

15^{YEARS}

DELIGHTING

OUR STAKEHOLDERS



HNB Assurance PLC

Condensed Consolidated Interim Financial Statements
31st March 2017

Statement of Financial Position

As at,	Note	Group		Company	
		Unaudited	Audited	Unaudited	Audited
		31st Mar 2017 Rs. '000	31st Dec 2016 Rs. '000	31st Mar 2017 Rs. '000	31st Dec 2016 Rs. '000
Assets					
Property, Plant and Equipment		161,870	161,362	109,040	112,151
Intangible Assets		63,433	60,882	63,433	60,882
Deferred Tax Assets		53,608	52,922	-	-
Financial Investments	3	12,171,343	11,544,575	10,222,533	9,642,596
Investment in Subsidiary		-	-	1,150,000	1,150,000
Loans to Life Policyholders		128,682	119,941	128,682	119,941
Reinsurance Receivables		401,915	494,726	58,100	54,814
Premium Receivables		764,468	623,294	6,789	6,805
Other Assets		816,265	770,674	545,654	575,676
Insurance Contract - Deferred Expenses		86,529	74,951	-	-
Cash and Cash Equivalents		433,105	625,527	245,883	476,572
Total Assets		15,081,218	14,528,854	12,530,114	12,199,437
Equity and Liabilities					
Equity Attributable to the Equity Holders of Parent					
Stated Capital		1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings		1,545,717	1,721,675	1,700,319	1,897,936
Available for Sale Reserve		(12,573)	(7,152)	(5,116)	(1,465)
Other Reserves		1,790	1,790	(1,886)	(1,886)
Life Policyholders' Available for Sale Reserve Fund	5	(231,578)	(191,131)	(231,578)	(191,131)
Total Equity		2,475,231	2,697,057	2,633,614	2,875,329
Liabilities					
Insurance Contract Liabilities - Life Insurance	6	9,345,120	8,747,856	9,345,120	8,747,856
Insurance Contract Liabilities - General Insurance	7	2,015,992	1,921,567	-	-
Employee Defined Benefit Liabilities		94,951	90,433	54,009	50,883
Current Tax Liabilities		7,121	3,300	-	-
Reinsurance Creditors		317,107	287,895	60,807	39,395
Other Liabilities		825,696	780,746	436,564	485,974
Total Liabilities		12,605,987	11,831,797	9,896,500	9,324,108
Total Equity and Liabilities		15,081,218	14,528,854	12,530,114	12,199,437

These Condensed Consolidated Interim Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.


Indika Perera
 Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements.
 Signed on behalf of the Board;


Rose Cooray
 Chairperson


J A P M Jayasekara
 Director

Colombo, Sri Lanka
 27th April 2017

Statement of Profit or Loss and Other Comprehensive Income

Group		Group				Change	
Year Ended 31 st Dec 2016 (Audited) Rs. '000	For Three Months Ended 31st March,	Unaudited 2017 Rs. '000	Unaudited 2016 Rs. '000	Unaudited 2017 Rs. '000	Unaudited 2016 Rs. '000	Group %	Company %
	Note						
6,656,694		1,907,987	1,610,951	987,824	837,450	18	18
(877,713)		(237,958)	(212,572)	(45,836)	(37,635)	12	22
5,778,981		1,670,029	1,398,379	941,988	799,815	19	18
(181,102)		(127,415)	(61,883)	-	-	106	-
5,597,879		1,542,614	1,336,496	941,988	799,815	15	18
1,180,085		360,345	243,070	304,756	200,901	48	52
(29,119)		3,475	(11,098)	2,911	(7,337)	131	140
(6,461)		(3,453)	(36,555)	(3,768)	(26,759)	(91)	(86)
128,798		50,859	53,682	25,075	33,866	(5)	(26)
25,024		8,603	2,958	6,868	332	191	1,969
1,298,327		419,829	252,057	335,842	201,003	67	67
6,896,206		1,962,443	1,588,553	1,277,830	1,000,818	24	28
(1,947,645)		(519,555)	(433,277)	(105,221)	(67,046)	20	57
(1,708,285)		(629,363)	(499,476)	(629,363)	(499,476)	26	26
(1,572,964)		(432,767)	(364,859)	(236,239)	(193,870)	19	22
(922,886)		(271,028)	(238,001)	(226,907)	(193,979)	14	17
(38,905)		(14,089)	(7,082)	(9,939)	(5,069)	99	96
(6,190,685)		(1,866,802)	(1,542,695)	(1,207,669)	(959,440)	21	26
705,521		95,641	45,858	70,161	41,378	109	70
(58,108)		(21,599)	(12,326)	(17,778)	(9,763)	75	82
647,413		74,042	33,532	52,383	31,615	121	66
(153,476)		(49,787)	(151,096)	(46,779)	(141,034)	(67)	(67)
14,466		3,233	-	2,681	-	-	-
134,781		40,447	140,130	40,447	140,130	(71)	(71)
1,825		686	-	-	-	-	-
2,883		-	-	-	-	-	-
479		(5,421)	(10,966)	(3,651)	(904)	(51)	304
647,892		68,621	22,566	48,732	30,711	204	59
647,413		74,042	33,532	-	-	121	-
647,892		68,621	22,566	-	-	204	-
12.95		1.48	0.67	1.05	0.63	121	66

