

Annual Report '07



CO-OPERATIVE INSURANCE COMPANY LIMITED

A Company for the People By the People...

OUR VISION | To be an organisation that will stand 'united' with its customers to the very end.

OUR MISSION | To be ever mindful of the needs of our customers and thereby make 'true protection' a way of life via the provision of innovative, yet affordable insurance solutions which conform to the highest ethical and moral standards.

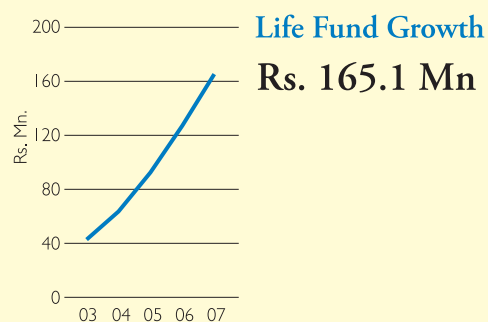
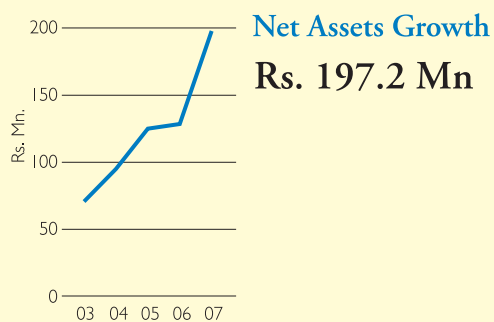
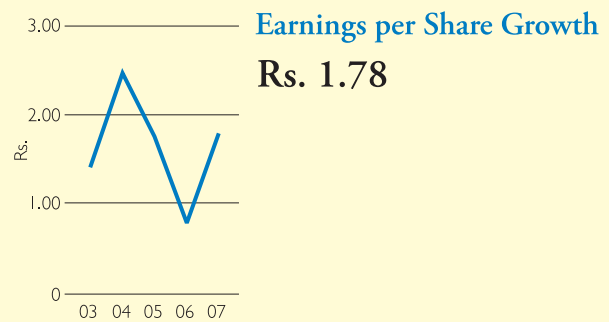
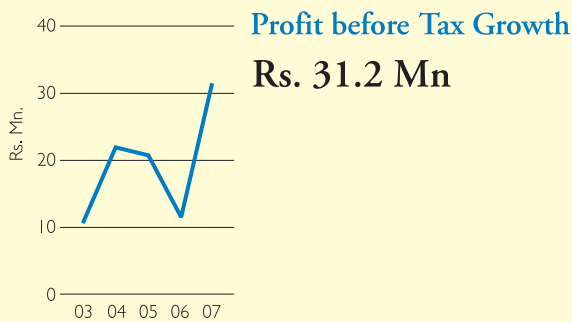
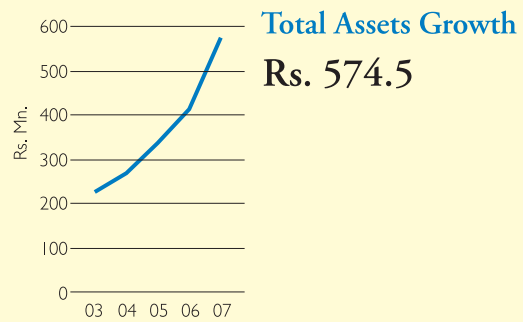
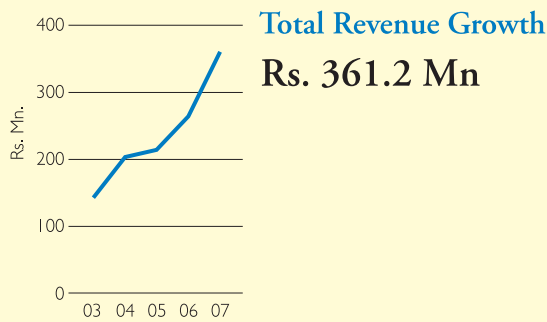
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FINANCIAL HIGHLIGHTS

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	2007	2006	Change %
Total Gross Written Premium (Rs. 000)	361,243	265,591	36
Assets Under Management (Rs. 000)	574,527	413,765	39
Net Assets (Rs. 000)	197,248	128,737	53
Profit before Taxation (Rs. 000)	31,195	12,602	148
Profit after Taxation (Rs. 000)	22,856	8,284	176
Earnings Per Share (Rs.)	1.78	0.78	128
Life Fund (Rs. 000)	165,103	127,435	30
Return on Equity (%)	1.19	1.21	(1)



CHAIRMAN'S MESSAGE

CO-OPERATIVE INSURANCE COMPANY LIMITED
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“ I am very happy to note that the Company has been able to achieve the overall target set for the year for the first time in their history ”

In 2007 the Company began several new ventures, marking the beginning of what will hopefully be a successful five year cycle.

I am very happy to note that the Company has been able to achieve the overall target set for the year for the first time in their history. I would like to congratulate all staff members for this achievement.

It is also a pleasure to note that the profitability of the general insurance business increased by 100% during the course of 2007. The subsequent growth in income enabled us to declare

a 17% dividend to share holders and to keep the same rate of bonus for the life policy holders as per the previous year.

The Company was faced with the challenge of fulfilling the IBSL requirement of raising equity capital of Rs. 200 million during the year. With the assistance of our former shareholders and new co-operative organizations we were able to fulfil the requirement by the end of the year.

As a company formed by Co-operatives, we paid special attention to expanding the cooperative service centre network during 2007. The number of these service centres increased

CHAIRMAN'S MESSAGE

CO-OPERATIVE INSURANCE COMPANY LIMITED
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from 3 in 2006 to 28 in 2007. The response from our co-operative was encouraging and due to their participation these centres became more cost effective. By 2011 the Company aims to increase the number of service centres to 200.

During the year we were able to make corporate governance more transparent by creating an Audit Committee consisting of 3 Directors. This increased the total number of committee members to 5.

In 2008 we hope to venture into more product development and to further expand the service network. I therefore have no doubt that the forthcoming year will be a successful one.

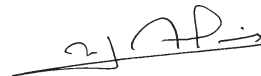
I would like to thank our shareholders for their co-operation and support in offering us more capital without demanding more dividends. Our customer base, which we expanded during the year, consists of corporate clients, cooperatives and individuals, all of whom I would like to thank for their loyalty to the Company.

On behalf of the Company I would also like to extend my gratitude to the Hon. Minister of Co-operative Development and Ministry officials including the Commissioners of Co-operative Development for their continuing support. I would like to thank Insurance Board of Sri Lanka and Actuaries for their acceptance and guidance in our business too.

My fellow Directors, the management team and all other members of the staff, worked hard to make the Company what it is today. I would like to place on record my appreciation for their contribution.

Further thanks are due to P. E. Mathew Company who did an excellent job of external Auditing, and to the business Management Consultants who helped us to make the changes required by the New Companies Act.

I wish all our customers and other stakeholders success during 2008.



W. Lalith A. Peiris

Chairman

MANAGING DIRECTOR'S REVIEW

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“ In 2007, the Marketing and Sales Staff structure was altered; staff were given the flexibility to move between permanent, contracted, commission-based and field staff position ”

BUSINESS RESULTS

The Company entered into the second planning cycle of 5 years in 2007. It is with pleasure we declare that we have reached our overall targeted Turnover of Rs. 390 million which was budgeted at the beginning of the year.

In 2007, the Company was able to maintain a growth rate higher than that of the industry:

	Company Growth Rate %	Industry Growth Rate %
Life	36	21
General	40	23

The overall growth rate of income during 2007 was 36% as compared to the growth rate of 17.19% in 2006.

2007 saw greater profits than have been achieved in any year since the inception of the Company.

	2007 Rs. million	2006 Rs. million
General	29.62	12.60
Life	37.99	35.22

The Company was able to declare dividend of 17% to shareholders in 2007.

MANAGING DIRECTOR'S REVIEW

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Earning per share increased from Rs. 0.78 in 2006 to Rs. 1.78 in 2007, an all time high.

The Life fund increased to Rs. 165 million in 2007, compared to Rs. 127 million in 2006. The growth rate was 30% whereas the growth rate in 2006 was 36%.

The income breakup among the four classes of General Insurance shows a major growth in the Fire Insurance division. Motor Insurance continues to be the dominant class.

	2007 Rs. Mn.	2006 Rs. Mn.	Growth Rate %	Industry Growth Rate %
Motor	191.6	113.8	67.97	18.10
Fire	30.7	23.4	30.20	13.25
Marine	6.5	6.8	-05.97	1.85
Miscellaneous	60.9	63.5	-01.09	12.76

The total assets grew to Rs. 574.52 in 2007 compared to Rs. 413.76 in 2006. The asset liability ratio during 2007 was 1.5:1.0 which showed a strong liquidity of the Company.

EXPANSION OF SERVICE NETWORK

During the year under review the CICL significantly expanded its geographical network. This was an important development as the rural and semi-urban markets are key to the CICL.

The number of branches increased from 30 in 2006 to 35 in 2007. The CICL also collaborated with several large co-operative organisations in order to develop the CICL's service sector. The number of Service Centres was increased from 3 in 2006 to 24 in 2007. The new Service Centres are located largely in rural areas, with a view to improving customer convenience. Guidance, training, and supervision of Service Centre staff is carried out by the Branch Network.

The CICL started a 24-hour Call Centre this year. The Call Centre facilitates more comprehensive customer care and faster claim settlement. The CICL kept the basic elements of

damage assessment to be fair by the insured, thus assuring proper and faster claim settlement.

The popularity of the 'Instant Motor Insurance' Policy launched during the year is reflected in the growth of motor insurance business in 2007.

The Mobile propaganda unit proved successful, especially in rural areas. The unit organized street shows and campaigns aimed not only at popularizing insurance among the masses, but also at educating them on the subject of insurance.

HUMAN RESOURCE DEVELOPMENT

In 2007, the Marketing and Sales Staff structure was altered; staff were given the flexibility to move between permanent, contracted, commission-based and field staff positions.

The number of permanent staff grew from 163 in 2006 to 225 in 2007. The Sales Staff was increased from 390 in 2006 to 710 in 2007.

The CICL continued to support training of staff at different levels. Seven Trainees underwent the NIBM Diploma Course. Three staff members completed Intermediate Level IAI examinations, and one manager received an ACII qualification. Action was taken to streamline the in-house training programme for operational level staff.

The CICL decided to bear the total cost of training its Field Officers, including the cost of the IBSL supervised Licensing examinations. Sixty five Field Officers were able to pass the IBSL examination despite the absence of their training executive. In addition, other Insurance Diplomas also became popular among Field Staff.

Cash Awards and Certificates were given to the highest performing staff members on a monthly and annual basis.

MANAGING DIRECTOR'S REVIEW

CO-OPERATIVE INSURANCE COMPANY LIMITED
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MARKETING ENVIRONMENT

Although penetration of insurance among the community was under 10%, competition among insurance companies was much higher than before, demanding new strategies for promoting sales.

The market was affected by an increase in inflation in 2007.

With the declining purchasing power of middle and lower income groups the future marketing of insurance products will be a tremendous challenge in spite of the vast untapped market.

COMMITMENT FOR NEXT YEAR

With the pending legislation on the amended Insurance business one could see major change of splitting composite insurance into life and non-life separately and also the enhanced capital requirements to Rs. 500 million. In such circumstances, while increasing the business volume to justify such an increase of capital, the Company has to take tough measures to ensure

better productivity for capital through efficient fund management. The issue of preferential shares at the end of 2007 too has to be taken into account.

The Company took steps to increase the salaries of staff by about 40% in 2008. This is a factor which has to be considered when deciding on further operational costs. Likewise, all the other costs such as communication and other office costs too would go higher and higher. The Company requires to commit itself to manage increased cost.

ACKNOWLEDGEMENTS

On behalf of the CICL, I would like to note my appreciation for our shareholders, who raised Rs. 50 million towards making operations more sustainable. I would also like to extend my gratitude to the Chairman and the Board of Directors whose diligence contributed to the success achieved by the Company this year, and to the senior management team and their staff who worked towards achieving the target set for the year 2007.

I would like to place on record, my gratitude for the guidance provided by the Insurance Board. The continued support of the Hon. Minister of Co-operatives and Co-operative Development in the central government, the Hon. Ministers at the provincial level and their staff is also much appreciated.

Further thanks are due to J.B. Boda and Co., P.E. Mathew & Company, the Actuarial Management Consultants and Business Management Services Ltd. for their support, commitment and professionalism.

With your continued support the CICL can look forward to further success in 2008.



W.U. Herath
Managing Director



SOCIAL RESPONSIBILITY REPORT

CO-OPERATIVE INSURANCE COMPANY LIMITED
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As an Enterprise formed by the people for the people using capital provided by the people, the Co-operative Insurance Co. Ltd. (CICL) is conscious of its duty to protect the interests of all its stakeholders.

The statement of cooperative identity has promoted 'concern for the community' as one of the major principles that should be adhered to by the co-operative form of enterprise. The principle is not related to providing charity or donations alone, but to incorporating basic elements of sustainability into company policies. The Co-operative Insurance Co. Ltd., has therefore accepted and integrated this principle in its business activities.

The CICL offers insurance policies tailored to meet the needs of clients from upper, middle and lower income brackets. The sales staff have been trained to assist clients in choosing an insurance service suited to their financial needs.

Several insurance policies aimed at lower income groups and community based organisations are on offer. These provide low premiums with high benefits. The long-term Samagi Life Policy has the lowest premium in the market, amounting to Rs. 150/- per month. The CICL also offers pension schemes for employees, co-operative members and other self helped groups. The major focus on organised groups in the civil society has made the CICL increasingly acceptable and affordable to the community.

In 2007, the CICL made efforts to provide more convenient service for customers based in rural areas. They increased the number of service centres from 3 in 2006 to 24 in 2007. These service centres have proved popular among the community due to their accessibility. The Company aims to set up 200 service centres by 2011.

The Company refuses to cater to industries, consumer companies and other service companies which are not socially and environmentally conscious. The Company is engaged in an

environmental protection campaign and is working sponsoring the media to promote cleanliness in public areas.

