

**FAIRFIRST INSURANCE LIMITED**

**FINANCIAL STATEMENTS  
31 DECEMBER 2020**



**FAIRFIRST INSURANCE LIMITED**

**FINANCIAL STATEMENTS  
31 DECEMBER 2020**

# FAIRFIRST INSURANCE LIMITED

## FINANCIAL STATEMENTS - 31 DECEMBER 2020

### CONTENTS

---

	<b>PAGE</b>
Independent Auditor's Report	1-3
Income statement	4
Statement of profit or loss and other comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statements of cash flows	8
Notes to the financial statements	9 - 76



## *Independent auditor's report*

To the Shareholders of Fairfirst Insurance Limited

### *Report on the audit of the financial statements*

#### **Our opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Fairfirst Insurance Limited ("the Company") as at December 31, 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **What we have audited**

The financial statements of the Company, which comprise:

- the statement of financial position as at December 31, 2020;
- the income statement for the year then ended;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

#### **Other information**

Management is responsible for the other information. The other information comprises the annual report of the board but does not include the financial statements and our auditor's report thereon. The annual report of the board is expected to be made available to us after the date of this auditor's report.

*PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka*  
*T: +94 (11) 771 9700, 771 9838, F: +94 (11) 230 3197, www.pwc.com/lk*

**Partners** D T S H Mudalige FCA, C S Manoharan FCA, Ms S Hadgie FCA, Ms S Perera ACA, N R Gunasekera FCA  
 T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda FCA, Ms W D A S U Perera ACA

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.



Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the annual report of the board, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of management and those charged with governance for the financial statements**

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

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

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 management.
- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Report on other legal and regulatory requirements*

As required by section 163 (2) of the Companies Act, No. 07 of 2007, 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 accounting records of Company have also been maintained in the manner required by the rules made by the Insurance Regulatory Commission of Sri Lanka in compliance with Section 47 (2) of the Regulation of Insurance Industry Act, No. 43 of 2000 so as to clearly indicate the true and fair view of the financial position of the Company.

A handwritten signature in black ink, appearing to read 'Praveen Kumar (CPA)'. The signature is written in a cursive style.

**COLOMBO**

**CHARTERED ACCOUNTANTS**

19 February 2021

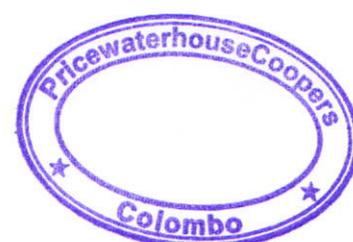
## FAIRFIRST INSURANCE LIMITED

### Income statement

	Notes	Year ended 31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
Gross written premium	7	12,681,643	12,009,221
Net change in reserve for unearned premium		(136,361)	(410,436)
<b>Gross earned premium</b>		<b>12,545,282</b>	<b>11,598,785</b>
Premiums ceded to reinsurers	8	(6,083,312)	(6,099,248)
Net change in reserve for unearned reinsurance premium		(140,927)	169,802
<b>Net earned premium</b>	<b>9</b>	<b>6,321,043</b>	<b>5,669,339</b>
<b>Other revenue</b>			
Net investment income	10	715,508	647,429
Net realised gain	11	-	27,234
Net fair value gain	12	-	2,767
Other operating income	13	156,052	175,374
<b>Total other revenue</b>		<b>871,560</b>	<b>852,804</b>
<b>Total net revenue</b>		<b>7,192,603</b>	<b>6,522,143</b>
<b>Net benefits, claims and expenses</b>			
Net insurance benefits and claims	14	(3,875,705)	(3,496,253)
Underwriting and net acquisition costs	15	(257,971)	(333,109)
Other operating and administrative expenses	16	(1,945,865)	(1,701,363)
Interest expense on lease liabilities		(34,991)	(45,742)
Depreciation and amortisation		(312,383)	(331,503)
<b>Total benefits, claims and expenses</b>		<b>(6,426,915)</b>	<b>(5,907,970)</b>
<b>Profit before taxation</b>	<b>17</b>	<b>765,688</b>	<b>614,173</b>
Income tax expense	18	(236,421)	(138,105)
<b>Profit for the year</b>		<b>529,267</b>	<b>476,068</b>
<b>Earnings per share</b>			
Basic earnings per share (Rs)	19	3.78	3.40

The notes to the financial statements are an integral part of these financial statements

Independent auditor's report - pages 1 to 3.



**FAIRFIRST INSURANCE LIMITED****Statement of profit or loss and other comprehensive income**

	Notes	Year ended 31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
<b>Profit for the year</b>		529,267	476,068
<b>Other comprehensive income</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Actuarial loss on defined benefit plan	36.2	(14,610)	(15,133)
Related tax		4,091	4,237
		<u>(10,519)</u>	<u>(10,896)</u>
<b>Items that are or may be reclassified to profit or loss</b>			
Net change in fair value of available for sale financial assets		169,920	83,549
Related tax		(47,578)	(23,394)
		<u>122,342</u>	<u>60,155</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>111,823</u>	<u>49,259</u>
<b>Total comprehensive income</b>		<u><b>641,090</b></u>	<u><b>525,327</b></u>

The notes to the financial statements are an integral part of these financial statements

Independent auditor's report - pages 1 to 3.



**FAIRFIRST INSURANCE LIMITED****Statement of financial position**

As at	Notes	31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
<b>Assets</b>			
Financial investments	20	9,203,026	6,751,685
Property plant and equipment	21	280,972	263,862
Right-of-use assets	22	215,754	291,485
Intangible assets	23	704,923	718,665
Reinsurance receivables	24	2,969,924	3,638,389
Premium receivables	25	3,106,823	3,068,562
Receivables and other assets	26	348,455	552,743
Deferred acquisition cost	27	586,313	539,450
Deferred tax assets	28	39,765	165,475
Cash and cash equivalents	29	662,236	447,096
<b>Total assets</b>		<b>18,118,191</b>	<b>16,437,412</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Stated capital	30	3,131,949	3,131,949
Reserves	31	94,694	(17,129)
Retained earnings		3,077,865	2,548,598
<b>Total equity</b>		<b>6,304,508</b>	<b>5,663,418</b>
<b>Liabilities</b>			
Insurance contract liabilities	32	8,043,571	6,526,787
Reinsurance payable	33	1,840,733	2,202,430
Deferred revenue	34	610,964	710,701
Employee benefits	36	173,629	148,629
Other liabilities	35	838,149	714,933
Lease liabilities	22	211,725	274,058
Amount due to related parties	37	22,847	25,624
Bank overdraft	29	72,065	170,832
<b>Total liabilities</b>		<b>11,813,683</b>	<b>10,773,994</b>
<b>Total equity and liabilities</b>		<b>18,118,191</b>	<b>16,437,412</b>

These Financial Statements are in compliance with the requirement of the Companies Act No 07 of 2007.



Wickneswaran Ravishankar  
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 :



C.D. Wijegunawardene  
Director



Sanjeev Jha  
Director

19 February 2021  
Colombo

The notes to the financial statements are an integral part of these financial statements

Independent auditor's report - pages 1 to 3.



**FAIRFIRST INSURANCE LIMITED****Statement of changes in equity**

For the year ended

	Stated capital	Reserves		Retained earnings	Total
		Available for sale reserve	Other capital reserves		
Rs. '000					
Balance as at 1 January 2019	3,131,949	(77,411)	11,023	2,072,530	5,138,091
Profit for the year	-	-	-	476,068	476,068
<b>Other comprehensive income for the year, net of tax</b>					
Fair value changes in available for sale financial assets	-	60,155	-	-	60,155
Actuarial loss on defined benefit plan	-	-	(10,896)	-	(10,896)
<b>Total other comprehensive income</b>	-	60,155	(10,896)	-	49,259
<b>Total comprehensive income for the year</b>	-	60,155	(10,896)	476,068	525,327
<b>Balance as at 31 December 2019</b>	<b>3,131,949</b>	<b>(17,256)</b>	<b>127</b>	<b>2,548,598</b>	<b>5,663,418</b>
Balance as at 1 January 2020	3,131,949	(17,256)	127	2,548,598	5,663,418
Profit for the year	-	-	-	529,267	529,267
<b>Other comprehensive income for the year, net of tax</b>					
Fair value changes in available for sale financial assets	-	122,342	-	-	122,342
Actuarial loss on defined benefit plan	-	-	(10,519)	-	(10,519)
<b>Total other comprehensive income</b>	-	122,342	(10,519)	-	111,823
<b>Total comprehensive income for the year</b>	-	122,342	(10,519)	529,267	641,090
<b>Balance as at 31 December 2020</b>	<b>3,131,949</b>	<b>105,086</b>	<b>(10,392)</b>	<b>3,077,865</b>	<b>6,304,508</b>

The notes to the financial statements are an integral part of these financial statements

Independent auditor's report - pages 1 to 3.



**FAIRFIRST INSURANCE LIMITED****Statement of cash flows**

	Notes	Year ended 31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
Profit before tax		765,688	614,173
<b>Adjustment for:</b>			
Depreciation and amortisation	17	312,382	331,503
Provision for employee benefits	36.2	35,635	34,315
Fair value gains	12	-	(2,767)
Net realised gains	11	-	(27,234)
Amortisation of deferred acquisition expenses (net)		(146,600)	(22,409)
Net interest income	10.2	(714,164)	(646,231)
Dividend income	10.1	(2,113)	(1,839)
Interest expense on lease liabilities	22.2	34,991	45,742
Provision for Impairment of premium receivable		(1,797)	-
<b>Adjusted profit before working capital changes</b>		<b>284,022</b>	<b>325,253</b>
<b>Net change in operational assets</b>			
Net change in reinsurance assets		668,466	22,541
Net change in premium receivables		(36,464)	(511,615)
Net change in receivables and other assets		40,902	(63,182)
<b>Net change in operational liabilities</b>			
Net change in other liabilities		(241,259)	674,372
Net change in insurance contract liabilities		1,516,784	(353,979)
<b>Cash used in operating activities</b>		<b>2,232,451</b>	<b>93,390</b>
Retiring gratuity paid	36.2	(25,245)	(44,173)
Interest received		700,215	699,851
Dividend received	10.1	1,713	1,839
<b>Net cash generated from operating activities</b>		<b>2,909,134</b>	<b>750,907</b>
<b>Cash flows from investing activities</b>			
Net acquisition of investments		(2,267,472)	(1,182,361)
Proceeds from disposal of financial assets		-	736,918
Acquisition of intangible assets	23	(64,502)	(78,950)
Acquisition of property, plant and equipment	21	(122,042)	(46,265)
<b>Net cash used in investing activities</b>		<b>(2,454,016)</b>	<b>(570,658)</b>
<b>Cash flows from financing activities</b>			
Principal elements of lease payments		(106,220)	(92,902)
Interest paid for leases	22	(34,991)	(45,743)
<b>Net cash used in financing activities</b>		<b>(141,211)</b>	<b>(138,645)</b>
<b>Net increase in cash and cash equivalents</b>		<b>313,907</b>	<b>41,604</b>
Cash and cash equivalents as at 1 January		276,264	234,660
<b>Cash and cash equivalents as at 31 December</b>	29	<b>590,171</b>	<b>276,264</b>

The notes to the financial statements are an integral part of these financial statements

Independent auditor's report - pages 1 to 3.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

(In the notes all amounts are shown in Sri Lanka Rupees thousands unless otherwise stated)

### 1 Reporting entity

#### Corporate information

Fairfirst Insurance Limited ("Company") is a private limited Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Access Towers II (14th Floor), No. 278/4, Union Place, Colombo-02.

#### Principal activities and nature of operations

The Company is primarily involved in the Non-Life insurance business.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

#### Parent entity and ultimate parent entity

The Company's parent undertaking and controlling entity is Fairfax Asia Limited which is incorporated in Barbados, and a fully owned subsidiary of Fair fax Financial Holdings incorporated in Canada.

#### Number of employees

The staff strength of the Company as at 31 December 2020 is 981 (2019 – 952).

### 2 Basis of preparation

#### Statement of compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred to as SLFRS/ LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No.7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000.

These financial statements include the following components:

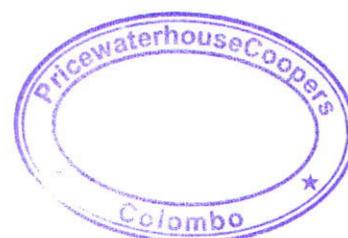
- Income statement and Statement of profit or loss and other comprehensive income providing the information on the financial performance of the Company for the year under review;
- Statement of financial position providing the information on the financial position of the Company as at the year-end;
- Statement of changes in equity depicting all changes in shareholders' funds during the year under review of the Company;
- Statement of cash flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of the Company to utilise those cash flows; and
- Notes to the financial statements comprising accounting policies and other explanatory information. Details of the Company's accounting policies, including changes during the year, are included in Note

#### Responsibility for financial statements

The Board of Directors is responsible for preparation and presentation of the financial statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

#### Approval of financial statements

The financial statements for the year ended 31 December 2020 were authorised for issue by the Directors on 19 February 2021.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 2 Basis of preparation (contd)

##### Materiality and aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of financial statements'.

##### Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the 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 a going concern basis.

##### Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Non-derivative financial instruments at fair value through profit or loss	Fair value	5.21.1(a)
Available for sale financial assets	Fair value	5.21.1 (d)
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	5.30.3

No adjustments have been made for inflationary factors affecting the financial statements.

#### 3 Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional and presentation currency. All amounts presented in rupees have been rounded to the nearest rupees thousand (Rs'000), except when otherwise indicated.

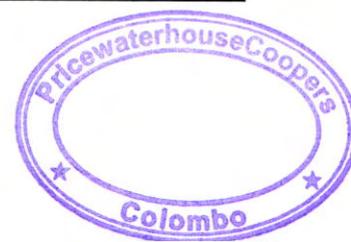
#### 4 Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included as follows.

	Disclosure reference	
	Accounting policy	Notes to the financial statements
<b>Critical accounting estimates / judgments</b>		
Insurance contract liabilities	5.28	32
Measurement of defined benefit obligations: Key actuarial assumptions	5.30.3	36
Recognition of deferred tax assets	5.18.2	28
Deferred acquisition cost	5.22.1	27
Determination of the fair value of financial instruments	5.21.6	40
Liability adequacy test	5.28.5	32.3
Goodwill - Impairment test	5.26	23



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies

#### 5.1 Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the available-for-sale equity instruments are recognised in Other Comprehensive Income.

