496	1,133,441,614

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 outstanding claims provision for 2016

(All figures are in Rupees thousands unless otherwise stated)

Accident period	Current estimate of cumulative claims incurred							Total
	2010	2011	2012	2013	2014	2015	2016	
2016	(945)	(113)	(17,006)	(8,555)	5,397	50,267	2,635,203	
2015	1,703	6,377	(5,165)	35,874	31,044	2,182,704		
2014	1,465	1,577	28,391	(15,126)	2,040,473			
2013	3,148	50,297	(167,837)	2,042,094				
2012	4,224	(58,704)	2,042,934					
2011	2,762	1,396,938						
2010	213,653							
Current estimate of cumulative claims incurred	226,010	1,396,372	1,881,317	2,054,287	2,076,914	2,232,971	2,635,203	12,503,074

Accident period	Cumulative payments to date							Total
	2010	2011	2012	2013	2014	2015	2016	
2016	(390)	(8,262)	(16,478)	(12,958)	(23,979)	(389,878)	(2,129,944)	
2015	(1,718)	(16,664)	(53,691)	(28,525)	(395,617)	(1,743,315)		
2014	(2,329)	(19,215)	(29,760)	(329,993)	(1,586,379)			
2013	(3,495)	(57,574)	(252,384)	(1,621,312)				
2012	(5,154)	(311,763)	(1,465,582)					
2011	(72,227)	(893,615)						
2010	(134,902)							
Cumulative payments to date	(220,215)	(1,307,093)	(1,817,895)	(1,992,788)	(2,005,975)	(2,133,193)	(2,129,944)	(11,607,103)
Total gross claims outstanding	5,794	89,279	63,422	61,499	70,939	99,778	505,259	895,971

Net non-life insurance outstanding claims provision for 2016*(All figures are in Rupees thousands unless otherwise stated)*

Accident period	Current estimate of cumulative claims incurred							Total
	2010	2011	2012	2013	2014	2015	2016	
2016	(945)	(128)	(16,949)	(10,511)	6,864	59,287	2,549,666	
2015	1,599	6,454	(3,982)	34,203	16,076	2,100,737		
2014	1,465	2,382	28,151	(15,127)	2,023,094			
2013	3,157	51,344	(158,485)	2,034,121				
2012	4,239	(15,515)	1,976,422					
2011	4,621	1,224,086						
2010	209,132							
Current estimate of cumulative claims incurred	223,268	1,268,623	1,825,157	2,042,686	2,046,034	2,160,024	2,549,666	12,115,458

Accident period	Cumulative payments to date							Total
	2010	2011	2012	2013	2014	2015	2016	
2016	(390)	(8,244)	(16,282)	(12,833)	(23,866)	(387,579)	(2,075,965)	
2015	(1,614)	(16,664)	(31,860)	(27,883)	(369,486)	(1,756,890)		
2014	(2,329)	(17,417)	(29,152)	(329,883)	(1,564,956)			
2013	(3,495)	(32,280)	(226,969)	(1,593,260)				
2012	(5,123)	(248,760)	(1,424,239)					
2011	(71,904)	(881,711)						
2010	(131,282)							
Cumulative payments to date	(216,137)	(1,205,076)	(1,728,502)	(1,963,859)	(1,958,308)	(2,144,469)	(2,075,965)	(11,292,317)
Total net claims outstanding	7,131	63,547	96,655	78,826	87,726	15,555	473,701	823,141

Sensitivity analysis on claim handling expenses, loss development factors and provision for adverse deviation**Table 1 : Impact on claim liability to changes in key variables**

Variable	Change in variable	75% claim liabilities	Change in 75% claim liabilities
		Rs.	Rs.
Original		1,255,789,215	-
Claim handling expenses (CHE)	+10%	1,260,035,846	4,246,630
Claim handling expenses (CHE)	-10%	1,251,542,585	(4,246,630)
Loss development factors (LDF)	+10%	1,299,311,148	43,521,933
Loss development factors (LDF)	-10%	1,209,833,917	(45,955,298)
Provision for adverse deviation (PRAD)	Double	1,389,133,684	133,344,468
Provision for adverse deviation (PRAD)	Halve	1,189,116,981	(66,672,234)

NOTES TO THE FINANCIAL STATEMENTS

40 RISK MANAGEMENT FRAMEWORK (CONTD.)

Table 2: Impact on premium liability to changes in key variables

Variable	Change in variable	URR at 75% confidence level Rs.	Premium liabilities (PL) Rs.	Change in premium liabilities
Original		1,557,035,988	1,938,267,412	-
Claim handling expenses (CHE)	+10%	1,565,200,447	1,938,267,412	-
Claim handling expenses (CHE)	-10%	1,548,871,528	1,938,267,412	-
Provision for adverse deviation (PRAD)	Double	1,605,357,406	1,938,267,412	-
Provision for adverse deviation (PRAD)	Halve	1,532,875,278	1,938,267,412	-

41 RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosures.

Details of the related party transactions are reported below.

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

Transactions

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium in respect of their own policies	219,185,871	236,115,079
Insurance premium in respect of customers introduced	105,048,607	109,197,326
Service charge expense	14,190,416	13,492,768
Claims expense	52,766,863	98,724,538
Investment in repurchase agreements (Including re-investments made during the year)	13,366,207,594	12,469,230,771
Settlement of repurchase agreements (Including settlement for re-investments)	13,180,055,663	11,809,442,434
Investment income from overnight repurchase agreements	3,047,353	7,799,567
Treasury bills purchased	1,993,419,389	3,134,672,673
Interest income from fixed deposits	2,790,572	5,025,876
Interest income from savings accounts	136,576	640,243
Building rent expense	900,000	900,000

Outstanding balances

As at	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium receivable in respect of their own policies	755,661	33,942
Insurance premium receivable in respect of customers introduced	24,696,556	21,552,047
Service charge expense payable	3,569,482	2,904,541
Claims outstanding	166,796,547	161,679,094
Fixed deposits	64,814,122	59,136,055
Special foreign currency savings accounts	16,014,766	1,475,111
Building rent expenses payable	150,000	150,000
Cash at bank	127,682,380	744,956,447
Bank overdraft	74,244,436	41,752,688
	478,723,950	1,033,639,925

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

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium in respect of their own policies	120,450,339	117,730,807
Insurance premium in respect of customers introduced	3,131,843,849	3,391,437,904
Service charges	428,170,299	362,619,757
Claims expense	220,023	5,518,836
Support service expense ^{Note}	11,074,238	16,675,841
Computer maintenance expense	35,652,027	17,866,868
Debenture interest	16,921,148	16,882,342
Interest income from savings accounts	1,645,079	684,226
Interest income from fixed deposits	16,815,357	6,363,750
Building rent expenses	11,466,336	5,713,692

NOTES TO THE FINANCIAL STATEMENTS

41 RELATED PARTY TRANSACTIONS (CONTD.)**Outstanding balances**

As at	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium receivable in respect of their own policies	932,925	1,337,231
Insurance premium receivable in respect of customers introduced	587,221,250	496,975,230
Service charges payable	185,464,464	164,417,201
Claims outstanding	3,098,569	3,392,296
Support service charges payable	2,181,288	3,858,834
Debentures	112,805,902	112,771,289
Savings accounts	5,067,223	1,067,614
Fixed deposits	195,851,705	126,193,560
Building rent expenses payable	1,567,199	476,141
Inter-company current account payable	23,114,460	36,478,029
	1,117,304,985	946,967,425

Note: Support service expenses mainly include amounts payable in respect of information and communication technology, human resources and logistics services provided to the Company.

41.3 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 PLC considers its Board of Directors and their immediate family members as the key management personnel of the Company.

(a) Key management personnel compensation**Transactions**

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Directors' fees	1,325,000	650,000

b) Other transactions with key management personnel**Transactions**

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium	6,902	5,688
Claim expenses	88,667	257,151

41.4 Transactions and outstanding balances with other related companies**People's Leasing Fleet Management Limited****Transactions**

For the year ended	31.12.2016	31.12.2015
	Rs.	Rs.
Insurance premium in respect of their own policies	9,330,349	7,338,788
Vehicle hiring expenses	2,608,078	2,406,288
Assessor payments	12,581,081	9,053,546

Outstanding balances

As at	31.12.2016	31.12.2015
	Rs.	Rs.
Insurance premium receivable	38,093	149,786
Inter-company current account balance	283,975	38,478
	322,068	188,264

People's Leasing Property Development Limited**Transactions**

For the year ended	31.12.2016	31.12.2015
	Rs.	Rs.
Insurance premium in respect of their own policies	1,228,425	2,499,495

People's Microfinance Limited**Transactions**

For the year ended	31.12.2016	31.12.2015
	Rs.	Rs.
Insurance premium in respect of their own policies	4,066,034	5,456,663
Insurance premium in respect of customers introduced	82,267,516	38,646,879
Service charges	10,941,788	4,154,804

Outstanding balances

As at	31.12.2016	31.12.2015
	Rs.	Rs.
Insurance premium receivable in respect of their own policies	39,862	413,768
Insurance premium receivable in respect of customers introduced	12,881,845	10,075,967
Service charges payable	2,901,444	3,508,712
	15,823,151	13,998,447

NOTES TO THE FINANCIAL STATEMENTS

41 RELATED PARTY TRANSACTIONS (CONTD.)**People's Merchant Finance PLC****Transactions**

For the year ended	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium in respect of their own policies	660,784	795,827
Insurance premium in respect of customers introduced	2,991,177	575,765
Service charges	416,852	150,575

Outstanding balances

As at	31.12.2016 Rs.	31.12.2015 Rs.
Insurance premium receivable in respect of their own policies	325,625	787,241
Insurance premium receivable in respect of customers introduced	734,212	178,325
Service charges payable	440,086	87,416
	1,499,923	1,052,982

41.5 Transactions with other related parties

Other related entities are those which are controlled or significantly influenced, directly or indirectly by key management personnel of the Company.