The Company has contributed Rs. 223,000/- towards the government Road Safety Fund. Cultural and social events organized by Co-operatives and other community based organizations were supported by the Company in 2007. The Company also sponsored several events organized by Pre-Schools and Nursery Schools and raised awareness among parents of the importance of Insurance as an investment for the future. Sales Executives held educational events at public schools in order to improve the student's knowledge of social sciences, insurance and risk management.

The CICL led an island-wide campaign to recruit post O-Level dropouts, and train them as insurance service personnel. As a matter of policy, the Company bears the cost of educating and training those post ordinary level dropouts to pass the IBSL examinations and become licenced Insurance Service persons. The Company organised a parents orientation day for parents' of the new recruits. This helped to facilitate changes in attitudes towards insurance activities.

In 2007, the CICL was able to maintain the growth of competitive business such as Motor Insurance. The Company continued to adhere to high standards in claim processing with the introduction of the 24-hour call centre and the improvements made to assessment procedures. In spite of fierce competition the CICL was able to sustain its growth.

The Company conducted amateur photography competitions, and school painting competitions on the theme of mutual insurance with prizes of cash awards and certificates.

The CICL believe in helping the community by raising awareness about threats to humanity and ecology. The Company believes mutuality is the key to protecting each other while helping the community to achieve sustainable livelihoods.

BOARD OF DIRECTORS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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MR. W. LALITH A. PEIRIS

Mr. W. Lalith A. Peiris is the Chairman of the Wennappuwa Multi-Purpose Co-operative Society. He is also a Director of Co-operative Leasing Co. Ltd. and Sri Lanka Consumer Co-operative Federation Ltd.



MR. UPALI HERATH

Mr. Upali Herath is a former member of the Sri Lanka Administrative Service and is the Resident Representative of the Swedish Co-operative Centre for Sri Lanka.



MR. P.M.C. BANDARA

Mr. P.M.C. Bandara is the Chairman of the Mahiyangana MPCS, the Uva Province Co-operative Rural Bank Union Ltd. and the District Co-operative Council of Badulla. He is Vice-Chairman of the National Co-operative Council of Sri Lanka, Co-operative Marketing Federation Ltd. and Co-operative Leasing Co. Ltd.



MR. S.A. WICKRAMAPALA

Mr. S.A. Wickramapala is the Chairman of the Wayamba Co-operative Rural Bank Union Ltd. He is the Chairman of Co-operative Leasing Co. Ltd. since its inception and also the Chairman of the Co-operative Rural Bank Federation.



MR. BANDU RANAWAKA

Mr. Bandu Ranawaka is the Chairman of the National Co-operative Council of Sri Lanka, Kotapola MPCS Ltd., Matara District Co-operative Rural Bank Union Ltd. and Tea Producers Co-operative Society Ltd.



MR. B.B. PUNYADASA

Mr. B.B. Punyadasa is the Chairman of the Human Development TCCS Ltd. and a Director of Gampaha District TCCS Union Ltd.

BOARD OF DIRECTORS

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MR. A. DAHANAYAKE

Mr. A. Dahanayake is Chairman of Sri Lanka Savings Bank, Beliatta MPCs Ltd. and Hambantota District Co-operative Rural Bank Union Ltd.



MR. W.H. JAYASIRI

Mr. W.H. Jayasiri is the Chairman of the Maharagama MPCs Ltd. and the Director of the Sri Lanka Consumer Co-operative Federation.



MR. LIONAL SAMARASINGHE

Mr. Lional Samarasinghe is the former Chairman of Co-operative Insurance Company Ltd.



MR. T.M.S. NANAYAKKARA

Mr. T.M.S. Nanayakkara holds an LLB Degree and is an Attorney-at-Law. He was former Chairman of National Insurance Corporation.



MR. K. LIYANAGE

Mr. K. Liyanage is the Chairman of the Kolonnawa MPCs Ltd., Colombo District Co-operative Council and the Sri Lanka Co-operative Hospital Services Federation. He is a Director of Co-operative Leasing Co. Ltd. and National Co-operative Council of Sri Lanka.



MR. V.L. WANIGASINGHE

Mr. V.L. Wanigasinghe is the Chairman of the Central Province Rural Bank Union Ltd. and Rikillagaskada MPCs Ltd.

MR. A.S. SARATH MILTON

Mr. A.S. Sarath Milton is the Chairman of Bingiriya MPCs Ltd.

MANAGEMENT TEAM

CO-OPERATIVE INSURANCE COMPANY LIMITED
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MR. W. UPALI HERATH - Managing Director

Holds a Bachelor of Arts (Hons.) Degree from the University of Kelaniya. Has a Diploma in Human Resources Development (Pune) and has undergone training in Human Leadership at Azusa Pacific University - USA. Joined Ceylon Administrative Services and served the Government of Sri Lanka for 17 years in various capacities as Head of District Offices and later at a National Level. Also served as the advisor on consumer co-operative management and human resources development for Asia and Pacific and is attached to International Co-operative Alliance.

MR. G. THALAGALA - General Manager

Fellow Member of the Chartered Insurance Institute - UK and has over 40 years of experience in both Life and General insurance. Has been exposed to various training programmes arranged by the Government of UK and Japan on Risk Management and Reinsurance. Also served as a Visiting Lecturer for the University of Sri Jayewardenepura.

MR. MOHAN KARUNARATNE - General Manager Marketing

Holds a Masters in Business Administration (MBA), a Bachelor of Commerce (Hons.) Degree, a Diploma in Marketing and Certified Professional Marketer (CPM) at Postgraduate Institute of Management of the University of Sri Jayewardenepura.

MR. ARUNA THEBUWANA - Finance Manager

An Associate Member of the Institute of Chartered Accountants of Sri Lanka, and of the Institute of Certified Management Accountants of Sri Lanka. Also holds a Bachelor of Science (Accountancy) (Hons.) Degree from the University of Sri Jayewardenepura.

MS. L.C.S. ALWS - Assistant General Manager

- Life Insurance

An Associate Member of the Chartered Insurers Institute - UK and holds a Bachelor of Science (Hons.) Degree from the University of Colombo and a Postgraduate Diploma in Engineering at the University of Moratuwa.

MR. D.P. SOORJARACHCHI - Senior Manager

- Motor Insurance

Joined the Insurance Industry in 1970 and possesses over 38 years of experience mainly with Motor Insurance.

MR. W. H. SOMATHILAKE - Senior Manager -

Fire & Miscellaneous Insurance

Gained over 35 years of experience in the Insurance Industry and holds a Diploma in Insurance.

MR. D.R.R. DEVASURENDRA - Manager - Marine Insurance

Involved in the Insurance Industry from 1960 and served in different capacities in the field of Insurance.

MS. J.S. BANDARA - Manager - Human Resources

Licensed Professional Counsellor and a member of the Institute of Personal Management (Sri Lanka) as well as Sri Lanka Institute of Training & Development.

MR. LAKSHMAN FERNANDO - Consultant -

Information/Technology

Corporate Member of the Computer Society of Sri Lanka. Also possesses over 55 years of experience at 13 institutions covering Insurance, Banking, Manufacturing and IT industries.

MR. SUCHINTHA PERERA - Manager -

Information/Technology

Holds a Bachelor of Science (Hons.) Degree, a Masters in Business Administration from the University of Colombo and a Diploma in Project Management from the Metropolitan Business School.

MS. M. BAMBARAWANAGE - Legal Officer

Is an Attorney-at-Law and Notary Public.

CORPORATE GOVERNANCE

CO-OPERATIVE INSURANCE COMPANY LIMITED
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At Co-operative Insurance Co., maintaining transparency, accountability and a high sense of responsibility are recognized as keys for maintaining good corporate governance. Corporate governance at its basic level is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. In this context, the Board of Directors at Co-operative Insurance Co. firmly believes that good corporate governance practices will ensure long-term stability for the Company.

GOVERNANCE POLICY & ETHICS

As a Company initiated by co-operative organizations, the Co-operative Insurance Co. adheres to principles and a system of governance practiced by co-operatives in keeping with internationally accepted standards. In this context especially, democratic control and the economic participation of members are principals that have continued to be observed. The Company shares its surplus through investments and insurance products with all stakeholders including the policyholders. It believes in living up to its vision statement and becoming "An organization that will stand united with its customers to the very end".

It adheres to the ethical business processes and standards required of a co-operative form of organization and carries out its business with the highest ethical and moral standards.

The Company firmly believes in its vision and mission and maintains the trust and confidence reposed in it by customers. Therefore, it takes care not to indulge in any service which will affect the welfare of the community and the environment in keeping with the principle of concern for the community. The Co-operative Insurance Co. also supports activities aimed at reducing poverty and focus on special types of micro insurance services covering the needs of lower income groups.

THE BOARD OF DIRECTORS

The Board consists of twelve Directors representing the majority shareholders from both Institutions and individuals and one Director from among professionals in the insurance service industry. A majority of the Directors are Chairpersons of large Co-operative Organizations. The Managing Director is also a Member of the Board.

Members of the Board of Directors are elected to a three-year term, each. One fourth of the Directors (three Directors) retire every year on a rotation basis. This arrangement allows the Company to retain experienced members and induct new members to infuse new ideas which will ensure continuity of the policies and progress. The Directors are elected at the Annual Shareholders Meeting. The Directors of the Board except professionals are inducted on a three-year term.

The Board of Directors remains accountable to the shareholders on the efficient and proper functioning of the Company, as per the legal requirements and in observing the ethics and governance principles. The Board is also accountable to the Insurance Board of Sri Lanka and the Registrar of Companies, in accordance with regulatory requirements.

The Company Secretary who is a registered and reputed Secretarial Company is responsible for convening Board Meetings, Annual General Meetings as well as Extraordinary General Meetings. The Secretaries keep minutes, prepare agendas as well as conduct elections whenever necessary. They enjoy neutral status vis-à-vis the Board of Directors.

BOARD MEETINGS

The Board of Directors usually meets on a monthly basis and issues are taken up on the basis of Board papers and decisions made. The attendance of the Directors in recent years has been 95%. The Directors are allowed to make their submissions

CORPORATE GOVERNANCE

CO-OPERATIVE INSURANCE COMPANY LIMITED
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and do not disregard majority decisions taken by the Board. During the year 2007, 14 Board meetings were held.

THE SENIOR MANAGEMENT

The senior management of the Company comprises of three key persons: Chairman, Managing Director (Principal Officer) and the General Manager (Specified Officer). The Chairman conducts Board meetings and deals with committees in which he is involved and provides general guidance with consideration to the best interests of the shareholders. The Managing Director is in charge of leading the workforce and the resources in accordance with the corporate plan approved by the Board of Directors to achieve its objectives. He also functions as the interface between the Board of Directors and Government regulators such as the Insurance Board of Sri Lanka and the Company Registrar.

The General Manager functions as the specified officer and is responsible for technical functions such as underwriting responsibilities and reinsurance. He also liaises with the actuaries and the new product developers.

The Directors of the Board who represent the majority shareholders as well as professionals in fields relating to financial services and legal aspects are independent and take decisions at the policy level and in selected areas of operations. They take decisions about dividends and bonuses paid to the shareholders as well as to policyholders and on reserves that are necessary for the future. The Board also assists in taking decisions on asset management with the senior management of the Company. The Directors serve in the committees they are assigned on the areas of asset management and tendering.

SPECIALIZED COMMITTEES

The Co-operative Insurance Co. works through the following specialized committees:

1. Remuneration Committee
2. Audit Committee
3. Fund Management Committee
4. Tender Committee

Each committee has three Directors from the Board and the respective Manager functions as the Secretary to the Committee. In addition, the Chairman and the Managing Director serve as members of all the committees.

REMUNERATION COMMITTEE

Remuneration is also a part of the function of the Committee on human resources. The objective of the Remuneration Committee is to ensure recruitment and maintain competent and well qualified staff and lowering the labour turnover by regular review of remuneration as well as service conditions. Another responsibility is to determine the career path of staff members.

As a policy, the Company maintains remuneration at current market rates and provides incentives to staff members who make special contributions to the Company.

The Remuneration Committee decides on the cadre and remuneration levels as per the recommendations made by the senior management, starting with the HR Manager and going through the General Manager and the Managing Director. Eventually, the Board approves the salary review of each category and special remuneration for staff members as well as Directors. Disclosures regarding remunerations to the Board are made to the general body.

CORPORATE GOVERNANCE

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The sittings of the HR Committee have been constant in the light of interviews for recruitment as well as proposals for remuneration. During the year 2007, 3 meetings have been held. The Committee meetings usually handle the subject of determining the cadre, interviewing and recruiting staff members and deciding on the criteria for salary increases, etc.

AUDIT COMMITTEE AND FINANCIAL DISCLOSURE

The Audit Committee is a sub-committee of the Board and comprises of three (3) Non-Executive Directors. The terms of references under which the committee has been appointed sets out its scope and responsibilities and enables it to operate with appropriate authority, independence and objectivity. In view of the importance attached to good financial governance, special focus is given to the following areas:

- Internal Controls
- Business Risks
- Internal and External Audits
- Statutory/ Regulatory Compliance
- Financial Reporting

The committee operates within clearly defined above terms of references and meets as per the annual calendar agreed in advance. The agenda of the meetings circulated among the members one week before the meeting. The details of the composition and the duties of the committee are as follows:

- Ensure that effective Internal Control Processes are implemented

The committee reviews the adequacy of the internal financial control processes established to maintain accountability for all transactions entered into by the Company.

“Internal financial control processes means all the policies and procedures adopted by the management of the Company to assist in achieving management’s objectives of ensuring the orderly and efficient conduct of its business, including adherence to the management policies, safeguarding the assets of the Company, the prevention and the detection of fraud and error, the accuracy and the completeness of accounting records and the timely preparation of reliable financial information.”

The control procedures are highly important in implementing proper systems of internal controls. Some of those procedures are:

1. Reporting, reviewing and approving reconciliations
 2. Checking the arithmetical accuracy of the records
 3. Controlling applications and environment of computer information
 4. Maintaining and reviewing control accounts and trial balances
 5. Approving and controlling documents
 6. Comparing internal data with external sources of information
 7. Comparing the results of cash, investments and other inventory counts with accounting records
 8. Limiting direct physical access to assets and records
 9. Comparing and analyzing the financial results with budgeted amounts
- Review the Company’s Risk Assessment Process and Organizational Risk Profile (if any)

The committee pays special attention to the Company’s risks and regularly monitors the risk management measures in place for identifying, evaluating and management of risks in all areas of operations.