#### Statement of income and statement of profit or loss and other comprehensive income

#### 5.2 Gross Written Premiums (GWP)

Gross written premiums comprise the total premiums received / receivable for the whole period of cover provided by contracts entered into during the accounting period. GWP is generally written upon inception of the policy. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium.

#### 5.3 Unearned Premium Reserve (UPR)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24 basis except for the marine and title policies which are computed on a 60-40 basis. The proportion attributable to subsequent period is deferred as a provision for unearned premiums.

#### 5.4 Reinsurance premiums

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered during the period, and are generally recognised on the date on which the policy incepts.

#### 5.5 Unearned reinsurance premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are calculated on the 1/24 basis except for the marine policies which are computed on a 60-40 basis.

#### 5.6 Unexpired risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at the reporting date.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.7 Acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, 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.

##### 5.8 Reinsurance commission income

Reinsurance commission income on outward reinsurance contracts are recognised as revenue when receivable subsequent to initial recognition, reinsurance commission income on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

##### 5.9 Gross claims expense

Gross claims expense include all claims occurred 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.

Gross claims expense includes gross claims expense reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct cost of setting those claims. The provision in respect of IBNR is actuarially valued to ensure a more realistic estimation of the future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. 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.

##### 5.10 Reinsurance claims recoveries

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. This includes reinsurance exposure of IBNR as well.

#### Other revenue

##### 5.11 Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income. Interest income is recognised in the income statement as it accrues and is calculated by using the Effective Interest Rate method (EIR). Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

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

Finance expenses consist of costs relating to investment such as custodial fees, bank guarantee fee and brokerage fee etc. These expenses are recognised on an accrual basis.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.12 Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

#### 5.13 Realised gains and losses

Realised gains and losses recorded in the income statement 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.

#### 5.14 Fair value gains and losses

Fair value gains and losses recorded in the income statement on investments include fair value gains on financial assets at fair value through profit or loss.

#### 5.15 Other income

Other income comprises fees charged for policy administration services, disposal gains on property, plant and equipment, gains on foreign currency translations, and miscellaneous income. Gains on foreign currency translations are recognised on a net basis.

### Expenses and taxation

#### 5.16 Expenditure recognition

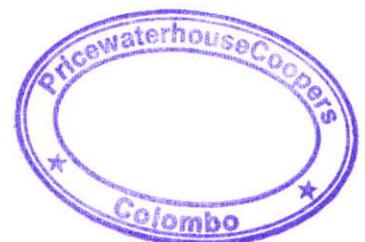
Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

#### 5.17 Finance cost

Interest paid is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

#### 5.18 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in items recognised directly in equity or in income statement and statement of profit or loss and other comprehensive income.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.18 Income tax expense (contd)

##### 5.18.1 Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

##### 5.18.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for;

Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss.

- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future and
- Taxable temporary differences arising on the initial recognition of goodwill

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

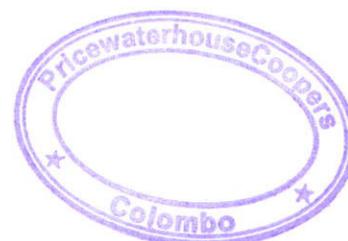
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

##### 5.18.3 Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities and such changes to tax liabilities will impact tax expense in the period that such a determination is made.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.18 Income tax expense (contd)

##### 5.18.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

##### 5.18.5 Crop Insurance Levy (CIL)

The Crop Insurance Levy was introduced under the provisions of the Section 14 of the Finance Act No. 12 of 2013, and came into effect from 1 April 2013. It is payable to the National Insurance Trust Fund and liable at 1% of the Profit After Tax.

##### 5.18.6 Withholding tax on dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

#### 5.18.2 Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except;

- Where the sales tax incurred on a purchase of asset or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as a part of receivables or payables in the statement of financial position.

#### 5.19 Earnings Per Share (EPS)

The Company presents basic and diluted earnings per share (EPS) data 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.

#### 5.20 Insurance and investment contracts

##### 5.20.1 Product classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.20 Insurance and investment contracts (contd)

###### 5.20.1 Product classification

Insurance contracts are contracts under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the Company issues and reinsurance contracts that the Company holds.

Contracts where the Company does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk.

Interest rate financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, 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.

Insurance and investment contracts are further classified as being either with or without discretionary participating features ("DPF").

###### 5.20.2 Impact of unrealised gains and losses on available for sale assets on liabilities from insurance contracts

Where unrealised gains or losses arise on available- for-sale assets, the adjustment to the liabilities arising from insurance contracts and investment contracts with DPF is equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities (and related assets) and is recognised directly in other comprehensive income.

##### 5.21 Financial assets and liabilities

###### 5.21.1 Non derivative financial assets

###### 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.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.21 Financial assets and liabilities (contd)

##### 5.21.1 Non derivative financial assets (contd)

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.

Depending on the intention and ability to hold the invested assets, the Company classifies its non-derivative financial assets into following categories;

- Financial assets at fair value through profit or loss (FVTPL)
- Held to maturity (HTM)
- Loans and receivables (L&R) and
- Available for sale (AFS) financial assets as appropriate.

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.

#### Subsequent measurement

##### (a) Fair value through profit or loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. Attributable transaction costs are recognised in income statement as incurred.

Financial assets at fair value through profit and loss investments are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

##### (b) Held to maturity financial assets (HTM)

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold it to maturity. Held to maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the Effective Interest Rate (EIR). The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised as finance cost in the income statement.

Held to maturity financial assets comprise of debt securities and treasury bonds.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.21 Financial assets and liabilities (contd)

##### 5.21.1 Non derivative financial assets (contd)

#### (c) Loans and receivables (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables, cash and cash equivalents.

#### Cash and cash equivalent

Cash and cash equivalents comprise cash balances, and call deposits with original maturities of three months or less. Bank overdrafts are included in the statement of financial position under liabilities.

For the purpose of the cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### Premiums receivable

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

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in the income statement.

Premium receivables are derecognised when de-recognition criteria for financial assets, as described in Note 5.21.3 have been met.

#### (d) Available for sale financial assets (AFS)

Available-for-sale financial assets are financial assets that are designated as available for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments are recognised in Income.

Statement of profit or loss and other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in income statement and statement of profit or loss and Other comprehensive income is transferred to the income statement.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.21 Financial assets and liabilities (contd)

##### 5.21.1 Non derivative financial assets (contd)

###### (d) Available for sale financial assets (AFS) (contd)

Available-for-sale financial investments include equity and debt securities. 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 may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Company evaluates its available for sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity.

There classification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity. Available for sale financial assets comprise of long term unquoted equity investments, investments in reverse repos' and investments in treasury bills and bonds.

##### 5.21.2 Non derivative financial liabilities

###### Initial recognition and measurement

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise interest bearing borrowings, reinsurance payables, other liabilities and bank overdrafts.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

###### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as follows.

###### Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.21 Financial assets and liabilities (contd)

##### 5.21.2 Non derivative financial liabilities (contd)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in finance cost in the income statement.

##### Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

##### Derecognition of insurance payables

Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

##### 5.21.3 De-recognition

The Company de-recognises a financial asset when:

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

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognised in Income Statement and Statement of profit or loss and other comprehensive income is recognised in profit or loss.

The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### 5.21.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount 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.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.21 Financial assets and liabilities (contd)

###### 5.21.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability 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.

###### 5.21.6 Fair value measurement

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.

###### Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

###### 5.21.7 Impairment

###### Financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is 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 result of one or more events that has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

###### (a) Impairment losses on financial assets carried at amortised cost

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in income statement under other cost and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.22 Deferred expenses

##### 5.22.1 Deferred Acquisition Costs (DAC)

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, 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.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve 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.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement.

DAC is derecognised when the related contracts are either settled or disposed.

##### 5.22.2 Reinsurance commissions – Unearned Commission Reserve (UCR)

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

##### 5.22.3 Deferred expenses – Investment Management Services

Those incremental costs incurred during the financial period directly attributable to securing investment contracts without DPF (under which the Company will render investment management services), are deferred and recognised as an asset, to the extent that they can be identified separately, measured reliably and it is probable that they will be recovered from future revenue margins. Incremental cost is a cost that would not have been incurred if the Company had not secured the investment contract without DPF. All other origination costs are recognised as an expense when incurred.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the financial liability. Subsequent to initial recognition, these costs are amortised in line with fee income. Amortisation is recorded in the Income Statement.

An impairment review 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 income statement. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Investment management services are de-recognised when the related contracts are settled or disposed.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.23 Property, plant and equipment

###### 5.23.1 Recognition and measurement

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

###### Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

###### Basis of measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- When the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in "other operating income" in the income statement. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

###### 5.23.2 Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in income statement as incurred.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.23 Property, plant and equipment

###### 5.23.3 Repairs and maintenance

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The 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.

###### 5.23.4 Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Asset class	Expected useful life
Office furniture	5 years
Furniture and fittings	5 years
Computer equipment	5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

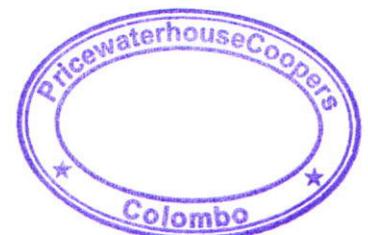
The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 21.

###### 5.23.5 Carrying amount

The carrying amount of an asset or significant group of assets within the class is assessed annually with its fair value and where the fair value is less than the carrying amount, the asset is written down to its fair value. The consequent adjustment is recognised in the income statement.

The residual values of assets that are not insignificant are reassessed annually. Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of the revaluation.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.23 Property, plant and equipment

##### 5.23.6 De-recognition

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

#### 5.24 Leases

##### The Company as a lessee

##### 5.24.1 Recognition and measurement

Leases are recognised as right-of-use assets and corresponding liabilities as at the date at which the leased assets are available for use by the Company.

The right-of-use assets are presented separately in the statement of financial position.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Each lease payment is allocated between the liability and interest cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is re-measured to reflect any reassessment, lease modification or revised in-substance fixed payments.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for re-measurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation periods for the right-of-use assets are as follows:

- right of use for the buildings 2-5 years
- right of use for the motor vehicles 5 years

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

#### 5.24.2 Lease activities

The Company in general leases properties such as Office Buildings, Vehicles which contains a wide range of different terms and conditions. Lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

#### 5.24.3 Termination and extension option

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (extension option) or not terminated (termination option). The assessment of whether the Company is reasonably certain to exercise an extension option, or not to exercise a termination option is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Company.

The management has applied judgment that:

- For the office building the extension option was not included as it is not reasonably certain that the Company will continue the lease beyond the 5 year period.
- For the office vehicles the extension option was not included as the alternative assets are easily available and there are no economic incentives to continue beyond the basic period of 5 years.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.25 Intangible assets

###### Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

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.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

###### Intangibles arising from business combination

Intangible assets arising from business combination are recognised separately from Goodwill irrespective of whether the asset had been recognised by the acquiree before the business combination.

Fair value as at the acquisition date is deemed to be the cost of the intangible assets arising in business combination.

Intangible assets, other than goodwill arising in a business combination are subsequently measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets arising in a business combination, other than goodwill are amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangibles are stated below,

Intangible asset	Estimated Useful Life Years
Customer relationship	10
Contractual rights with service provider	3
Trademarks	5

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.26 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and infinite intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### 5.27 Equity movements

###### Ordinary shares

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

###### Share issue costs

Share issue related expenses are charged against the retained earnings in the equity statement.

##### 5.28 Insurance contract liabilities

###### 5.28.1 Insurance liabilities

Insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and incurred but not reported, and incurred and not enough reported - IBNR/ IBNER) and the provision for unearned premium and the provision for premium deficiency.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.28 Insurance contract liabilities (contd)

###### 5.28.2 Claims payable Including IBNR

The outstanding claims provision is 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 derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

###### 5.28.3 Provision for unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Provision for unearned premium is calculated on a 1/24 basis except for marine / cargo class which is subject to 60 / 40 basis.

At each reporting date, the Company reviews its unexpired risk and the liability adequacy tested to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums.

The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement in comprehensive income by setting up a provision for premium deficiency.

###### 5.28.4 Title insurance reserve

Title insurance reserve is maintained by the Company to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised until validity of the policy expires.

###### 5.28.5 Liability Adequacy Test (LAT)

At the end of each reporting period the Company reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions. If the assessments show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency shall be recognised in the income statement by setting up a provision for liability adequacy. Insurance liability adequacy is decided by an independent external actuary.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 5 Significant accounting policies (contd)

#### 5.29 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balance due from reinsurance companies. These assets consist of short-term balance due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. 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 is recorded gross in the financial position unless a right to offset exists.

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 income statement.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

#### 5.30 Employee benefits

##### 5.30.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus 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.

##### 5.30.2 Defined contribution plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan and which are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

#### Employees' provident fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to Employees' Provident Fund managed by the Central Bank of Sri Lanka.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.30 Employee benefits (contd)

##### 5.30.2 Defined contribution plans (contd)

##### Employees' trust fund

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the ETF Board of Sri Lanka.

##### 5.30.3 Defined benefit plans

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

With the adoption of LKAS 19 - "Employee Benefits", which became effective from 1 January 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in Other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded.

##### 5.31 Provisions and contingencies (other than insurance provisions)

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

##### 5.32 Capital commitments

Capital commitments of the Company are disclosed in the Note 41 to the financial statements.

##### 5.33 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.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 5 Significant accounting policies (contd)

##### 5.34 Cash flow statements

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, "Cash Flow Statements."

Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

#### 6 New accounting standards

##### 6.1 New and amended standards adopted during the year

New and amended standards that became effective first time to financial reporting period commencing on or after 1 January 2020 and adopted by the Company.

##### Definition of Material – Amendments to LKAS 1 and LKAS 8

The amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout Sri Lanka Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information.

In particular, the amendments clarify:

- a) that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- b) the meaning of 'primary users of general-purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need

This amendment is effective for the annual periods beginning on or after 1 January 2020.

##### Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- a) increasing the prominence of stewardship in the objective of financial reporting
- b) reinstating prudence as a component of neutrality
- c) defining a reporting entity, which may be a legal entity, or a portion of an entity
- d) revising the definitions of an asset and a liability
- e) removing the probability threshold for recognition and adding guidance on derecognition
- f) adding guidance on different measurement basis, and
- g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

This amendment is effective for the annual periods beginning on or after 1 January 2020.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 6 New accounting standards (contd)

#### 6.1 New and amended standards adopted during the year (contd)

##### Covid-19-related Rent Concessions – Amendments to SLFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. According to the amendment to SLFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

This amendment is effective for the annual periods beginning on or after 1 June 2020.

#### 6.2 New standards and amendments issued but not effective and adopted in 2020

##### SLFRS 17, 'Insurance contracts'

SLFRS 17 was issued as replacement for SLFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- a) discounted probability-weighted cash flows
- b) an explicit risk adjustment, and
- c) a Contractual Service Margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under SLFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

This amendment is effective for the annual periods beginning on or after 1 January 2023.

##### SLFRS 9 Financial Instruments

SLFRS 9 replaces the multiple classification and measurement models in LKAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 6 New accounting standards (contd)

#### 6.2 New standards and amendments issued but not effective and adopted in 2020 (contd)

##### SLFRS 9 Financial Instruments (contd)

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if:

- a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and
- b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Further changes introduced to the classification and measurement rules and also introduced a new impairment model to SLFRS 9. The changes introduce:

##### Disclosures on qualifying for the temporary exemptions

Based on the amendments to SLFRS 4 'Insurance Contracts', the Company is permitted to apply the temporary exemption as the Company meets the eligibility criteria as follows;

1. The Company has not applied SLFRS 9 before; and
2. The Company's activities are predominantly connected with insurance as the ratio of its liabilities connected with insurance - including investment contracts measured at fair value through profit or loss - compared with total liabilities is greater than 80% but less than 90% and the Company does not engage in significant activity unconnected with insurance. Accordingly, the Company qualifies for a pure insurance company.

##### As at 31 December

	2020 Rs. ' 000	2019 Rs. ' 000
Insurance contract liabilities	8,043,571	6,526,787
Reinsurance payable	1,840,733	2,202,430
Deferred revenue	610,964	710,701
Liabilities connected with insurance	10,495,268	9,439,918
Total liabilities	<b>11,813,683</b>	<b>10,773,994</b>
Predominance ratio	89%	88%



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 6 New accounting standards (contd)

#### 6.2 New standards and amendments issued but not effective and adopted in 2020 (contd)

##### SLFRS 9 Financial Instruments (contd)

##### Disclosures to provide comparability

Financial assets that meet the SPPI Test, Solely Payment of Principal and Interest (excluding the financial assets that meet the definition of held for trading or managed and evaluated on a fair value basis).

Instrument	Current classification	2020		2019	
		Carrying value under LKAS 39	Fair value	Carrying value under LKAS 39	Fair value
		Rs'000	Rs'000	Rs'000	Rs'000
Treasury bonds	HTM	1,842,430	2,182,791	1,753,198	1,832,476
Reverse repo	L&R	3,952,573	3,952,573	1,653,010	1,653,010
Debentures	L&R	1,704,823	1,734,718	1,692,337	1,692,337

All other financial assets (that meet the definition of held for trading or managed and evaluated on a fair value basis)

Instrument	Current classification	2020		2019	
		Carrying value under LKAS 39	Fair value	Carrying value under LKAS 39	Fair value
		Rs'000	Rs'000	Rs'000	Rs'000
Equity Shares – Quoted	FVTPL	-	-	58,710	58,710
Equity Shares – Quoted	AFS	172,085	172,085	-	-
Treasury bonds	AFS	1,530,490	1,530,490	1,493,935	1,493,935
Equity – Unquoted	AFS	625	625	625	625
Debentures	AFS	-	-	99,870	99,870

#### i. Classification - Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. It eliminates the existing LKAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements (contd)

### 6 New accounting standards (contd)

#### 6.2 New standards and amendments issued but not effective and adopted in 2020 (contd)

##### SLFRS 9 Financial Instruments (contd)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value on OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Under SLFRS 9, derivative embedded in contracts where the host is a financial asset in the scope of SLFRS 9 are not separated. Instead, the hybrid financial instrument as whole is assessed for classification.

##### Business model assessment

The Company will make an assessment of the objective of the business model which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPTL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

##### Impact assessment

The standard will affect the classification and measurement of financial assets held as follows.

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under LKAS 39, will also be measured at FVTPL under SLFRS 9.
- Loans and receivables measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9.
- Held-to-maturity investment securities measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9.
- Debt investment securities that are classified as available-for-sale under LKAS 39 may, under SLFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- The majority of the equity investment securities that are classified as available-for-sale under LKAS 39 will be measured at FVTPL under SLFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as at FVOCI on initial recognition.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements (contd)

#### 6 New accounting standards (contd)

##### 6.2 New standards and amendments issued but not effective and adopted in 2020 (contd)

###### SLFRS 9 Financial Instruments (contd)

###### ii Impairment - Financial assets, loan commitments and financial guarantee contracts

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with a forward-looking 'expected credit loss' model. This will be required considerable judgement over how changes in economic factors affect Expected Credit Loss (ECLs), which will be determined on a probability-weighted basis.

The new impairment model applies to Financial assets that are debt instruments that are not measured at FVTPL.

Under SLFRS 9, no impairment loss is recognised on equity investments.

SLFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss-allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs.

- debt investment securities that are determined to have low credit risk at the reporting date. The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment-grade"; and
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

The Company does not expect significant impact of the financial statement due to adoption of these standards.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 7 Gross written premium

Gross written premium (GWP) represents the premium charged by the Company to underwrite risks in order to pay customer claims / benefits if the event insured against occurs / specified term is completed. GWP is accounted on an accrual basis.

	Year ended 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Accident and liability	4,071,990	3,704,321
Fire	1,724,859	1,682,749
Marine	493,007	467,219
Motor	6,391,787	6,154,932
	<b>12,681,643</b>	<b>12,009,221</b>

### 8 Premium ceded to reinsurers

Premium ceded to reinsurers represents the premium paid by the Company to its reinsurers in order to manage its underwriting risks. This is accounted on an accrual basis.

	Year ended 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Accident and liability	1,911,733	1,674,951
Fire	1,480,528	1,481,839
Marine	407,763	283,393
Motor	2,283,288	2,659,065
	<b>6,083,312</b>	<b>6,099,248</b>

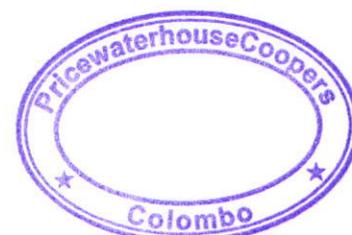
### 9 Net earned premium

This represents the net earned premium for the financial year subsequent to deduction of reinsurance and net change in unearned premiums.

	Notes	Year ended 31 December	
		2020	2019
		Rs. ' 000	Rs. ' 000
Gross written premium	7	12,681,643	12,009,221
Premium ceded to reinsurers	8	(6,083,312)	(6,099,248)
<b>Total net written premium</b>		<b>6,598,331</b>	<b>5,909,973</b>
Change in reserve for unearned premium	9.1	(136,361)	(410,436)
Change in reserve for unearned reinsurance premium	9.2	(140,927)	169,802
<b>Net change in reserve for unearned premium</b>		<b>(277,288)</b>	<b>(240,634)</b>
<b>Total net earned premium</b>		<b>6,321,043</b>	<b>5,669,339</b>

9.1 The change represents the GWP portion transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.

9.2 The change represents the reinsurance portion transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 10 Net investment income

Note	Year ended 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Dividend income	2,113	1,839
Interest income	714,164	646,231
Investment related expenses	(769)	(641)
<b>Total net investment income</b>	<b>715,508</b>	<b>647,429</b>

#### 10.1 Dividend income

Year ended 31 December	
2020	2019
Rs. ' 000	Rs. ' 000

##### Equity shares

Financial assets at fair value through profit or loss  
Available for sale financial assets

-	1,401
2,113	438
<b>2,113</b>	<b>1,839</b>

#### 10.2 Interest income

Year ended 31 December	
2020	2019
Rs. ' 000	Rs. ' 000

##### Held to maturity financial assets

- Treasury bonds

191,254	149,744
<b>191,254</b>	<b>149,744</b>

##### Available for sale financial assets

- Treasury bonds  
- Quoted debentures

149,918	181,243
4,608	28,181
<b>154,526</b>	<b>209,424</b>

##### Loans and receivables

- Quoted debentures  
- Unquoted debentures  
- Reverse REPO  
- Fixed and savings deposits  
- Interest income on loans given to staff

163,301	138,728
39,549	14,750
149,790	112,029
6,987	6,161
8,757	15,395
<b>368,384</b>	<b>287,063</b>

Total interest income for the year

<b>714,164</b>	<b>646,231</b>
----------------	----------------

### 11 Net realised gain

Year ended 31 December	
2020	2019
Rs. ' 000	Rs. ' 000

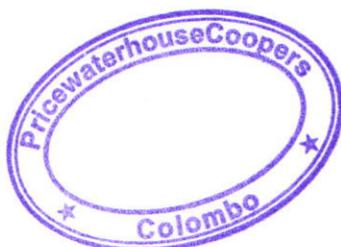
#### Available for sale financial assets

##### Realised gains

- Quoted debentures  
- Treasury bonds

-	21
-	27,213
<b>-</b>	<b>27,234</b>

Total net realised gains



**FAIRFIRST INSURANCE LIMITED****Notes to the financial statements****12 Net fair value gains**

<b>Year ended 31 December</b>	
<b>2020</b>	<b>2019</b>
<b>Rs. ' 000</b>	<b>Rs. ' 000</b>

Fair value through profit or loss financial assets

Unrealised gains

Equity securities

Total net fair value gains

-	2,767
-	<b>2,767</b>

**13 Other operating income**

<b>Year ended 31 December</b>	
<b>2020</b>	<b>2019</b>
<b>Rs. ' 000</b>	<b>Rs. ' 000</b>

Policy administration fee

(Loss) / gain on foreign currency translation

Miscellaneous income

Total other income

163,014	170,398
(6,617)	7,516
(345)	(2,540)
<b>156,052</b>	<b>175,374</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 14 Net benefits and claims

Net claims incurred reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are based on the information available as at a particular date, the charge for the year includes any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to insurers as at the reporting date. Such claims are commonly referred to as Incurred But Not Reported (IBNR) claims, and is computed based on internationally accepted actuarial principles.

	Notes	Year ended 31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
Gross benefits and claims paid		5,757,547	6,309,688
Claims ceded to reinsurers		(2,510,352)	(2,939,837)
<b>Net insurance benefits and claims paid</b>	<b>14.1</b>	<b>3,247,195</b>	<b>3,369,851</b>
Gross change in liabilities		1,232,770	(610,352)
Change in liabilities ceded to reinsurers		(604,260)	736,754
<b>Total net benefits and claims</b>	<b>14.2</b>	<b>3,875,705</b>	<b>3,496,253</b>

#### 14.1 Net insurance benefits and claims paid

Rs. ' 000	Year ended 31 December			Year ended 31 December		
	2020		Net claims paid	2019		Net claims paid
Gross claims paid	Claims recovered from reinsurers	Gross claims paid		Claims recovered from reinsurers		
Fire	369,682	(308,340)	61,342	276,254	(213,739)	62,515
Motor	2,877,133	(1,139,369)	1,737,764	3,594,562	(1,598,234)	1,996,328
Marine	115,271	(42,923)	72,348	164,799	(84,606)	80,193
Miscellaneous	2,396,592	(1,019,720)	1,376,872	2,289,362	(1,043,258)	1,246,104
	<b>5,758,678</b>	<b>(2,510,352)</b>	<b>3,248,326</b>	<b>6,324,977</b>	<b>(2,939,837)</b>	<b>3,385,140</b>
Recoveries from sale of salvage	(1,131)	-	(1,131)	(15,289)	-	(15,289)
	<b>5,757,547</b>	<b>(2,510,352)</b>	<b>3,247,195</b>	<b>6,309,688</b>	<b>(2,939,837)</b>	<b>3,369,851</b>

#### 14.2 Total net benefits and claims

	Year ended 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Gross claims incurred	6,990,317	5,699,336
Reinsurance recoveries	(3,114,612)	(2,203,083)
	<b>3,875,705</b>	<b>3,496,253</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 15 Underwriting and net acquisition costs (Including Reinsurance)

	Year ended 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Acquisition cost	1,611,764	1,699,945
Net change in reserve for deferred acquisition cost (DAC)	(46,863)	(4,925)
	<b>1,564,901</b>	<b>1,695,020</b>
Reinsurance commission income	1,207,193	1,344,427
Net change in reserve for unearned commission (UCR)	99,737	17,484
	<b>1,306,930</b>	<b>1,361,911</b>
<b>Total underwriting and net acquisition costs</b>	<b>257,971</b>	<b>333,109</b>

### 16 Other operating and administrative expenses

	Note	Year ended 31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
Employee benefits expenses	16.1	1,035,241	835,325
Administration and establishment expenses		888,728	843,230
Selling expenses		21,896	22,808
<b>Total other operating and administrative expenses</b>		<b>1,945,865</b>	<b>1,701,363</b>
<b>16.1 Employee benefits expenses</b>			
Staff remuneration		851,652	668,994
Defined contribution plan cost - EPF		89,263	76,915
Defined contribution plan cost - ETF		22,316	19,229
Defined benefit plan cost		35,635	34,315
Staff welfare		21,557	19,524
Training expenses		7,022	4,466
Other costs		7,796	11,882
		<b>1,035,241</b>	<b>835,325</b>

### 17 Profit before tax

Following expenses have been charged in arriving profit before tax of the year.