Name of the company	Control, joint control or significant influence by key management personnel	Nature of transaction	2016 Rs.	2015 Rs.
MTD Walkers PLC	Mr. Jehan P. Amarathunga	Interest income from debentures	4,870,858	1,215,469
		Carrying amount of debenture investments	51,211,327	51,215,469
Sanasa Development Bank PLC	Mr. Lakshman Abeysekera	Interest income from debentures	5,196,848	-
		Carrying amount of debenture investments	52,621,842	50,000,000

41.6 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 transactions 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

42 ASSETS PLEDGED

The following asset has been pledged as a security for liabilities.

Nature of asset	Nature of liability	2016 Rs.	2015 Rs.	Classification
Fixed deposit at People's Bank	Bank overdraft facility	10,000,000	10,000,000	Loans and receivables
Fixed deposit at People's Bank	Bank guarantee	2,000,000	-	Loans and receivables

43 EVENTS AFTER THE REPORTING DATE

43.1 Dividends

- The Board of Directors of the Company has approved and paid a second interim dividend of Rs. 0.75 per share for the financial year ended 31 December 2016. In accordance with Sri Lanka Accounting Standards (LKAS) 10 - Events after the Reporting Period, this second interim dividend has not been recognised as a liability as at 31 December 2016.
- The Board of Directors of the Company has proposed a final dividend of Rs. 0.25 per share for the financial year ended 31 December 2016 to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standards (LKAS) 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31 December 2016.

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

NOTES TO THE FINANCIAL STATEMENTS

44 CAPITAL COMMITMENTS AND CONTINGENCIES**44.1 Capital commitments**

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

44.2 Contingencies

In the opinion of the Directors and the Company's lawyers, pending litigation against the Company will not have a material impact on the reported financial results or future operations of the Company.

All pending litigation for claims has been evaluated and adequate provisions have been made in the financial statements.

45 COMPARATIVE INFORMATION

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

46 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these financial statements. Please refer pages 193 to 194 for the Statement of Directors' Responsibility for Financial Reporting.

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SHAREHOLDER INFORMATION

COMPANY OVERVIEW

People's Insurance PLC was incorporated as a public limited liability company on 22nd July 2009 under the Companies Act No. 7 of 2007 and was registered as a non-life insurance provider under the Regulation of Insurance Industry Act No. 43 of 2000.

The Company commenced commercial operations in January 2010, with its main focus on motor insurance, although many other non-life insurance products were also offered to its clients.

As per section 52(1) of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 (RII Amendment Act), every insurance company in existence when the RII Amendment

Act came into operation is required to have itself listed within five years from the effective date of the said RII Amendment Act on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987. In compliance with this requirement, the Company carried out an Initial Public Offering (IPO) in December 2015 through which 50 million new ordinary shares of the Company were issued to the public at Rs. 15 per share. Subsequent to the IPO, the ordinary shares of the Company were listed on the Main Board of the Colombo Stock Exchange on 12th January 2016.

The information required by section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) in its annual report and accounts is disclosed below.

NAMES OF DIRECTORS

The names of persons who held the position of Directors during the financial year are given in the Annual Report of the Board of Directors on page 175.

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company during the year are given in the Annual Report of the Board of Directors on page 172 and Note 1 to the Financial Statements on page 204.

TOP 20 SHAREHOLDERS

The 20 largest shareholders as at 31st December 2016 together with their shareholding as at 12th January 2016 and 31st December 2015 are given in the following table.

Name of Shareholder	31st December 2016		12th January 2016		31st December 2015	
	Shareholding	% on Total	Shareholding	% on Total	Shareholding	% on Total
	No. of Shares		No. of Shares		No. of Shares	
People's Leasing & Finance PLC	150,000,000	75.00	150,000,000	75.00	150,000,000	100.00
J. B. Cocoshell (Pvt) Ltd	4,287,562	2.14	2,880,800	1.44	-	-
Mr. Kulappu Arachchige Don Anurada Perera	3,380,884	1.69	-	-	-	-
Deutsche Bank AG AS Trustee for JB Vantage Value Equity Fund	2,934,413	1.47	2,306,900	1.15	-	-
NDB Investment Bank Limited	2,880,800	1.44	2,880,800	1.44	-	-
NDB Capital Holdings PLC	2,880,800	1.44	2,880,800	1.44	-	-
Rubber Investment Trust Limited A/C # 01	2,689,400	1.34	2,689,400	1.34	-	-
Askold (Private) Limited	2,122,600	1.06	2,306,900	1.15	-	-
The Ceylon Investment PLC A/C # 02	1,765,200	0.88	1,765,200	0.88	-	-
The Ceylon Guardian Investment Trust PLC A/C # 02	1,765,200	0.88	1,765,200	0.88	-	-
East India Holding (PVT) Ltd	1,602,806	0.80	-	-	-	-
Jafferjee Brothers (Exports) Limited	1,159,300	0.58	1,159,300	0.58	-	-
Seylan Bank PLC/Pinnadoowage Aravinda De Silva	1,000,000	0.50	-	-	-	-
NDB Wealth Growth Fund	998,234	0.50	1,400,000	0.70	-	-
Union Assurance PLC/Account No. 05 (Unit-Linked Life Insurance Fund-Equity Tracker Fund)	971,451	0.49	-	-	-	-
Mr. Gulzar Hussein Ibrahim Jafferjee	769,100	0.38	769,100	0.38	-	-
Mr. Murtaza Ali Jafferjee	769,100	0.38	769,100	0.38	-	-
E. W. Balasuriya & CO. (Pvt) Ltd	626,500	0.31	-	-	-	-
Hallsville Trading Group INC	626,500	0.31	-	-	-	-
ACL Plastics Limited	585,500	0.29	585,500	0.29	-	-
	183,815,350	91.88	174,159,000	87.05	-	-
Others	16,184,650	8.12	25,841,000	12.95	-	-
	200,000,000	100.00	200,000,000	100.00	-	-

PUBLIC SHAREHOLDING

Details of the public shareholding are given below.

	31st December 2016		12th January 2016		31st December 2015	
	No. of Shareholders	% on Total No. of Shareholders	No. of Shareholders	% on Total No. of Shareholders	No. of Shareholders	% on Total No. of Shareholders
Number of shareholders	1,514	99.86	1,902	99.89	-	-

	31st December 2016		12th January 2016		31st December 2015	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Number of shares	49,875,000	24.94	49,970,000	24.98	-	-

DIRECTORS' SHAREHOLDING

The details of the Directors' Shareholding at the beginning and at the end of the year are given as follows.

Name of the Director	No. of Shares as at 31st December 2016	No. of Shares as at 12th January 2016	No. of Shares as at 31st December 2015
Jehan P. Amaratunga - Chairman	Nil	Nil	Nil
N. Vasantha Kumar	Nil	Nil	Nil
D. P. Kumarage - Managing Director	125,000	30,000	Nil
L. Abeysekera	Nil	Nil	Nil
Fathima Farah Hussain (Resigned on 10th May 2016)	Nil	Nil	Nil
W. M. Abeyrathna Bandara	Nil	Nil	Nil
N. P. Karunaratne	Nil	Nil	Nil
S. P. K. Gunarathne	Nil	Nil	Nil

MATERIAL FORESEEABLE RISK FACTORS OF THE COMPANY

Information pertaining to material foreseeable risk factors is given on the Enterprise Risk Management report on pages 185 to 190.

MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS OF THE COMPANY

There were no material issues pertaining to employees and industrial relations pertaining to the Company that occurred during the year under review which require disclosure as per Rule No. 7.6 (vii) of the Listing Rules of the CSE.

COMPANY'S LAND HOLDINGS AND INVESTMENT PROPERTIES

The Company does not hold any land or investment properties as of the reporting date.

SHAREHOLDER INFORMATION

STATED CAPITAL

The number of shares representing the Company's stated capital is given below.