CORPORATE GOVERNANCE

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- Review Internal and External Audit Reports and follow up on recommendations

The committee approves the annual audit work plan of the internal auditors and directs the internal auditors in carrying out special assignments within the Company. In addition, the committee monitors the effectiveness of the internal audit process and reviews the reports of the internal auditors and makes recommendations to the management on the significant findings highlighted therein.

The committee approves the terms of engagements and remuneration for audit services. The Management Letter issued by the external auditors, highlighting significant findings during the course of the audit is reviewed and recommendations are made to management.

- Ensure that applicable laws and regulation are complied with

The committee reviews the Company's compliance with statutory, regulatory and disclosure requirements (i.e. Compliance with Regulation of Insurance Industry Act No. 43 of 2000, any other rules or circulars issued by IBSL from time to time, Companies Act No. 07 of 2007, etc.) and adequacy of controls established to ensure that all statutory payments in relation to the employees and government have been made or adequately provided for.

- Review the Company's financial reporting system, critical accounting policies and the quality of accounting judgements and estimates

The committee pays special attention to the quality and integrity of the Company's financial statements in order to present a balanced and understandable assessment of the Company's position and prospects. Further, the committee ensures that the Company's Financial Statements are

prepared in accordance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka.

The audited Financial Statements of the Company are reviewed by the Committee before submission to the Board and circulation to the shareholders.

The Company has hired a Chartered Accountancy firm to conduct its annual audit. This Company follows the SORP format as recommended by the Insurance Board of Sri Lanka. It also adheres to the Accounting Policy and Audit Standards recommended by the Chartered Accountants Institute of Sri Lanka.

FUND MANAGEMENT COMMITTEE

The fund management committee is chaired by three Directors and includes two members from the senior management. The committee meets regularly as and when investments are made and to review the asset allocation and performance of the key investment portfolios and provides guidance on investment strategy at the macro level. It also monitors compliance with investment, asset and liability as well as liquidity policies that have been adopted by the Company.

RELATIONSHIP WITH SHAREHOLDERS

The ownership of the Company remains with co-operative institutions as its major shares are held by co-operative organizations. The Company has not been listed by choice.

The representatives of shareholders are authorized to vote on the proxies by the shareholding co-operatives. The vote is carried out on the basis of the number of shares, like any other company registered by the Registrar of Companies. The attendance of the shareholders at the Annual General Meetings normally exceeds 75%.

CORPORATE GOVERNANCE

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

Normally the general meetings adopt a secret ballot vote whenever there is a call for a poll and on other occasions the vote is taken by a raising of hands.

The Company general meetings are held once a year except for one extraordinary general meeting which was held to change the Articles of Association of the Company in 2006.

The Chairman or the Managing Director maintain close relations with the shareholding co-operatives who are the investors of the Company. This either takes the form of consultative meetings at district level with the shareholders or attendance at Board meetings of such shareholding co-operatives.

RISK MANAGEMENT

The administration and financial management of the Company are conducted on the basis of delegated authority by the managers, at different levels and checked by the internal auditors. In addition, the committees appointed by the Board of Directors oversee the functioning of relevant departments. The Corporate Plan of the Company provides guidance to various departments in terms of objectives and the time plan prepared. The management ratings are applied to determine the performance levels of various departments and staff members.

The Directors' responsibility is carried out on the basis of the Articles of Association. The Insurance Board of Sri Lanka also produces inspection reports on this subject on an ad hoc basis.

The risk management policy has been adopted on the basis of norms set by the Insurance Board of Sri Lanka in terms of solvency, technical reserves, reinsurance arrangements, actuarial reviews and also occasional inspection by the Insurance Board officers. In the case of investment risk, the Company has adopted a policy of spreading the investment in different commercial banks and other institutions recognized by the

Insurance Board which makes a higher contribution to solvency margins. The underwriting risks have been kept within the proper levels of adequate assets and also within the reinsurance arrangements.

OTHER CORPORATE GOVERNANCE INITIATIVES

The Company maintains a policy of supplementing internal promotions with external recruitment from the open market. The job categories at each level would have components of training and development for staff that are supported by the Company. The Company has a policy of providing mobility for staff in order to make them competent in wider fields so that they could select the career path which they want to pursue.

Annual appraisals are made with active participation of the staff in order to provide annual incentives in the form of increases and rewards and also to determine the development activities that are to be introduced for their future development.

The Company follows the Government's labour legislation strictly including the EPF, ETF provisions, workmen's compensation and evolves solutions to disciplinary issues, thereby minimizing disputes and litigations.

The Company has a policy of promoting and protecting the environment through campaigns that reduce carbon monoxide emissions caused by vehicles. As part of this policy it also provides human resources and financial support for environmental campaigns and education. Communication based activities are carried out to create awareness on health hazards and environmental concerns.

The Company strictly adheres to statutory payments including taxes and cess to the Insurance Board.

RISK MANAGEMENT

CO-OPERATIVE INSURANCE COMPANY LIMITED
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In the absence of a formal Risk Management Committee, the Corporate Management Committee, chaired by the Managing Director, identify the potential risks faced by the Company in achieving its desired objectives. The main areas of identification are summarised as follows.

TECHNOLOGICAL RISK

The Co-operative Insurance Co. currently utilizes both network and 'stand-alone' systems to support specific areas of business activity falling under life, non-life and finance processes. However, this internal IT support capability is being progressively replaced by a system containing integrated on-line functionality. This is needed in order to consolidate operations, streamline the Company's customer services and improve performance. The Company has outsourced the development and implementation of integrated insurance application software solutions to Informatics International Ltd., a leading application software developer in Sri Lanka. The new integrated insurance software system for life insurance has been implemented and is currently in use. The 'on-line' system for non-life and finance is expected to become fully operational by the end of 2008.

CREDIT RISK

Credit risk arises in non-life insurance when intermediaries and policyholders fail to pay their premium within the approved credit period. The outstanding credits are daily reviewed by the Finance Department and other Department Heads. Managing Director, General Manager, Finance Manager, Heads of Branch Operations and all Regional Managers meet regularly to review the outstanding position for each month and ensure that collection is monitored and expedited. Authority for the approval of credit is confined to the Managing Director and General Manager. In addition, the premium payment warranty introduced by IBSL, in compliance with the Company, reduces the credit risk of the Company.

REGULATORY RISK

The Company has to comply with the regulatory requirements imposed by IBSL from time to time. The Company has already complied with the current capital requirement of Rs. 200 million for life and non-life businesses. The Board of Directors is currently reviewing the new requirements and their impact on the structure of the Company and on business. The decision made by the Insurance Board of Sri Lanka to accept the Risk Based Capital model for minimum capital requirements has reduced the risk faced by the Company relating to capital requirements. The Company has approved its Legal Officer as the compliance officer to ensure that all regulatory requirements are observed.

INTEREST RATE RISK

Interest rate risk arises where the market interest rate falls below the interest rate assumed at the time of pricing a life product. The Company's life products are designed by a qualified actuary and are annually valued to ensure that the Company can meet its obligations to life policyholders.

EMPLOYMENT RISKS

The Company has revised the salary structure of permanent staff to bring them in line with the industry standard packages and to reduce turnover of staff. The Company attempts to mitigate these risks by encouraging continuous education providing relevant training and development opportunities and fostering a culture where all employees, regardless of rank, can actively contribute to the business.

INVESTMENT RISK

The Company adheres to the investment guidelines recommended by the regulator, to reduce risks relating to this area. Decisions on investments are taken by an Investment Committee appointed by the Board and responsibility for investment related risk lies with the Investment Committee.

RISK MANAGEMENT

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

RISK ON ADEQUACY OF RESERVES

This falls into two categories unearned premium reserve and outstanding claims reserve including Incurred But Not Reported (IBNR) claims. The Company follows the 1/24 method for reserving unearned premium and is reviewed monthly. Claims reserves are made as soon as the required information is received. The Company has employed a consultant actuary to check and confirm the adequacy of reserves on non-life insurance. The Life Fund is subject to annual valuation by an actuary who checks and affirms the adequacy of the reserves.

REINSURANCE RISK

The Company obtains the services of a reputed reinsurance broker to reduce the risk on reinsurance placement and claim recovering on both life and non-life insurance. All the reinsurance companies selected by the Company are rated and accepted by the regulator. The risks relating to riot and terrorism are placed with the Government controlled National Insurance Trust Fund.

CLAIM SETTLEMENT RISK

The Company obtains the services of professional loss adjustors and independent assessors to get an unbiased opinion on all areas relating to general insurance claims. At the point of settling a claim, employees are expected to cross check the information gathered from various sources and verify policy conditions, sum insured and underwriting details. The Company's Legal Officer attends to disputes and other legal matters relating to claims.

REPORT OF THE DIRECTORS

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

The Directors have pleasure in presenting their report together with the Audited Financial Statements of the Company for the year ended December 31, 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company continued to be of General Insurance and Life Insurance. Given below are some indicators of the volume and results of the business of the Company:

Gross Written Premium

	2007 Rs.	2006 Rs.
General Insurance	289,691,043	207,492,855
Life Insurance	100,392,815	73,694,961

Result of the year under review

	2007 Rs.	2006 Rs.
Net profit before taxation	31,195,490	12,602,383
Income tax	(8,339,922)	(4,318,736)
Net profit after taxation	22,855,568	8,283,647
Earning per share	1.76	0.78

INSURANCE PROVISION - LIFE

The valuation of the Insurance Provision - Life Insurance Business, as at December 31, 2007 was made by Mr. R. Kahakachchi for and on behalf of Actuarial and Management Consultants (Pvt) Ltd. In accordance with the consultant actuary's report, the sum of provision, Rs. 165,103,317/- includes the liability in respect of policyholders' dividends as well. In the opinion of the consultant actuary, the provision is adequate to cover the liabilities pertaining to long-term insurance.

DECLARATION OF BONUS

The Directors are pleased to announce that the 2007 bonuses have now been being declared in respect of participating policies as follows:

Policy	Bonus	Year of Commencement of Policy
Samagi Sisusetha	Rs. 35/- per Rs. 1,000/- sum assured	2001 & earlier
	Rs. 30/- per Rs. 1,000/- sum assured	2002
	Rs. 25/- per Rs. 1,000/- sum assured	2003
	Rs. 20/- per Rs. 1,000/- sum assured	2004
	Rs. 15/- per Rs. 1,000/- sum assured	2005
	Rs. 10/- per Rs. 1,000/- sum assured	2006

DIVIDENDS

Directors have recommended a first and final dividend of 17% for the year ended December 31, 2007.

INVESTMENTS

The details of investments held by the Company are disclosed in Note 2 to the Financial Statements.

PROPERTY, PLANT & EQUIPMENT

The changes in property, plant & equipment during the year are disclosed in Note 3 to the Financial Statements.

REPORT OF THE DIRECTORS

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

DIRECTORS AND THEIR SHAREHOLDINGS

Directors and their shareholdings as at December 31, 2007 are as follows:

Name of Director	No. of Shares
Mr. W.L.A. Peiris	3,032
Mr. P.M.C. Bandara	5,757
Mr. W.U. Herath	4,648
Mr. Lionel Samarasinghe	3,227
Mr. V.L. Wanigasinghe	2,837
Mr. A. Dahanayake	2,837
Mr. K. Liyanage	1,243
Mr. B.B. Punyadasa	1,171
Mr. S.A. Wickramapala	124
Mr. B. Ranawaka	–
Mr. A.S. Milton	–
Mr. W.H. Jayasiri	–
Mr. T.M.S. Nanayakkara	–

MAJOR SHAREHOLDERS

Major shareholders of the Company as at December 31, 2007 are as follows:

Name	No. of Shares Ordinary Shares	No. of Preference Shares
Central Province Co-operative Rural Bank Union Ltd.	1,108,000	100,000
Colombo District Co-operative Rural Bank Union Ltd.	1,000,000	114,750
Wennappuwa Multi-Purpose Co-operative Society Ltd.	1,000,000	750,000
Matara District Co-operative Rural Bank Union Ltd.	750,000	–
Uva Province Co-operative Rural Bank Union Ltd.	621,500	–
Wayamba Co-operative Rural Bank Union Ltd.	549,950	500,000
Matara District Co-operative Tea Producers' Co-operative Society Ltd.	549,950	–
Bingiriya Multi-Purpose Co-operative Society Ltd.	554,000	67,500
Education Services Co-operative Thrift and Credit Society Ltd.	554,000	–

Name	No. of Shares Ordinary Shares	No. of Preference Shares
Beliatta Multi-Purpose Co-operative Society Ltd.	542,750	–
Hambantota District Co-operative Rural Bank Union Ltd.	540,500	–
Kolonnawa Multi-Purpose Co-operative Society Ltd.	533,750	–
Homagama Multi-Purpose Co-operative Society Ltd.	533,750	–
Panduwasnuwara Multi-Purpose Co-operative Society Ltd.	500,000	–
Galle District Co-operative Rural Bank Union Ltd.	310,750	–
Kalutara District Co-operative Rural Bank Union Ltd.	310,750	–
Posts and Telecommunication Workers' Co-operative Bank Ltd.	310,750	–
Naththandiya Multi-Purpose Co-operative Society Ltd.	266,020	–
Divulapitiya Multi-Purpose Co-operative Society Ltd.	250,000	–
	10,786,420	1,532,250

DIRECTORS' INTEREST WITH THE CONTRACTS AND RELATED PARTY TRANSACTIONS

The Directors have no direct or indirect interest in contracts with the Company other than those disclosed in Note 22 to the Financial Statements.

AUDITORS

The present Auditors, Messrs P.E. Mathew & Co., Chartered Accountants have signified their willingness to continue as Auditors and a resolution to reappoint them as Auditors and to authorize the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

By Order of the Board,



Business Management Services Ltd.

Secretaries to the Company

STATEMENT OF SOLVENCY AND APPROVED ASSETS

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

SOLVENCY

The statement of Solvency for Non-Life Insurance and Life Insurance has been prepared in accordance with the Solvency Margin (General Insurance) Rules - 2004 and Solvency Margin (Long-Term Insurance) Rules - 2002 respectively and is in line with the formats stipulated by the Insurance Board of Sri Lanka (IBSL).