Statement of Changes in Equity - Group

For the Period Ended 31st March 2017,

	Number of Shares '000	Stated Capital Rs. '000	Retained Earnings Rs. '000	Available for Sale Reserve Rs. '000	Other Reserves Rs. '000	Life Policyholders' Reserve Fund Rs. '000	Total Equity Rs. '000
Balance as at 01st January 2016	50,000	1,171,875	1,174,262	(4,748)	(1,093)	(66,350)	2,263,946
Total Comprehensive Income for the Period							
Profit for the period- Unaudited	-	-	33,532	-	-	-	33,532
Other Comprehensive Income for the Period, net of tax							
Net Change in fair value of Available-For-Sale financial assets	-	-	-	(151,096)	-	-	(151,096)
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	-	140,130	-	-	140,130
Total Other Comprehensive Income for the Period	-	-	-	(10,966)	-	-	(10,966)
Total Comprehensive Income for the Period	-	-	33,532	(10,966)	-	-	22,566
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred from Available For Sale Reserve	-	-	-	-	-	(140,130)	(140,130)
Transactions with owners recorded directly in equity							
Distributions to owners of the Parent			(100,000)	-	-	-	(100,000)
Dividend paid to equity holders for 2015			-	-	-	-	-
Unaudited balance as at 31st March 2016	50,000	1,171,875	1,107,794	(15,714)	(1,093)	(196,480)	2,065,382
Total Comprehensive Income for the Period							
Profit for the period-Unaudited	-	-	613,881	-	-	-	613,881
Other Comprehensive Income for the Period, net of tax							
Net Change in fair value of Available-For-Sale financial assets	-	-	-	13,911	-	-	13,911
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	-	(5,349)	-	-	(5,349)
Actuarial Gains on Defined Benefit Plans	-	-	-	-	2,883	-	2,883
Total Other Comprehensive Income for the Period	-	-	-	8,562	-	-	8,562
Total Comprehensive Income for the Period	-	-	613,881	8,562	2,883	-	11,445
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred from Available For Sale Reserve	-	-	-	-	-	5,349	5,349
Audited balance as at 31st December 2016	50,000	1,171,875	1,721,675	(7,152)	1,790	(191,131)	2,697,057
Balance as at 01st January 2017	50,000	1,171,875	1,721,675	(7,152)	1,790	(191,131)	2,697,057
Total Comprehensive Income for the Period							
Profit for the period- Unaudited	-	-	74,042	-	-	-	74,042
Comprehensive Income for the Period, net of tax							
Net Change in fair value of Available-For-Sale financial assets	-	-	-	(45,868)	-	-	(45,868)
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	-	40,447	-	-	40,447
Total Other Comprehensive Income for the Period	-	-	-	(5,421)	-	-	(5,421)
Total Comprehensive Income for the Period	-	-	74,042	(5,421)	-	-	68,621
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred from Available For Sale Reserve	-	-	-	-	-	(40,447)	(40,447)
Transactions with owners recorded directly in equity							
Distributions to owners of the Parent			(250,000)	-	-	-	(250,000)
Dividend paid to equity holders for 2016			-	-	-	-	-
Unaudited balance as at 31st March 2017	50,000	1,171,875	1,545,717	(12,573)	1,790	(231,576)	2,475,231

Stated Capital represents 50 Million Ordinary Shares as at 31st March 2017 (2016 - 50 Million Ordinary Shares).