	No. of Shares as at 31 December 2016	No. of Shares as at 12 January 2016	No. of Shares as at 31 December 2015
Stated capital (Rs.)	1,350,000,000	1,350,000,000	600,000,000
No. of shares	200,000,000	200,000,000	150,000,000
Class of shares	Ordinary shares	Ordinary shares	Ordinary shares
Voting rights	One vote per ordinary share	One vote per ordinary share	One vote per ordinary share

SHAREHOLDINGS

a) Distribution and Composition of Shareholding

There were 1,516 registered shareholders as at 31 December 2016. The distribution and composition of shareholders are given as follows;

Shareholding	Resident			Non-resident			Total		
	No. of Shareholders	No. of Shares	% on Total No. of Shares	No. of Shareholders	No. of Shares	% on Total No. of Shares	No. of Shareholders	No. of Shares	% on Total No. of Shares
1 – 1,000 shares	734	319,844	0.16	3	1,344	0.00	737	321,188	0.16
1,001 – 10,000 shares	516	2,608,451	1.30	2	15,000	0.01	518	2,623,451	1.31
10,001 – 100,000 shares	205	5,712,668	2.86	6	155,062	0.08	211	5,867,730	2.94
100,001 – 1,000,000 shares	36	12,926,406	6.46	2	792,260	0.40	38	13,718,666	6.86
Over 1,000,000 shares	12	177,468,965	88.73	-	-	-	12	177,468,965	88.73
Total	1,503	199,036,334	99.51	13	963,666	0.49	1,516	200,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-resident

	31 December 2016		
	No. of Shareholders	No. of Shares	%
Resident	1,503	199,036,334	99.51
Non-resident	13	963,666	0.49
Total	1,516	200,000,000	100.00

ii. Individual/Institutional

	31 December 2016		
	No. of Shareholders	No. of Shares	%
Individual	1,410	15,515,377	7.76
Institutional	106	184,484,623	92.24
Total	1,516	200,000,000	100.00

INVESTOR RATIOS

Year	Earnings Per Share (EPS) Rs.	Dividend Per Share (DPS)		Dividend Pay-out Ratio %	Net Assets Per Share (NAPS) Rs.
		Interim Rs.	Final Rs.		
2011	0.48	-	0.20	12	10.67
2012	1.56	-	1.00	25	14.38
2013	2.47	1.50	0.75	36	18.08
2014	3.00	1.50	2.00	47	23.50
2015	3.09	2.00	0.60	52	15.01
2016	3.29	1.50	0.25	53	13.15

SHARE PERFORMANCE

Details relating to the share performance are given below.

	2016			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Number of transactions	2,914	997	1,487	736
Number of shares traded	16,771,390	2,325,516	5,972,178	3,736,369
Value of shares traded (Rs.)	273,828,855	40,608,374	104,218,988	70,610,560
Market price per share				
Highest (Rs.)	17.50	18.30	19.10	19.40
Lowest (Rs.)	14.70	16.20	16.20	18.00
Last traded price (Rs.)	16.90	16.20	18.70	19.00
P/E ratio	6.38	6.19	5.79	5.78

VALUATION OF PROPERTY PLANT AND EQUIPMENT

There were no significant changes in the Company's property, plant and equipment (PPE) and Company did not own lands as assets. Details relating to the changes in the Company's PPE are given in Note 20 to the financial statements on pages 227 to 228.

EMPLOYEE SHARE OPTION SCHEME

There is no employee share ownership scheme in the Company.

DISCLOSURES PERTAINING TO THE CORPORATE GOVERNANCE

Disclosures pertaining to corporate governance practices in terms of Rules 7.10.3, 7.10.5 (c), and 7.10.6 (c) of section 7 of the rules are given in the Governance report on pages 166 to 168.

RELATED PARTY TRANSACTIONS

There were no individual transactions exceeding the limit of 10% of the equity or 5% of the total assets during the year with any related party of the Company. However, all related party transactions at aggregate level have been disclosed in Note 41 to the financial statements.

SHAREHOLDER INFORMATION

INITIAL PUBLIC OFFERING

Raise of funds

The Company offered 50 million ordinary shares at Rs. 15 per share to the public through an Initial Public Offering (IPO) in December 2015 and raised Rs. 750 million. New ordinary shares in respect of the IPO were issued in January 2016. The objectives of the IPO were as follows;

1. Meet the regulatory requirement of listing the Company on a licensed stock exchange by 7th February 2016 as per section 52(1) of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011.
2. Further strengthen the equity base of the Company and thereby the Capital Adequacy Ratio (CAR) under the Risk Based Capital (RBC) regime implemented by the IBSL effective from 2016. The proceeds from the IPO are to be invested in financial securities keeping in line with asset allocation strategy of the Company.

Utilisation of funds

According to the objective number two specified above, the funds raised were invested in financial securities. A detailed analysis of the utilisation of funds is tabulated below.

Objective Number	Objective as per Prospectus	Amount Allocated as per Prospectus in Rs.	Proposed Date of Utilisation as per Prospectus	Amount Allocated from Proceeds in Rs. (A)	% of Total Proceeds	Amounts Utilised in Rs. (B)	% of Utilisation Against Allocation (B/A)	Classification if not Fully Utilised
2	Please refer the objective number two mentioned under 'Raise of funds'. The proposed asset allocation of the funds raised through the IPO as per the prospectus is as follows;							
	Corporate debt 50%	375,000,000	During the financial year 2016	375,000,000	50%	375,000,000	100%	} Note
	Fixed deposits 25%	187,500,000		187,500,000	25%	187,500,000	100%	
	Government securities 15%	112,500,000		112,500,000	15%	153,675,196	137%	
	Equity 10%	75,000,000		75,000,000	10%	33,824,804	45%	
		750,000,000		750,000,000	100%	750,000,000		

Note: Due to the sluggish performance of the CSE in 2016, the full amount allocated was not invested in listed shares. These funds have been temporarily invested in Government securities.

QUARTERLY ANALYSIS 2016

	1st Quarter Jan - Mar Rs.	2nd Quarter Apr - Jun Rs.	3rd Quarter Jul - Sep Rs.	4th Quarter Oct - Dec Rs.	Total Rs.
Revenue	962,305,031	1,028,451,146	1,136,336,905	1,123,015,146	4,250,108,228
Gross written premium	925,371,045	1,070,940,754	1,215,101,676	1,128,166,194	4,339,579,669
Net change in reserve for unearned insurance premium	34,257,912	(77,454,021)	(179,579,307)	(61,973,933)	(284,749,349)
Gross earned premium	959,628,957	993,486,733	1,035,522,369	1,066,192,261	4,054,830,320
Premium ceded to reinsurers	(45,023,701)	(180,130,788)	(77,363,202)	(48,203,597)	(350,721,288)
Net change in reserve for unearned reinsurance premium	(28,410,908)	80,396,984	(10,097,899)	(22,764,296)	19,123,881
Net earned premium	886,194,348	893,752,929	948,061,268	995,224,368	3,723,232,913
Claims and expenses					
Net claims	(605,509,711)	(644,226,066)	(713,727,778)	(664,831,508)	(2,628,295,063)
Underwriting and net acquisition costs	(91,153,217)	(93,573,858)	(96,369,832)	(99,387,482)	(380,484,389)
Other operating and administrative expenses	(115,489,259)	(119,654,489)	(137,831,305)	(135,343,571)	(508,318,624)
	(812,152,187)	(857,454,413)	(947,928,915)	(899,562,561)	(3,517,098,076)
Underwriting results	74,042,161	36,298,516	132,353	95,661,807	206,134,837
Other revenue					
Fee income	9,354,653	9,537,661	11,130,076	9,756,046	39,778,436
Interest and dividend income	99,468,933	115,766,409	126,639,383	133,079,547	474,954,272
Net fair value gains/(losses)	(34,333,497)	7,690,443	47,508,906	(9,841,472)	11,024,380
Other income	1,620,594	1,703,704	2,997,272	(5,203,343)	1,118,227
	76,110,683	134,698,217	188,275,637	127,790,778	526,875,315
Profit before tax	150,152,844	170,996,733	188,407,992	223,452,583	733,010,152
Income tax expense	(22,449,150)	(17,574,706)	(16,804,795)	(18,184,233)	(75,012,884)
Profit for the period	127,703,694	153,422,027	171,603,197	205,268,350	657,997,268