STATEMENT OF SOLVENCY

Non-Life Insurance Business

	2007 Rs. '000	2006 Rs. '000
1. Value of Admissible Assets	242,897	175,816
2. Amount of Total Liabilities	189,353	141,236
3. Available Solvency Margin (Line 1 minus Line 2)	53,544	34,581
4. Required Solvency Margin	51,637	50,000
5. Solvency Ratio (Line 3 divided by Line 4)	1.04	0.69

Long-Term Insurance Business

	2007 Rs. '000	2006 Rs. '000
1. Value of Admissible Assets	200,271	151,577
2. Amount of Liabilities		
2.1 Policy Liabilities	165,103	122,119
2.2 Other Liabilities	16,504	12,873
3. Values of Admissible Assets minus Amount of Liabilities	18,664	16,584
4. Factor	5%	5%
5. Required Solvency Margin	8,255	6,106
6. Solvency Ratio (Line 3 divided by Line 5)	2.26	2.72

APPROVED ASSETS

Determined as per Section 25 (1) of Regulation of Insurance industry Act No. 43 of 2000 and the Determination made by the Insurance Board of Sri Lanka (IBSL) in terms of the said Act.

Non-Life Insurance Business

	2007 Rs. '000	2006 Rs. '000
1. Approved Assets Maintained in Non-Life Insurance Business	248,885	184,807
2. Technical Reserves	157,064	105,203
3. Approved Assets in Excess of the Technical Reserves	91,820	79,604
4. Approved Assets as a percentage of Technical Reserves	158%	176%
5. Required Ratio	100%	100%

Long-Term Insurance Business

	2007 Rs. '000	2006 Rs. '000
1. Approved Assets Maintained in Long-Term Insurance Business	200,280	151,577
2. Long-Term Insurance Fund	165,103	127,435
3. Excess in Approved Assets over the Long-Term Insurance Fund	35,176	24,142
4. Approved Assets as a percentage of Long-Term Insurance Fund	121%	119%
5. Required Ratio	100%	100%

ACTUARIAL REPORT

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007



1st Floor, 434, R.A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone: (94) 11 2575 280/(94) 11 4628557 Fax: (94) 11 4628557

To the Shareholders of Co-operative Insurance Company Limited

ACTUARIAL VALUATION OF THE LONG-TERM INSURANCE BUSINESS AS AT DECEMBER 31, 2007

CERTIFICATE UNDER SECTION 48 OF THE REGULATION OF INSURANCE INDUSTRY ACT NO. 43 OF 2000

I, R Kahakachchi, being the Appointed Actuary for Co-operative Insurance Company Limited (Company), certify that, to the best of my knowledge -

1. I have included each and every policy, details of which have been provided by the Company, for which there is a liability, in conducting the actuarial valuation of the Long-Term Insurance Business as at December 31, 2007.
2. The data have been prepared in accordance with my instructions and in those cases where I required clarification, I have secured satisfactory replies;
3. I have taken reasonable steps to ensure the accuracy and completeness of the data provided by the Company;
4. I have complied with the relevant provisions of the Act, including the provisions of Section 26 and Regulations issued by the Insurance Board of Sri Lanka with respect to solvency Margin;
5. In my opinion, adequate and proper reserves have been provided as at December 31, 2007 for all liabilities in respect of the Long Term Insurance Business of the Company;
6. The Long Term Insurance Fund as included in the audited accounts as at December 31, 2007 exceed the required actuarial reserves as at December 31, 2007 by Rs. 5.319 million before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.
7. The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs. 7.989 million, including the solvency margin for the new reversionary bonus allotted as at December 31, 2007.



R. Kahakachchi

Jt. Managing Director & Actuary

May 14, 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

The following statement sets out the responsibilities of the Directors in relation to the Financial Statements of the Company. These differ from the responsibilities of the Auditors, which are set out in their report appearing on page 26.

The Directors are required by the Companies Act No. 07 of 2007 to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Income Statement of the Company for the financial year.

The Directors consider that these Financial Statements have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and in compliance with the Sri Lanka Accounting Standards and Directions issued by the Insurance Board of Sri Lanka.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, and provide the information required by

the Companies Act No. 07 of 2007 and comply with the requirements of the Regulation of Insurance Industry Act No. 43 of 2000. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard for the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the Financial Statements. The Directors, after making inquiries and reviewing the Company's budget for 2008, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Balance Sheet date have been paid or sufficiently provided for.

By order of the Board



Business Management Service Ltd.

Secretary to the Company

Financial Statements

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INDEPENDENT AUDITORS' REPORT

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

P.E. MATHEW & CO., CHARTERED ACCOUNTANTS 94 ¼, YORK STREET, COLOMBO-01

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CO-OPERATIVE INSURANCE COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Co-operative Insurance Company Limited which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2007 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2007 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of the Companies Act No. 07 of 2007 and the regulations of Insurance Industry Act No. 43 of 2000.



CHARTERED ACCOUNTANTS

Colombo,
May 15, 2008

BALANCE SHEET

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

As at December 31,	Note	2007 Rs.	2006 Rs.
Assests			
Investments	2	423,274,800	307,601,936
Property, plant & equipment	3	48,099,752	23,748,283
Policy holder loans		644,778	216,522
Reinsurance receivable		7,406,864	10,920,745
Premium receivable	4	36,796,466	17,598,930
Other assets	5	49,267,732	27,768,551
Cash and cash equivalents	6	9,036,751	25,909,601
Total assets		574,527,143	413,764,568
Liabilities and Shareholders' Equity			
Liabilities			
Insurance provision - Life	7	167,491,697	128,299,382
Insurance provision - General	8	157,850,022	113,870,875
Provision for retirement benefits	9	4,827,917	3,315,132
Obligations under lease agreements	10	4,560,595	3,099,324
Other liabilities	11	42,549,075	36,442,446
Total liabilities		377,279,306	285,027,159
Shareholders' Equity			
Stated capital	12	165,362,220	106,734,584
Revaluation reserve		3,036,000	-
Revenue reserves - Retained earnings		28,849,617	22,002,825
Total shareholders' equity		197,247,837	128,737,409
Liabilities and shareholders' equity		574,527,143	413,764,568

I certify that the Financial Statements of the Company give a true and fair view of the state of affairs as at December 31, 2007 and of its profits for the year then ended.

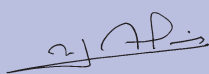
The Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Aruna Thebuwana
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board of Directors of Co-operative Insurance Company Ltd.



W.L.A. Pieris
Chairman



W. Upali Herath
Managing Director

The Accounting Policies and Notes as set out on page 31 to 46 are an integral part of the Financial Statements.

Colombo, Sri Lanka
May 15, 2008.

INCOME STATEMENT

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

<i>For the year ended December 31,</i>			
	Note	2007 Rs.	2006 Rs.
Revenue	01	361,243,416	265,590,572
Gross written premium	13	390,083,858	281,187,816
Less: Premium ceded to reinsurers		34,422,255	31,268,972
Net written premium		355,661,603	249,918,844
Net change in reserves for unearned premium		(45,674,256)	(18,554,887)
Net earned premium		309,987,347	231,363,957
Benefits, Losses and Expenses			
Insurance claims and benefits (Net)	14	(106,455,192)	(78,383,940)
Underwriting and policy acquisition cost (including reinsurance)		(23,997,872)	(20,981,671)
Increase in insurance provision - Life		(37,667,973)	(35,221,375)
Total benefits, losses and expenses		(168,121,037)	(134,586,986)
Underwriting results		141,866,310	96,776,971
Other Revenue			
Fees and commission income		4,512,796	3,565,154
Income from investments	15	45,933,606	29,756,609
Other income	16	809,667	904,852
		51,256,069	34,226,615
Expenses			
Other operating, investment related and administration expenses	17	(161,271,366)	(117,662,886)
Profit from operation	18	31,851,013	13,340,700
Interest expense	19	(655,523)	(738,317)
Profit before taxation		31,195,490	12,602,383
Income tax	20	(8,339,922)	(4,318,736)
Net profit after taxation		22,855,568	8,283,647
Earning per share	21	1.78	0.78

The Accounting Policies and Notes as set out on pages 31 to 46 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

For the year ended December 31, 2007

	Stated Capital			Revaluation Reserve	Retained Earnings	Total Equity
	Ordinary Shares	Preference Shares	Application & Allotment A/c			
	Rs.	Rs.	Rs.			
Balance as at						
December 31, 2005	100,127,170	–	9,414	–	24,783,021	124,919,605
Net profit for the year	–	–	–	–	8,283,647	8,283,647
Issue of shares	6,598,000	–	–	–	–	6,598,000
Ordinary dividend - 2005	–	–	–	–	(11,063,843)	(11,063,843)
Balance as at						
December 31, 2006	106,725,170	–	9,414	–	22,002,825	128,737,409
Net profit for the year	–	–	–	–	22,855,568	22,855,568
Issue of shares	43,305,140	15,322,500	(4)	–	–	58,627,636
Revaluation surplus	–	–	–	3,036,000	–	3,036,000
Ordinary dividend - 2006	–	–	–	–	(16,008,776)	(16,008,776)
Balance as						
at December 31, 2007	150,030,310	15,322,500	9,410	3,036,000	28,849,617	197,247,837

The Accounting Policies and Notes as set out on pages 31 to 46 are an integral part of the Financial Statements.

CASH FLOW STATEMENT

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

<i>For the year ended December 31,</i>	2007	2006
	Rs.	Rs.
Cash Flows from Operating Activities		
Premium received from customers	373,238,681	280,092,555
Reinsurance premium paid	(29,800,366)	(27,205,634)
Claims paid net of commission received	(104,307,727)	(65,325,192)
Commission paid	(28,272,703)	(20,233,404)
Cash paid to and on behalf of employees	(56,919,945)	(39,226,171)
Other operating cash payments	(107,225,317)	(72,769,952)
Interest received	42,925,822	24,820,369
Dividend received	–	36,000
Other income received	3,545,668	843,070
Income tax paid	(2,125,636)	(5,406,363)
Net cash from operating activities (Note A)	91,058,477	75,625,278
Cash Flows from Investing Activities		
Purchase of investments net of sale proceeds	(115,672,865)	(64,963,901)
Sale of motor vehicles	502,926	231,990
Purchase of tangible assets	(26,703,362)	(13,353,614)
Net cash flows from investing activities	(141,873,301)	(78,085,525)
Cash Flows from Financing Activities		
Proceeds from issuance of share capital	58,627,636	6,598,000
Repayment of lease rentals on finance lease	(2,402,635)	(2,091,477)
Dividend paid	(22,283,027)	–
Net cash flows from financing activities	33,941,974	4,506,523
Increase in cash and cash equivalents	(16,872,850)	2,046,276
Cash and cash equivalent as at the beginning of the year	25,909,601	23,863,325
Cash and cash equivalent as at the end of year (Note B)	9,036,751	25,909,601
Note A - Reconciliation of Operating Profit with Net Cash Flow from Operating Activities		
Profit after taxation	22,855,568	8,283,647
Increase in long-term insurance provision	37,673,973	35,221,374
Depreciation	8,462,910	7,219,120
Increase in receivables	(31,701,042)	(6,661,802)
Increase/(Decrease) in payables	7,285,816	5,571,400
Increase in reserves	45,674,256	17,253,321
Profit on sale of motor vehicles	(212,727)	(61,782)
Interest on lease agreement	655,523	–
Increase/(Decrease) in inventory	364,200	8,800,000
	91,058,477	75,625,278
Note B - Cash and Cash Equivalent as at December 31,		
Cash at banks	28,261,623	27,784,866
Cash in hand	238,569	163,059
Cash in transit	2,623,612	1,713,326
Bank overdraft	(22,087,053)	(3,751,650)
	9,036,751	25,909,601

The Accounting Policies and Notes as set out on pages 31 to 46 are an integral part of the Financial Statements.

INCOME STATEMENT - SEGMENTAL ANALYSIS 2007

CO-OPERATIVE INSURANCE COMPANY LIMITED
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For the year ended December 31, 2007

	Non-Life Rs.	Life Rs.	Total Rs.
Gross written premium	289,691,043	100,392,815	390,083,858
Less: Premiums ceded to reinsurers	31,508,646	2,913,609	34,422,255
Net written premium	258,182,397	97,479,206	355,661,603
Net change in reserves for unearned premium	(45,674,256)	–	(45,674,256)
Net earned premium	212,508,141	97,479,206	309,987,347
Benefits, Losses and Expenses			
Insurance claims and benefits (Net)	(99,443,603)	(7,011,589)	(106,455,192)
Underwriting and policy acquisition cost (including reinsurance)	(9,816,326)	(14,181,546)	(23,997,872)
Increase in insurance provision - Life	–	(37,667,973)	(37,667,973)
Total benefits, losses and expenses	109,259,929	58,861,108	168,121,037
Underwriting results	103,248,212	38,618,098	141,866,310
Other Revenue			
Fees and commission income	4,512,796	–	4,512,796
Income from investments	23,371,940	22,561,666	45,933,606
Other income	778,221	31,446	809,667
	28,662,957	22,593,112	51,256,069
Expenses			
Other operating, investment related and administration expenses	(101,756,887)	(59,514,479)	(161,271,366)
Profit from operation	30,154,282	1,696,731	31,851,013
Interest expenses	(533,217)	(122,306)	(655,523)
Profit before taxation	29,621,065	1,574,425	31,195,490
Income tax	(8,339,922)	–	(8,339,922)
Net profit for the year	21,281,143	1,574,425	22,855,568

The Accounting Policies and Notes as set out on pages 31 to 46 are an integral part of the Financial Statements.