Statement of Changes in Equity - Company

For the Period Ended 31st March 2017,

	Number of Shares '000	Stated Capital Rs. '000	Retained Earnings Rs. '000	Available for Sale Reserve Rs. '000	Other Reserves Rs. '000	Life Policyholders' AFS Reserve Fund Rs. '000	Total Equity Rs. '000
Balance as at 01st January 2016	50,000	1,171,875	1,397,806	53	(2,039)	(86,350)	2,511,345
Total Comprehensive Income for the Period							
Profit for the period - Unaudited	-	-	31,615	-	-	-	31,615
Other Comprehensive Income for the Period net of tax							
Net Change in fair value of Available-For-Sale financial assets	-	-	-	(141,034)	-	-	(141,034)
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	-	140,130	-	-	140,130
Total Other Comprehensive Income for the period	-	-	-	(904)	-	-	(904)
Total Comprehensive Income for the period	-	-	31,615	(904)	-	-	30,711
Net Change in fair value of Available-For-Sale financial assets							
- transferred from Available For Sale Reserve	-	-	-	-	-	(140,130)	(140,130)
Transactions with owners recorded directly in equity							
Distributions to owners of the Company	-	-	(100,000)	-	-	-	(100,000)
Dividend to equity holders for 2015	50,000	1,171,875	1,329,421	(851)	(2,039)	(196,480)	2,301,926
Unaudited balance as at 31st March 2016							
Total Comprehensive Income for the Period	50,000	1,171,875	1,329,421	(851)	(2,039)	(196,480)	2,301,926
Profit for the period - Unaudited	-	-	568,515	-	-	-	568,515
Other Comprehensive Income for the Period net of tax							
Net Change in fair value of Available-For-Sale financial assets	-	-	-	4,735	-	-	4,735
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	-	(5,349)	-	-	(5,349)
Actuarial Gains on Defined Benefit Plans	-	-	-	-	153	-	153
Total Other Comprehensive Income for the period	-	-	-	(614)	153	-	(461)
Total Comprehensive Income for the period	-	-	568,515	(614)	153	-	568,054
Net Change in fair value of Available-For-Sale financial assets							
- transferred from Available For Sale Reserve	-	-	-	-	-	5,349	5,349
Audited balance as at 31st December 2016	50,000	1,171,875	1,897,936	(1,465)	(1,886)	(191,131)	2,875,329
Balance as at 01st January 2017	50,000	1,171,875	1,897,936	(1,465)	(1,886)	(191,131)	2,875,329
Total Comprehensive Income for the Period							
Profit for the period - Unaudited	-	-	52,383	-	-	-	52,383
Other Comprehensive Income for the Period net of tax							
Net Change in fair value of Available-For-Sale financial assets	-	-	-	(44,098)	-	-	(44,099)
Net Change in fair value of Available-For-Sale financial assets	-	-	-	-	-	-	-
- transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	-	40,447	-	-	40,447
Total Other Comprehensive Income for the period	-	-	-	(3,651)	-	-	(3,651)
Total Comprehensive Income for the period	-	-	52,383	(3,651)	-	-	48,732
Net Change in fair value of Available-For-Sale financial assets							
- transferred from Available For Sale Reserve	-	-	-	-	-	(40,447)	(40,447)
Transactions with owners recorded directly in equity							
Distributions to owners of the Company	-	-	(250,000)	-	-	-	(250,000)
Dividend paid to equity holders for 2016	50,000	1,171,875	1,700,319	(5,116)	(1,886)	(231,578)	2,633,614
Unaudited balance as at 31st March 2017							

Stated Capital represents 50 Million Ordinary Shares as at 31st March 2017 (2016 - 50 Million Ordinary Shares).