	Year ended 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Auditors remuneration		
Statutory audit services	3,210	2,975
Non audit related services	1,192	965
Depreciation (Excluding depreciation of right-of-use-assets)	104,932	94,608
Depreciation of right-of-use-assets	129,206	118,161
Amortisation	78,244	118,734
Defined contribution plan cost - EPF	89,263	76,915
Defined contribution plan cost - ETF	22,316	19,229
Defined benefit plan cost	35,635	34,315
Directors emoluments	63,988	48,295



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 18 Income tax expense

#### 18.1 Amount recognised in profit or loss

	Year ended 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
<b>Current tax expense</b>		
Current tax expense for the year	154,198	-
<b>Deferred tax expense</b>		
Origination of deferred tax assets	86,516	155,003
Origination of deferred tax liabilities	(4,293)	(16,898)
<b>Net deferred tax reversal</b>	<b>82,223</b>	<b>138,105</b>
<b>Income tax expense</b>	<b>236,421</b>	<b>138,105</b>
Reconciliation between current tax expenses and the accounting profit:		
Profit before tax	765,688	614,173
Tax calculated at the effective tax rate of 28% (2019 - 28%)	214,393	171,969
Tax effect of expenses not deductible for tax purposes	16,990	17,730
Tax effect of allowable expenses for income tax purposes	5,038	(51,594)
Tax charge	<b>236,421</b>	<b>138,105</b>

#### 18.2 Amount recognised in other comprehensive income

Available for sale investment securities	(47,578)	(23,394)
Remeasurement of defined benefit liability	4,091	4,237
	<b>(43,487)</b>	<b>(19,157)</b>

#### 18.3 Notional tax credit for withholding tax on Government securities

The Inland Revenue Act No.10 of 2006 as amended by subsequent legislation provides that a company which derives interest income from secondary market transactions in Government securities (on or after 1 April 2002) would be entitled to a notional tax credit being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company.

Subsequently the Inland Revenue Act No. 24 of 2017 abolished the aforesaid provision and provided that no notional tax credit should be identified for the interest income on Government securities after 1 April 2018.

As per the transitional provisions which is published on 1 April 2018, Notional Tax credit as per section 138 (2) of Inland Revenue Act No. 10 of 2006 may be carried forward to be set-off against the Income Tax liability within three consecutive years of assessment commencing from the year of assessment 2018 / 2019.

The notional tax credit available for set off against the future tax liability of the Company is as follows;

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Balance as at 1 January	61,461	61,461
Utilised during the year	(61,461)	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>61,461</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 18 Income tax expense / (credit) (contd)

#### 18.4 Analysis of tax losses

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Balance as at 1 January	404,226	1,045,296
Tax loss utilised during the year	(404,226)	(641,070)
<b>Balance as at 31 December</b>	<b>-</b>	<b>404,226</b>

### 19 Earnings per share

#### 19.1 Basic earnings per share

The calculation of basic earnings per share was based on the following profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding as at the reporting date.

	Year ended 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Profit for the period attributable to the owners of the Company	529,267	476,068
Weighted average number of ordinary shares	140,000	140,000
<b>Basic earnings per share (Rs.)</b>	<b>3.78</b>	<b>3.40</b>

#### Diluted earnings per share

There was no dilution of ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is the same as basic earning per share as shown in Note 19.1.

### 20 Financial investments

The following provides details of how insurance funds have been invested. The majority of the Company's investments, i.e. 80% are in Government securities. Corporate debt securities (which comprise quoted and unquoted debentures) account for a further 19% of investments.

The Company's financial instruments are summarised by the following categories:

Notes	As at 31 December 2020		As at 31 December 2019		
	Carrying value Rs. ' 000	Fair value Rs. ' 000	Carrying value Rs. ' 000	Fair value Rs. ' 000	
Held to maturity financial assets (HTM)	20.1	1,842,430	2,182,791	1,753,198	1,832,476
Loans and receivables (L&R)	20.2	5,657,396	5,687,291	3,345,347	3,327,263
Available for sale financial assets (AFS)	20.3	1,703,200	1,678,682	1,594,430	1,594,430
Financial assets at fair value through profit or loss (FVTPL)	20.4	-	-	58,710	58,710
<b>Total financial investments</b>		<b>9,203,026</b>	<b>9,548,764</b>	<b>6,751,685</b>	<b>6,812,879</b>

#### 20.1 Held to maturity financial assets (HTM)

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Treasury bonds	1,842,430	1,753,198
	<b>1,842,430</b>	<b>1,753,198</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

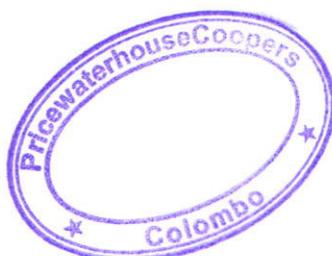
### 20 Financial investments (contd)

#### 20.2 Loans and receivables (L&R)

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Quoted debentures	1,340,001	1,327,587
Unquoted debentures	364,822	364,750
Reverse repurchase agreements	3,952,573	1,653,010
	<b>5,657,396</b>	<b>3,345,347</b>

#### 20.3 Available for sale financial assets (AFS)

	Notes	As at 31 December	
		2020	2019
		Rs. ' 000	Rs. ' 000
Equity securities - listed	20.3.1	172,085	-
Equity securities - unlisted	20.3.2	625	625
Debentures - listed	20.3.3	-	99,870
Treasury bonds		1,530,490	1,493,935
		<b>1,703,200</b>	<b>1,594,430</b>



##### 20.3.1. Equity securities - listed (AFS)

	As at 31 December 2020		As at 31 December 2019	
	No of shares	Rs. '000	No of shares	Rs. '000
John Keells Holdings PLC	1,150,301	172,085	-	-
<b>Total AFS listed equity securities</b>	<b>1,150,301</b>	<b>172,085</b>	<b>-</b>	<b>-</b>

800,000 John Keells Holdings shares were acquired during June 2020 and were classified as AFS upon initial recognition. The balance 350,301 shares acquired previously classified as FVTPL were reclassified as AFS to be consistent with the latest acquisition. As at the reporting date there were no AFS assets that were overdue but impaired.

##### 20.3.1. Equity securities - unlisted (AFS)

	As at 31 December 2020		As at 31 December 2019	
	No of shares	Rs. '000	No of shares	Rs. '000
Fitch Rating Lanka Limited	62,500	625	62,500	625
<b>Total AFS unlisted equity securities</b>	<b>62,500</b>	<b>625</b>	<b>62,500</b>	<b>625</b>

Unlisted equity security classified at AFS is designated in this category upon initial recognition. At the reporting date there were no AFS assets that were overdue but impaired.

##### 20.3.2. Debentures - Listed (AFS)

Issuer	Maturity date	As at 31 December 2020			
		No of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest rate %
National Development Bank PLC	-	-	-	-	-

# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 20 Financial investments (contd)

#### 20.3.2 Debentures - Listed (AFS)

Issuer	Maturity date	No of debentures	As at 31 December 2019		Interest rate %
			Carrying value Rs. '000	Market value Rs. '000	
National Development Bank PLC	24/06/2020	1,036,000	99,870	99,870	9.4
			<b>99,870</b>	<b>99,870</b>	

#### 20.4 Financial assets at fair value through profit or loss (FVTPL)

Note	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Equity securities-Listed	20.4.1	58,710
		<b>58,710</b>

#### 20.4.1 Equity securities (FVTPL)

	As at 31 December		
	2020		
	No of shares	Cost Rs. '000	Carrying value Rs. '000
John Keells Holdings PLC (re-classified to AFS - Note 20.3.1)	-	-	-
	-	-	-
	As at 31 December		
	2019		
	No of shares	Cost Rs. '000	Carrying value Rs. '000
John Keells Holdings PLC	350,301	51,381	58,710
	<b>350,301</b>	<b>51,381</b>	<b>58,710</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 21 Property, plant and equipment

Rs. '000	Office equipment	Furniture and fittings	Computer equipment	Motor vehicle	Total 2020	Total 2019
<b>Cost / revaluation</b>						
Balance as at 1 January	181,760	352,781	493,402	8,780	1,036,723	990,458
Additions during the year	21,156	19,400	81,486	-	122,042	46,265
<b>Balance as at 31 December</b>	<b>202,916</b>	<b>372,181</b>	<b>574,888</b>	<b>8,780</b>	<b>1,158,765</b>	<b>1,036,723</b>
<b>Accumulated depreciation and impairment losses</b>						
Balance as at 1 January	144,924	233,997	389,951	3,989	772,861	678,253
Depreciation for the year	17,955	40,745	44,955	1,277	104,932	94,608
<b>Balance as at 31 December</b>	<b>162,879</b>	<b>274,742</b>	<b>434,906</b>	<b>5,266</b>	<b>877,793</b>	<b>772,861</b>
<b>Carrying value</b>						
<b>As at 31 December</b>	<b>40,037</b>	<b>97,439</b>	<b>139,982</b>	<b>3,514</b>	<b>280,972</b>	<b>263,862</b>

#### 21.1 Title restriction on property, plant and equipment

The Company does not have any properties as at the reporting date.

#### 21.2 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs.122 Mn. Cash payments amounting to Rs. 122 Mn were made during the year for purchase of property, plant and equipment.

#### 21.3 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year.

#### 21.4 Impairment of property, plant and equipment

The Board of Directors assessed the potential impairment loss of property, plant and equipment as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

#### 21.5 Fully depreciated property, plant and equipment

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Computer equipment	295,084	288,203
Office equipment	101,924	105,150
Furniture and fittings	133,998	121,142
<b>Total</b>	<b>531,006</b>	<b>514,495</b>

#### 21.6 Property, plant and equipment pledged as security

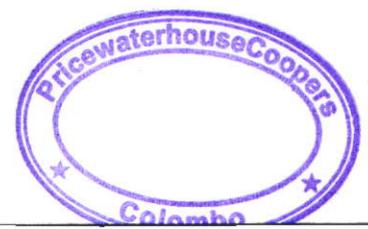
None of the property, plant and equipment have been pledged as securities as at the reporting date.

#### 21.7 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant and equipment as at the reporting date.

#### 21.8 Compensation from third parties for items of property, plant and equipment

There were no compensation received or receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 22 Right-of-use assets

Rs. '000	Building	Motor vehicles	Total 2020	Total 2019
<b>Cost</b>				
Balance as at 1 January	392,709	16,937	409,646	381,231
Additions during the year	46,481	6,994	53,475	28,415
<b>Balance as at 31 December</b>	<b>439,190</b>	<b>23,931</b>	<b>463,121</b>	<b>409,646</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance as at 1 January	117,032	1,129	118,161	-
Depreciation for the year	124,420	4,786	129,206	118,161
<b>Balance as at 31 December</b>	<b>241,452</b>	<b>5,915</b>	<b>247,367</b>	<b>118,161</b>
<b>Carrying value</b>				
<b>As at 31 December</b>	<b>197,738</b>	<b>18,016</b>	<b>215,754</b>	<b>291,485</b>

#### 22.1 Lease liabilities

	31 December 2020 Rs. ' 000	31 December 2019 Rs. ' 000
Lease liabilities	211,725	274,058

#### 22.2 Amounts relating to leases recognised in the statement of income

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Depreciation charge for the right-of-use assets by class of assets		
Building	124,420	117,032
Motor vehicle	4,786	1,129
<b>Total depreciation charge</b>	<b>129,206</b>	<b>118,161</b>
Interest expense on lease liabilities	34,991	45,742
Expense relating to short-term leases	15,264	18,210
Expense relating to leases of low-value assets that are not short-term leases	9,612	9,278
<b>Total expenses related to leases</b>	<b>189,073</b>	<b>191,391</b>

**22.3** Company has applied practical expedient on Covid 19 related rent concessions to all the rent concessions which meet the conditions provided in the amendment to SLFRS 16. Accordingly, Rs.0.62Mn was recognized in profit or loss to reflect changes in lease payments that arise from rent concessions to which the company has applied the practical expedient.

This amendment is adopted by the company from April 2020.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 23 Intangible assets

#### Reconciliation of carrying amounts

Rs. 000'	Goodwill	Customer Relationships	Contractual rights with service provider	Trade mark	Software	Capital WIP	Total 2020	Total 2019
<b>Cost</b>								
Balance as at 1 January	360,508	230,343	139,564	14,824	340,712	50,903	1,136,854	1,057,904
Additions	-	-	-	-	47,268	17,234	64,502	78,950
<b>Balance as at 31 December</b>	<b>360,508</b>	<b>230,343</b>	<b>139,564</b>	<b>14,824</b>	<b>387,980</b>	<b>68,137</b>	<b>1,201,356</b>	<b>1,136,854</b>

#### Accumulated amortisation and impairment losses

Balance as at 1 January	-	69,102	139,564	8,895	200,628	-	418,189	299,455
Amortisation	-	23,034	-	2,965	52,245	-	78,244	118,734
<b>Balance as at 31 December</b>	<b>-</b>	<b>92,136</b>	<b>139,564</b>	<b>11,860</b>	<b>252,873</b>	<b>-</b>	<b>496,433</b>	<b>418,189</b>
<b>Carrying amount as 31 December</b>	<b>360,508</b>	<b>138,207</b>	<b>-</b>	<b>2,964</b>	<b>135,107</b>	<b>68,137</b>	<b>704,923</b>	<b>718,665</b>

#### 23.1 Goodwill

Goodwill of Rs. 361 Mn represents excess of the purchase consideration paid, accounted for using Acquisition Method prescribed by SLFRS 3-Business Combination, in the acquisition of Fairfirst Insurance Limited ( Formerly known as Asian Alliance General Insurance Limited) as at 3rd October 2016. Subsequently, Fairfirst Insurance Limited (Formerly known as Asian Alliance General Insurance Limited) was amalgamated with Union Assurance General Limited with effect from 28th February 2017 and the respective Goodwill is carried forwarded to amalgamated financial statements.

The company tests whether goodwill has suffered any impairment on an annual basis. For the 2020 and 2019 reporting period, the recoverable amount of the cash generating unit (CGU) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by Directors covering a three-year period, and a further projection of 2 years assuming an annual 10% increase in insurance related income/expense and 5% increase in other expense.

Cash flows beyond the five-year period are factored in through a terminal value calculation using 5th year cash flows and a growth rate of 5%. This growth rates is consistent with industry forecasts and other macro economic variables.

A discount rate of 8.9% was used in the value-in-use calculation, which is consistent with the risk adjusted long term bond yields of the economy.