INCOME STATEMENT - SEGMENTAL ANALYSIS 2006

CO-OPERATIVE INSURANCE COMPANY LIMITED
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For the year ended December 31, 2006

	Non-Life Rs.	Life Rs.	Total Rs.
Gross written premium	207,492,855	73,694,961	281,187,816
Less: Premiums ceded to reinsurance	28,304,473	2,964,499	31,268,972
Net written premium	179,188,382	70,730,462	249,918,844
Net change in reserve for unearned premiums	(18,554,888)	–	(18,554,888)
Net earned premium	160,633,494	70,730,462	231,363,956
Benefits and Losses			
Insurance claims and benefits (Net)	(74,842,537)	(3,541,403)	(78,383,940)
Underwriting and net acquisition cost	(9,019,233)	(11,962,438)	(20,981,671)
Increase in long-term insurance fund	–	(35,221,374)	(35,221,374)
	(83,861,770)	(50,725,215)	(134,586,985)
Underwriting result	76,771,724	20,005,247	96,776,971
Other Revenue			
Fees and commission income	3,565,154	–	3,565,154
Income from investments	18,019,617	11,736,992	29,756,609
Other income	892,928	11,924	904,852
	22,477,699	11,748,916	34,226,615
Expenses			
Other operating, investment related and administration expenses	(85,908,723)	(31,754,163)	(117,662,886)
Net profit from operation	13,340,700	–	13,340,700
Interest expenses	(738,317)	–	(738,317)
Profit before taxation	12,602,383	–	12,602,383
Income tax	(4,318,736)	–	(4,318,736)
Net profit for the year	8,283,647	–	8,283,647

The Accounting Policies and Notes as set out on pages 31 to 46 are an integral part of the Financial Statements.

ACCOUNTING POLICIES

CO-OPERATIVE INSURANCE COMPANY LIMITED
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The Principal Accounting Policies adopted in the preparation of these Financial Statements are set out below.

1. GENERAL

Co-operative Insurance Co. Ltd is a company incorporated and domiciled in Sri Lanka. The registered office and the principal place of business of the Company are located at No. 455, Galle Road, Colombo 3.

The Financial Statements of the Company for the year ended December 31, 2007 were authorized for issue by the Directors on May 15, 2008.

1.1. Statement of Compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLASs) and the Statement of Recommended Practice for Insurance Contracts (SORP), adopted by the Institute of Chartered Accountants of Sri Lanka.

1.2 Basis of Preparation

The Financial Statements of the Company are presented in Sri Lanka Rupees and prepared on the historical cost basis. The Accounting Policies are consistent with those used in the previous year.

The Company Balance Sheet represents the assets, liabilities and equity of the shareholders. The Life Insurance Balance Sheet represents assets and liabilities of the Life Insurance Fund.

The Statement of Income reflects the results of underwriting, investment and other income, of the shareholders.

1.3 Segment Reporting

Segmental information is based on industry segments reflecting the Company's management structure. Segmentation has

been determined based on the activities of the companies or sector into which the products or services are sold.

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Freehold Assets

The Property, Plant & Equipment is stated at cost or valuation less accumulated depreciation. A revaluation of Property, Plant & Equipment is done when there is a substantial distinction between the fair value (market value) and the book value.

Thereafter it is revalued as required by the SLAS 18, Property, Plant & Equipment. The revaluation is carried out by, a professionally qualified valuer.

The cost of Property, Plant & Equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its working condition for its intended use.

Expenditure incurred for the purpose of acquiring, extending or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business has been treated as capital expenditure.

2.2 Revaluation of Assets

The land was revalued during the financial year 2007 by Mr. Prema Moonasinghe (an independent valuer), No. 237/2, Akuressa Road, Godagama, Matara. The result of such revaluation was incorporated in these Financial Statements from its effective (reported) date which is November 15, 2007. Such asset was valued on an open market value on an existing use basis. The surplus arising from the revaluation was transferred to a revaluation reserve.

2.3 Leasehold Assets

Leases in terms of which the Company assumes substantially all risks and rewards of ownership are classified as finance leases.

ACCOUNTING POLICIES

CO-OPERATIVE INSURANCE COMPANY LIMITED
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Assets acquired by way of finance lease are stated at an amount equal to the fair value and the present value of minimum lease payments at the inception less accumulated depreciation and the resulting lease obligation is included in interest bearing borrowings net of finance charges. Lease payments are treated as consisting of capital and interest elements and the interest is recognized in the Income Statement.

Assets held under finance leases are amortized over the estimated useful lives unless ownership is not transferred at the end of the lease period. In such cases the assets are amortized over the shorter of lease term or their useful lives.

Rentals on operating leases are recognized in the Income Statement in the year in which they relate.

2.4 Depreciation

Freehold land is not depreciated.

Depreciation is charged on all other Property, Plant & Equipment on the straight-line basis to write-off the cost/valuation over the estimated useful lives as follows:

	% per annum
Freehold Buildings	5
Office Equipments	33 1/3
Computers	33 1/3
Motor Vehicles	25
Furniture & Fittings	25
Leasehold - Motor Vehicles	25

A full year's depreciation is provided on fixed assets purchased during the year and depreciation is not charged in the year of disposal.

2.5 Investments

The Company classifies its investments in debt and equity securities into the following categories: held for trading; held-to-maturity; and available-for-sale.

The classification is to be dependent on the purpose for which investments are acquired and is determined at the time of acquisition. Management determines the classification of its investments at the time of purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held-for-trading.

Investments with a fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale.

Purchases and sales of investments are recognized on the Trade Date which is the date that the Company commits to purchase or sell the asset/investment. The investment is initially recognized at fair value, which is normally the Transaction Price. All investments are subsequently measured at fair value, except for held-to-maturity investments which are measured at amortized cost using the effective interest method and equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is measured at cost.

The realized and unrealized gains and losses arising from the changes in the fair value of financial assets held-for-trading is recognized in the Income Statement, while available-for-sale financial assets are recognized directly in equity. Further, financial assets carried at amortized cost are recognized in the Income Statement, when the financial assets are derecognized or impaired and through the amortization process.

ACCOUNTING POLICIES

CO-OPERATIVE INSURANCE COMPANY LIMITED
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2.6 Inventories

Inventories are stated at the Lower of Cost and Net Realizable Value. Net Realizable Value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. Cost is determined on a weighted average basis.

2.7 Cash & Cash Equivalents

Comprises of Cash in hand, other highly liquid investments and bank overdrafts. In the Balance Sheet.

2.8 Trade & Other Receivables

Trade and other receivables are stated at their estimated realizable amounts.

3. LIABILITIES AND PROVISIONS

All known liabilities have been accounted for in preparing the Financial Statements.

3.1 Provision for Taxation

Income tax on profit or loss for the year comprises current and deferred tax and is recognized in the Income Statement.

Current Tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Balance Sheet date and any adjustments to tax payable in respect of previous years.

3.2 Deferred Taxation

Provision has not been made for deferred taxation, as it is probable that an actual liability will not crystallize in the foreseeable future. The amount of the timing difference not accounted for is disclosed in Note 20 to the Financial Statements.

The deferred tax as stated in the Note is determined using the Balance Sheet liability method, providing for timing differences between the carrying amounts of assets and liabilities for financial

reporting purposes and the amounts used for taxation purposes. This will be recognized for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which, the unused tax losses can be utilized.

3.3 Trade & Other Payables

Trade and other payables are stated at their cost.

3.4 Provisions (excluding Insurance Contracts)

A provision is recognized in the Balance Sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, except for insurance related contracts.

3.5 Events after the Balance Sheet date

All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

3.6 Capital Commitments & Contingencies

Capital commitments and contingent liabilities of the Company are disclosed in the Financial Statements.

3.7 Retiring Benefits

3.7.1 Defined Benefit Plans

Provision has been made for retirement gratuities for all employees who have completed more than one year of service with the Company. However, under the Payment of Gratuities Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Provision is not externally funded.

ACCOUNTING POLICIES

CO-OPERATIVE INSURANCE COMPANY LIMITED
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3.7.2 Defined Contribution Plans

Obligations for contributions to Provident & Trust Funds covering all employees are recognized as an expense in the Income Statement as incurred.

4. SHARE CAPITAL

Ordinary Shares and preference shares are classified as equity.

5. NON-LIFE INSURANCE BUSINESS

5.1 Premiums

Premiums are generally recognized as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided.

Reinsurance premiums assumed are estimated based on information provided by ceding companies. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. These premiums are earned over the terms of the related reinsurance contracts.

5.2 Unearned Premium

The unearned premium reserve represents the portion of the premiums written in the years but relating to the unexpired terms of coverage.

5.3 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 December 31.

However, the Company has not made any provision with regard to unexpired risk as at December 31, 2007.

5.4 Receivables

All premium and other debtors are recognized at the amount receivable. Collectability of premiums and other debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written-off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 180 days overdue, to the extent that any relevant premium has been earned.

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums, ceded future life policy benefits and funds held under reinsurance treaties. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the Consolidated Balance Sheet unless a right to offset exists.

5.5 Outwards Reinsurance

Premium ceded to reinsurers is recognized as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of outwards reinsurance premium is treated at the Balance Sheet date as a prepayment.

5.6 Claims

Claims expense and a liability for outstanding claims are recognized in respect of direct and inwards reinsurance business. The liability covers claims reported but not yet paid, incurred but not reported claims ('IBNR') and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends.

ACCOUNTING POLICIES

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Provisions for anticipated losses are posted if the future premiums and proportional investment income in a portfolio will probably not be sufficient to cover the expected claims and costs.

Whilst the Directors consider that the provision for claims are 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 adjustments 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.

5.7 Deferred Acquisition Costs

Acquisition costs, representing commissions, premium taxes and other underwriting expenses, which vary with and are directly related to the production of business, are deferred and amortized over the period in which the related written premiums are earned.

Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If such costs are estimated to be unrecoverable, they are expensed.

6. LIFE INSURANCE BUSINESS

6.1 Premiums (Revenue)

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when cash is received from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies.

Moreover, for single premium contracts, premiums are recorded as income when received with any excess profit deferred and recognized in income in a constant relationship to the insurance in force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from **investment type contracts** such as unit-linked and unitized with profits contracts **are reported as deposits**. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are recognized over the estimated life of the contracts. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

6.2 Deferred Acquisition Cost

The costs of acquiring new business including commissions, underwriting, marketing and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

Deferred policy acquisition costs for participating traditional life insurance contracts where the contribution principle method applies to the allocation of policyholder dividends are amortized over the expected life of the contracts as a constant percentage of estimated gross margins. Estimated gross margins include anticipated premiums and investment results less benefits and administration expenses,

ACCOUNTING POLICIES

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changes in the net level premium reserve and expected policyholder dividends, as appropriate. Estimated gross margins are estimated regularly with deviations of actual results from estimated experience reflected in earnings.

Deferred policy acquisition costs for other traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

Deferred policy acquisition costs for investment type contracts such as universal life, unit-linked and unitized with profits contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

6.3 Reinsurance Contracts

Outward reinsurance premiums are recognized when payable. Reinsurance recoveries are credited to match the relevant gross claims.

6.4 Claims

Death claims are recorded on the basis of notifications received. Surrenders, maturities and annuity payments are recorded when due. Claims on participating business include bonuses payable and interest. Claims payable includes direct costs of settlement.

The interim payments and surrenders are accounted only at the time of settlement.

6.5 Technical Provisions - Life Insurance Business Provision and Provision for Linked Liabilities

The Directors agree to the life insurance business provisions for the Company on the recommendation of the Reporting Actuary following his annual investigation of the life insurance business.

The actuarial valuation takes into account of all liabilities including Contingent Liabilities and is based on assumptions recommended by the Consultant Actuary.

7. COMPARATIVE FIGURES

Where necessary comparative figures have been reclassified to conform to the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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<i>For the year ended December 31,</i>	2007	2006
	Rs.	Rs.
1. REVENUE		
Gross written premium	390,083,858	281,187,816
Reinsurance premium	(34,422,255)	(31,268,972)
Net written premium	355,661,603	249,918,844
Net charges in unearned premium	(45,674,256)	(18,554,887)
Net earned premium	309,987,347	231,363,957
Fees and commission income	4,512,796	3,565,154
Investment income	45,933,606	29,756,609
Other income	809,667	904,852
	<u>361,243,416</u>	<u>265,590,572</u>

2. INVESTMENTS

Held to Maturity -

Investment in Sri Lanka Savings Bank -

Unsecured and subordinate debentures at 5% with 10 year maturity	20,000,000	20,000,000
Sri Lanka Government securities (Note 2.1)	399,724,071	254,040,686
Co-operate securities	-	5,000,000
Bank deposits (Note 2.2)	1,050,729	26,061,250
Available for Sale		
Unquoted investments (Note 2.3)	2,500,000	2,500,000
	<u>423,274,800</u>	<u>307,601,936</u>

2.1 Sri Lanka Government Securities

	Cost/Amortized Cost	
	2007	2006
	Rs.	Rs.
Treasury bonds including Repos	144,424,559	254,040,686
Treasury bills including Repos	255,299,512	-
	<u>399,724,071</u>	<u>254,040,686</u>

2.2 Bank Deposits

Fixed Deposit

People's Bank	1,050,729	16,061,250
Central Finance Co. Ltd.	-	10,000,000
	<u>1,050,729</u>	<u>26,061,250</u>

2.3 Unquoted Investment for which Fair Value cannot be Determined

	2007		2006	
	No. of Shares	Cost (Rs.)	No. of Shares	Cost (Rs.)
Co-operative Leasing Co. Ltd.	250,000	2,500,000	250,000	2,500,000

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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3. PROPERTY, PLANT & EQUIPMENT

	Cost					Balance as at 31.12.2007 Rs.
	Balance as at 01.01.2006 Rs.	Changes during the year			Rs.	
		Additions Rs.	Revaluation Rs.	(Disposals) Rs.		
Land and building	1,900,000	–	2,466,000	–	4,366,000	
Computers	12,014,740	11,266,601	–	–	23,281,341	
Office equipment	4,712,473	1,516,051	–	–	6,228,524	
Furniture and fittings	17,491,034	10,009,588	–	–	27,500,622	
Motor vehicles	12,494,118	3,911,122	–	(502,926)	15,902,314	
Leased Assets -						
Motor vehicles	6,993,828	3,365,217	–	–	10,359,045	
	<u>55,606,193</u>	<u>30,068,579</u>	<u>2,466,000</u>	<u>(502,926)</u>	<u>87,637,846</u>	
			Depreciation			
	Accumulated as at 01.01.2006 Rs.	For the year Rs.	On Revaluation Rs.	On (Disposals) Rs.	Accumulated as at 31.12.2007 Rs.	
Land and Building	475,000	95,000	(570,000)	–	–	
Computers	7,184,062	2,451,428	–	–	9,635,490	
Office equipment	2,932,159	743,996	–	–	3,676,155	
Furniture and fittings	10,909,371	2,159,244	–	–	13,068,615	
Motor vehicles	7,123,958	1,391,160	–	(212,726)	8,302,392	
Leased Assets						
Motor vehicles	3,233,360	1,622,082	–	–	4,855,442	
	<u>31,857,910</u>	<u>8,462,910</u>	<u>(570,000)</u>	<u>(212,726)</u>	<u>39,538,094</u>	
Carrying value	<u>23,748,283</u>				<u>48,099,752</u>	

	2007 Rs.	2006 Rs.
4. PREMIUMS RECEIVABLE		
Debtors	42,675,302	21,998,269
Provision for bad debts	(5,878,836)	(4,399,339)
	<u>36,796,466</u>	<u>17,598,930</u>
5. OTHER ASSETS		
Deposits, advances and prepayments	21,659,124	9,776,274
With-holding tax receivable	4,472,019	222,967
Economic service charges	5,843,111	3,073,450
Interest receivable	10,507,639	11,748,906
Salvage inventory	364,200	–
Other receivables	193,391	793,391
Staff debtors	6,228,248	2,153,563
	<u>49,267,732</u>	<u>27,768,551</u>

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

	2007 Rs.	2006 Rs.
6. CASH & CASH EQUIVALENTS		
Cash in hand	238,569	163,059
Cash at banks	28,261,623	27,784,866
Cash in transit	2,623,612	1,713,326
Bank overdrafts	(22,087,053)	(3,751,650)
	9,036,751	25,909,601

7. INSURANCE PROVISION - LIFE

Long duration contract liabilities included in the Life Insurance Fund, result primarily from traditional participating and non-participating life insurance products, short duration contract liabilities are primarily accident and health insurance products. The insurance provision has been established based upon the following:

- Interest rates which vary by product and year of assurance.
- Mortality rates based on published mortality tables adjusted for actual experience by geographic area and modified to allow the variations in policy form.
- Surrender rates based upon actual experience by geographic area and modified to allow for variations in policy form.