QUARTERLY ANALYSIS 2015

	1st Quarter Jan - Mar Rs.	2nd Quarter Apr - Jun Rs.	3rd Quarter Jul - Sep Rs.	4th Quarter Oct - Dec Rs.	Total Rs.
Revenue	854,772,244	893,556,001	906,194,721	962,686,231	3,617,209,197
Gross written premium	826,946,606	958,712,052	1,057,165,016	970,447,982	3,813,271,656
Net change in reserve for unearned insurance premium	25,475,769	(74,425,056)	(152,618,611)	(32,005,373)	(233,573,271)
Gross earned premium	852,422,375	884,286,996	904,546,405	938,442,609	3,579,698,385
Premium ceded to reinsurers	(44,504,317)	(153,242,489)	(56,565,682)	(50,656,591)	(304,969,079)
Net change in reserve for unearned reinsurance premium	(30,885,383)	67,900,317	(24,113,508)	(19,690,706)	(6,789,280)
Net earned premium	777,032,675	798,944,824	823,867,215	868,095,312	3,267,940,026
Claims and expenses					
Net claims	(527,632,978)	(540,109,729)	(598,684,866)	(591,009,400)	(2,257,436,973)
Underwriting and net acquisition costs	(78,761,846)	(82,963,155)	(86,202,258)	(89,704,497)	(337,631,756)
Other operating and administrative expenses	(95,390,298)	(102,721,568)	(111,052,754)	(110,011,346)	(419,175,966)
	(701,785,122)	(725,794,452)	(795,939,878)	(790,725,243)	(3,014,244,695)
Underwriting results	75,247,553	73,150,372	27,927,337	77,370,069	253,695,331
Other revenue					
Fee income	8,330,234	8,716,572	10,109,790	10,027,126	37,183,722
Interest and dividend income	69,492,985	74,466,422	73,023,484	82,473,822	299,456,713
Net fair value gains/(losses)	(1,799,881)	9,909,613	(6,281,887)	(3,234,498)	(1,406,653)
Other operating revenue	1,716,231	1,518,570	5,476,119	5,324,469	14,035,389
	77,739,569	94,611,177	82,327,506	94,590,919	349,269,171
Profit before tax	152,987,122	167,761,549	110,254,843	171,960,988	602,964,502
Income tax expense	(38,809,915)	(49,852,295)	(25,877,043)	(24,257,955)	(138,797,208)
Profit for the period	114,177,207	117,909,254	84,377,800	147,703,033	464,167,294

FIVE YEAR SUMMARY

	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
Statement of Income					
Revenue	4,250,108,228	3,617,209,197	3,411,464,345	3,194,839,580	2,730,309,771
Gross written premium	4,339,579,669	3,813,271,656	3,440,608,282	3,251,084,198	2,944,487,069
Net earned premium	3,723,232,913	3,267,940,026	2,990,467,164	2,800,480,830	2,448,241,131
Net claims	(2,628,295,063)	(2,257,436,973)	(2,162,703,667)	(2,120,218,765)	(1,970,048,532)
Underwriting and net acquisition costs	(380,484,389)	(337,631,756)	(310,773,268)	(292,259,004)	(243,880,865)
Other operating and administrative expenses	(508,318,624)	(419,175,966)	(365,149,241)	(281,481,769)	(192,384,167)
Underwriting results	206,134,837	253,695,331	151,840,988	106,521,292	41,927,567
Other revenue	526,875,315	349,269,171	420,997,181	394,358,750	282,068,640
Profit before tax	733,010,152	602,964,502	572,838,169	500,880,042	323,996,207
Income tax expense	(75,012,884)	(138,797,208)	(122,711,070)	(130,055,888)	(89,338,958)
Profit for the year	657,997,268	464,167,294	450,127,099	370,824,154	234,657,249
Statement of Financial Position					
Assets					
Intangible assets	23,388,110	36,164,330	48,940,550	61,716,770	3,492,990
Property, plant and equipment	21,388,037	21,600,023	26,056,186	28,310,298	25,529,408
Financial assets	5,469,881,112	4,931,438,835	3,644,915,439	3,190,344,558	2,609,366,419
Reinsurance and insurance receivables	828,695,737	686,355,800	661,014,992	546,024,788	509,690,530
Deferred expenses	220,580,020	200,827,593	180,766,259	167,355,627	155,523,082
Other assets	16,003,150	20,016,352	11,942,400	22,204,603	14,948,847
Deferred tax asset	1,871,693	-	-	-	-
Cash in hand and balance at bank	138,335,984	745,691,980	184,614,106	5,221,146	391,104
Total assets	6,720,143,843	6,642,094,913	4,758,249,932	4,021,177,790	3,318,942,380
Equity and liabilities					
Equity					
Stated capital	1,350,000,000	1,350,000,000	600,000,000	600,000,000	600,000,000
Reserves	1,279,456,934	900,994,133	810,041,452	484,881,247	263,001,884
Total equity	2,629,456,934	2,250,994,133	1,410,041,452	1,084,881,247	863,001,884
Liabilities					
Insurance liabilities	3,557,794,382	3,166,616,516	2,901,132,152	2,516,037,434	2,171,701,475
Retirement benefit obligations	12,920,220	6,027,515	4,432,438	2,493,213	1,386,394
Financial and other liabilities	404,295,518	1,133,942,877	362,964,321	373,410,580	218,718,248
Reinsurance payable	41,432,353	36,820,195	62,262,569	23,979,309	45,239,822
Deferred tax liability	-	5,940,989	13,576,697	18,344,385	1,313,153
Bank overdraft	74,244,436	41,752,688	3,840,303	2,031,622	17,581,404
Total liabilities	4,090,686,909	4,391,100,780	3,348,208,480	2,936,296,543	2,455,940,496
Total equity and liabilities	6,720,143,843	6,642,094,913	4,758,249,932	4,021,177,790	3,318,942,380

FIVE YEAR SUMMARY

	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
Investor Information					
Return on net assets (%)	25.02	*20.62	31.92	34.18	27.19
Earnings per share (Rs.)	3.29	3.09	3.00	2.47	1.56
Dividend per share - Interim (Rs.)	1.50	2.00	1.50	1.50	-
- Final (Rs.)	0.25	0.60	2.00	0.75	1.00
Net assets per share (Rs.)	13.15	15.01	23.50	18.08	14.38
Other Information					
Number of employees	330	284	245	210	165
Number of shares	200,000,000	150,000,000	60,000,000	60,000,000	60,000,000

* Net assets used as the denominator in calculation of return on net assets includes capital raised through the IPO amounting to Rs. 750 million in December 2015.

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 position. 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 subsequent amendments thereto.

AGENT

An individual who is an independent contractor authorised to carry out transactions on behalf of another, such as the sale of insurance policies. Insurance agents usually earn commission or a fee on the sale of a policy. In Sri Lanka they are tied to a particular insurance company and offer a limited selection of products.

ALL RISKS

A property insurance which covers any accidental loss or damage that is not specifically excluded under the policy.

ANNUAL BASIS OF ACCOUNTING

A basis of accounting for non-life insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

BROKER

A firm that acts as an intermediary between a buyer and seller, usually charging commission or a fee. Insurance brokers arrange cover on behalf of their clients and represent the interests of the policyholder.

BURGLARY AND THEFT

Coverage for property taken or destroyed by breaking and entering the insured's premises, burglary or theft, forgery or counterfeiting, fraud, kidnap and ransom and off-premises exposure.

CAPITAL ADEQUACY RATIO

A risk-based Capital Adequacy Ratio (CAR) measures the relative adequacy of an insurer's capital. The CAR value reports on the adequacy of the Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk-based Capital Required (RCR).

CASUALTY INSURANCE

A form of liability insurance providing coverage for negligent acts and omissions such as workers compensation, errors and omissions, fidelity, crime, glass, boiler and various malpractices coverage.

CEDENT

A ceding insurer. A ceding insurer is an insurer that underwrites and issues an original, primary policy to an insured and contractually transfers (cedes) a portion of the risk to a reinsurer.

CESSION

A particular risk exposure that is transferred under a reinsurance treaty.

CLAIMS HANDLING EXPENSES (CHE)

Expenses incurred while investigating and settling an insurance claim, over and above the cost of the claim itself. Can include legal and other professional fees. Also known as loss adjustment expenses.

CLAIMS INCURRED

Claims incurred include paid claims and movements in outstanding claims.

CLAIMS NOTIFICATION CLAUSE

A clause in an insurance or reinsurance contract which sets out the procedure that the insured or reassured must follow in order to make a claim under the contract. Such clauses frequently provide for prompt notification of claims and events which may give to claims in the future.

CLAIMS OUTSTANDING

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the balance sheet date, including incurred but not reported (IBNR) claims and claims handling expenses, less amounts already paid in respect of those claims.

CO-INSURANCE

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

GLOSSARY OF INSURANCE TERMS

COMBINED RATIO

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

COMMERCIAL PACKAGE POLICY

A broad package of property and liability coverage for commercial ventures other than those provided insurance through a business owners' policy.

COVER NOTE

A document issued by an insurer/broker, pending the issue of a policy which confirms the arrangement of cover for the named insured/reassured. Motor insurance cover notes that are issued in Sri Lanka are usually of short duration.

DEDUCTIBLE

Loss retention of the reinsured in non-proportional reinsurance. Limit above which the reinsurer becomes liable for losses up to the amount of the agreed cover limit.

DEFERRED ACQUISITION COSTS

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.

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.