#### 23.2 Customer relationship

Customer relationship represents the exclusive right to access Softlogic Group for the purpose of selling insurance products to the Softlogic Group for a period of 10 years from the date of acquisition. The access has been granted via the agreement dated 24 June 2016.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 23 Intangible assets (contd)

#### 23.3 Contractual rights with service provider

This represents favorable terms contractually agreed with service provider from all the services rendered by service provider.

#### 23.4 Trademark

Trademark represents the benefit to the Company from the use of Click to Claim products of former Asian Alliance General Insurance Limited. This was acquired as part of the acquisition of the business. However, subsequently, Fairfirst Insurance Limited (Formerly known as Asian Alliance General Insurance Limited) has been amalgamated with Union Assurance General Limited with effect from 28th February 2017 and the intangible assets recognised on Trademark was carried forwarded to amalgamated financial statements.

#### 23.5 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

#### 23.6 Fully amortised intangible assets in use

Intangible assets include fully amortised computer software which are in use of normal business activities having gross carrying amounts of Rs. 122 Mn.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 24 Reinsurance receivable

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Reinsurance receivable on outstanding claims (Inclusive of IBNR)	2,469,998	1,879,508
Reinsurance receivable on settled claims	507,049	1,766,004
	<u>2,977,047</u>	<u>3,645,512</u>
Impairment of reinsurance receivables	(7,123)	(7,123)
<b>Total reinsurance receivables</b>	<b><u>2,969,924</u></b>	<b><u>3,638,389</u></b>

#### 24.1 Fair value of reinsurance receivables

The carrying values disclosed above approximate the fair value at the reporting date.

#### 24.2 Impairment of reinsurance receivables

As at 31 December 2020, there were no impaired loss recorded for reinsurance receivables, except as disclosed below;

The ageing of reinsurance receivables on settled claims is as follows;

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Less than 60 days	260,928	721,502
More than 60 days	246,150	1,044,502
	<u>507,078</u>	<u>1,766,004</u>

Movements in the provision for impairment of reinsurance receivables are as follows;

Balance as at 1 January	(7,123)	(7,123)
Provisions during the year	-	-
<b>Balance as at 31 December</b>	<b><u>(7,123)</u></b>	<b><u>(7,123)</u></b>

#### 24.3 Reinsurance receivable past due but not impaired (on paid claims)

As at 31 December 2020, reinsurance receivable of Rs. 239 Mn were past due but not impaired. These relate to parties where there were no recent history of default.

#### 24.4 Collateral details

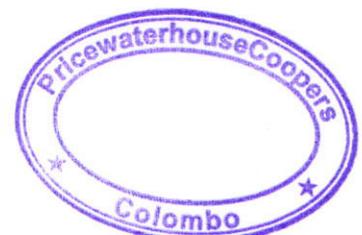
The Company does not hold any collateral as security against potential default by reinsurance counter parties.

#### 24.5 Reinsurance receivable on outstanding claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable not been received.

#### 24.6 Risk management

For risk management initiatives relating to reinsurance please refer Note 39 to the financial statements.



## Notes to the financial statements

## 25 Premium receivable

	Note	As at 31 December	
		2020	2019
		Rs. ' 000	Rs. ' 000
Premium receivables		3,121,173	3,081,115
Less - Impairment of premium receivables	25.1	(14,350)	(12,553)
		<b>3,106,823</b>	<b>3,068,562</b>

Unallocated premium receipts of Rs.241 Mn under premium receivable as at 31 Dec 2019 has been reclassified under Other liabilities.

## 25.1 Impairment of premium receivables

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Balance as at 1 January	12,553	12,553
Provision during the year	1,797	-
<b>Balance as at 31 December</b>	<b>14,350</b>	<b>12,553</b>

## 25.2 Fair value of premium receivables

The carrying amount disclosed above approximates the fair value as at reporting date.

## 25.2.1 Premium receivables past due but not impaired

As at 31 December 2020, premium receivable of Rs.1,082 Mn (2019-Rs.764 Mn) were past due but not impaired. These balances relate to persons whom there were no recent history of default.

## 25.3 Collateral details

The Company does not hold any collateral as security against potential default by a policy holder or intermediaries.

## 25.4 Risk management initiatives relating to premium receivables

There is lower concentration of credit risk with respect to premium receivable as the company has a large number of dispersed debtors. Refer to Note 39 to the financial statements.

## 26 Receivables and other assets

	Notes	As at 31 December	
		2020	2019
		Rs. ' 000	Rs. ' 000
<b>Financial assets</b>			
Staff loans	26.1	81,894	130,177
Agent / advisory loans		3,026	3,168
Refundable deposits		65,120	54,243
		<b>150,040</b>	<b>187,588</b>
<b>Non financial assets</b>			
Taxes recoverable	26.2	48,438	273,587
Prepayments		67,329	36,766
Other receivables		82,021	54,175
Advance payments		627	627
		<b>198,415</b>	<b>365,155</b>
<b>Total receivables and other assets</b>		<b>348,455</b>	<b>552,743</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 26 Receivables and other assets (contd)

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
<b>26.1 Staff loans</b>		
Balance as at 1 January	130,177	154,335
Loans provided during the year	-	7,606
Payments / settlements during the year	(52,580)	(37,638)
Fair value adjustment during the year	4,297	5,874
<b>Balance as at 31 December</b>	<b>81,894</b>	<b>130,177</b>

#### 26.1.1 Fair Value of the staff loans

The fair value of the staff loans are computed using a discount rate which is equivalent to the average weighted lending rate plus appropriate risk margin.

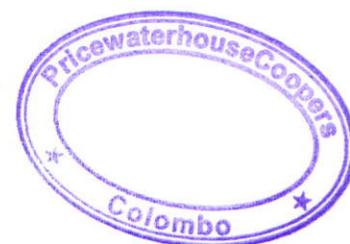
### 26.2 Taxes recoverable

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Notional tax receivable [Note 18.3]	-	61,461
WHT recoverable	15,310	12,559
ESC receivable	33,128	125,865
VAT recoverable	-	75,637
(-) Provision for unclaimed VAT	-	(1,935)
	<b>48,438</b>	<b>273,587</b>

**26.2** Refer Note 39 to the financial statements for risk management initiatives relating to other financial assets.

### 27 Deferred acquisition cost (DAC)

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Balance as at 1 January	539,450	534,524
Acquisition cost incurred during the year	1,611,764	1,699,945
Amortisation for the year	(1,564,901)	(1,695,019)
<b>Balance as at 31 December</b>	<b>586,313</b>	<b>539,450</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 28 Deferred tax

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Deferred tax assets	59,621	189,624
Deferred tax liabilities	(19,856)	(24,149)
<b>Net deferred tax assets</b>	<b>39,765</b>	<b>165,475</b>

#### 28.1.1 Deferred tax asset

Balance at the beginning of the year	189,624	363,784
Reversed during the year - recognised in profit or loss	(86,516)	(155,003)
Reversed during the year - recognised in other comprehensive income	(43,487)	(19,157)
<b>Balance at the end of the year</b>	<b>59,621</b>	<b>189,624</b>

#### 28.1.2 Deferred tax liabilities

Balance at the beginning of the year	24,149	41,047
Reversed during the year - recognised in profit or loss	(4,293)	(16,898)
<b>Balance at the end of the year</b>	<b>19,856</b>	<b>24,149</b>

#### 28.1.3 Analysis of recognised deferred tax assets / liabilities

Rs. ' 000	As at 31 December 2020		As at 31 December 2019	
	Temporary difference	Tax effect	Temporary difference	Tax effect
<b>Deferred tax asset</b>				
Retirement benefit obligations	173,629	48,616	148,630	41,616
Staff bonus	185,150	51,842	100,300	28,084
Available for sale reserve	(145,848)	(40,837)	24,072	6,740
Carried forward tax losses	-	-	404,226	113,184
	<b>212,931</b>	<b>59,621</b>	<b>677,228</b>	<b>189,624</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	70,917	19,856	86,248	24,149
	<b>70,917</b>	<b>19,856</b>	<b>86,248</b>	<b>24,149</b>
<b>Net recognised deferred tax asset</b>	<b>142,014</b>	<b>39,765</b>	<b>590,980</b>	<b>165,475</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 29 Cash and cash equivalents

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
<b>Cash and cash equivalents</b>		
Cash at bank	660,614	445,649
Cash in hand	1,622	1,447
<b>Total cash and cash equivalents</b>	<b>662,236</b>	<b>447,096</b>
<b>Bank overdrafts</b>		
Bank overdraft	72,065	170,832
	<b>590,171</b>	<b>276,264</b>

#### 29.1 Fair value of cash and cash equivalents

The carrying amounts disclosed above reasonably approximate fair value as at the reporting date.

### 30 Stated capital

	As at 31 December 2020		As at 31 December 2019	
	Number of shares	Rs. '000	Number of shares	Rs. '000
Balance as at 1 January	140,000,000	3,131,949	140,000,000	3,131,949
<b>Balance as at 31 December</b>	<b>140,000,000</b>	<b>3,131,949</b>	<b>140,000,000</b>	<b>3,131,949</b>

### 31 Reserves

	Notes	As at 31 December	
		2020 Rs. ' 000	2019 Rs. ' 000
Reserve for available for sale financial instruments	31.1	105,086	(17,256)
Reserves on retirement benefit obligation	31.2	(10,392)	127
<b>Total reserves</b>		<b>94,694</b>	<b>(17,129)</b>

#### 31.1 Reserve for available for sale financial instruments

Balance as at 1 January	(17,256)	(77,411)
Unrealised gain on Available for sale assets - gross	169,920	83,549
Related tax	(47,578)	(23,394)
<b>Balance as at 31 December</b>	<b>105,086</b>	<b>(17,256)</b>

#### 31.2 Reserves on retirement benefit obligation

Balance as at 1 January	127	11,023
Actuarial loss on retirement benefit obligation	(14,610)	(15,133)
Related tax	4,091	4,237
<b>Balance as at 31 December</b>	<b>(10,392)</b>	<b>127</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 32 Insurance contract liabilities

	Notes	As at 31 December	
		2020 Rs. '000	2019 Rs. '000
Outstanding claims provision (Gross)	32.1	4,972,957	3,733,461
Provision for unearned premiums (Net)	32.2	3,070,614	2,793,326
		<b>8,043,571</b>	<b>6,526,787</b>

#### Movement in insurance contract liabilities

The Company enters into reinsurance agreements in order to mitigate insurance risks as outlined in Note 39 Financial risk review. Although positions are managed on a net basis by management, insurance disclosures have been made on both gross and net basis in order to provide a comprehensive set of disclosures.

Rs. ' 000	Notes	As at 31 December 2020			As at 31 December 2019		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Provision for reported claims		2,492,013	1,408,228	1,083,785	1,822,118	969,045	853,073
Incurred But Not Reported (IBNR)		2,480,944	1,061,770	1,419,174	1,911,343	910,463	1,000,880
Outstanding claims provision	32.1	<b>4,972,957</b>	<b>2,469,998</b>	<b>2,502,959</b>	<b>3,733,461</b>	<b>1,879,508</b>	<b>1,853,953</b>
Provision for unearned premiums	32.2	5,856,333	2,785,719	3,070,614	5,719,972	2,926,646	2,793,326
<b>Total</b>		<b>10,829,290</b>	<b>5,255,717</b>	<b>5,573,573</b>	<b>9,453,433</b>	<b>4,806,154</b>	<b>4,647,279</b>

#### 32.1 Outstanding claims provision

The movement in the outstanding claims provision is as follows;

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
<b>Provision for reported claims</b>		
Balance as at 1 January	1,822,118	1,596,856
Claims incurred during the year	6,427,442	6,534,950
Claims paid during the year	(5,757,547)	(6,309,688)
<b>Balance as at 31 December</b>	<b>2,492,013</b>	<b>1,822,118</b>
<b>Incurred But not reported (IBNR)</b>		
Balance as at 1 January	1,911,343	2,731,218
Increase / (decrease) in IBNR	569,601	(819,875)
<b>Balance as at 31 December</b>	<b>2,480,944</b>	<b>1,911,343</b>
	<b>4,972,957</b>	<b>3,733,461</b>

#### 32.1.1 Development claim tables (gross)

The ultimate value of claims are derived based upon the historical development of claims reported of the Company. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the company's estimate of total claims outstanding for each accident year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position. The Company has elected to present its claims development on an accident year basis as this is consistent with how the business is managed.