The amount of policyholder dividend to be paid is determined annually by the Company. The dividend includes life policyholders' share of net income that are required to be allocated by the insurance contract or by insurance regulations.

The valuation of the Insurance Provision - Life Insurance Business, as at December 31, 2007 was made by R. Kahakachchi for and on behalf of Actuarial and Management Consultants (Pvt) Ltd. In accordance with the consultant actuary's report, the sum of provision, Rs. 167,491,697/- includes the liability in respect of policyholders' dividends as well. In the opinion of the consultant actuary, the provision is adequate to cover the liabilities pertaining to long-term insurance. The provision further includes the net claims outstanding amounting to Rs. 2,388,380/-.

8. INSURANCE PROVISION - NON-LIFE

The non-life insurance provision as shown in the Balance Sheet represents the following:

	2007 Rs.	2006 Rs.
Premium		
Unearned premium	135,752,068	90,077,812
Deferred acquisition cost	(6,158,126)	(4,909,773)
Gross Claims Reserve		
Claims outstanding	26,927,693	27,336,034
Claims incurred but not reported (IBNR)	1,328,387	1,366,802
	157,850,022	113,870,875

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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8. INSURANCE PROVISION - NON-LIFE (Contd.)

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the Balance Sheet date.

The reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent development.

9. PROVISION FOR RETIREMENT BENEFITS

9.1 Provision for Retirement Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with Sri Lanka Accounting Standard 12. However, under the Payment of Gratuity Act No. 16 of 1983, the liability of employee arise only on completion of five years of continued service. Provision is not externally funded.

	2007 Rs.	2006 Rs.
Balance - beginning of the year	3,315,132	2,377,589
Provision for the year	1,781,347	1,076,343
Payments made during the year	(268,562)	(138,800)
Balance - end of the year	<u>4,827,917</u>	<u>3,315,132</u>

9.2 Contributions made to the Provident and Trust Funds

Employees' Provident Fund	4,987,232	3,465,517
Employees' Trust Fund	1,250,005	946,136
	<u>6,237,237</u>	<u>4,411,653</u>

10. OBLIGATIONS UNDER LEASE AGREEMENTS

The Company has entered into eight finance lease agreements to purchase motor vehicles. The total obligations are as follows:

	2007 Rs.	2006 Rs.
Current Liabilities		
Gross liability	2,330,822	1,931,393
Unamortized interest	966,205	393,242
Net liability	<u>1,364,617</u>	<u>1,538,151</u>
Non-Current Liabilities		
Gross liability	4,201,303	1,818,739
Unamortized interest	1,005,325	257,566
Net liability	<u>3,195,978</u>	<u>1,561,173</u>
	<u>4,560,595</u>	<u>3,099,324</u>

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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	2007 Rs.	2006 Rs.
10. OBLIGATIONS UNDER LEASE AGREEMENTS (Contd.)		
Minimum future lease payments and present values of the net minimum lease payments Year ended December 31,		
2007	–	1,931,393
2008	2,330,822	1,057,954
2009	1,881,492	608,628
2010	1,425,021	152,157
2011	894,790	–
Net minimum lease payments	<u>6,532,125</u>	<u>3,750,132</u>
Unamortized interest	1,971,530	650,808
Present value of net minimum lease payments	<u>4,560,595</u>	<u>3,099,324</u>
11. OTHER LIABILITIES		
Payables		
Agency commission	2,594,909	5,621,385
Government levies and taxes	16,372,650	6,723,351
Dividend - ordinary	3,683,208	9,957,458
Creditors		
Reinsurance	7,705,159	7,263,025
Expense	6,416,992	3,414,091
Other	100,943	100,943
Deposits and other funds	5,675,214	3,362,193
	<u>42,549,075</u>	<u>36,442,446</u>
12. STATED CAPITAL		
Number of ordinary shares issued and fully paid	15,003,031	10,672,517
Number of preference shares issued and fully paid	1,532,250	–
	<u>16,535,281</u>	<u>10,672,517</u>
Issued and fully paid ordinary shares	150,030,310	106,725,170
Issued and fully paid preference shares	15,322,500	–
Share application	9,410	9,414
	<u>165,362,220</u>	<u>106,734,584</u>

With the Enactment of the Companies Act No. 07 of 2007 applicable with effect from May 03, 2007 the concept of authorized capital and par value is no longer applicable. Therefore comparable figures have been restated accordingly. The total amount received by the Company or due and payable to the Company in respect of the issue of the shares are referred to as stated capital.

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

	2007 Rs.	2006 Rs.
13. GROSS WRITTEN PREMIUM		
Life insurance	100,392,815	73,694,961
Non-Life insurance		
Motor	191,326,262	113,905,933
Fire	30,563,239	23,474,589
Marine	6,869,814	6,455,413
Miscellaneous	60,931,728	63,656,920
	<u>390,083,858</u>	<u>281,187,816</u>
14. INSURANCE CLAIMS AND BENEFITS (NET)		
Non-Life Insurance		
Gross Claims -		
Motor	87,637,804	60,414,656
Fire	9,193,113	2,569,276
Marine	5,288,473	9,083,026
Miscellaneous	5,967,623	14,145,396
	<u>108,087,013</u>	<u>86,212,354</u>
Salvage income	(2,517,154)	-
Reinsurance recoveries	(6,126,256)	(11,369,817)
	<u>99,443,603</u>	<u>74,842,537</u>
Life Insurance		
Net Claims and Benefits		
Gross Claims		
Death, disability and hospitalization	5,910,577	3,182,012
Reinsurance recoveries	-	-
	<u>5,910,577</u>	<u>3,182,012</u>
Policy surrenders	698,609	269,724
Instalment paid - Sisusetha	19,994	25,625
Pension benefits	382,409	64,042
	<u>7,011,589</u>	<u>3,541,403</u>
Total claims and benefits	<u>106,455,192</u>	<u>78,383,940</u>
15. INCOME FROM INVESTMENTS		
Interest income (Note 15.1)	45,933,606	29,720,609
Dividend income	-	36,000
	<u>45,933,606</u>	<u>29,756,609</u>

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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	2007 Rs.	2006 Rs.
15. INCOME FROM INVESTMENTS (Contd.)		
15.1 Interest Income		
Treasury bonds	20,977,758	26,121,794
Treasury bills	12,170,135	-
Fixed deposit	4,862,667	2,915,412
Margin account	-	466,880
Repo agreements	5,122,294	-
Commercial papers	1,935,851	-
Overnight deposit	864,901	216,523
	<u>45,933,606</u>	<u>29,720,609</u>
16. OTHER INCOME		
Interest on policy loans	31,446	11,924
Foreign currency fluctuation	(2,940)	17,441
Staff loan interest	139,932	184,496
Profit on sale of motor vehicle	212,727	61,782
Sundry	428,502	629,209
	<u>809,667</u>	<u>904,852</u>
17. OTHER OPERATING, INVESTMENT RELATED AND ADMINISTRATION EXPENSES		
Staff expenses (Note 17.1)	54,989,303	41,035,635
Administration and establishment	50,563,497	32,852,560
Selling	43,519,839	33,503,741
Depreciation	8,462,910	7,219,121
Other expenses	3,735,817	3,051,829
	<u>161,271,366</u>	<u>117,662,886</u>
17.1 Staff Expenses		
Salaries and wages	44,726,556	33,876,098
Compulsory social security contributions	6,237,236	4,411,652
Contributions to defined contribution plans	1,781,347	1,076,344
Staff welfare	1,271,487	944,521
Staff training and development	861,590	716,070
Other staff expenses	111,087	10,950
	<u>54,989,303</u>	<u>41,035,635</u>
18. PROFIT FROM OPERATIONS		
The profit from operation for the year is stated after charging the following expenses:		
Directors' remuneration	1,037,960	886,645
Directors' medical insurance	125,000	53,800
Depreciation	8,462,910	7,219,121
Audit fees	125,000	100,000

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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	2007 Rs.	2006 Rs.
19. INTEREST EXPENSES		
Interest on lease agreement	655,523	738,317
20. INCOME TAX		
Current Income Tax Expenses		
Provision for the year	8,339,922	4,132,186
Under/(Over) provision in prior years	-	186,550
	8,339,922	4,318,736
Unrecognized Deferred Tax		
Deferred tax asset	45,516,077	37,529,183
Deferred tax liability	3,758,401	1,164,624

Deferred tax assets pertaining to unused tax losses have not been recognized as income for the period considering the long duration that might take to utilize the unused tax losses.

21. EARNINGS PER SHARE

The Basic Earnings per share is based on profit attributable to Ordinary Shareholders to the year divided by the weighted average number of Ordinary Shares Outstanding for the year and calculated as follows:

	2007	2006
Profit attributable to ordinary shareholders (Rs.)	22,855,568	8,283,647
Weighted average number of ordinary shares in issue applicable to basic earnings per share (Nos.)	12,837,774	10,672,517
Earnings per share (Rs.)	1.78	0.78

22. DIRECTORS INTEREST IN CONTRACTS/RELATED PARTY TRANSACTIONS

- The Company has entered into following transactions with the Co-operative Leasing Company Ltd. Mr. S.A. Wickramapala, Mr. P.M.C. Bandara and Mr. K. Liyanage, Directors of the Company, are also Directors of the Co-operative Leasing Company Ltd. Mr. W.L.A. Peiris, the Chairman of the Company, is a Director of the Co-operative Leasing Company Ltd.
- Investment of Rs. 2,500,000/- in shares of the Co-operative Leasing Company Ltd.

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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22. DIRECTORS INTEREST IN CONTRACTS/RELATED PARTY TRANSACTIONS (Contd.)

3. The following Directors hold positions in the corporate shareholders as described below:

Name of Director	Position	No. of Shares		Name of Corporate Shareholder
		Ordinary	Preferred	
W.L.A. Peiris	Chairman	1,000,000	750,000	Wennappuwa MPCs Ltd.
	Director	12,430		Sri Lanka Consumer Co-op Federation
P.M.C. Bandara	Chairman	66,814		Mahiyangana MPCs
	Chairman	621,500		Uva Province Co-operative Rural Bank Union Ltd.
	Chairman	248		District Co-operative Council of Badulla
	Vice-Chairman	11,080		National Co-operative Council of Sri Lanka
	Vice-Chairman	12,430		Co-operative Marketing Federation Ltd.
S.A. Wickramapala	Chairman	549,500	500,000	Wayamba Co-operative Rural Bank Union Ltd.
K. Liyanage	Chairman	533,750		Kolonnawa MPCs Ltd.
	Director	11,080		National Co-operative Council of Sri Lanka
B. Ranawaka	Chairman	11,080		National Co-operative Council of Sri Lanka
	Chairman	119,980		Kotapola MPCs Ltd.
	Chairman	750,000		Matara District Co-operative Rural Bank Union Ltd.
A.S. Milton	Chairman	554,000	67,500	Bingiriya MPCs Ltd.
W.H. Jayasiri	Chairman	62,430		Maharagama MPCs Ltd.
V.L. Wanigasinghe	Chairman	1,108,000	100,000	Central Province Rural Bank Union Ltd.
A. Dahanayake	Chairman	542,750		Beliatta MPCs Ltd.
	Chairman	540,500		Hambantota District Co-operative Rural Bank Union Ltd.

23. DETAILS OF DIRECTORS INDIVIDUAL SHAREHOLDINGS

Name of Director	No. of Shares held as at December 31,	
	2007	2006
Mr. W.L.A. Peiris	3,032	1,600
Mr. P.M.C. Bandara	5,757	3,461
Mr. W.U. Herath	4,648	4,000
Mr. Lionel Samarasinghe	3,227	Nil
Mr. V.L. Wanigasinghe	2,837	2,500
Mr. A. Dahanayake	2,837	2,500
Mr. K. Liyanage	1,243	1,000
Mr. B.B. Punyadasa	1,171	1,000
Mr. S.A. Wickramapala	124	101
Mr. B. Ranawaka	Nil	Nil
Mr. A.S. Milton	Nil	Nil
Mr. W.H. Jayasiri	Nil	Nil
Mr. T.M.S. Nanayakkara	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

24. CAPITAL EXPENDITURE COMMITMENT

The Company has entered into an agreement with Messrs Informatics International Ltd. for the development of integrated insurance application software system at a cost of Rs. 16 million. Rs. 5.16 million has been paid and balance of Rs. 10.84 million will have to be paid in instalment on completion of each stage as agreed.

