

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Insurance Corporation Limited (the “Company”) and the consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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

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

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

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

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

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

#### **1.4 Audit Scope**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>According to the judgment delivered by Supreme Court of Sri Lanka on 04 June 2009, the legal ownership of the majority of shares of the Company was vested with the Secretary to the Treasury to be held on behalf of the Government of Sri Lanka. Further, according to the said judgment, the Secretary to the Treasury was directed to cause profits of the Company during the period Distilleries Company of Sri Lanka PLC was the parent of the Company, be computed and the profits attributable to the previous owner be settled. However, the President's Counsel of the Sri Lanka Insurance Corporation Limited (SLIC) is of the opinion as stated in their legal representation letter dated 09 March 2022 that as per District Court of Colombo case No DMR/02394/19, no relief is claimable from the Company by the plaintiffs of the District Court case to discharge obligation of the Secretary to the Treasury out of the proceedings in the above stated Supreme Court applications (Sc FR No 117/2007 and SC/ FR No 158/2007). Further as per the discussion had with Ministry of Finance on 18 January 2023, the ministry was of the view that SLIC is not a party to the above case on the face of the record. Hence, the Company is in the process of obtaining a legal confirmation from the Attorney General to support the said position. However, a judgement by the District Court of Colombo in the above case No DMR/02394/19 has not been pronounced as at the reporting period and I was</p>	<p>The Supreme Court directed Secretary to the Treasury to compute and pay the profits attributable to the previous parent be settled. Hence the Company does not have any direct involvement to compute the profit.</p>	<p>It is recommended to adhere to the Supreme Court Decision.</p>

unable to obtain appropriate audit evidence related to the settlement of liability from the above mentioned cases from the discussion had with the ministry of finance. Further, the said confirmation from Attorney General related to the SLIC's position was also pending as at the reporting period. Hence, considering the initial decision made by the Supreme Court and the subsequent discussion and current developments, the Company has not made any adjustment in the Financial Statements pending determination of the aforesaid attributable profits.

### 1.5.2 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Amounts receivables from Distilleries Company of Sri Lanka PLC	Rs. 136,479,445	Confirmation of balances	This balance includes receivable balance from Distilleries Group of Companies. This amount will be adjusted upon the finalization of the payment as per the court decision given on 04 June 2009.	It is recommended to take necessary action to recover the balances.

### 1.6 Going Concern

Audit Issue	Management Comment	Recommendation
As per the Note 49 to the financial statements which describe that the directors have made an assessment of the Group's ability to continue as a going concern related to Canwill Holdings (Pvt) Ltd and its subsidiaries of Helanco Hotel and Spa (Pvt) Ltd and Sinolanka Hotel and Spa (Pvt) Ltd being satisfied that it has the resources to continue in businesses for the foreseeable future. Furthermore, Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. However, it was noted that the Board of Directors of Helanco Hotels and Spa (Pvt) Ltd has resolved to discontinue the project in order to construct the Hotel in Hambanthota in the year 2015	The management of the Company seeks necessary directives from the line Ministry on way forward	The management should obtain necessary instructions from the respective authorities and act accordingly.

and the management of the Company seeks necessary directives from the line Ministry on way forward. Also, Sinolanka Hotel and Spa (Pvt) Ltd has not recommenced constructive activities in Grand Hyatt Colombo project as of the reporting period even though the Cabinet Minister granted their approval by cabinet paper 20/1042/204/050 dated 10 July 2020. Furthermore, the Cabinet of Minister has granted the approval to transfer the shares held by Sri Lanka Insurance Corporation Ltd and shares held by Litro Gas Lanka Limited in Canwill Holdings (Pvt) Ltd to the General Treasury as per the Cabinet decision No.23/0431/604/046 dated 14 March 2023.

## 1.7 Accounts Receivable and Payable

### 1.7.1 Payables

Audit Issue	Management Comment	Recommendation
Balance confirmations had not been received from reinsurers for general insurance balance receivables of Rs. 272,366,997 as at 31 December 2022.	RI and Finance departments are closely working with reinsurers and RI brokers obtain written confirmation for outstanding balances. It is an ongoing process	It is recommended to provide direct confirmation in order to independently establish the accuracy and existence of the above-mentioned balances as reported in the financial statements as at the date of reporting.