Statement of Cash Flows

<i>For the Three Months Ended 31st March ,</i>	Group		Company	
	Unaudited	Unaudited	Unaudited	Unaudited
	2017	2016	2017	2016
Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flow From Operating Activities				
Profit Before Taxation	95,641	45,858	70,161	41,378
<i>Adjustments for:</i>				
Interest Income	(358,477)	(239,832)	(303,259)	(198,112)
Dividend Income	(1,868)	(3,238)	(1,497)	(2,789)
Amortisation of Intangible Assets	4,468	4,237	4,468	4,237
Depreciation	12,316	12,309	8,784	8,571
Provision for Employee Benefits	6,036	5,645	3,497	3,307
Net Realised (Gain)/Losses	(3,475)	11,098	(2,911)	7,337
Net Fair Value Losses	3,453	36,555	3,768	26,759
Losses on Sale of Property, Plant and Equipment	1,151	-	1,085	-
	(240,755)	(127,368)	(215,904)	(109,312)
Change in Operating Assets	A (88,660)	(278,470)	17,450	(26,026)
Change in Operating Liabilities	B 743,196	583,043	569,266	443,455
Cash Flows from Operating Activities	413,781	177,205	370,812	308,117
Gratuity Paid	(1,518)	(1,120)	(371)	(439)
Tax Paid	(3,723)	-	-	-
Net Cash Generated from Operating Activities	408,540	176,085	370,441	307,678
Cash Flows from Investing Activities				
Net Acquisition of Investment Securities	(687,949)	(475,844)	(639,277)	(626,638)
Interest Received	355,347	310,793	299,866	254,242
Dividend Received	2,634	3,378	2,058	2,702
Acquisition of Intangible Assets	(7,019)	(926)	(7,019)	(926)
Acquisition of Property, Plant and Equipment	(14,896)	(6,017)	(7,474)	(3,009)
Proceeds from the Sale of Property, Plant and Equipment	921	-	716	-
Net Cash Used in Investing Activities	(350,962)	(168,616)	(351,130)	(373,629)
Cash Flows from Financing Activities				
Dividend Paid	(250,000)	-	(250,000)	-
Net Cash Used in Financing Activities	(250,000)	-	(250,000)	-
Net Increase in Cash and Cash Equivalents	C (192,422)	7,469	(230,689)	(65,951)
Cash and Cash Equivalents at the beginning of the Period	625,527	386,929	476,572	258,222
Cash and Cash Equivalents at the end of the Period	433,105	394,398	245,883	192,271
Notes to the Cash Flow Statement				
A. Change in Operating Assets				
Increase in Deferred Expenses	(11,578)	(5,134)	-	-
Increase in Loans to Life Policyholders	(8,741)	(5,770)	(8,741)	(5,770)
Decrease/(Increase) in Reinsurance Receivables	92,811	(9,213)	(3,286)	(3,549)
(Increase)/Decrease in Premium Receivables	(141,174)	(198,623)	16	(2,418)
(Increase)/Decrease in Other Assets	(19,978)	(59,730)	29,461	(14,289)
	(88,660)	(278,470)	17,450	(26,026)
B. Change in Operating Liabilities				
Increase/(Decrease) in Other Liabilities	22,295	8,379	(49,410)	(53,943)
Increase in Insurance Contract Liabilities - General Insurance	94,425	47,720	-	-
Increase in Insurance Contract Liabilities - Life Insurance	597,264	490,641	597,264	490,641
Increase in Reinsurance Creditors	29,212	36,303	21,412	6,757
	743,196	583,043	569,266	443,455
C. Increase in Cash and Cash Equivalents				
Net Cash and Cash Equivalents at the end of the period	433,105	394,398	245,883	192,271
Net Cash and Cash Equivalents at the beginning of the period	625,527	386,929	476,572	258,222
Net (Decrease)/Increase in Cash and Cash Equivalents	(192,422)	7,469	(230,689)	(65,951)