25. OUTSTANDING LITIGATION

In the opinion of the directors pending litigation against the Company will not have a material impact on the reported financial results or future operations of the Company.

26. EVENTS AFTER THE BALANCE SHEET DATE

No events have been arisen since the Balance Sheet Date, which have a material impact or requires adjustments to or disclosure in the Financial Statements.

27. CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding as at the date of the balance sheet.

28. COMPARATIVE INFORMATION

The comparative information has been restated to be in line with the current year's presentation.

STATEMENT OF VALUE ADDED

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

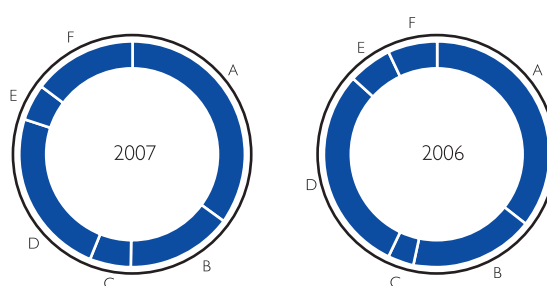
VALUE ADDED

	2007 Rs.	2006 Rs.
Net earned premium	309,987,347	231,363,957
Investment income and other income	51,256,070	34,226,615
	<u>361,243,417</u>	<u>265,590,572</u>
Net claims and benefits	(106,455,192)	(78,383,940)
Cost of external services	(97,924,650)	(69,206,004)
Value Added	<u>156,863,575</u>	<u>118,000,628</u>

DISTRIBUTION OF VALUE ADDED

	2007 Rs.	2007 %	2006 Rs.	2006 %
To employees as salaries and other benefits	54,989,303	35.1	41,976,080	35.6
To intermediaries as commission	23,997,872	15.3	20,981,670	17.8
To the Government as taxes	8,877,017	5.6	4,318,736	3.6
To life policyholders as increase in life fund	37,673,973	24.0	35,221,374	29.8
Retained within the business				
- as depreciation	8,462,910	5.4	7,219,121	6.2
- as profits	22,862,500	14.6	8,283,647	7.0
	<u>156,863,575</u>	<u>100</u>	<u>118,000,628</u>	<u>100</u>

Distribution of Value Added



	2007	2006
A - To Employees as Salaries and other Benefits	35.1%	35.6%
B - To Intermediaries as Commission	15.3%	17.8%
C - To the Government as Taxes	5.6%	3.6%
D - To Life Policyholders as Increase in Life Fund	24.0%	29.8%
E - Retained as Depreciation	5.4%	6.2%
F - Retained as Profits	14.6%	7.0%

INSURANCE REVENUE ACCOUNT

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

<i>For the year ended December 31,</i>	2007 Rs.	2006 Rs.
Non-Life Insurance Business		
Gross written premium	289,691,043	207,492,855
Premium ceded to reinsurers	31,508,646	28,304,473
Net written premium	258,182,397	179,188,382
Net change in reserves for unearned premium	(45,674,256)	(18,554,888)
Net earned premium	212,508,141	160,633,494
Net claims incurred	(99,443,603)	(74,842,537)
Net commission	(8,567,973)	(8,429,395)
(Increase)/decrease in deferred acquisition cost	(1,248,353)	(589,838)
Expenses	(101,756,887)	(85,908,723)
Underwriting surplus/(deficit)	1,491,325	(9,136,999)
Income from Investments	23,371,940	18,019,617
Other income	5,291,017	4,458,082
Operating profit from Non-Life Insurance Business	30,154,282	13,340,700
Life Insurance Business		
Gross written premium	100,392,815	73,694,961
Premium ceded to reinsurers	(2,913,609)	(2,964,499)
Net written premium	97,479,206	70,730,462
Investment income attributable to policyholders	22,561,666	11,736,992
Other Income	31,446	11,924
Net benefits payable	(7,011,589)	(3,541,403)
Net commission	(14,181,546)	(11,962,438)
Expenses attributable to policyholders	(59,514,479)	(31,754,163)
Increase in Life Insurance fund	(37,667,973)	(35,221,374)
Surplus from Life Insurance Business	1,696,731	-
Reconciliation of Statement of Income and Insurance Revenue Account		
Operating profit from Non-Life Insurance Business	30,154,282	13,340,700
Surplus from Life Insurance Business	1,696,731	-
Profit from operations	31,851,013	13,340,700
Interest expenses	(655,523)	(738,317)
Profit before taxation	31,195,490	12,602,383
Income tax expenses	(8,339,922)	(4,318,736)
Net profit for the year	22,855,568	8,283,647

BALANCE SHEET - LONG-TERM INSURANCE - SUPPLEMENTAL

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

<i>As at December 31,</i>	Notes	2007 Rs.	2006 Rs.
Assets			
Property, plant & equipment	01	7,380,785	3,024,446
Investments	02	188,815,379	144,050,390
Policy loans		644,778	216,522
Other assets	03	12,802,041	5,460,327
Total assets		209,642,983	152,751,685
Liabilities and Equity			
Liabilities			
Provision for retirement benefits		412,242	245,375
Insurance provision		165,103,317	127,435,345
Unclaimed benefit		2,388,380	864,037
Obligations under lease agreements		2,215,558	-
Other liabilities	04	10,215,278	10,317,528
Bank overdraft		1,272,208	192,320
		181,606,983	139,054,605
Capital and Reserves			
Stated capital		25,000,000	13,697,080
Revaluation reserve		3,036,000	-
Total equity		28,036,000	13,697,080
Total liabilities and equity		209,642,983	152,751,685

The long-term insurance Balance Sheet is to be read in conjunction with the Notes to the Supplemental Information on pages 50 to 51 and Accounting Policies to the Financial Statements on pages 31 to 36.

NOTES TO THE SUPPLEMENTAL INFORMATION

CO-OPERATIVE INSURANCE COMPANY LIMITED
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<i>As at December 31,</i>	2007	2006
	Rs.	Rs.
3. OTHER ASSETS		
Accounts Receivable		
Interest on investments	6,384,306	5,393,066
Interest - Policy loans	69,054	17,258
Deposit - Deputy Treasury	50,000	50,000
Inter segment current account	1,138,681	3
Advances	5,160,000	-
	12,802,041	5,460,327
4. OTHER LIABILITIES		
Accrued Expenses		
Overseas reinsurance	3,158,500	3,411,099
Commissions	1,942,707	4,152,778
Sales promotion	-	31,650
Incentive	-	49,065
Premium life	4,978,964	2,673,441
Life deposits	-	(505)
Lease rental	78,374	-
Administration	56,733	-
	10,215,278	10,317,528

TEN YEAR SUMMARY - GENERAL INSURANCE

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

<i>In Rs.</i>	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenue	241,171,098	183,111,194	147,450,809	148,220,194	96,288,521	59,684,055	50,898,443	43,679,369	20,113,918	11,115,638
Gross written premium	289,691,043	207,492,855	177,003,506	149,035,847	147,636,262	80,283,254	60,578,832	59,195,419	40,071,134	2,325,750
Less: Premium ceded to Reinsurers	(31,508,646)	(28,304,473)	(31,930,111)	(29,030,909)	(20,556,251)	(24,640,588)	(20,663,115)	(20,889,025)	(15,637,841)	(890,039)
Net written premium	258,182,397	179,188,382	145,073,395	120,004,938	127,080,011	55,642,666	39,915,717	38,306,394	24,433,293	1,435,711
Net change in reserves for unearned premium	(45,674,256)	(18,554,887)	(12,923,577)	14,709,915	(43,044,199)	(8,336,740)	(2,614,548)	(3,729,895)	(11,898,636)	(1,316,068)
Net earned premium	212,508,141	160,633,495	132,149,818	134,714,853	84,035,812	47,305,926	37,301,169	34,576,499	12,534,657	119,643
Benefits, Losses and Expenses										
Insurance claims and benefits (Net)	(99,443,603)	(74,842,537)	(51,166,336)	(74,507,974)	(39,725,688)	(27,136,091)	(20,261,524)	(21,049,907)	(7,277,491)	-
Underwriting and policy acquisition cost (including reinsurers)	(9,816,326)	(9,019,233)	(9,837,620)	(9,218,629)	(5,459,877)	(6,297,236)	(1,900,350)	(321,494)	-	-
Total benefits, losses and expenses	(109,259,929)	(83,861,770)	(61,881,869)	(83,726,603)	(45,185,565)	(33,433,327)	(22,161,874)	(21,371,401)	(7,277,491)	-
Underwriting results	103,248,212	76,771,725	70,267,949	50,988,250	38,850,247	13,872,599	15,139,295	13,205,098	5,257,166	119,643
Other Revenue										
Fees and commission income	4,512,796	3,565,154	4,899,486	3,668,107	5,243,789	4,725,232	-	-	471,817	200,124
Income from investments	23,371,940	18,019,617	9,151,337	9,389,241	5,987,647	7,262,278	10,344,381	9,010,142	7,107,444	10,795,871
Other income	778,221	892,928	1,250,167	447,993	1,021,273	390,619	3,252,893	92,728	-	-
	28,662,957	22,477,699	15,300,991	13,505,341	12,252,709	12,378,129	13,597,274	9,102,870	7,579,261	10,995,995
Expenses										
Other operating, investment related and administration expenses	(101,756,887)	(85,908,724)	(61,476,466)	(42,787,527)	(39,137,315)	(37,088,928)	(23,544,376)	(19,439,585)	(21,771,088)	(5,467,409)
Net Profit/(Loss) from operation	30,154,282	13,340,700	24,092,474	21,706,064	11,965,641	(10,838,200)	5,192,193	2,868,383	(8,934,661)	5,648,229
Interest expenses	(533,217)	(738,317)	(858,451)	-	-	(4,556,539)	-	(70,401)	(6,963,993)	(8,878,437)
Profit/(Loss) before taxation	29,621,065	12,602,383	23,234,023	21,706,064	11,965,641	(15,394,739)	5,192,193	2,797,982	(15,898,654)	(3,230,208)
Income tax	(8,339,922)	(4,318,736)	(3,093,837)	-	-	-	-	-	-	-
Net Profit/(Loss) for the year	21,281,143	8,283,647	20,140,186	21,706,064	11,965,641	(15,394,739)	5,192,193	2,797,982	(15,898,654)	(3,230,208)

NINE YEAR SUMMARY - LONG-TERM INSURANCE

CO-OPERATIVE INSURANCE COMPANY LIMITED
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<i>In Rs.</i>	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenue	120,072,318	82,479,378	68,017,580	56,446,168	47,823,451	31,282,137	18,686,411	12,181,068	4,490,365
Gross written premium	100,392,815	73,694,961	62,883,550	53,090,795	46,001,679	26,874,788	13,808,905	9,248,789	1,750,543
Less: Premium ceded to reinsurers	(2,913,609)	(2,964,499)	(2,317,628)	(767,710)	(3,216,497)	(1,168,089)	(706,024)	(305,899)	(219,879)
Net written premium	97,479,206	70,730,462	60,565,922	52,323,085	42,785,182	25,706,699	13,102,881	8,942,890	1,530,664
Net change in unearned premium	-	-	-	-	-	-	-	-	-
Net earned premium	97,479,206	70,730,462	60,565,922	52,323,085	42,785,182	25,706,699	13,102,881	8,942,890	1,530,664
Benefits, Losses and Expenses									
Insurance claims and benefits (Net)	(7,011,589)	(3,541,403)	(2,693,684)	(3,554,621)	(478,289)	(1,592,646)	(579,534)	(66,104)	(15,000)
Underwriting and policy acquisition cost (including reinsurers)	(14,181,546)	(11,962,437)	(13,182,550)	(13,117,197)	(13,884,390)	(8,144,039)	(3,710,715)	(3,568,812)	(585,181)
Total benefits, losses and expenses	(21,193,135)	(15,503,840)	(15,876,234)	(16,671,818)	(14,362,679)	(9,736,685)	(4,290,249)	(3,634,916)	(600,181)
Underwriting results	76,286,071	55,226,622	44,689,688	35,651,267	28,422,503	15,970,014	8,812,632	5,307,974	930,483
Other Revenue									
Investment income	22,561,666	11,736,992	7,443,543	4,120,245	5,037,938	5,575,438	5,583,530	3,238,178	2,959,701
Other income	31,446	11,924	8,115	2,838	331	-	-	-	-
	22,593,112	11,748,916	7,451,658	4,123,083	5,038,269	5,575,438	5,583,530	3,238,178	2,959,701
Expenses									
Other operating, investment related and administration expenses	(59,636,784)	(31,754,164)	(24,808,746)	(18,973,158)	(15,038,570)	(9,231,397)	(6,402,271)	(3,832,307)	(4,873,654)
Net Profit/(Loss) from operation	39,242,399	35,221,374	27,332,600	20,801,192	18,422,202	12,314,055	7,993,891	4,713,845	(983,470)
Transfer from/ (to) general business	-	-	1,619,655	-	-	-	-	(983,470)	983,470
Transfer to the life fund for the year	37,667,973	35,221,374	28,952,255	20,801,192	18,422,202	12,314,055	7,993,891	3,730,375	-
Long-term insurance fund at the beginning of the year	127,435,344	92,213,970	63,261,715	42,460,523	24,038,321	11,724,266	3,730,375	-	-
Long-term insurance fund at the end of the year	165,103,317	127,435,344	92,213,970	63,261,715	42,460,523	24,038,321	11,724,266	3,730,375	-

GLOSSARY OF INSURANCE TERMS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

Actuarial Valuation

A determination by an actuary at a specific date of the value of a Life Insurance Company's assets and its liabilities. The purpose of a valuation is to determine if the Company holds adequate assets to fund the Company's liabilities.

Annuity

A contract that provides an income for a specific period.

Beneficiary

A person or financial institution named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Bonus

Bonus is a method of distribution of surplus amongst the participating policyholders of a life insurance company. A bonus is an enhancement to the basic sum assured under a contract, and is declared as a percentage of the sum assured.

Broker

A sales and service representative who handles insurance for clients, generally selling insurance of various kind and for several companies.