Notes to the financial statements

32 Insurance contract liabilities (contd)

32.1.1 Development claim tables (gross)

Current estimate of ultimate claims

Acc. Year	1	2	3	4	5	6	7	8	9	10	11
1999	226,937	255,945	268,343	271,727	270,006	282,047	333,121	335,269	306,790	315,067	761,443
2000	297,105	364,263	382,239	383,860	379,867	387,530	420,587	429,081	411,565	418,078	413,956
2001	339,749	419,723	425,717	422,883	417,499	427,029	464,053	465,319	449,357	453,966	431,972
2002	425,846	412,418	415,010	411,741	407,632	419,672	471,000	470,565	452,675	453,317	451,893
2003	818,013	800,763	776,501	778,402	775,646	789,306	825,338	826,235	808,815	809,159	770,129
2004	796,383	733,767	706,776	709,160	709,720	716,999	746,218	726,136	725,782	704,067	703,797
2005	908,446	896,416	898,693	939,518	942,080	963,534	1,079,366	1,081,251	1,074,397	1,073,517	1,091,166
2006	1,367,337	1,378,917	1,396,668	1,407,573	1,408,281	1,466,395	1,463,171	1,457,920	1,456,010	1,455,697	1,454,207
2007	1,652,006	1,659,029	1,687,681	1,696,318	1,693,190	1,697,532	1,692,844	1,697,709	1,697,610	1,693,206	1,692,936
2008	1,870,879	1,931,705	1,961,755	1,966,567	1,963,998	1,952,846	1,945,269	1,959,564	1,964,921	1,969,678	1,963,696
2009	2,078,165	1,987,858	2,123,766	2,030,558	2,022,573	2,028,289	2,026,566	2,031,783	2,043,031	2,044,272	2,031,040
2010	2,467,225	2,378,578	2,324,741	2,302,792	2,300,192	2,305,753	2,303,075	2,307,251	2,312,333	2,306,457	2,305,590
2011	2,788,748	2,708,610	2,675,329	2,693,989	2,690,200	2,692,451	2,741,172	2,741,175	2,728,421	2,727,507	-
2012	3,307,441	3,203,167	3,167,083	3,170,953	3,181,354	3,187,173	3,185,758	3,178,697	3,179,547	-	-
2013	4,212,020	4,082,683	4,069,176	4,018,478	4,017,197	4,017,644	3,997,439	3,997,784	-	-	-
2014	4,522,607	4,339,013	4,324,050	4,334,333	4,338,965	4,317,831	4,319,244	-	-	-	-
2015	5,284,621	5,270,471	5,085,212	5,051,668	5,014,221	5,030,291	-	-	-	-	-
2016	11,852,194	11,735,194	11,203,575	11,159,605	11,182,880	-	-	-	-	-	-
2017	7,869,551	7,385,754	6,585,940	6,589,008	-	-	-	-	-	-	-
2018	8,225,564	6,738,614	6,730,575	-	-	-	-	-	-	-	-
2019	8,235,680	7,336,169	-	-	-	-	-	-	-	-	-
2020	7,847,740	-	-	-	-	-	-	-	-	-	-

Ultimate Claims	7,847,740	7,336,169	6,730,575	6,589,008	11,182,880	5,030,291	4,319,244	3,997,784	3,179,547	2,727,507	14,071,825	<b>73,012,570</b>
-----------------	-----------	-----------	-----------	-----------	------------	-----------	-----------	-----------	-----------	-----------	------------	-------------------

Cumulative payments to date

AY/DY	1	2	3	4	5	6	7	8	9	10	11
1999	286,378	403,226	415,085	418,714	419,438	420,134	422,958	440,977	442,072	444,037	752,475
2000	248,122	380,175	387,340	388,557	385,586	387,284	390,934	403,181	405,326	406,266	413,956
2001	284,046	396,998	412,332	414,358	417,012	417,706	419,186	422,248	423,830	424,030	429,045
2002	288,487	406,206	414,920	419,263	421,043	424,091	446,726	448,452	451,543	451,560	451,893
2003	621,799	763,826	780,957	792,842	799,301	805,453	805,994	806,004	807,483	807,483	770,027
2004	580,771	698,553	707,932	714,261	720,589	720,985	721,808	721,869	721,968	703,459	703,797
2005	697,861	922,127	957,054	1,051,591	1,061,980	1,065,012	1,066,981	1,069,840	1,070,678	1,073,076	1,076,620
2006	1,069,300	1,404,296	1,426,088	1,433,218	1,441,735	1,448,632	1,450,608	1,451,351	1,451,354	1,451,354	1,451,386
2007	1,296,608	1,611,418	1,628,081	1,642,610	1,665,129	1,677,773	1,682,149	1,686,147	1,687,274	1,687,417	1,689,169
2008	1,510,705	1,894,179	1,910,976	1,925,664	1,936,816	1,940,923	1,945,103	1,949,014	1,952,828	1,956,642	1,960,052
2009	1,623,950	1,914,382	1,931,981	1,983,919	1,997,967	2,011,645	2,013,643	2,020,305	2,024,733	2,025,084	2,025,979
2010	1,883,572	2,210,823	2,240,622	2,259,286	2,272,616	2,276,873	2,281,918	2,289,558	2,290,745	2,291,251	2,292,966
2011	2,138,858	2,551,863	2,618,653	2,635,808	2,652,900	2,663,472	2,675,463	2,676,567	2,677,072	2,677,643	-
2012	2,434,531	3,036,242	3,081,974	3,113,533	3,130,240	3,145,852	3,151,338	3,152,199	3,152,667	-	-
2013	3,277,369	3,869,470	3,945,979	3,962,365	3,979,417	3,984,846	3,987,266	3,988,348	-	-	-
2014	3,356,168	4,136,098	4,208,056	4,238,529	4,276,074	4,284,895	4,290,064	-	-	-	-
2015	3,663,982	4,893,792	4,922,915	4,942,837	4,957,738	4,989,527	-	-	-	-	-
2016	5,887,972	9,524,668	11,007,796	11,033,879	11,054,694	-	-	-	-	-	-
2017	5,353,019	6,304,036	6,440,298	6,465,574	-	-	-	-	-	-	-
2018	5,611,397	6,519,225	6,542,681	-	-	-	-	-	-	-	-
2019	5,214,623	6,242,835	-	-	-	-	-	-	-	-	-
2020	4,618,215	-	-	-	-	-	-	-	-	-	-

Cumulative payments to date	4,618,215	6,242,835	6,542,681	6,465,574	11,054,694	4,989,527	4,290,064	3,988,348	3,152,667	2,677,643	14,017,365	<b>68,039,614</b>
Total gross claims provision	3,229,525	1,093,334	187,894	123,434	128,186	40,764	29,180	9,436	26,880	49,864	54,460	<b>4,972,957</b>

32.1.2 Valuation of IBNR

The incurred but not reported claims reserve has been actuarially computed by Mr J V Prasad, FIA, for and on behalf of Willis Towers Watson India Private Limited. The valuation of IBNR was certified on 22 January 2021 for the above purpose.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 32 Insurance contract liabilities (contd)

#### 32.2 Provision for unearned premiums

The reserve for net unearned premium indicates the amount of premium which is attributable to policies written as at 31 December 2020, but covering periods after 31 December 2020.

Rs. ' 000	Notes	As at 31 December			As at 31 December		
		2020			2019		
		Insurance Contract Liabilities	Reinsurance	Net	Insurance Contract Liabilities	Reinsurance	Net
Balance as at 1 January		5,719,972	2,926,646	2,793,326	5,309,536	2,756,844	2,552,692
Premiums written in the year	7 & 8	12,681,643	6,083,312	6,598,331	12,009,221	6,099,248	5,909,973
Premiums earned during the year		(12,545,282)	(6,224,239)	(6,321,043)	(11,598,785)	(5,929,446)	(5,669,339)
<b>Balance as at 31 December</b>		<b>5,856,333</b>	<b>2,785,719</b>	<b>3,070,614</b>	<b>5,719,972</b>	<b>2,926,646</b>	<b>2,793,326</b>

#### 32.3 Liability adequacy test (LAT)

A Liability Adequacy Test ("LAT") for insurance contract liability was carried out by Mr J V Prasad, FIA, for and on behalf of Willis Towers Watson India Private Limited as at 31st December 2020 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2020. No additional provision was required against the LAT as at 31st December 2020.

#### 32.4 Technical reserves

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Insurance contract liabilities	8,043,571	6,526,787
Deferred acquisition cost (net)	24,651	171,251
Reinsurance receivable on outstanding claims (exclusive of IBNR)	(1,408,228)	(969,045)
	<b>6,659,994</b>	<b>5,728,993</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 33 Reinsurance payables

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Balance as at 1 January	2,202,430	1,435,921
Arising during the year	6,083,312	6,099,248
Utilised during the year	(6,445,009)	(5,332,739)
	<b>1,840,733</b>	<b>2,202,430</b>

The carrying amounts disclosed above reasonably approximate fair value as at the reporting date.

### 34 Deferred revenue

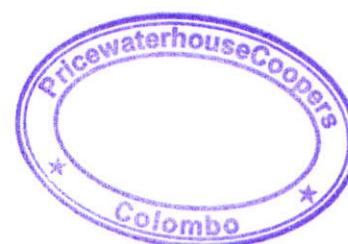
This represents the income relating to acquisition of reinsurance contracts and are released to income as the insurance contract expires.

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Balance as at 1 January	710,701	728,185
Commission income	1,207,193	1,344,427
Recognised during the year	(1,306,930)	(1,361,911)
	<b>610,964</b>	<b>710,701</b>

### 35 Other liabilities

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
<b>Other financial liabilities</b>		
Agency commission payable	346,828	267,988
Other liabilities and accruals	454,122	419,140
	<b>800,950</b>	<b>687,128</b>
<b>Other non financial liabilities</b>		
Government levies	34,802	24,017
Other staff related provisions	2,397	3,788
	<b>37,199</b>	<b>27,805</b>
	<b>838,149</b>	<b>714,933</b>

Unallocated premium receipts of Rs.241 Mn under premium receivable as at 31 Dec 2019 has been reclassified under Other liabilities.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 36 Employee benefits

The Company had 981 employees (full-time equivalents) as of 31 December 2020. Personnel and other related costs incurred for the year ended 31 December 2020 was Rs. 1035 Mn (2019 - Rs. 835 Mn) which include staff remuneration of Rs. 852 Mn (2019 - Rs. 668 Mn).

#### 36.1 Defined contribution plans

Following contributions have been made for Employee Provident Fund and Employee Trust Fund during the year.

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
<b>Employees' Provident fund (EPF)</b>		
Employer's contribution (12%)	89,263	76,915
Employee's contribution (8%)	59,712	51,277
<b>Employees' trust fund (ETF)</b>		
Employer's contribution (3%)	22,316	19,229
<b>36.2 Movement in present value of gratuity</b>		
Balance as at 1 January	148,629	143,354
<b>Included in profit or loss:</b>		
Interest cost	15,829	17,776
Current Service Cost	19,806	16,539
	35,635	34,315
<b>Benefits paid</b>		
Benefits paid	(25,245)	(44,173)
	(25,245)	(44,173)
<b>Included in other comprehensive income:</b>		
Actuarial loss	14,610	15,133
Present value obligation as at 31 December	<b>173,629</b>	<b>148,629</b>

#### 36.3 Principal actuarial assumptions used

Discount rate	8.20%	10.65%
Salary increase	5%	5%
Retirement age	55 years	55 years

Assumptions regarding future mortality are based on published statistics and mortality tables. The actuarial valuations regarding above were carried out by Mr.M.Poopalanathan (AIA) for and on behalf of Actuarial and Management Consultants (Pvt) Ltd .The valuation report was certified on 18 January 2021 for the above purpose.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 36 Employee benefits (contd)

#### 36.4 Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amount shown below:

Rs. ' 000		As at 31 December		As at 31 December	
		Increase	Decrease	Increase	Decrease
Discount rate	1%	10,144	(11,392)	4,943	(5,325)
Future salary growth	1%	(12,089)	10,930	(5,944)	5,600

### 37 Related party disclosures

#### 37.1 Parent and ultimate controlling party

The Company's immediate controlling party is Fairfax Asia Limited

#### 37.2 Transactions with key management personnel (KMPs)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company and its ultimate parent company Fairfax Asia Limited (including Executive and Non-Executive Directors).

#### 37.3 Compensation of KMPs

Short term employment benefits



As at 31 December	
2020	2019
Rs. ' 000	Rs. ' 000
63,988	48,295
<b>63,988</b>	<b>48,295</b>

The short term employment benefits include only the directors fees and emoluments paid to directors. Where applicable such fees are paid directly to the companies that the Directors represent. There are no short-term, long-term, post - employment, terminal and share-based payments linked to the remuneration of the directors and no ex-gratia payments were made to directors during the year. Further, the Company does not provide any non-cash benefit to the KMPs.

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company as at 31 December 2020.

#### 37.4 Transactions with related parties

Details of related party transactions are reported below.

Company	Relationship	Nature of the transaction	Transactions during the year		Balance as at	
			2020	2019	2020	2019
			Rs'000	Rs'000	Rs'000	Rs'000
Union Assurance PLC	Significant Shareholder	Shared Service Costs	-	35,478	-	-
		Settlements	-	(54,056)		
Fairfax Asia Limited	Parent	Management Fee	30,022	17,838	21,304	25,624
		Settlements	(34,342)	-		
Fairfax Financial Holdings	Ultimate parent	Recharge of IFRS 17 project Cost	673	-	673	-
Hamblin Watsa Investment Counsel Ltd	Wholly owned subsidiary of ultimate parent	Software Fee	3,377	-		
		Settlements	2,507	-	870	-
John Keells Holdings PLC	Parent of a significant shareholder	Shares purchased	113,375	-	-	-
					<b>22,847</b>	<b>25,624</b>

# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 38 Current tax liabilities

	As at 31 December	
	2020	2019
	Rs. ' 000	Rs. ' 000
Balance as at 1 January	-	-
Provision for the year	154,198	-
Payments set off during the year against tax credits	(154,198)	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>

### 39 Financial and underwriting risk review

This note presents information about Company's exposure to financial and underwriting risks and management of capital.

#### 39.1 Business risk

The Company being in the insurance industry, business risk is the insurance risk that the Company is exposed to as a result of the insurance contracts undertaken. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty regarding the amount of the resulting claim. Therefore, the objective is to ensure that sufficient reserves are available to cover these liabilities. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements.

##### 39.1.1 Insurance contracts

Following table summarises the outstanding claims position as at 31 December,

Rs. ' 000	As at 31 December		
	2020		
	Gross Claim	Reinsurance	Net
Provision for reported claims	2,492,013	1,408,228	1,083,785
Incurred But Not Reported (IBNR)	2,480,944	1,061,770	1,419,174
<b>Total</b>	<b>4,972,957</b>	<b>2,469,998</b>	<b>2,502,959</b>

Rs. ' 000	As at 31 December		
	2019		
	Gross Claim	Reinsurance	Net
Provision for reported claims	1,822,118	969,045	853,073
Incurred But Not Reported (IBNR)	1,911,343	910,463	1,000,880
<b>Total</b>	<b>3,733,461</b>	<b>1,879,508</b>	<b>1,853,953</b>



**FAIRFIRST INSURANCE LIMITED****Notes to the financial statements****39 Financial and underwriting risk review (contd)****39.1.1 Insurance contracts (contd)****Claims development table**

The table below shows the estimated incremental gross claims liability for the last twelve years for each successive accident year at each reporting date of the Company. (Amounts in Rs'000).