### 1.7.2 Receivables

Audit Issue	Management Comment	Recommendation
(a.) As per the calculations done based on reinsurance outstanding statements with balance confirmation for the 3 <sup>rd</sup> quarter, it was observed that there is a difference amounting to 40 Mn between financial statements and balance as per the outstanding statements which have provided by the reinsurance department as at 31 December 2022.	We have provided above overview to auditors and to support the closing balance, we have provided following 2 documents to auditors. i) Balance confirmation as at 31.12.2022, out of the account statements shared with Munich re till 30.09.2022. ii) Quarter 4-2022 reinsurance accounts prepared and shared with Munich Re. Note that Quarter 4-2022 accounts are yet to be confirmed by Munich re.	It is recommended to justify the differences between closing balances and take necessary actions to get confirmation for the remaining quarter in order to establish an assurance over valuation and accuracy of balances. Further to make arrangements to reverse quarterly outstanding statements properly in order to enhance the accuracy of the reinsurance balances reflects in the financial statements.

(b.) It was observed that there are long outstanding balances of Rs. 275,501,222 in the debtor's prepayments under other assets. Further the direct confirmations had not being provided to obtain reasonable assurance about the accuracy on the existence of those balances.

Out of above balances Rs 136.5 million is relating to the receivables from Group companies of previous owner. We will take appropriate actions after the consultation of lawyers. Rs. 106 million receivables comprise

It is recommended to provide direct confirmations in order to independently establish the accuracy & existence of the above-mentioned balances as reported in the Financial statements as at the date of reporting.

a) Rent receivable from Presidential Secretary for the period from 2006 to 2010.

b) VAT component relating to rent income from Presidential Secretary for the period from 2011 to 2018.

This matter was discussed and has corresponded with the respective authorities; however, the matter is still pending.

Promissory Note balance of Rs. 2.7 million receivable from Vanik Incorporation Ltd for the Promissory notes issued on 13th November 2002. Since the company went for bankruptcy, this balance is remaining in the Financial Statements as receivable as of 31.12.2022. Work in progress account amounting to Rs.20.2 million is maintained to park the cost relating to the ongoing capital projects. Upon finalization of the project, amounts will be transferred to the respective asset.

## 1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Management Comment</b>	<b>Recommendation</b>	
(a.) Section 53 of Regulation of Insurance Industry (Amendment) Act No. 03 of 2011	The Company has not segregated the long-term insurance business and the general insurance business being carried on by it into two separate companies. However, according to Cabinet Decision No.23/0431/604/046 of 14 March 2023, the Company has been instructed to fully comply with the provisions of the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011, by placing its Life and General insurance business under separate legal entities. As mentioned in Note 46.2, as at the reporting period, the segregation model has not been finalised and approved by the Board of Directors and Insurance Regulatory Commission as still it is at discussion stage.	Even though the budget proposal on exemption on segregation of Life and GI business of the Company was tabled at the budget proposal discussion for 2022 on 12 <sup>th</sup> November 2021, it has not yet been gazetted.	It is recommended to follow the IRCSL regulations and requirements.
(b.) Section 47 (2) of the Regulation of Insurance Industry Act, No. 43 of 2000	Due to the above stated non-compliance described in the previous point, the accounting records of the Company have not been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka.		

## 1.9 Cash Management

Audit Issue	Management Comment	Recommendation
(a.) There are Unidentified Credits of Rs. 107,481,685, Unidentified Debits of Rs. 9,931,757 and Other Unidentified items of Rs. 54,511,950 in the bank reconciliation statements which have not yet been identified.	<p data-bbox="561 317 1157 457">Agree with the Auditor's comment. However, we have identified the following reasons which caused to create these unidentified balances in the bank reconciliation statements.</p> <p data-bbox="561 478 865 510"><b>1. Unidentified Credits</b></p> <p data-bbox="607 520 1157 621">Mainly these balances are created due to the non-availability of policy numbers of credit transactions.</p> <p data-bbox="607 659 1157 919">i. We have initiated system developments with the support of ICT departments and banks to validate transactions before crediting to the SLIC bank accounts. In connection, we have completed the developments with Peoples bank, DFCC and NSB.</p> <p data-bbox="607 953 1157 1094">ii. At present we are discussing the relevant issues with the internal departments and banks to minimize the existing unidentified credits.</p> <p data-bbox="561 1125 854 1157"><b>2. Unidentified Debits</b></p> <p data-bbox="607 1167 1157 1503">These balances contain the reversal entries made by banks for failed transactions related to customer deposits and reversed payments. Reversal of customer deposits will be rectified by cancelling the policies. Unidentified payments will be rectified once we make the payment for returned transactions. Until such time, amounts will be appeared as unidentified debits.</p> <p data-bbox="561 1528 1157 1598"><b>3. Other unidentified amounts (SLIP reversals)</b></p> <p data-bbox="607 1608 1157 1829">This mainly includes online SLIP payments which were recorded in SLIC cash book and pending to be executed from the Bank. This is a temporary timing difference of fund transfer arising on the last date of the month and will be cleared on the next working day.</p>	It is recommended to recognize those unidentified values and rectify in order to mitigate overstating of unnecessary balances. Further, regarding to the management comment we recommend paying high concern on immediately developing a proper system with the banks to avoid above unidentified transactions.