GROSS/NET

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

FACULTATIVE REINSURANCE

Reinsurance for a single risk or a defined package of risks. The ceding company (the primary issuer) is not compelled to submit these risks to the reinsurer, but neither is the reinsurer compelled to provide reinsurance protection.

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 NET PREMIUM INCOME

Gross premium volume corresponding to the portfolio covered by a non-proportional reinsurance treaty.

GROSS PREMIUM

Original and additional inward premiums, plus any amount in respect of administration fees or policy expenses remitted with a premium but before the deduction of outward reinsurance premiums.

INCURRED BUT NOT REPORTED (IBNR) LOSSES

Estimated losses which an insurer or reinsurer, based on its knowledge or experience of underwriting similar contracts, believes have arisen or will arise under one or more contracts of insurance or reinsurance, but which have not been notified to an insurer or reinsurer at the time of their estimation.

INDEMNITY

The principle according to which a person who has suffered a loss is restored (so far as possible) to the same financial position that he was in immediately prior to the loss, subject in the case of insurance to any contractual limitation as to the amount payable (the loss may be greater than the policy limit). The application of this principle is called indemnification. Most contracts of insurance are contracts of indemnity. Life insurances and personal accident insurances are not contracts of indemnity as the payments due under those contracts for loss of life or bodily injury are not based on the principle of indemnity.

INSURANCE CONTRACT

A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.

INSURANCE PROVISION

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

INSURANCE RISK

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

LAYER

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

LIABILITY ADEQUACY TEST (LAT)

A test that needs to be performed by an insurer to determine whether its recognised

insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts as per the Sri Lanka Accounting Standards.

LOSS ADJUSTER

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

LOSS DEVELOPMENT FACTORS (LDF)

There is a general upward trend in claim totals after the initial reporting period called "loss development." A common method of adjusting losses for the growth in claims and incurred but not reported (IBNR) losses is to apply loss development factors.

NET EXPENSE RATIO

Expenses associated with running an insurance business, such as commission, professional fees and other administrative costs, expressed as a percentage of net earned premiums.

NET PREMIUM

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

PREMIUM

The payment a policyholder makes in return for insurance cover. Usually paid annually.

PREMIUM LIABILITY

The amount required to be held in respect of the unexpired period of exposure and considers the unearned premium reserves held and estimate of unexpired risk reserves.

PROVISION OF RISK MARGIN FOR ADVERSE DEVIATION (PRAD)

The provision of risk margin for adverse

deviation that relates to the inherent uncertainty in the central estimate value of both the premium and claim liabilities at a 75% level of sufficiency.

REINSURANCE

A form of insurance bought by insurance companies to protect themselves from the risk of large losses. One insurer pays to place part of an insured risk or an entire book of business with one or more other insurance companies, known as the reinsurers.

REINSURANCE COMMISSION

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

REINSURANCE INWARDS

The acceptance of risks under a contract of reinsurance.

REINSURANCE OUTWARDS

The placing of risks under a contract of reinsurance.

REINSURANCE PREMIUM

The premium payable to the reinsurer. Reinsurance is an arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

REINSURANCE PROFIT COMMISSION

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

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

GLOSSARY OF INSURANCE TERMS

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

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 and subsequent amendments thereto made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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.

TECHNICAL RESERVE

This comprises the claims reserve net of reinsurance, unearned premium reserve net of reinsurance and the deferred acquisition expenses.

TOTAL AVAILABLE CAPITAL

Measures the actual available capital held by an insurer eligible to calculate capital adequacy.

TREATY REINSURANCE

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

UNDERINSURANCE

Insurance where the sum insured is less than the full value at risk and would not be adequate to meet a total loss.

UNDERWRITING

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

UNDERWRITING PROFIT

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

UNEARNED PREMIUM

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

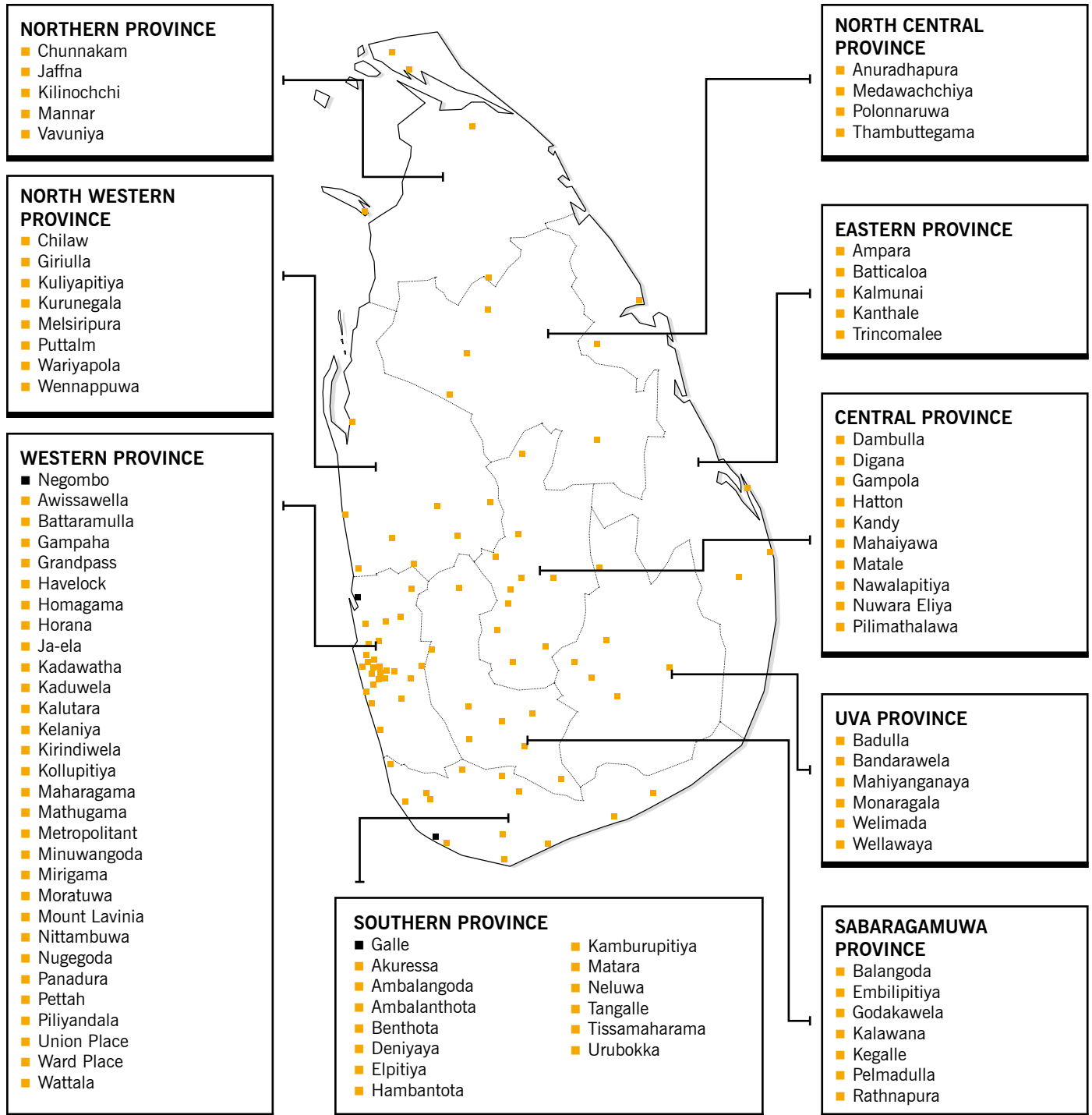
UNEXPIRED RISK RESERVE (URR)

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

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.