Operating Segment Information - Assets and Liabilities

As at,	Unaudited		Audited	
	31st March 2017		31st December 2016	
	Life Insurance Rs. '000	General Insurance Rs. '000	Life Insurance Rs. '000	General Insurance Rs. '000
Assets				
Property, Plant and Equipment	109,040	52,830	112,151	49,211
Intangible Assets	63,433	-	60,882	-
Deferred Tax Assets	-	53,608	-	52,922
Financial Investments	10,222,533	1,948,810	9,642,596	1,901,979
Investment in subsidiary	1,150,000	-	1,150,000	-
Loans to Life Policyholders	128,682	-	119,941	-
Reinsurance Receivables	58,100	343,815	54,814	439,912
Premium Receivables	6,789	757,679	6,805	616,489
Other Assets	545,654	270,473	575,676	208,118
Insurance Contract - Deferred Expenses	-	86,529	-	74,951
Cash and Cash Equivalents	245,883	187,222	476,572	148,955
Total Assets	12,530,114	3,700,966	12,199,437	3,492,537
Liabilities				
Insurance Contract Liabilities - Life Insurance	9,345,120	-	8,747,856	-
Insurance Contract Liabilities - General Insurance	-	2,015,992	-	1,921,567
Employee Defined Benefit Liabilities	54,009	40,942	50,883	39,550
Current Tax Liabilities	-	7,121	-	3,300
Reinsurance Creditors	60,807	256,300	39,395	248,500
Other Liabilities	436,564	388,993	485,974	307,892
Total Liabilities	9,896,500	2,709,348	9,324,108	2,520,809

Operating Segment Information - Profitability

For the Three Months ended,	Unaudited		Unaudited	
	31st March 2017		31st March 2016	
	Life Insurance Rs. '000	General Insurance Rs. '000	Life Insurance Rs. '000	General Insurance Rs. '000
Gross Written Premium	987,824	929,152	837,450	779,008
Premium Ceded to Reinsurers	(45,836)	(192,122)	(37,635)	(174,937)
Net Written Premium	941,988	737,030	799,815	604,071
Net Change in Reserves for Unearned Premium	-	(127,415)	-	(61,883)
Net Earned Premium	941,988	609,615	799,815	542,188
Other Revenue				
Interest and Dividend Income	304,756	55,589	200,901	42,169
Net Realised Gains/(Losses)	2,911	564	(7,337)	(3,761)
Net Fair Value (Losses)/Gains	(3,768)	315	(26,759)	(9,796)
Fees and Commission Income	25,075	26,828	33,866	20,828
Other Income	6,868	1,735	332	2,626
Total Other Revenue	335,842	85,031	201,003	52,066
Net Income	1,277,830	694,646	1,000,818	594,254
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims	(105,221)	(414,334)	(67,046)	(366,231)
Change in Contract Liabilities - Life Fund	(629,363)	-	(499,476)	-
Other Operating and Administration Expenses	(236,239)	(206,561)	(193,870)	(177,508)
Underwriting and Net Acquisition Cost	(226,907)	(44,121)	(193,979)	(44,022)
Other Insurance Related Cost	(9,939)	(4,150)	(5,069)	(2,013)
Total Benefits, Claims and other Expenses	(1,207,669)	(669,166)	(959,440)	(589,774)
Profit Before Taxation	70,161	25,480	41,378	4,480
Income Tax Expense	(17,778)	(3,821)	(9,763)	(2,563)
Profit for the Period	52,383	21,659	31,615	1,917

Notes to the Condensed Consolidated Interim Financial Statements

1 CORPORATE INFORMATION

a). Reporting Entity

HNB Assurance PLC ("the Company") is a Listed Company incorporated on 23rd August 2001 with limited liability and domiciled in Sri Lanka. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at Iceland Business Center, No. 30, Sri Uttarananda Mawatha, Colombo 3. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE).

The Group's controlling entity and ultimate parent undertaking is Hatton National Bank PLC which is incorporated in Sri Lanka.

b). Approval of financial statements

The Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors on 27th April 2017.

Figures in these Condensed Consolidated Interim Financial Statements for the period ended 31st March 2017 are provisional and unaudited.