(b.) It was observed that the 11 bank accounts in General Insurance and 06 bank accounts in Life Insurance are currently not in operation as at 31 December 2022.

People's Bank A/c No.4100190208634  
SLIC has furnished a board resolution by advising the bank to close the A/c No. 4100190208634 since it had been dormant for more than 10 years. But at that time, bank has transferred its remaining balance of Rs.60,623.66 to the Central Bank. We hope to post the relevant IBT entry once we receive the written confirmation from the bank in order to adjust this amount in the General ledger.

It is recommended to take necessary procedures to close above bank accounts with the board approvals and to make journal entries in order to alter the ledger balance.

Cargills Bank A/c No.1950000749

This account was opened to collect the General Insurance premiums. Since the system development did not take place as planned premium was not collected through this account. Accordingly, Cargills Bank has closed this dormant current A/c No.1950000749 since they did not receive any documents to active and continue the account. Also, they charged the remained balance of Rs.240.89 as bank charges for the closure of this account. Hence, we have adjusted the amount of Rs.240.89 to the bank charges for the month of March 2023.

BOC acc. No -71795855

This is a closed account and erroneous entry has been posted in the SLIC books for Rs. 1,051.31. Error entry has been corrected on 01/03/2022.

Commercial acc.no. -1070023777

This is a closed account and Rs 250 is the bank charges and the bank has waived off this amount and entry has been posted in the month of March 2023

Standard Chartered Accounts

These accounts were used during the privatized period and will take actions accordingly.

BOC Account 85987680

This account is kept for utilization of future business developments.

## 1.10 IT General Controls

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>It was noted that the Life Insurance System and the General' Insurance System are not properly integrated with SAP ERP which utilizes as the backend. Currently data from Life &amp; General systems are transferred to SAP through a file which is generated by IT Data Center &amp; uploaded by the respective Finance team members.</p>	<p>Currently the data exchange between Core insurance systems and SAP ERP is perform as day end manual batch process upload. During this process Core insurance system generated transactional info such as Claims, Receipting, and Commissioning. are uploaded to SAP ERP (Financial system) as a day end process. The necessary integration to automate the current manual data upload process is currently developed and in testing stage with stakeholders of ICT, Finance with the presence of Internal audit.</p>	<p>The entity should consider automation (integration) of the above key modules with the GL (SAP) to improve efficiency and effectiveness of the data transferred between application systems. We recommend that management should consider migrating to a different package with more secure technology, Advanced functionalities, facility to integrate with available systems. Further, it is highly recommended to consider the facility to automate manual processes when acquiring the new system.</p>

## 2. Financial Review

### 2.1 Financial Result

#### **Company**

The operating result of the year under review amounted to a profit of Rs.10, 546 million and the corresponding profit in the preceding year amounted to Rs. 10, 041 million. Therefore, an improvement amounting to Rs. 505 million or 4.8 per cent of the financial result was observed. The reasons for the improvement are increase of Net/realized/unrealized gains and reduction of change in contract liabilities – Life Fund.

#### **Group**

The operating result of the year under review amounted to a profit of Rs. 12, 584 million and the corresponding profit in the preceding year amounted to Rs. 6,581 million. Therefore, an improvement amounting to Rs. 3, 965 million of the financial result was observed. The reasons for the improvement are increase of revenue, increase of net realized /unrealized gains and reduction of changes in contract liabilities – Life Fund.