Claims

The amount payable under a contract of insurance arising under a contract of insurance arising from the occurrence of an insured event such as destruction or damage of property and related death or injuries, the insuring of hospital or medical bills, death or disability of the insured and gratuity claims.

Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate adjusted by the gross claims reserve at the beginning and end of the accounting period.

Claim Incurred But Not Reported (IBNR)

A reserve to cover the expect cost of losses that have occurred by the Balance Sheet date but have not yet been reported to the insurer.

Claims Outstanding - Long-Term Insurance

The amounts provided to cover estimated ultimate cost of settling claims arising out of events which have been notified by the Balance Sheet date, being sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Commission

Remuneration to an intermediary for services such as selling and servicing an insurer's products. This is one component of acquisition expenses.

Deferred Acquisition Expense Reserve

Expenses which vary with and primarily related to the acquisition of new insurance contracts and renewal of existing contracts, which are deferred as they related to a period of risk subsequent to the Balance Sheet date.

Deposit Premium

A premium paid on the inception of a contract of insurance or reinsurance, which is subject to adjustment at a latter date. A deposit premium may represent the minimum amount payable.

Earned Premium

Written premium adjusted by the unearned premium reserve at the beginning and end of the accounting period.

Endowment

Life Insurance payable to the policyholder if living on the maturity date in the policy or to a beneficiary if the insured dies before that date.

Events Occurring after the Balance Sheet Date

Those events, both favourable and unfavourable, that occurs between the Balance Sheet date and the date when the Financial Statements are authorized for issue.

Ex-gratia Payments

A payment by an insurer to an insured for which there is no liability under the contract. In some cases an insurer may feel there has been a mistake or a misunderstanding and he may pay a claim, even though he does not appear to be liable.

Facultative Reinsurance

Oldest form of reinsurance. This is the reinsurance of an individual risk on terms and conditions agreed with the reinsurer specially for that risk. Particulars of each risk are submitted by the ceding company to the reinsurer who may accept or decline at will. This is useful when dealing with risks outside the ceding Company's treaty arrangements.

Gross Claims Reserve – Non-Life

The amount provided, including claims incurred but not reported and claims handling expenses, to cover the estimated cost, arising out of events occurred by the end of the accounting period, less amounts already paid in respect of those claims.

Gross Written Premium – Life

Premium to which the insurer is contractually entitled and received in the accounting period.

Gross Written Premium – Non-Life

Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance.

Insurance

Insurance is a contract whereby one party the insurer, in return for a consideration, i.e. the premium, undertakes to pay to the other party the insured, a sum of money or its equivalent in kind, upon the happening of a specified event that is contrary to the interest of the insured.

Insurance Provision - Non-Life

This comprises of the gross claims reserve, unearned premium reserve net of reinsurance and the deferred acquisition expenses.

Insurance Provision – Long-Term

The fund or funds to be maintained by an insurer in respect of its Long-Term Insurance business in accordance with Act No. 43 of 2000.

Interim Payments

Periodic payments to the policyholders on a specific type of policy.

GLOSSARY OF INSURANCE TERMS

CO-OPERATIVE INSURANCE COMPANY LIMITED
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Life Surplus

The excess of the assets cover the liabilities as determined by the actuary (taking into account the solvency requirements) and after distribution of Bonus to policyholders.

Long-Term Insurance

Commonly referred to as Life Insurance contracts, as opposed to annual Non-Life Insurance policies.

Maturity

The time at which payment of the sum insured under a Life Insurance policy falls due at the end of its term.

Net Assets

Total assets less total liabilities. Also equal to the shareholders' equity.

Net Combined Ratio – Non-Life

This ratio indicates the profitability of the insurer's operations by combining the net loss ratio with net expense ratio. The combined ratio does not take account of investment income.

Net Earned Premium

Gross written premium adjusted for the reinsurance incurred and for the increase or decrease in unearned premium.

Net Expense Ratio – Non-Life

A formula used by insurance companies to relate income to acquisition and administrative expenses (e.g. commissions, taxes, staff, operating expenses).

Formula:

Net acquisition expenses and operating expenses
Net earned premium.

Net Loss Ratio – Non-Life

A formula used by insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurances).

Formula:

$$\frac{\text{Net claims incurred}}{\text{Net earned premium}}$$

Net Written Premium

Gross written premium less reinsurance premium payable.

Net Claims Incurred

Claims incurred less reinsurance recoveries.

Policy Loans

A loan given to the policyholder on the security of the surrender value of a Life Insurance policy. The loan is limited to a percentage of the current surrender value of the policy and interest is charged on such loan.

Premium

The consideration payable by the insured for an insurance contract.

Profit Commission

Commission received from the reinsurer based on the net profit of the reinsurer as defined in the accounting period.

Reinsurance

Transfer of all or part of the risk assumed by an insurer under one or more insurance to another insurer, called the reinsurer.

Reinsurance Commission

Commission received or receivable in respect of premium paid or payable to a reinsurer.

Reinsurance Premium

The premium payable to the reinsurer

Revenue Account

An account which shows a financial summary of the insurance related revenue transactions for the accounting period.

Segment

Constituent business units grouped in terms of nature and similarity of operation.

Solvency Margin – Life

The difference between the value of assets and the value of liabilities, required to be maintained by the insurer who carries on Long-Term Insurance business as defined in the Regulation of Insurance Industry Act No. 43 of 2000.

Solvency Margin - Non-Life

The solvency is the difference between the value of admissible assets and the value of the liabilities, required to be maintained by an insurer who carries on general insurance business. The minimum solvency margin shall not be less than highest of the following:

- (a) Rs. 50 million; or
- (b) A sum equivalent to 20% of net written premium; or
- (c) A sum equivalent to 40% of the average net outstanding claims for the three years immediately preceding the current year.

Surrender

Termination of an insurance policy by the insured before the expiry of its term (more common in Life Insurance).

Surrender Value

The sum payable by an insurance company upon the surrender of a Life Insurance policy before it has run its full course.

Technical Reserve

This comprises of the claims reserve net of reinsurance, unearned premium reserve net of reinsurance and the deferred acquisition costs.

Title Insurance

Insurance which indemnifies the owner of real estate in the event that his clear ownership of property is challenged by the discovery of fault in the title that was passed to him.

Underwriting Result

This is the profit generated purely from the Non-Life Insurance business without taking into account the investment income and expenses.

Unearned Premium

It represents the portion of premium already entered in the account as due but which relates to a period of risk subsequent to the Balance Sheet date.

Unearned Premium Reserve

A fund kept by the general insurer to provide for claims that may arise in the future under insurance that are still in course.

BRANCH NETWORK

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007



Ambalantota

No. 59, Main Street,
Ambalantota
047-5676956

Ampara

D.S. Senanayake Mawatha,
MPCS Building,
Ampara
063-5672218

Ambalangoda

No. 63 A, Galle Road,
Ambalangoda
091-5626658

Anuradhapura

No. 8, Main Street,
Anuradhapura
025-5677582

Balangoda

No. 51,
Kalthota Road,
Balangoda.
045-5678917

Batticaloa

Co-op Council,
Pioneer Road,
Batticaloa
060-2653518

Badulla

No. 32, Bank Road,
Badulla
055-5678658

Chilaw

No. 66 , Kurunegala Road,
Chilaw
032-5673431

City Office

No. 455, Galle Road,
Colombo 3
011-5554133

Embilipitiya

No. 66 1/1, Pallegama Road,
Embilipitiya
047-5674183

Gampaha

No. 75 1/1, Queens Mary Road,
Gampaha
033-5677394

Galle

Galle M.P.C.S., Pettigalawatta,
Galle
091-5450599

Homagama

No. 77, High Level Road,
Homagama
011-5752526

Jaffna

No. 305, Kasthuriar Road,
Jaffna
021-2228071

Kalutara

No. 358/A, Kalutara North,
Kalutara
034-5676932

Kandy

Vindana Learners Building,
Yatinuwara Street,
Kandy
081-5627324

Kegalle

No. 68 1/5, Perera Building,
Main Street,
Kegalle
035-5670472

Kurunegala

No. 18, Mihindu Mawatha,
Kurunegala
037-5625203

Kekirawa

No. 12, Dambulla Road,
Kekirawa
025-5679005

Matara

No. 161/A,
Dharmapala Mawatha,
Matara
041-5678914

Monaragala

Janasavi Building,
Kachcheri Junction,
Moneragala
055-5675158

Mannar

Mathew Studio,
Station Road,
Mannar

Matale

No. 20, Bandaranaike Mawatha,
Matale
066-5676311

Nuwara-Eliya

No. 72, Park Road,
Nuwara-Eliya
052-2235570

Negombo

No. 102,
Agaradaguru Nicolas
Macus Mawatha,
Negombo
031-5674340

Nelliady - Jaffna

Thangasthan Building,
Karaveddy-Nelliady MPCS,
Main Street,
Nelliady,
Jaffna
060-2212540

Nikaweratiya

No. 71, Wasana Building,
Puttalam Road,
Nikaweratiya
037-5673048

Polonnaruwa

No. 14/A, Saw Mill Junction,
Batticaloa Road, Kaduruwela,
Polonnaruwa
027-5674374

Puttalam

No.03, Kurunegala Road,
Puttalam
032-2267336

Ratnapura

National Co-op Council,
Bandaranaike Mawatha,
Ratnapura
045-5672584

Trincomalee

No. 156 E, Green Road,
Trincomalee
026-2221126

Vavuniya

No. 27, 1st Floor,
Bazaar Street,
Vavuniya
024-2224122

Wennappuwa

Wenco Supermarket,
Chilaw Road,
Wennappuwa
031-5673497

NOTICE OF MEETING

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

Notice is hereby given that the 10th Annual General Meeting of Co-operative Insurance Company Ltd. is convened on Sunday the 22nd of June 2008 at the Staff Training College Auditorium, People's Bank, No. 38, D.R. Wijewardena Mawatha, Colombo 10 at 10.00 in the forenoon when the following ordinary business will be transacted.

1. To receive and consider the Report of the Directors, the Statement of Accounts and the Balance Sheet of the Company for the year ended 31st December 2007 with the Auditor's Report there on.
2. To declare a dividend of 17% per centum per share as recommended by the Directors.
3. To elect five new Directors to fill the vacancies created as a result of rotation of four directors (Please see below for the names) in terms of the Articles 95, 96 and 97 of the Articles of Association of the Company and by the death of one Director, as a Director of the Company. (Retiring directors shall be eligible for re-election.)
 - Mr. P.M.C. Bandara
 - Mr. S.A. Wickramapala
 - Mr. Bandu Ranawaka
 - Mr. B.B. Punayadasa
4. To appoint Mr. T.M.S. Nanayakkara as a Director for a period of one year who has attained the age of seventy years.
5. To re-appoint P.E. Mathew & Co., Chartered Accountants as Auditors of the Company, for the financial year ending December 31, 2008 and to authorize the Board of Directors to determine their remuneration.
6. To transact any other business.

By the Order of the Board



BUSINESS MANAGEMENT SERVICES LIMITED
Secretaries to the Company

Notes

1. A member is entitled to appoint a proxy to attend and vote on behalf of him/her. If a member is a corporate body, their representative must be appointed by a proxy.
2. A proxy need not be a member of the Company.
3. A Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy should be deposited at the Head Office, No. 455, Galle Road, Colombo 3 or Business Management Services Limited, No. 94 1/2, York Street, Colombo 1 not less than 48 hours before holding of the meeting.

FORM OF PROXY

CO-OPERATIVE INSURANCE COMPANY LIMITED
Annual Report 2007

I/We.....of

.....being member/members of

CO-OPERATIVE INSURANCE COMPANY LIMITED, hereby appoint

.....NIC No. of

.....

as my/our proxy to represent me/us and vote on my/our behalf at the 10th Annual General Meeting of the Company to be held at the Staff Training College Auditorium, People's Bank, No. 38, D.R. Wijewardena Mawatha, Colombo 10 on Sunday 22nd June 2008 at 10.00 a.m. and at any adjournment thereof and every poll which may be taken in consequence of the aforesaid meeting.

Dated this day of two thousand eight.

.....
Signature of Shareholder

.....
Signature of Participant

Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 455, Galle Road, Colombo 3 or Business Management Services Limited, 94 1/2, York Street, Colombo 1 not later than 48 hours before the time appointed for the holding of the meeting.
3. If the appointer is a Company or Corporation, the Form of Proxy should be executed under its common seal or by a duly authorized officer of the Company or Corporation in accordance with its articles of association or constitution.

CORPORATE INFORMATION

Name of Company

Co-operative Insurance Co. Ltd.

Legal Form

A Public Limited Company incorporated in Sri Lanka on March 2, 1999 under the provisions of Companies Act No. 17 of 1982

Registered Office

3rd Floor, Co-op House
455, Galle Road
Colombo 3

General Insurance Division

165, Sri Sangaraja Mawatha
Colombo 10

Consultant Actuaries

Life Insurance

Actuarial & Management Consultants (Pvt) Ltd.
1st Floor
434, RA De Mel Mawatha
Colombo 3

General Insurance

Thanawala Consultancy Services
Swagatam, 1st Floor, S.V. Road
Khar, Mumbai
400052 - India

Auditors

P.E. Mathew & Co.
Chartered Accountants
94 ¼, York Street
Colombo 1

Bankers

People's Bank

Secretaries

Business Management Services Ltd.
94/½, York Street
Colombo 1

Directorate

W. Lalith A Peiris - Chairman
P.M.C. Bandara - Vice-Chairman
W. Upali Herath - Managing Director
S.A. Wickramapala
Bandu Ranawaka
B.B. Punyadasa
L. Samarasinghe
A.S. Sarath Milton
W.H. Jayasiri
V.L. Wanigasinghe
A. Dahanayake
T.M.S. Nanayakkara
K. Liyanage

Corporate Management

G. Thalagala - General Manager
M. Karunaratne - GM (Marketing)
A. Thebuwana - Finance Manager
L.C.S. Alwis - AGM (Life)
J.S. Bandara - Human Resources Manager
Suchintha Perera - IT Manager



CO-OPERATIVE INSURANCE COMPANY LIMITED

"Co-op House"
455, Galle Road
Colombo 3
Sri Lanka
Tel: 011-2556567-70, 011-5474000 Fax: 011-2556760
E-mail: infor@coopinsu.com

website: www.ci.lk