2 BASIS OF PREPARATION

These Condensed Consolidated Interim Financial Statements of the Group and Company have been prepared in compliance with Sri Lanka Accounting Standard LKAS 34 - Interim Financial Reporting and comply with the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000.

The same accounting policies and methods of computation as stated in the Audited Financial Statements - 2016 have been followed in preparation of these Condensed Consolidated Interim Financial Statements.

New SLFRSs and interpretations issued but not yet effective have not been early adopted during the period.

Comparative information has been re-valued/re-classified where necessary, to conform to the current period recognition, measurement and presentations.

3 FINANCIAL INVESTMENTS

As at,	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	31st Mar 2017	31st Dec 2016	31st Mar 2017	31st Dec 2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Held-to-maturity financial assets, at amortised cost	171,777	174,025	171,777	174,025
Loans and Receivables	5,710,558	5,344,482	4,586,486	4,253,239
Available-for-sale financial assets	6,148,263	5,869,558	5,354,972	5,095,600
Financial assets at fair value through profit or loss	140,745	156,510	109,298	119,732
Total Financial Investments	<u>12,171,343</u>	<u>11,544,575</u>	<u>10,222,533</u>	<u>9,642,596</u>

4 THE ACCOUNTING POLICY FOR CONSOLIDATION OF SUBSIDIARY

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies and unrealised losses are eliminated. Amounts reported by subsidiary company are adjusted to conform with the Group's accounting policies when necessary.

5 LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

Life Policyholders' Available For Sale Reserve Fund includes the fair value changes recorded in Other Comprehensive Income in respect of Life Insurance related assets.

- 5a) Unrealised gains and losses of Available for Sale financial assets of Life Insurance is included under Life Policyholders' Available For Sale Reserve Fund in Equity.

Notes to the Condensed Consolidated Interim Financial Statements

6 INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE

As at,	Group		Company	
	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000
Life Insurance Fund (Note 6 a)	9,263,757	8,634,394	9,263,757	8,634,394
Claims Outstanding	81,363	113,462	81,363	113,462
Total Insurance Contract Liabilities	9,345,120	8,747,856	9,345,120	8,747,856

6 a) Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

Balance as at the beginning of the period	8,634,394	6,926,109	8,634,394	6,926,109
Change in Contract Liabilities - Life Insurance Fund				
Increase in Life Insurance Fund before				
Surplus Distribution to Shareholders	629,363	2,169,427	629,363	2,169,427
Surplus Distributed to Shareholders	-	(461,142)	-	(461,142)
Increase in Life Insurance Fund	629,363	1,708,285	629,363	1,708,285
Balance as at the end of the period	9,263,757	8,634,394	9,263,757	8,634,394

As required by the Insurance Board of Sri Lanka (IBSL), every registered insurer was required to apply Solvency Margin (Risk Based Capital) Rules with effect from 01st January 2016. According to the Risk Based Capital rules, all the Insurers are required to value the Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and valuation rules and methodologies as stipulated by the IBSL. The change in the valuation method from Net Premium Valuation (NPV) to GPV resulted in a release in Policyholder Liabilities of the Company as of 01st January 2016. This resulted release in liabilities as at 01st January 2016 amounted to Rs. 1,849.7 Million for fund based life products and Rs.330.6 Million for other life product. The Company has kept the release in liabilities under the Long Term Insurance fund of Life Policyholders as required by the IBSL.

6 b) Valuation of the Insurance Contract Liabilities for Life Insurance is carried by the consultant actuary on a semi-annual basis. Accordingly, the valuation of life insurance contract liabilities as at 31st December 2016 was carried out by Mr. Hassan Scott Odierno, FSA, for and on behalf of M/S Actuarial Partners Consulting Sdn Bhd and have ensured adequate provisions have been made in these Condensed Consolidated Interim Financial statements in line with the Actuarial Valuation.

6 c) Liability Adequacy Test

The Company has not carried out a Liability Adequacy Test (LAT) in respect of Insurance Contract Liabilities as at 31st March 2017. LAT will be performed semi-annually.