## 2.2 Trend Analysis of major Income and Expenditure items

Line Item	2022 Rs. Million	2021 Rs. Million	2020 Rs. Million	2019 Rs. Million	2018 Rs. Million
<b>Company</b>					
<b>Revenue</b>	<b>63,685</b>	<b>64,062</b>	<b>52,614</b>	<b>48,608</b>	<b>44,379</b>
<i>Variance</i>	(377)	11,447	4,005	4,228	4,980
<i>Increase/(Decrease)</i>	-0.59%	21.76%	8.24%	9.53%	12.64%
<b>Gross Written Premium</b>	<b>41,272</b>	<b>43,231</b>	<b>39,421</b>	<b>33,794</b>	<b>31,737</b>
<i>Variance</i>	(1,959)	3,809	5,626	2,056	300
<i>Increase/(Decrease)</i>	-4.53%	9.66%	16.65%	6.48%	0.95%
<b>Net Earned Premium</b>	<b>37,024</b>	<b>38,396</b>	<b>34,206</b>	<b>29,772</b>	<b>28,004</b>
<i>Variance</i>	(1,372)	4,190	4,434	1,767	2,066
<i>Increase/(Decrease)</i>	-3.58%	12.25%	14.89%	6.31%	7.97%
<b>Investment income</b>	<b>13,794</b>	<b>23,392</b>	<b>16,511</b>	<b>17,671</b>	<b>13,058</b>
<i>Variance</i>	(9,599)	6,881	(1,160)	4,612	931
<i>Increase/(Decrease)</i>	-41.03%	41.68%	-6.57%	35.32%	7.68%
<b>Net realized (loss)/gains</b>	<b>11,857</b>	<b>1,012</b>	<b>359</b>	<b>(56)</b>	<b>1,976</b>
<i>Variance</i>	10,845	653,231	416,	(2,032)	1,604
<i>Increase/(Decrease)</i>	1,071.64%	181.57%	-737.24%	-102.86%	431.17%
<b>Other income</b>	<b>943</b>	<b>1,183</b>	<b>1,469</b>	<b>1,132</b>	<b>1,286</b>
<i>Variance</i>	(240)	(285)	336	(154)	380
<i>Increase/(Decrease)</i>	-20.35%	-19.44%	29.76%	-12.02%	41.97%
<b>Total Income</b>	<b>63,685</b>	<b>52,614</b>	<b>48,609</b>	<b>51,224</b>	<b>44,380</b>
<i>Variance</i>	11,448	4,005	4,229	6,844	4,980
<i>Increase/(Decrease)</i>	21.76%	8.24%	9.53%	15.42%	12.64%
<b>Net benefits and claims</b>	<b>(22,131)</b>	<b>(20,185)</b>	<b>(15,772)</b>	<b>(16,623)</b>	<b>(17,754)</b>
<i>Variance</i>	(1,946)	(4,413)	851	1,131	(1,728)
<i>Increase/(Decrease)</i>	9.64%	27.98%	-5.12%	-6.37%	10.78%
<b>Underwriting and net acquisition costs (including reinsurance)</b>	<b>(3,301)</b>	<b>(3,220)</b>	<b>(2,996)</b>	<b>(2,986)</b>	<b>(2,497)</b>
<i>Variance</i>	(81)	(223)	(10)	(488)	(173)
<i>Increase/(Decrease)</i>	2.53%	7.46%	0.36%	19.55%	7.44%