AY/DY	1	2	3	4	5	6	7	8	9	10	11	12
2009	2,078,165	(90,307)	135,908	(93,208)	(7,986)	5,716	(1,723)	5,217	11,247	1,242	(13,477)	244
2010	2,467,225	(88,647)	(53,837)	(21,949)	(2,601)	5,561	(2,678)	4,175	5,082	(5,876)	(867)	
2011	2,788,748	(80,138)	(33,281)	18,660	(3,789)	2,252	48,721	3	(12,754)	(915)		
2012	3,307,441	(104,273)	(36,085)	3,871	10,400	5,820	(1,415)	(7,062)	850			
2013	4,212,020	(129,337)	(13,507)	(50,698)	(1,281)	446	(20,204)	345				
2014	4,522,607	(183,594)	(14,963)	10,282	4,632	(21,134)	1,413					
2015	5,284,621	(14,149)	(185,260)	(33,544)	(37,447)	16,070						
2016	11,852,194	(117,001)	(531,619)	(43,970)	23,275							
2017	7,869,551	(483,797)	(799,814)	3,068								
2018	8,225,564	(1,486,950)	(8,039)									
2019	8,235,680	(899,511)										
2020	7,847,740											



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (contd)

##### 39.1.2 Estimation for claim reserve

The table below shows the sensitivity of net profit before tax (PBT) and the sensitivity of net assets (NA) as a result of adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity.

The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net profit before tax and net assets.

Sensitivity of PBT and net assets due to increase in net claim ratio

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
(+) 1% in claims ratio		
Net impact to PBT	(63,210)	(75,429)
Impact to Net Assets	(45,512)	(54,309)

##### 39.1.3 Re insurance risk

As at 31 December 2020 reinsurance receivables amounts to Rs.2,969 Mn (2019 - Rs.3,638 Mn) mainly consisting of receivable on claims outstanding amounting to Rs.2,470 Mn (2019 - Rs.1,880 Mn) and reinsurance share on claims paid amounting to Rs.500 Mn (2019 - Rs. 1,759 Mn).

As at 31 December 2020, 70% of our reinsurance receivables were due from reinsurers with a credit rating of "A-" or better and from the National Insurance Trust Fund (NITF). There were no collateral against reinsurance receivables as at reporting date. The ratings of reinsurer's and their related rating agencies are as follows:

Reinsurers	Rating	Rating agency
Allied World Assurance Company Limited	A-	Standard & Poor's
American Home Assurance Company	A	A.M. Best
Amlin Syndicate London	A+	A.M. Best
Antares Syndicate 1274 - Lloyds	A+	Standard & Poor's
Appollo Consortium 1969-Lloyds	A+	Standard & Poor's
Asia Capital Reinsurance Group	A-	Standard & Poor's
Aspen Insurance Uk Limited -Lloyds	A	A.M. Best
Beazley Pte Limited	A	A.M. Best
Berkshire Hathaway Specialty Insurance	A++	A.M. Best
Cathedral Syndicate 3010-Lloyds	A+	Standard & Poor's
Chubb Insurance Singapore	AA-	Standard & Poor's
Emirates Insurance Company P.S.C	A-	A.M. Best
General Insurance Corporation Of India	A-	A.M. Best
HDI Global Se	A	Standard & Poor's
Hiscox Syndicate 33 - Lloyds	A+	Standard & Poor's
Ms First Capital Insurance Limited	A	A.M. Best
Munich Reinsurance Company	A+	A.M. Best
National Insurance Trust Fund	Government security	Not Applicable
RSA Reinsurance Limited	A	Standard & Poor's
Santam Re - Africa ( On Behalf Of Munich Re)	A-	Standard & Poor's
The New India Assurance Company Limited	A-	A.M. Best
XI Insurance Company (Singapore Branch)	A+	A.M. Best



**FAIRFIRST INSURANCE LIMITED****Notes to the financial statements****39 Financial and underwriting risk review (contd)****39.1.4 Concentration risk**

Concentration risk within the insurance business based on the Gross Written Premium is as follows

Rs. ' 000 Class	For the year ended 2020			
	Gross written premium	Reinsurance	Net written premium	%
Motor	6,391,787	2,283,288	4,108,499	62%
Fire	1,724,859	1,480,528	244,331	4%
Marine	493,007	407,763	85,244	1%
Accident and liability	4,071,990	1,911,733	2,160,257	33%
	<b>12,681,643</b>	<b>6,083,312</b>	<b>6,598,331</b>	

**Motor / non motor composition**

Motor	6,391,787	2,283,288	4,108,499	62%
Non motor	6,289,856	3,800,024	2,489,832	38%
	<b>12,681,643</b>	<b>6,083,312</b>	<b>6,598,331</b>	

Rs. ' 000 Class	For the year ended 2019			
	Gross written premium	Reinsurance	Net written premium	%
Motor	6,154,932	2,659,065	3,495,867	59%
Fire	1,682,749	1,481,839	200,910	3%
Marine	467,219	283,393	183,826	3%
Accident and liability	3,704,321	1,674,951	2,029,370	35%
	<b>12,009,221</b>	<b>6,099,248</b>	<b>5,909,973</b>	

**Motor / non motor composition**

Motor	6,154,932	2,659,065	3,495,867	59%
Non motor	5,854,289	3,440,183	2,414,106	41%
	<b>12,009,221</b>	<b>6,099,248</b>	<b>5,909,973</b>	



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (contd)

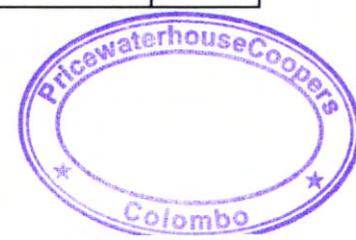
##### 39.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers, deposits at banks, and investments in debt securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Company is exposed to credit risk on securities issued by third parties. The debt security investments are broadly categorised into investments in government securities and investments in corporate debt securities

##### 39.2.1 Credit quality analysis

The tables below set out information about the credit quality of financial investments (Cash and cash equivalent, government securities and corporate debt securities) and the allowance for impairment loss held by the Company against the assets.

As at 31 December 2020							
Rs. ' 000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Cash and cash equivalents	Total	(%)
<b>Maximum exposure to credit risk</b>							
<b>Carrying amount</b>	<b>1,842,430</b>	<b>5,657,396</b>	<b>1,703,200</b>	<b>-</b>	<b>662,236</b>	<b>9,865,262</b>	
AAA	-	-	-	-	135,774	135,774	1%
AA+ to AA -	-	828,492	-	-	459,713	1,288,205	13%
A+ to A-	-	776,062	-	-	25,341	801,403	8%
BBB+ to BBB-	-	100,269	-	-	39,787	140,056	1%
Government guaranteed	1,842,430	3,952,573	1,530,490	-	-	7,325,493	74%
Not rated	-	-	172,710	-	1,621	174,331	2%
<b>Total</b>	<b>1,842,430</b>	<b>5,657,396</b>	<b>1,703,200</b>	<b>-</b>	<b>662,236</b>	<b>9,865,262</b>	<b>100%</b>
<b>Allowance for impairment</b>							
<b>Neither past due nor impaired</b>	<b>1,842,430</b>	<b>5,657,396</b>	<b>1,703,200</b>	<b>-</b>	<b>662,236</b>	<b>9,865,262</b>	
AAA	-	-	-	-	135,774	135,774	1%
AA+ to AA -	-	828,492	-	-	459,713	1,288,205	13%
A+ to A-	-	776,062	-	-	25,341	801,403	8%
BBB+ to BBB-	-	100,269	-	-	39,787	140,056	1%
Government guaranteed	1,842,430	3,952,573	1,530,490	-	-	7,325,493	74%
Not rated	-	-	172,710	-	1,621	174,331	2%
<b>Total</b>	<b>1,842,430</b>	<b>5,657,396</b>	<b>1,703,200</b>	<b>-</b>	<b>662,236</b>	<b>9,865,262</b>	<b>100%</b>
<b>Past due but not impaired</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Impaired</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (contd)

##### 39.2.1 Credit quality analysis (contd)

As at 31 December 2019							
Rs. ' 000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Cash and cash equivalents	Total	(%)
<b>Maximum exposure to credit risk</b>							
Carrying amount	1,753,198	3,345,347	1,594,430	58,710	447,096	7,198,781	
AAA	-	411,263	-	-	10,209	421,472	6%
AA+ to AA -	-	458,966	-	-	364,369	823,335	11%
A+ to A-	-	822,108	99,870	-	66,799	988,777	14%
BBB+ to BBB-	-	-	-	-	4,272	4,272	0%
Government guaranteed	1,753,198	1,653,010	1,493,935	-	-	4,900,143	68%
Not rated	-	-	625	58,710	1,447	60,782	1%
<b>Total</b>	<b>1,753,198</b>	<b>3,345,347</b>	<b>1,594,430</b>	<b>58,710</b>	<b>447,096</b>	<b>7,198,781</b>	
Allowance for impairment							
<b>Neither past due nor impaired</b>	<b>1,753,198</b>	<b>3,345,347</b>	<b>1,594,430</b>	<b>58,710</b>	<b>447,096</b>	<b>7,198,781</b>	
AAA	-	411,263	-	-	10,209	421,472	6%
AA+ to AA -	-	458,966	-	-	364,369	823,335	11%
A+ to A-	-	822,108	99,870	-	66,799	988,777	14%
BBB+ to BBB-	-	-	-	-	4,272	4,272	0%
Government guaranteed	1,753,198	1,653,010	1,493,935	-	-	4,900,143	68%
Not rated	-	-	625	58,710	1,447	60,782	1%
<b>Total</b>	<b>1,753,198</b>	<b>3,345,347</b>	<b>1,594,430</b>	<b>58,710</b>	<b>447,096</b>	<b>7,198,781</b>	
<b>Past due but not impaired</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Impaired</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

The following table provides information relating to credit risk exposure of other financial assets:

Rs'000	As at 31 December 2020			As at 31 December 2019		
	Other financial assets	Reinsurance receivable	Premium receivable	Other financial assets	Reinsurance receivable	Premium receivable
	<b>Maximum exposure to credit risk</b>	<b>150,040</b>	<b>1,908,183</b>	<b>3,106,823</b>	<b>187,588</b>	<b>2,727,927</b>
Neither past due nor impaired	150,040	1,117,388	2,039,190	187,588	1,033,448	2,157,919
<b>Past due but not impaired</b>						
61-90 days	-	33,054	428,050	-	81,311	449,267
90-180 days	-	188,261	418,123	-	99,097	234,247
180 days +	-	576,603	235,810	-	1,521,194	239,682
<b>Impaired</b>	<b>-</b>	<b>(7,123)</b>	<b>(14,350)</b>	<b>-</b>	<b>(7,123)</b>	<b>(12,553)</b>
<b>Total</b>	<b>150,040</b>	<b>1,908,183</b>	<b>3,106,823</b>	<b>187,588</b>	<b>2,727,927</b>	<b>3,068,562</b>

#### Credit risk relating to reinsurance receivable

There were no collateral against reinsurance receivables as at reporting date.

Credit risk of reinsurance receivables by rating class have been illustrated below in order to ensure that Company has significant control over managing them.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 39 Financial and underwriting risk review (contd)

#### Credit risk relating to reinsurance receivable (contd)

Rs.Mn	As at 31 December				As at 31 December			
	2020				2019			
	On paid claims	On reserve	Total	%	On paid claims	On reserve	Total	%
AAA	-	-	-	0.0%	-	-	-	0.0%
AA	-	-	-	0.0%	-	-	-	0.0%
A +	6,599	-	6,599	0.3%	11,289	-	11,289	0.4%
A	177,326	844,936	1,022,263	53.6%	885,285	583,132	1,468,417	53.8%
A -	7,004	138,430	145,433	7.6%	315,145	95,537	410,682	15.1%
AA-	635	-	635	0.0%	-	-	-	-
BBB	2,010	-	2,010	0.1%	-	-	-	-
BBB +	629	2,394	3,023	0.2%	-	1,652	1,652	0.1%
BBB-	935	-	935	0.0%	-	-	-	0.0%
B+	1,516	-	1,516	0.1%	-	-	-	0.0%
B ++	117,905	-	117,905	6.2%	-	-	-	-
NITF	159,249	422,468	581,717	30.5%	525,572	288,724	814,296	29.9%
Unrated *	26,119	-	26,118	1.4%	21,590	-	21,591	0.8%
<b>Total</b>	<b>499,927</b>	<b>1,408,228</b>	<b>1,908,154</b>		<b>1,758,881</b>	<b>969,045</b>	<b>2,727,926</b>	
IBNR	-	1,061,770	1,061,770		-	910,462	910,462	-
<b>Total RI Receivable</b>	<b>499,927</b>	<b>2,469,998</b>	<b>2,969,924</b>		<b>1,758,881</b>	<b>1,879,507</b>	<b>3,638,388</b>	-

#### Credit risk relating to premiums receivable

Rs'000	As at 31 December				As at 31 December			
	2020				2019			
	Upto 30 Days	31-60 Days	Above 60 Days	Total	Upto 30 Days	31-60 Days	Above 60 Days	Total
<b>Total Receivables</b>	1,374,859	664,331	1,067,633	<b>3,106,823</b>	1,546,510	611,409	910,643	<b>3,068,562</b>

#### Credit risk relating to loans

The following table illustrates how the loans have been segregated amongst different categories.

Loan category	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Staff loans	81,894	130,177
Loans to agent / advisory loans	3,026	3,168
<b>Total</b>	<b>84,920</b>	<b>133,345</b>



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (contd)

##### Credit risk relating to cash and cash equivalents

The Company held cash and cash equivalents of Rs. 662 Mn at 31 December 2020 (2019 - Rs 447 Mn). The cash and cash equivalents are held with banks and financial institutional counterparties, which are rated BBB+ or better except for cash in hand of Rs 1.6 Mn.

##### 39.2.2 Collateral of debt securities

Reverse repo investments which fall under government securities are backed by treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. As at the balance sheet date, Company holds treasury bonds with a total face value amounting to Rs.3,995 Mn as collateral for reverse repo investments amounting to Rs. 3,953 Mn.

##### 39.2.3 Concentrations of credit risk

The Company actively manages its investment mix to ensure that there is no significant concentration of credit risk. The Company monitors concentrations of credit risk by sector and instruments. An analysis of concentrations of credit risk from financial investments is shown below.