7 INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE

As at,	Group		Company	
	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000
Reserves for Net Unearned Premium	1,402,140	1,278,861	-	-
Reserves for Title Insurance	23,746	19,611	-	-
Reserves for Gross Outstanding Claims	590,106	623,095	-	-
Total Insurance Contract Liabilities	2,015,992	1,921,567	-	-

Notes to the Condensed Consolidated Interim Financial Statements

7 a) The valuation of the IBNR/IBNER has been carried out by Mr. Matthew Maguire, FIAA, for and behalf of NMG Consulting for the period ended 31st March 2017 and have ensured that adequate provisions have been made in these Condensed Consolidated Interim Financial Statements.

7 b) Liability Adequacy Test

The Company has not carried out a Liability Adequacy Test (LAT) in respect of General Insurance Contract Liabilities as at 31st March 2017. LAT will be performed semi annually.

8 GROSS WRITTEN PREMIUM

Group		Group		Company	
Audited 31st Dec 2016 Rs. '000	<i>For the Three Months Ended,</i>	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
Life Insurance					
3,426,072	Individual Policies	950,734	811,628	950,734	811,628
128,006	Corporate Policies	37,090	25,822	37,090	25,822
(18,715)	Adjustment for Inter Company Premiums	(4,834)	(4,744)	-	-
3,535,363	Life Insurance Gross Written Premium	982,990	832,706	987,824	837,450
General Insurance					
461,583	Fire	123,704	124,909	-	-
2,229,050	Motor	689,664	523,446	-	-
42,051	Marine	13,677	10,506	-	-
408,875	Miscellaneous	102,107	120,147	-	-
(20,228)	Adjustment for Inter Company Premiums	(4,155)	(763)	-	-
3,121,331	General Insurance Gross Written Premium	924,997	778,245	-	-
6,656,694	Total Gross Written Premium	1,907,987	1,610,951	987,824	837,450

9 INTEREST AND DIVIDEND INCOME

Group		Group		Company	
Audited 31st Dec 2016 Rs. '000	<i>For the Three Months Ended,</i>	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
1,166,369	Interest Income	358,477	239,832	303,259	198,112
13,716	Dividend Income	1,868	3,238	1,497	2,789
1,180,085	Total	360,345	243,070	304,756	200,901

Notes to the Condensed Consolidated Interim Financial Statements

10 INCOME TAX EXPENSES

Group		Group		Company	
Audited 31st Dec 2016 Rs. '000	<i>For the Three months ended,</i>	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
(3,300)	Current Tax Charge	(3,821)	(2,563)	-	-
(56,512)	Provision for Notional Tax (NTC) - Life Insurance	(17,778)	(9,763)	(17,778)	(9,763)
1,704	Deferred Income Tax - Profit or Loss	-	-	-	-
<u>(58,108)</u>	Total	<u>(21,599)</u>	<u>(12,326)</u>	<u>(17,778)</u>	<u>(9,763)</u>
1,825	Deferred Income Tax - Other Comprehensive Income	686	-	-	-
<u>1,825</u>	Total	<u>686</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Company and its subsidiary are liable to pay income tax at the rate of 28% (2016 - 28%) of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto.

11 PROFIT FOR THE PERIOD

Group		Group		Company	
Audited 31st Dec 2016 Rs. '000	<i>For the Three Months Ended,</i>	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
600,130	HNB Assurance PLC	52,383	31,615	52,383	31,615
47,283	HNB General Insurance Ltd	21,659	1,917	-	-
<u>647,413</u>	Profit for the Period	<u>74,042</u>	<u>33,532</u>	<u>52,383</u>	<u>31,615</u>

12 BASIC EARNINGS PER SHARE (EPS)

Basic Earnings Per Share is calculated by dividing the net profit after tax for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the Period.