<b>Change in contract liabilities - life fund</b>	<b>(11,018)</b>	<b>(18,849)</b>	<b>(16,118)</b>	<b>(11,659)</b>	<b>(8,154)</b>
<i>Variance</i>	(7,831)	(2,730)	(4,458)	(3,505)	(382)
<i>Increase/(Decrease)</i>	-41.55%	16.94%	38.24%	42.99%	4.92%
<b>Other operating and administrative expenses</b>	<b>(14,757)</b>	<b>(10,081)</b>	<b>(9,754)</b>	<b>(9,133)</b>	<b>(8,822)</b>
<i>Variance</i>	(4,675)	(327)	(621)	(311)	(1,338)
<i>Increase/(Decrease)</i>	46.37%	3.35%	6.80%	3.53%	17.88%
<b>Income tax expense</b>	<b>(1,930)</b>	<b>(1,684)</b>	<b>(2,183)</b>	<b>(1,176)</b>	<b>(1,905)</b>
<i>Variance</i>	246	498	(1,007)	729	(584)
<i>Increase/(Decrease)</i>	14.61%	-22.85%	85.64%	-38.29%	44.26%
<b>Net Profit for the year</b>	<b>10,546</b>	<b>10,041</b>	<b>5,788</b>	<b>7,028</b>	<b>5,244</b>
<i>Variance</i>	505	4,252	(1,240)	1,784	675
<i>Increase/(Decrease)</i>	5.03%	73.47%	-17.65%	34.02%	14.79%
<b>Group</b>					
<b>Revenue from other group operations</b>	<b>90,621</b>	<b>62,143</b>	<b>46,505</b>	<b>50,685</b>	<b>46,057</b>
<i>Variance</i>	28,478	15,637	(4,179)	4,627	9,537
<i>Increase/(Decrease)</i>	45.83%	33.62%	-8.25%	10.05%	26.11%
<b>Investment income</b>	<b>15,370</b>	<b>24,044</b>	<b>17,754</b>	<b>16,954</b>	<b>14,372</b>
<i>Variance</i>	(8,674)	6,289	800	2,582	759
<i>Increase/(Decrease)</i>	-36.08%	35.43%	4.72%	17.97%	5.58%
<b>Other income</b>	<b>3,563</b>	<b>3,233</b>	<b>1,540</b>	<b>1,835</b>	<b>2,028</b>
<i>Variance</i>	330	1,693	(294)	(192)	(216)
<i>Increase/(Decrease)</i>	10.20%	109.89%	-16.06%	-9.50%	-9.65%
<b>Total Income</b>	<b>156,605</b>	<b>99,932</b>	<b>98,779</b>	<b>99,265</b>	<b>92,103</b>
<i>Variance</i>	56,673	1,153	(486)	7,162	13,525
<i>Increase/(Decrease)</i>	28.09%	1.17%	7.25%	7.78%	17.21%
<b>Other operating and administrative expenses</b>	<b>(26,867)</b>	<b>(16,692)</b>	<b>(15,417)</b>	<b>(20,154)</b>	<b>(14,584)</b>
<i>Variance</i>	(10,175)	(1,274)	( 4,736)	(5,570)	(3,991)
<i>Increase/(Decrease)</i>	60.95%	8.27%	-23.50%	38.19%	37.68%
<b>Cost of services of subsidiaries</b>	<b>(77,123)</b>	<b>(63,422)</b>	<b>(40,053)</b>	<b>(38,992)</b>	<b>(38,690)</b>

<i>Variance</i>	(13,701)	(23,368)	(1,061)	(301)	(5,710)
<i>Increase/(Decrease)</i>	21.60%	58.34%	2.72%	0.78%	17.32%
<b>Income tax expense</b>	<b>(3,579)</b>	<b>942</b>	<b>(2,560)</b>	<b>(3,848)</b>	<b>(2,818)</b>
<i>Variance</i>	(4,521)	3,503	1,288	(1,030)	(406)
<i>Increase/(Decrease)</i>	-479.67%	-136.82%	-33.48%	36.55%	16.85%
<b>Net Profit for the year</b>	<b>12,584</b>	<b>6,580</b>	<b>6,930</b>	<b>4,513</b>	<b>7,602</b>
<i>Variance</i>	6,003	(349)	2,416	(3,089)	1,035
<i>Increase/(Decrease)</i>	91.22%	-5.04%	53.54%	-40.63%	15.76%

### 2.3 Ratio Analysis

<b>Company Specific Ratios</b>	<b>2022</b>	2021	2020	2019	2018
Retention Ratio	90%	89%	87%	88%	88%
Claim Ratio - Long Term	57%	46%	42%	51%	60%
Claim Ratio - Non Life	63%	60%	51%	61%	66%
Total Claim ratio	60%	53%	46%	56%	63%
Expense Ratio	49%	35%	37%	80%	70%
Combined ratio	109%	87%	83%	136%	133%
Profitability Ratio	17%	16%	11%	17%	16%
ROA	5%	4%	3%	4%	4%
ROE	16%	16%	13%	13%	12%
Investment Yield	6%	10%	8%	9%	7%
Liquidity Ratio	1.10	1.10	1.08	1.11	1.11
Financial Assets to Total Assets	84%	84%	84%	82%	81%
Capital to technical reserves ratio	4.23	4.06	3.71	4.14	2.16
Technical reserve ratio	2.05	2.07	2.01	1.98	0.99
<b>Market Ratios</b>					
Market Share (Total)	16%	19%	19%	17%	17%
Market Share (Long Term)	15%	18%	19%	17%	16%
Market Share (Non-Life)	18%	21%	20%	19%	19%