##### By instrument:

	As at 31 December 2020		As at 31 December 2019	
	Rs. ' 000	%	Rs. ' 000	%
Government securities and related institutions (Risk free)	7,325,493	81%	4,900,143	73%
Corporate debt and others	1,704,823	19%	1,851,542	27%
<b>Total</b>	<b>9,030,316</b>		<b>6,751,685</b>	

#### 39.3 Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic / unexpected large claim events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

##### 39.3.1 Maturity analysis of financial assets and financial liabilities

The table below summarises the maturity profiles of non derivative financial assets and financial liabilities based on discounted cashflows. For reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premium reserve, deferred acquisition expenses and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (contd)

##### 39.3.1 Maturity analysis for financial assets and financial liabilities (contd)

As at 31 December 2020						
	Carrying amount	Up to one year	1 - 5 years	Over 5 years	No Maturity Date	Total
<b>Financial assets</b>						
Held to maturity	1,842,430	34,661	-	1,807,769	-	1,842,430
Loans and receivables	5,657,396	4,034,531	1,372,962	249,903	-	5,657,396
Available for sale	1,703,200	334,902	667,563	528,025	172,710	1,703,200
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Reinsurance receivable	1,908,154	1,915,277	(7,123)	-	-	1,908,154
Premiums receivable	3,106,823	3,121,173	(14,350)	-	-	3,106,823
Other financial assets	150,041	150,041	-	-	-	150,041
Cash and cash equivalents	662,236	662,236	-	-	-	662,236
<b>Total undiscounted assets</b>	<b>15,030,280</b>	<b>10,252,821</b>	<b>2,019,052</b>	<b>2,585,697</b>	<b>172,710</b>	<b>15,030,280</b>
<b>Financial liabilities</b>						
Reinsurance payable	(1,840,733)	(1,840,733)	-	-	-	(1,840,733)
Other financial liabilities	(800,950)	(800,950)	-	-	-	(800,950)
Lease liability	211,725	110,213	101,512	-	-	211,725
Amount due to related parties	(22,847)	(22,847)	-	-	-	(22,847)
Bank overdraft	(72,065)	(72,065)	-	-	-	(72,065)
<b>Total undiscounted liabilities</b>	<b>(2,524,870)</b>	<b>(2,626,382)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,524,870)</b>
<b>Total liquidity excess</b>	<b>12,505,410</b>	<b>7,626,439</b>	<b>2,019,052</b>	<b>2,585,697</b>	<b>172,710</b>	<b>12,505,410</b>

As at 31 December 2019						
	Carrying amount	Up to one year	1 - 5 years	Over 5 years	No Maturity Date	Total
<b>Financial assets</b>						
Held to maturity	1,753,198	98,966	-	1,654,232	-	1,753,198
Loans and receivables	3,345,347	1,653,495	1,043,347	648,505	-	3,345,347
Available for sale	1,594,430	99,870	1,043,833	450,102	625	1,594,430
Financial assets at fair value through profit or loss	58,710	-	-	-	58,710	58,710
Reinsurance receivable	2,727,927	2,720,804	7,123	-	-	2,727,927
Premiums receivable	3,093,668	3,081,115	12,553	-	-	3,093,668
Other financial assets	187,588	187,588	-	-	-	187,588
Cash and cash equivalents	447,096	447,096	-	-	-	447,096
<b>Total undiscounted assets</b>	<b>13,207,964</b>	<b>8,288,934</b>	<b>2,106,856</b>	<b>2,752,839</b>	<b>59,335</b>	<b>13,207,964</b>
<b>Financial liabilities</b>						
Reinsurance payable	(2,202,431)	(2,202,431)	-	-	-	(2,202,431)
Other financial liabilities	(687,124)	(687,124)	-	-	-	(687,124)
Lease liability	274,058	123,170	150,888	-	-	274,058
Amount due to related parties	(25,624)	(25,624)	-	-	-	(25,624)
Bank overdraft	(170,832)	(170,832)	-	-	-	(170,832)
<b>Total undiscounted liabilities</b>	<b>(2,811,953)</b>	<b>(2,962,841)</b>	<b>150,888</b>	<b>-</b>	<b>-</b>	<b>(2,811,953)</b>
<b>Total liquidity excess</b>	<b>10,396,011</b>	<b>5,326,093</b>	<b>2,257,744</b>	<b>2,752,839</b>	<b>59,335</b>	<b>10,396,011</b>

#### Financial assets pledged as collateral

There were no financial assets pledged as collateral during the year ended 31 December 2020.

#### 39.4 Market risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company has assessed the market risk under main three categories namely;

- i. Equity price risk
- ii. Currency risk
- iii. Interest rate risk

The table below sets out the allocation of assets and liabilities subject to market risk.



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (Contd)

##### 39.4.1 Exposure to interest rate risk

The following is a summary of the Company's interest bearing financial assets and liabilities based on its interest rate re-pricing timeline:

Rs'000	As at 31 December 2020					
	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Held to maturity	1,842,430	34,661	-	-	-	1,807,769
Loans and receivables	5,657,396	4,034,531	-	-	1,372,962	249,903
Available for sale	1,703,200	50,322	-	284,580	667,563	700,735
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Cash and cash equivalents	662,236	662,236	-	-	-	-
Bank overdraft	72,065	72,065	-	-	-	-

Rs'000	As at 31 December 2019					
	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Held to maturity	1,753,198	-	-	98,966	1,654,232	-
Loans and receivables	3,323,637	1,631,784	-	-	1,043,348	648,505
Available for sale	1,594,430	-	-	90,757	1,043,833	459,840
Financial assets at fair value through profit or loss	58,710	-	-	-	-	58,710
Cash and cash equivalents	447,096	447,096	-	-	-	-
Bank overdraft	170,832	170,832	-	-	-	-

##### Sensitivity analysis

The table below shows the estimated impact on profitability and equity due to fluctuation of interest rates on the fixed rate available for sale financial assets.

Sensitivity of Profit before tax and equity to changes in interest rates.

Rs'000	As at 31 December 2020					
	Change in variables	Impact on profit before tax	Impact on equity			Total
			Up to one year	1 - 5 years	Over 5 years	
(+) 100 basis points		(45,322)	(1,475)	(13,157)	(30,690)	(45,322)
(-) 100 basis points		84,295	1,786	17,167	65,343	84,295

Rs'000	As at 31 December 2019					
	Change in variables	Impact on profit before tax	Impact on equity			Total
			Up to one year	1 - 5 years	Over 5 years	
(+) 100 basis points		(49,475)	(358)	(15,411)	(33,706)	(49,475)
(-) 100 basis points		68,683	592	26,399	41,692	68,683



## FAIRFIRST INSURANCE LIMITED

### Notes to the financial statements

#### 39 Financial and underwriting risk review (contd)

The Company's investment portfolio is analysed based on the types of interest rates are as follow:

Instruments Rs'000	As at 31 December 2020			As at 31 December 2019		
	Fixed interest rate	Variable interest rate	Non-interest bearing	Fixed interest rate	Variable interest rate	Non- interest bearing
Government securities	7,325,493	-	-	4,900,143	-	-
Corporate debts	1,704,823	-	-	1,792,208	-	-
Equity instruments	-	-	172,710	-	-	59,335
<b>Total</b>	<b>9,030,316</b>	<b>-</b>	<b>172,710</b>	<b>6,692,351</b>	<b>-</b>	<b>59,335</b>

#### 39.4.2 Exposure to currency risks

As at the reporting date, net currency exposures representing the Company's equity were as follows.

Foreign currency exposures other than in respect of foreign operations.

Foreign currency deposits '000	As at 31 December 2020		As at 31 December 2019	
	Amount in foreign currency	LKR amount	Amount in foreign currency	LKR amount
USD deposits	764	142,338	9	1,664
EUR deposits	32	7,354	27	5,574

#### Sensitivity analysis

The table below shows the estimated impact to the profitability when the foreign currency rates have a movement against the domestic currency.

#### 39.4.3 Exposure to equity price risks

The risk exposure to listed equity securities as at 31 December 2020 is as follows;

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
Total equity	172,085	58,710

#### Sensitivity analysis

The table below shows the estimated impact from a 10 percent decline in the stock markets, on the portfolio as at 31 December, 2020.

Sensitivity of PBT to decline in equity prices.

	As at 31 December	
	2020 Rs. ' 000	2019 Rs. ' 000
10% decline in stock markets	(17,209)	(5,871)
<b>Net impact on net assets</b>	<b>(17,209)</b>	<b>(5,871)</b>



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 40 Determination of fair values

This note explains the methodology for valuing our financial assets and liabilities and provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

#### 40.1 Valuation models

The company measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 20 for financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### 40.2 Valuation framework

The Company has an established control framework with respect to the measurement of fair values. The Company has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include :

- Verification of observable pricing;
- Re-performance of model valuations;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS.

#### 40.3 Fair value hierarchy

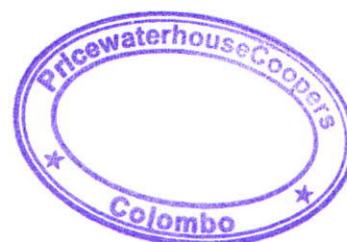
Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

##### Level 1

Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. 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.

##### Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). 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.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 40 Determination of fair values (contd)

#### 40.3 Fair value hierarchy (contd)

##### Level 3

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

#### 40.4 Valuation methodologies of financial instruments measured at fair value

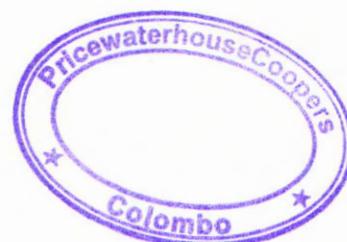
The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

		As at 31 December 2020			
		Fair value hierarchy			
Rs. ' 000	Notes	Level 1	Level 2	Level 3	Total
<b>Available for sale financial assets:</b>					
Debt securities	20.3	-	1,530,490	-	1,530,490
Treasury bonds		-		-	
Equity securities	20.3.1	172,085	-	625	172,710
		<b>172,085</b>	<b>1,530,490</b>	<b>625</b>	<b>1,703,200</b>
<b>As at 31 December 2019</b>					
<b>Fair value hierarchy</b>					
Rs. ' 000	Notes	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss:</b>					
Equity securities	20.4	58,710	-	-	58,710
		<b>58,710</b>	<b>-</b>	<b>-</b>	<b>58,710</b>
<b>Available for sale financial assets:</b>					
Debt securities	20.3	-	99,870	-	99,870
Debentures- Listed		-		-	
Treasury bonds		-	1,493,935	-	1,493,935
Equity securities	20.3.1	-	-	625	625
		<b>-</b>	<b>1,593,805</b>	<b>625</b>	<b>1,594,430</b>
		<b>58,710</b>	<b>1,593,805</b>	<b>625</b>	<b>1,653,140</b>

Whenever available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and available for sale portfolio.

#### Fair value of unquoted equities.

Fair value has not been disclosed for unquoted shares (classified as AFS) as their fair value could not be reliably measured.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 40 Determination of fair values (contd)

#### 40.5.1 Debentures

The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows. Unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of treasury bonds or treasury bills for similar maturity plus a risk premium determined based on the credit rating of the instrument.

#### 40.5.2 Treasury bonds

The fair values of treasury bonds are estimated based on broker/dealer price quotation and based on current market yields.

#### 40.5.3 Fixed term deposit

The fair values of fixed term deposits with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. For fixed rate term deposits with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of term deposits of similar credit risks and maturity.

#### 40.5.4 Reverse repos

The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments.

### 41 Commitments

There were no significant capital commitments as at the reporting date.

### 42 Events after the reporting date

There have been no material events occurring after the reporting date which require disclosure or adjustment in the financial statements.

### 43 Contingencies

There are number of litigations outstanding against the Company that are raised in the ordinary course of business.

In the opinion of Directors, and in the consultation with the Company lawyers, litigations currently pending against the Company will not have a material impact on the reported results or future operations of the

### 44 Director's responsibility

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements.



# FAIRFIRST INSURANCE LIMITED

## Notes to the financial statements

### 45 Management's assessment of the impact of COVID 19 outbreak

#### Pandemic insurance risk (incurred and potential business impact, business interruption etc)

- Delay in premium collections resulting liquidity concerns with respect to managing daily working capital needs while the same posing risks on profitability due to non payment cancellations which can adversely impact the performance of the company. Company did not encounter any significant adverse impact during the initial lockdown due to same. impact of the liquidity and profitability concerns were mitigated by active management on receivables.
- Loss of business in Travel, Marine lines impacting topline while the same were compensated through new corporate business of other lines of business.
- Delays in claim intimations on health claims, drop in frequency of motor claims resulting potential business impact. Risk was managed through prudent reserving practices of the company.

#### Impact on Investment income in terms of interest rates decrease.

The Central Bank of Sri Lanka slashed the Standard Deposit Facility Rate (SDFR) and Standard Lending Facility Rate (SLFR) by 250 bps each along with a 300-bps reduction in the Statutory Reserve Ratio (SRR) and a 550-bps reduction in the bank rate in response to the COVID-19 pandemic. This resulted in the average yield of the Company's reverse repo reducing to 4.8% (against 8% prior year) impacting the investment income for the current year. With continuous follow up on premium collections and active management of working capital payments, we ensured the corpus increased against prior year which improved the investment income during the year against prior year.

In addition, Our Treasury Bonds and Debentures have coupon rates which are in the range of 10%-14%, helped in maintaining the Investment income for the current year.

#### Impact on fair value of assets and liabilities due to changes in discounting rates.

The fair value of the entire bond portfolio increased with the reduction in bond yields for all maturities along the yield curve. The reduction in yields resulted a fair value gain of Rs.169.92Mn during the year.

#### Business impact due to concessions granted by state.

Listed below are a few concessions granted by the regulator in response to pandemic.

- Granted an extension of 3 months (90 Days) to policyholders to pay outstanding premiums. This extension was applied to policies underwritten from 1st March 2020 to 30th June 2020.
- Granted an extension for insurance companies to remit SRCC & TC payment to NITF.
- Requested Central Bank to require leasing companies and banks to release premiums collected and not yet paid to insurers.
- Department of Inland Revenue extended deadlines for Tax payments (Value Added Tax, Income Tax)

Whilst extension of premium collections adversely impacted the working capital, other concessions helped the company to manage the working capital ensuring no deficit in cash flow management.