DISTRIBUTION NETWORK



- Regional office
- Window office at People's Leasing & Finance PLC branch network

DISTRIBUTION NETWORK

HEAD OFFICE

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

REGIONAL OFFICES

Galle
No. 118, Matara Road, Galle.
Tel : 091-2248671
Fax : 091-2227388

MOTOR CENTRE

No. 167, Union Place,
Colombo 02.
Tel : 011-2161900
Fax : 011-2161929

Negombo
No. 159, Colombo Road, Negombo.
Tel : 031-2235514
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
Digana	No. 118/E, Rajawella 2, Rajawella.	081-2376923	081-2376223	Mr. Viraj Thushara
Gampola	No. 131, Nuwara Eliya Road, Gampola.	081-2353030	081-2354154	Mr. Sandaruwan Herath
Hatton	No. 199/B-1, Dimbulla Road, Hatton.	051-2224667	051-2225681	Mr. Kittnasamy Vijadhasan
Kandy	No. 177, D. S. Senanayaka Veediya, Kandy.	081-2205419	081-4471654	Mr. Lahiru Madusanka
Kandy 02	No. 483/B, Wiliyam Gopallawa Mawatha, Kandy.	081-2238051	081-2238054	Mrs. Windya Pinnawala
Kandy (Islamic)	No. 45, Katugasthota Road, Kandy.	081-2205651	081-2205044	Mr. Susantha Herath
Mahaiyawa	No. 288, Katugasthota Road, Kandy.	081-2205947	081-2205937	Mr. Palitha Bandara
Matale	No. 568, Trincomalee Street, Matale.	066-2226400	066-2226402	Mr. Sudes Liyanage
Nawalapitiya	No. 75, Ambagamuwa Road, Nawalapitiya.	054-2224482	054-2224485	Mr. Isuru Heshan
Nuwara Eliya	No. 36, K. Ramanathan Complex, Park Road, Nuwara Eliya.	052-2224119	052-2224122	Mr. Sameera Janaruwan
Pilimathalawa	No. 174, Kandy Road, Pilimathalawa.	081-2056338	081-2056339	Mr. Chamara Sampath
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
Kalmunai	No. 82, Main Street, Kalmunai.	067-2225486	067-2225485	Mr. Mohomad Sifan
Kanthale	No. 72/1, Agrabodhi Mawatha, Kanthale.	026-2234935	026-2234936	Mr. Sampath Bandara
Trincomalee	No. 445/1, Dockyard Road, Trincomalee.	026-2225285	026-2225286	Mr. Nadeeth Prithikumara

Branch	Address	Telephone Number	Fax Number	Contact Person
North Central Province				
Anuradhapura	No. 387, Harischandra Mawatha, Anuradhapura.	025-2224902	025-2234966	Mr. Niluka Sampath
Medawachchiya	No. 17, Mannar Road, Medawachchiya.	025-2245209	025-2245414	Mr. Ashen Mayuranga
Polonnaruwa	No. 407, Main Street, Kaduruwela, Polonnaruwa.	027-2226719	027-2222961	Mr. Chamika Bandara
Thambuttegama	No. 326, Queen Junction, Kurunagala Road, Thambuttegama.	025-2276180	025-2275511	Mr. Lakshitha Madusanka
Northern Province				
Chunnakam	No. 15, K. K. S. Road, Chunnakam.	021-2241105	021-2242072	Mr. Sivapalan Sivakajan
Jaffna	No. 12, Stanly Road, Jaffna.	021-2228031	021-2229627	Mr. Thuraisingam Thusjendran
Kilinochchi	No. 253, Kandy Road, Kilinochchi.	021-2283869	021-2285308	Mr. Nadarajah Arun
Mannar	No. 109, Hospital Road, Sinnakadi, Mannar.	023-2251342	023-2251370	Mr. Jesuthasan Jenushan
Vavuniya	No. 9 1/1, Station Road, Vavuniya.	024-2225860	024-2225861	Mr. Balasanmugaraja Thuvakaran
North Western Province				
Chilaw	No. 10, Colombo Road, Chilaw.	032-2224844	032-2224103	Mr. Chamara Ranga
Giriulla	No. 199, Kurunegala Road, Giriulla.	037-2288316	037-2288805	Mr. M. T. Roshan
Kuliyapitiya	No. 88, Kurunegala Road, Kuliyapitiya.	037-2281343	037-2281525	Mr. Lakmal Tharanga
Kurunegala	No. 183B, Colombo Road, Kurunegala.	037-2221582	037-2231505	Mr. Clement Tharindu
Melsiripura	No. 237, Dambulla Road, Melsiripura.	037-2250229	037-2250482	Mr. Amal Ranasinghe
Puttalam	No. 97B, Kurunegala Road, Puttalam.	032-2266893	032-2266895	Mr. Imsaf Ahamed
Wariyapola	No. 119, Kurunegala Road, Wariyapola.	037-2233426	037-2268311	Mr. Dhammika Kumara
Wennappuwa	No. 327 1/1, Colombo Road, Wennappuwa.	031-2245663	031-2245662	Mr. Gayan Kavinda
Sabaramuwa Province				
Balangoda	No. 118A, 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
Godakawela	No. 52, Main Street, Godakawela	045-2240607	045-2240604	Mr. Buddika Priyanath
Kalawana	No. 43, Mathugama Road, Kalawana.	045-2256001	045-2256003	Mr. Chamindu Chathuranga
Kegalle	No. 345, Main Street, Kegalle.	035-2230101	035-2230195	Mr. Shalitha Gunathilake
Pelmadulla	No. 118/1, Rathnapura Road, Pelmadulla.	045-2276081	045-2276083	Mr. Amila Wijayanayake
Rathnapura	No. 102, Colombo Road, Rathnapura.	045-2224755	045-2230678	Mr. Gayan Ravinatha

DISTRIBUTION NETWORK

Branch	Address	Telephone Number	Fax Number	Contact Person
Southern Province				
Akuressa	No. 77, Matara Road, Akuressa.	041-2284711	041-2283925	Mr. Dushara Maduranga
Ambalangoda	No. 105A, New Galle Road, Ambalangoda.	091-2255646	091-2255649	Mr. Dilan Suresh
Ambalanthota	No. 32 1/1, Tissa Road, Ambalanthota.	047-2225265	047-2225266	Mr. Amila Isanka
Benthota	No. 147, Galle Road, Benthota.	034-2271640	034-2271633	Mr. Lukshan Cooray
Deniyaya	No. 150, Akuressa Road, Deniyaya.	041-2273341	041-2273713	Mr. Madhura Chathuranga
Elpitiya	No. 44, Ambalangoda Road, Elpitiya.	091-2290817	091-2291847	Mr. Achala Isuru
Hambanthota	No. 102K, Main Street, Hambanthota.	047-2221276	047-2221277	Mr. Supun Tharuka
Kamburupitiya	No. 217, Matara Road, Kamburupitiya.	041-2294620	041-2294622	Mr. Sachith Buddhika
Matara	No. 45/A, Anagarika Dharmapala Mawatha, Matara.	041-2220129	041-2225985	Mr. Thilina Kalhara
Neluwa	No. 08, Dellawa Road, Neluwa.	091-3094691	091-4943766	Mr. Lahiru Kavinda
Tangalle	No. 138A, Matara Road, Tangalle.	047-2242501	047-2242503	Mr. Ashan Dinuka
Thissamaharama	No. 171, Main Street, Tissamaharamaya.	047-2239671	047-2239673	Mr. Nimesh Indika
Urubokka	No. 466D, Main Street, Urubokka.	041-2272175	041-2272176	Mr. Dinesh Madushanka
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. Anil Madushanka
Mahiyanganaya	No. 03, Sri Jayasanka Building, Kandy Road, Mahiyanganaya.	055-2257738	055-2257737	Mr. Thushara Namal
Monaragala	No. 32, Pothuvil Road, Monaragala.	055-2277485	055-2277486	Mr. Oshan Ishara
Welimada	No. 11A, Boralanda Road, Welimada.	057-2244994	057-2244995	Mr. Chanaka Samantha
Wellawaya	No. 128, Monaragala Road, Wellawaya.	055-2274035	055-2274025	Mr. Manahara Prasad
Western Province				
Awissawella	No. 15, Kudagama Road, Awissawella.	036-2233791	036-2233793	Mr. Lahiru Suranjith
Battaramulla	No. 261, Main Street, Battaramulla.	011-2886818	011-2886824	Mr. Mithila Dhananjaya
Gampaha	No. 65, Yakkala Road, Gampaha.	033-2233892	033-2232733	Mr. Harshan Fernando
Grandpass	No. 507, Sirimavo Bandaranayake Mawatha, Colombo 14.	011-2340013	011-2340025	Mr. Hashan Rayantha
Havelock	No. 62, Havelock Road, Colombo 05.	011-2592432	011-2592445	Mr. Roshantha Perera
Homagama	No. 121/3, Highlevel Road, Homagama.	011-2098141	011-2098144	Mr. Dimuthu Sandaruwan