Group Ratios	Group					Company				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
<b>Profitability and Return</b>										
Revenue Growth	27%	24.6%	0.33%	8.63%	18.61%	-4%	12%	15%	6%	8%
Return on Equity	11%	6.2%	7%	5%	9%	14%	13%	9%	11%	9%
Asset Turnover	0.47	0.42	0.36	0.39	0.39	0.23	0.25	0.24	0.24	0.23
Net Profit Ratio	8.0%	5.1%	6.9%	4.6%	8.3%	16.6%	15.7%	11.0%	14.5%	11.8%
<b>Liquidity</b>										
Current Ratio	0.86	1.26	1.67	1.37	1.27	1.69	3.25	3.06	1.23	1.09
<b>Investor Return</b>										
Earnings Per Share	19.32	8.88	11.33	8.46	12.08	17.60	16.7	9.65	11.72	8.74
Dividend Per Share	1.7	2.5	1.50	3.25	3.06	1.7	2.5	1.50	3.25	3.06
Dividend Cover	11.57	3.52	7.55	2.60	3.95	10.53	6.6	6.43	3.61	2.86
Net Assets Per Share	192	175.7	155.43	151.91	147.19	127.5	125.4	105.25	103.83	101.81

Industry Comparison	Industry					Company				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Growth Rate (Total)	10.5%	12%	6%	8%	12%	-1%	22%	8%	10%	13%
Growth Rate (Long Term)	9%	21%	16%	11%	12%	-5%	14%	30%	12%	6%
Growth Rate (Non-Life)	13%	3%	-1%	5%	8%	-4%	5%	6%	2%	-2%

### 3. Operational Review

#### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a.) It was observed that the company is preparing risk profiles manually by using previous year details. The reinsurance department gathers information from several departments, and they do not check accuracy and completeness of the source data. The reinsurance department is relying on the	For preparing "Risk Profiles", we get the policy wise data in a excel book from business analysis unit of ICT department. Usually we cross check policies with large premiums. Further we are in the process of arranging CORE insurance system & this issue will be addressed	It is recommended to check accuracy and completeness of data. Further, to change the risk profile maintaining system from manually to ERP system by which the operations of the

data provided by other departments.	with implementation of CORE reinsurance department system. In addition, Belvantage has also proposed reinsurance system for our consideration.	would be more effective.
(b.) According to the company practice, the reinsurers were paid once the acknowledgement is received. However, it is observed that the company have not made payments to the reinsurer even the company has received acknowledgements from the reinsurer. The Payable for more than 1 year was Rs. 116,258,193 (health plan) and Payable for less than 1 year was Rs. 768,730,530 as at 31 December 2022. The non-payment may result in discontinuation of services and may result in operational and reputation risk.	<p>RI payments states as at 04/01/2023 are,</p> <ol style="list-style-type: none"> <li>1. Individual Life and Group Life: RI payments are done up to 31/12/2021 by SLIC. Munich Re has confirmed (acknowledged) accounts up to 3<sup>rd</sup> quarter 2022 and payments are processing for the relevant quarters by SLIC.</li> <li>2. Health Rider: <ul style="list-style-type: none"> <li>- MR Indian Branch Block: Munich Re has confirmed (acknowledged) accounts up to 3<sup>rd</sup> quarter 2022 and payments are being processed for the relevant quarters by SLIC.</li> </ul> </li> </ol>	It is recommended to take necessary decision to get the acknowledgement from the reinsurer to make payments for payable balance to reinsurer.
(c.) It was observed that in life business the company has dealing with only one reinsurer. Therefore, risk of concentration in the discontinuation of service by the existing reinsurer and may result in operational and reputation risk.	<p>We have approached almost all the top reinsurers who serve in our market. They have informed us that they cannot support us until the economic condition of the country gets better. Some reinsurers have informed us that they would like to negotiate once the economic condition of the country get better. However, we are still seeking the possibility of getting one more reinsurance treaty.</p> <p>It has been observed that most of the life insurance companies in Sri Lanka has only one or two reinsurers.</p>	It is recommended to pay high concern regarding on the above matter.

### 3.2 Under -utilization of Funds

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>It was observed that the company has generated low returns from the investment in subsidiaries since 2015. The capital invested in five subsidiaries was Rs. 23,032 mn and average dividend received from the year 2015 to 2022 was Rs. 1,035.6 mn. Therefore, the annual average return was 4.5%. Due to this the company has lost the opportunity of earning higher return for their invested funds.</p>	<p>All of the above are subsidiaries / strategic investments. These investments will be divested from SLIC as the strategic direction of government of Sri Lanka.</p>	<p>We recommended that the management would consider the return on investment when making future investment decisions. In addition, management should seek board representations on these companies to ensure that the interests of the company are protected. We recommended to articulate the investment portfolio accordingly.</p>

### 3.3 Resources Released to Other Organizations

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>It was observed that there is no any rent agreement for the investment property of Alhambra at 30, Mohamed Marcan Marker Mawatha, Colombo 03 in which the fair value has been estimated as Rs.875,700,000. Unavailability of the rent agreement indicates that the particular property has not utilized for rental purpose upon a fair legal ground. If the asset was rented out without an agreement, it may cause susceptibility of entering into unlawful contracts.</p>	<p>Senior Additional Secretary (Finance) to the President proposed to sign the lease agreement for the period from 01.01.2021 to 31.12.2023 and make the payment accordingly at the meeting held on 28.02.2023.</p> <p>Subsequently SLIC communicated to Presidential secretariat that agreement period should be start from 01.01.2020 and waiting for their consent to prepare the lease agreement for signatures.</p>	<p>It is recommended to provide the rent agreement for the aforesaid property and if it is absent, provide rationale for the absence. Also, recommended to ensure that SLIC utilizes assets for investment and operational purposes only upon a fair legal ground which ensures the public accountability of the entity through Efficient, Effective and Economic utilization of resources.</p>



### 3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a.) It was not conducted compiled carder review report-Head office for the year under review. A possibility of underutilization or overutilization of some employees may increase the ineffectiveness of the costing system of the company as the mentioned practice enables to the costing process effectively.	Currently organization is in the process of conducting work study to identify the exact requirement of staff for each department and branches of SLIC. Subsequent to this operation cadre/department structures will be reviewed.	It was recommended to keep an employee carder updated properly as per the requirements of the operation.
(b.) As per the Organization structure Chief Officer level (CO Life, CO Operation, CO Business Development), DGM Level (DGM Actuarial, DGM General), AGM Level (AGM Life, AGM Motor) positions are vacant through past 2 years' time. It was unable to identify exact responsible party since there is vacant in highest level managerial positions.	The work study project and the segregation process of life and general insurance businesses of the company are now in progress, the required positions will be revisited after completion of these processes once the new organization structures are finalized.	It is recommended to take necessary prompt actions to fill the vacant positions.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
(a.) It was observed that there are no any significant changes for the year internal audit plan compared with the last year internal audit plan. It may lead to potential risk of efficiency and effectiveness of the internal control of the company.	<p>The recommended improvements are already established in the 2023 internal audit plan as follows.</p> <ul style="list-style-type: none"> <li>• In the 2023 plan, the required staff allocations are included according to the type of audit and the area.</li> <li>• It is targeted to issue 250 audit reports for each audit sections.</li> <li>• Introducing a man-days calculation system of the audit department and preparing an annual audit plan accordingly.</li> </ul>	It is recommended to improve the internal audit plan each financial year.

- A significant change has been made in the annual audit plan 2023 as compared to 2022 in allocating resources for system and process audit, post audit, branch audit, and performance audit. Accordingly, all percentages of the sub-areas were changed.
- Branch audit has been identified as a separate part of this plan and it has been presented separately.
- Some special audits related to finance department that were not done last year have been included in the 2023 audit plan under the performance audit.

(b.) As per the internal audit plan, it was planned to cover the 134 branches during this financial year. But only issued the 21-branch internal audit reports. According to the head of the internal audit department during this year they have completed 100 branches and so far, 21 branches approved from the audit follow up committee (ACFM) and other remaining reports still not approved in the audit follow up committee.

The remaining 79 branch audit reports are in the reviewing process of AFCM.

It is recommended to implement the audit plan according to the internal audit plan.