Branch	Address	Telephone Number	Fax Number	Contact Person
Horana	No. 101, Rathnapura Road, Horana.	034-2267701	034-2267706	Mr. Sahanjaya Gunathilaka
Ja-ela	No. 112/A, Negambo Road, Ja-Ela.	011-2228078	011-2228076	Mr. Chathuranga Lahiru
Kadawatha	No. 657A, Kandy Road, Bandarawatta, Kadawatha.	011-2926909	011-2926911	Mr. Sahan Samankula
Kaduwela	No. 349/A/1, New Kandy Road, Kothalawala, Kaduwela.	011-2548578	011-2548590	Mr. Viraj Chathuranga
Kalutara	No. 314/1/1, Main Street, Kaluthara South, Kalutara.	034-2235336	034-2235800	Mr. Gayan Kalhara
Kelaniya	No. 965, Kandy Road, Wedamulla, Kelaniya.	011-2914112	011-2908484	Mr. Yohan Uditha
Kirindiwela	No. 153, Sujaya Building, Gampaha Road, Kirindiwela.	033-2247581	033-2247580	Mr. Charundya Senadheera
Kollupitiya	No. 385, Galle Road, Colombo 03.	011-2376476	011-2376477	Mr. Nisal Rashmal
Maharagama	No. 215, Highlevel Road, Maharagama.	011-2851899	011-2851646	Mr. Samitha Kavinda
Mathugama	No. 4/29, Agalawaththa Road, Mathugama.	034-2249230	034-2248882	Mr. Vihandu Deemantha
Metropolitant	No. 67, Sir Chiththampalam A Gardiner Mawatha, Colombo 02.	011-2481000	011-2481123	Mr. Thilina Shiroshana
Minuwangoda	No. 26H, Colombo Road, Minuwangoda.	011-2298641	011-2298655	Mr. Malinda Udayakumara
Mirigama	No. 69/A, Giriulla Road, Mirigama.	033-2275528	033-2275521	Mr. Chanaka Pradeep
Moratuwa	No. 553, Galle Road, Rawathawaththa, Moratuwa.	011-2648474	011-2648472	Mr. Tharanga Madumal
Mount Lavinia	No. 271, Galle Road, Mount Lavinia.	011-2720720	011-2725904	Mr. Gregon Binoy
Negombo	No. 29/1, Colombo Road, Negombo.	031-2227775	031-2224882	Mr. Shanaka Maduranga
Nittambuwa	No. 83, Batadole Walauwa Junction, Kandy Road, Nittambuwa.	033-2298110	033-2298112	Mr. Janith Dissanayake
Nugegoda	No. 290, Highlevel Road, Nugegoda.	011-2813997	011-2813991	Mr. Sachithra Ferdinando
Panadura	No. 482, Arther V. Dias Mawatha, Panadura.	038-2237331	038-2237332	Mr. Manju Lakruwan
Pettah	No. 319, Main Street, Colombo 11.	011-2437708	011-2473549	Mr. Sajeewan Balakrishnan
Piliyandala	No. 71, Moratuwa Road, Piliyandala.	011-2609835	011-2609838	Mr. Charith Yasantha
Three Wheel Unit	No. 67, Sir Chiththampalam A Gardiner Mawatha, Colombo 02.	011-2481000	011-2481128	Mr. Gavrika Nuwan
Union Place - Alsafa	No. 167, Union Place, Colombo 02.	011-2377877	011-2304463	Mr. Mohomad Sharaff
Ward Place	No. 24/A, Ward Place, Colombo 07.	011-2678692	011-2678696	Mr. Sandaruwan Wijayathilake
Wattala	No. 540A, Negombo Road, Wattala.	011-2948441	011-2947411	Mr. Shehan Anjana

GRI-G4 CONTENT INDEX - 'IN ACCORDANCE' - CORE

External assurance has not been obtained for standard and specific disclosures.

Standard Disclosure	Description	Report Section	Page
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-maker on the relevance of sustainability to the organisation and the strategy to address sustainability	Chairman's Message	12 - 15
ORGANISATIONAL PROFILE			
G4-3	Name of the organisation	Corporate Information	Inner back cover
G4-4	Primary brands, products, and services	Relationship Capital Management - Customers	95 - 97
G4-5	Location of the organisation's headquarters	Corporate Information	Inner back cover
G4-6	Number of countries where the organisation operates	Corporate Information	Inner back cover
G4-7	Nature of ownership and legal form	Corporate Information	Inner back cover
G4-8	Markets served	Relationship Capital Management - Customers	95
G4-9	Scale of the organisation - employees, operations, net sales, capitalisation, products	Operational Performance Review and Financial Capital Management	66 - 78
G4-10	Total number of employees by contract and gender, permanent employees, supervised workers, region	Human Capital Management	80 - 81
G4-11	Percentage of total employees covered by collective bargaining agreements	Human Capital Management	88
G4-12	Describe the organisation's supply chain	Relationship Capital Management - Business Partners	101 - 104
G4-13	Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Financial Capital Management	71 - 78
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	Enterprise Risk Management	190
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	About the Report	03
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organisations	Social Capital Management - Memberships Company Profile	113 24

Standard Disclosure	Description	Report Section	Page
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List all entities included in the organisation's consolidated financial statements or equivalent documents	About the Report Company Profile	03 24
G4-18	Process for defining the report content and the aspect boundaries, reporting principles for defining report content	Stakeholder Engagement and Materiality Assessment	34 - 43
G4-19	List all the material aspects identified in the process for defining report content		
G4-20	For each material aspect, report the aspect boundary within the organisation		
G4-21	For each material aspect, report the aspect boundary outside the organisation		
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements		
G4-23	Report significant changes from previous reporting periods in the scope and aspect boundaries	About the Report	03
STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholder groups engaged by the organisation	Stakeholder Engagement and Materiality Assessment	34
G4-25	The basis for identification and selection of stakeholders with whom to engage		34
G4-26	Report the organisation's approach to stakeholder engagement, including frequency of engagement and an indication if the engagement was specifically a part of the report preparation process		35 - 37
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns		35 - 37
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provided	About the Report	03
G4-29	Date of most recent previous report		
G4-30	Reporting cycle (such as annual, biennial)		
G4-31	Provide the contact point for questions regarding the report or its contents		
G4-32	Report the 'in accordance' option the organisation has chosen		
G4-33	Organisation's policy and current practice with regard to seeking external assurance for the report		

GRI-G4 CONTENT INDEX - 'IN ACCORDANCE' - CORE

Standard Disclosure	Description	Report Section	Page
GOVERNANCE			
G4-34	Governance structure of the organisation, including committees and responsibilities	Governance Report	129 - 170
ETHICS AND INTEGRITY			
G4-56	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Social Capital Management	112
SPECIFIC STANDARD DISCLOSURES			
CATEGORY: ECONOMIC			
ASPECT: ECONOMIC PERFORMANCE			
G4-DMA	Generic disclosures on management approach	Value Creation	28 - 30
G4-EC1	Direct economic value generated and distributed		31
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Human Capital Management	86
CATEGORY: ENVIRONMENTAL			
ASPECT: ENERGY			
G4-DMA	Generic disclosures on management approach	Natural Capital Management	114
G4-EN3	Energy consumption within the organisation		116
G4-EN4	Energy consumption outside of the organisation		
G4-EN5	Energy intensity		
ASPECT: EMISSIONS			
G4-DMA	Generic disclosures on management approach	Natural Capital Management	114
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)		117 - 118
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)		
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)		
G4-EN18	Greenhouse gas (GHG) emissions intensity		
ASPECT: EFFLUENTS AND WASTE			
G4-DMA	Generic disclosures on management approach	Natural Capital Management	114
G4-EN23	Total weight of waste by type and disposal method		115

Standard Disclosure	Description	Report Section	Page
ASPECT: COMPLIANCE			
G4-DMA	Generic disclosures on management approach	Natural Capital Management	114
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		118
CATEGORY: SOCIAL			
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK			
ASPECT: EMPLOYMENT			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region		82 - 83
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation		86
ASPECT: LABOUR/MANAGEMENT RELATIONS			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements		88
ASPECT: TRAINING AND EDUCATION			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-LA9	Average hours of training per year per employee by gender, and by employee category		83
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		85
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category		87
ASPECT: DIVERSITY AND EQUAL OPPORTUNITY			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity		80 - 81

GRI-G4 CONTENT INDEX - 'IN ACCORDANCE' - CORE

Standard Disclosure	Description	Report Section	Page
ASPECT: LABOR PRACTICES GRIEVANCE MECHANISMS			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms		87 - 88
SUB-CATEGORY: HUMAN RIGHTS			
ASPECT: NON-DISCRIMINATION			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-HR3	Total number of incidents of discrimination and corrective actions taken		87 - 88
ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS			
G4-DMA	Generic disclosures on management approach	Human Capital Management	79
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms		88
SUB-CATEGORY: SOCIETY			
ASPECT: ANTI-CORRUPTION			
G4-DMA	Generic disclosures on management approach	Social Capital Management	110
G4-SO3	Operations assessed for risks related to corruption and the significant risks identified		112 - 113
G4-SO5	Confirmed incidents of corruption and actions taken		113
ASPECT: ANTI-COMPETITIVE BEHAVIOR			
G4-DMA	Generic disclosures on management approach	Social Capital Management	110
G4-SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes		113

Standard Disclosure	Description	Report Section	Page
ASPECT: COMPLIANCE			
G4-DMA	Generic disclosures on management approach	Social Capital Management	110
G4-SO8	Fines and total number of non-monetary sanctions for non-compliance with laws and regulations		113
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
ASPECT: PRODUCT AND SERVICE LABELING			
G4-DMA	Generic disclosures on management approach	Relationship Capital Management - Customers	99
G4-PR4	Incidents of non-compliance with regulations and voluntary codes concerning product and service information		
ASPECT: MARKETING COMMUNICATIONS			
G4-DMA	Generic disclosures on management approach	Relationship Capital Management - Customers	100
G4-PR7	Incidents of non-compliance with regulations and voluntary codes concerning marketing communications		
ASPECT: CUSTOMER PRIVACY			
G4-DMA	Generic disclosures on management approach	Relationship Capital Management - Customers	100
G4-PR8	Substantiated complaints regarding breaches of customer privacy and losses of customer data		
ASPECT: COMPLIANCE			
G4-DMA	Generic disclosures on management approach	Social Capital Management	110
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		113

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the eighth (8th) Annual General Meeting of People's Insurance PLC will be held on the 30th of June 2017 at 3.30 p.m. at People's Bank Staff Training College Auditorium, 38, D. R. Wijewardena Mawatha, Colombo 10 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 2016 together with the report of the Auditors thereon.
2. To declare a final dividend of Cents Twenty Five (Rs. 0.25) per Ordinary Share as recommended by the Board of Directors.
3. To re-elect as a Director Mr. Namasivayam Vasantha Kumar, who retires in terms of Article 27 (8) of the Articles of Association.
4. To re-elect as a Director Mr. Lakshman Abeysekera, who retires in terms of Article 27 (8) of the Articles of Association.
5. To re-elect as a Director Mr. Wickramasinghe Mudiyanseelage Abeyrathna Bandara, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting.
6. To re-elect as a Director Mr. Nivithigala Polgaswaththe Karunarathne, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting.
7. To re-elect as a Director Mr. Sajeewa Pradeep Kumara Gunarathne, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting.
8. 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.
9. 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 Pathirige
Company Secretary

Colombo
26th April 2017

Notes:

Any member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her stead. A form of proxy is sent herewith for this purpose. A proxy need not be a member of the Company.

The completed form of proxy must be deposited at the office of the Registrars to the Company, SSP Corporate Services (Private) Limited at No. 101, Inner Flower Road, Colombo 3 not less than forty eight (48) hours before the time appointed for the holding of the meeting.

FORM OF PROXY

I/we of
 being a member/s of People's Insurance PLC
 hereby appoint Mr./Mrs./Miss
 (holder of N.I.C. No) of whom failing him/her

- 1. Mr. J. P. Amaratunga failing him
- 2. Mr. N. V. Kumar failing him
- 3. Mr. D. P. Kumarage failing him
- 4. Mr. L. Abeysekera failing him
- 5. Mr. W. M. A. Bandara failing him
- 6. Mr. N. P. Karunaratne failing him
- 7. Mr. S. P. K. Gunarathne failing him

as my/our proxy to represent me/us and vote on my/our behalf at the eighth (8th) Annual General Meeting of the Company to be held on 30th June 2017 at 3.30 p.m. at People's Bank Staff Training College Auditorium, 38, D. R. Wijewardena Mawatha, Colombo 10 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 2016 together with the report of the Auditors thereon.		
2	To declare a final dividend of Cents Twenty Five (Rs. 0.25) per Ordinary Share as recommended by the Board of Directors.		
3	To re-elect as a Director Mr. Namasivayam Vasantha Kumar, who retires in terms of Article 27 (8) of the Articles of Association		
4	To re-elect as a Director Mr. Lakshman Abeysekera, who retires in terms of Article 27 (8) of the Articles of Association.		
5	To re-elect as a Director Mr. Wickramasinghe Mudiyanseelage Abeyrathna Bandara, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting		
6	To re-elect as a Director Mr. Nivithigala Polgaswaththe Karunaratne, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting.		
7	To re-elect as a Director Mr. Sajeewa Pradeep Kumara Gunarathne, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting.		
8	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.		
9	To authorise the Board of Directors to determine contributions to charities and other donations for the ensuing financial year.		

Signed this day of 2017

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

- Notes:**
- 1. Proxy need not be a member of the company.
 - 2. Instructions as to completion of this Form of Proxy are given overleaf.

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION

1. As provided for in Article 19(3) of the Articles of Association of the Company the instrument appointing a proxy should be in writing.
2. The full name and address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and duly signed and dated.
3. The Proxy shall –
 - a. In case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the complete proxy if it has not already been registered with the company.
 - b. In case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of that company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.
 - c. In the case of joint-holder, be signed by the joint-holder whose name appears first in the Register of Members.
4. The completed form of Proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority must be deposited at the office of the Registrars to the Company, SSP Corporate Services (Private) Limited a No.101, Inner Flower Road, Colombo 3 not less than forty eight (48) hours before the appointed for the holding of the meeting.

5. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholders, signing the Proxy.
6. An extract of Articles 15,18 and 22 of the Articles of Association of the Company which deal with meetings of shareholders is produced below for the information of the Shareholders,

“15. Method of Holding Meetings

A meeting of shareholders (including a meeting where it is intended to propose a resolution as a special resolution) may be held by a number of shareholders who constitute a quorum, being assembled together at the place, date and time appointed for the meeting.

18. Voting

1. Voting at a meeting of shareholders held under Article 15 above shall, unless a poll is demanded, be by a show of hands.
2. A declaration by the chairperson of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded in accordance with paragraph (3) of this Article.
3. At a meeting of shareholders, a poll may be demanded by –
 - a) the chairperson; or
 - b) not less than five (5) shareholders having the right to vote at the meeting; or
 - c) a shareholder or shareholders representing not less than ten per centum of the total voting rights of all shareholders having the right to vote at the meeting.
4. A poll may be demanded either before or after the vote is taken on a resolution, however the demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.
5. If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
6. The chairperson of a shareholders' meeting is not entitled to a casting vote.

22. Votes of Joint Holders

Where two or more persons are registered as the holder of a share, the vote of the person named first in the share register and voting on a matter shall be accepted to the exclusion of the votes of the other joint holders. Where there are several executors or administrators of a deceased shareholder in whose sole name any shares stand, any one of such executors or administrators may vote in respect of such shares unless any other of such executors or administrators is present at the meeting at which such a vote is tendered and objects to the vote."

INVESTOR FEEDBACK FORM

We welcome your valuable feedback on this Integrated Annual Report.

To request information or submit a comment/query to the Company, please complete and return this page to,

Senior Manager - Finance,
People's Insurance PLC,
No. 53, Dharmapala Mawatha,
Colombo 03,
Sri Lanka.

Fax : 0112206418
E-mail : nilushan@plc.lk

Name :

Mailing address :

Contact numbers - (Tel) :
- (Fax) :

E-mail :

Name of company :
(If applicable)
Designation :
(If applicable)
Company address :
(If applicable)

Comments/queries :
.....
.....
.....
.....

CORPORATE INFORMATION

NAME OF COMPANY

People's Insurance PLC
(Subsidiary of People's Leasing & Finance PLC)

LEGAL FORM

Public Limited Liability Company
(Incorporated and domiciled in Sri Lanka)

DATE OF INCORPORATION

22nd July 2009

COMPANY REGISTRATION NUMBER

PB 3754 PQ

STOCK EXCHANGE LISTING

Ordinary shares of the company are listed on the Main Board of the Colombo Stock Exchange

TAX PAYER IDENTIFICATION NUMBER (TIN)

134037547

VAT REGISTRATION NUMBER

134037547-7000

SVAT REGISTRATION NUMBER

SVAT004235

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
- Mr. N. Vasantha Kumar
- Mr. D. P. Kumarage - Managing Director
- Mr. Lakshman Abeysekera
- Mr. W. M. Abeyrathna Bandara
- Mr. N. P. Karunaratne
- Mr. S. P. K. Gunaratne

COMPANY SECRETARY

Mr. Rohan Pathirage
No. 1161, Maradana Road, Colombo 08.

REGISTRARS

SSP Corporate Services (Pvt) Ltd
No. 101, Inner Flower Road, Colombo 03,
Sri Lanka.

AUDITORS

Messrs. Ernst and Young
(Chartered Accountants)
No. 201, De Seram Place, Colombo 10.

CONSULTANT ACTUARIES

NMG Financial Services Consulting Pte Limited,
30, Hill Street,
#03-02A,
Singapore.

BANKERS

People's Bank
Sampath Bank PLC
Nations Trust Bank PLC

REINSURANCE PANEL

- Asia Capital Reinsurance Group Pte Ltd.
- Everest Reinsurance Company
- First Capital Insurance Ltd.
- General Insurance Corporation of India
- Labuan Reinsurance (L) Ltd.
- Lloyd's
- Malaysian Reinsurance Berhad
- MAPFRE Asistencia
- Swiss Reinsurance Company Ltd.
- Trust International Insurance & Reinsurance Company B. S. C
- XL Insurance Co Ltd.
- National Insurance Trust Fund

INVESTOR RELATIONS

Chief Operating Officer
People's Insurance PLC,
No. 53, Dharmapala Mawatha, Colombo 03.
Telephone : +94 11 2206406
Fax : +94 11 2206436

FOR ANY CLARIFICATION ON THIS REPORT, PLEASE WRITE TO;

Senior Manager - Finance
People's Insurance PLC
No. 53, Dharmapala Mawatha, Colombo 03.
Telephone : +94 11 2206406
Fax : +94 11 2206436



People's Insurance PLC

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