Group		Group		Company	
Audited 31st Dec 2016	<i>For the Three Months Ended,</i>	Unaudited 31st Mar 2017	Unaudited 31st Mar 2016	Unaudited 31st Mar 2017	Unaudited 31st Mar 2016
647,413	Profit for the Period (Rs. '000)	74,042	33,532	52,383	31,615
50,000	Weighted average number of shares ('000)	50,000	50,000	50,000	50,000
<u>12.95</u>	Basic Earnings Per Share (Rs.)	<u>1.48</u>	<u>0.67</u>	<u>1.05</u>	<u>0.63</u>

13 RELATED PARTY DISCLOSURES

a) Transactions with the Parent and Ultimate Controlling Party - Hatton National Bank PLC

Nature of Transaction	Group		Company	
	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
<i>For the Three Months Ended,</i>				
Insurance Premium	1,860	316	-	-
Claims Incurred	1,851	2,159	-	-
Investment Income	10,323	6,337	8,102	5,374
Administration Expenses	48,865	41,423	28,557	25,059
Rent and other Expenses	3,017	11,968	2,209	9,201
Dividend Paid	149,965	59,986	149,965	59,986

Notes to the Condensed Consolidated Interim Financial Statements

Nature of Transaction	Group		Company	
	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000
<i>As at,</i>				
Investments Balance (Includes Deposits and Debentures)	439,827	416,312	341,040	329,123
Cash at Bank Balances	254,029	182,265	133,017	111,407

b) Transactions with / between the Subsidiary Company - HNB General Insurance Ltd

Nature of Transaction	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
<i>For the Three Months Ended,</i>		
Insurance Premium	4,834	4,744
Insurance Expenses	4,155	763
Claims Received	2,347	-
Claims Paid	1,000	-
Administrations Expenses Reimbursement	65,076	59,142
Fund Management Fee	1,044	1,012
Profit Commission Expense	3,335	1,739

C) Transactions with / between Subsidiary Companies of the Ultimate Controlling Party

Name of the Company	Nature of Transaction	Group		Company	
		Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
<i>For the Three Months Ended,</i>					
HNB Grameen Finance Ltd	Insurance Premium	29,537	18,310	29,537	18,206
	Claims Incurred	24,374	77	24,359	-
	Administration Expenses	3,405	1,816	2,951	1,815

d) Transactions with other Related Entities

Name of the Company	Nature of Transaction	Group		Company	
		Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
<i>For the Three Months Ended,</i>					
ACUITY Partners (Pvt) Ltd	Insurance Premium	11	712	-	347
ACUITY Stock Brokers (Pvt) Ltd	Insurance Premium	32	-	-	-
ACUITY Securities Ltd	Investment Income from REPO	13,386	20,136	11,552	14,519
Name of the Company	Nature of Transaction	Group		Company	
<i>As at,</i>		Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000	Unaudited 31st Mar 2017 Rs. '000	Audited 31st Dec 2016 Rs. '000
ACUITY Securities Ltd	Investment In REPO	554,829	606,967	497,330	525,558

e) Transactions with Key Management Personnel of the Group or its Parent Hatton National Bank PLC

Nature of Transaction	Unaudited 31st Mar 2017 Rs. '000	Unaudited 31st Mar 2016 Rs. '000
<i>For the Three Months Ended,</i>		
Director Fee	3,435	3,465
Short -term and Post employment benefits	16,563	20,513
Insurance Premium	818	365
Claims Paid	34	56

Mr. N H T I Perera, a Director of HNB Assurance PLC and HNB General Insurance Limited has tendered his resignation from being a Director of HNB Assurance PLC with effect from 27th April 2017 and HNB General Insurance Limited with effect from 26th April 2017. The nature of the related party transactions in the current period was similar to those reported in the Audited Financial Statements – 2016 except for the above changes.

Notes to the Condensed Consolidated Interim Financial Statements

14 EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Condensed Consolidated Interim Financial Statements.

15 CAPITAL COMMITMENTS

- a) As at the end of the financial period, no material capital expenditure approved by the Board of Directors and contracted for which no provision has been made in the Condensed Consolidated Interim Financial Statements. (2016 - Nil).
- b) Future commitments on operating leases

Nature of Transaction As at,	Unaudited	Audited
	31st Mar 2017 Rs. '000	31st Dec 2016 Rs. '000
Less than one year	125,124	123,052
Between one and five years	352,093	373,522
More than five years	2,638	4,402
Total Operating Lease Commitments	479,855	500,976

16 CONTINGENCIES

- a) The Inland Revenue Department has taken the view that reinsurance claims and commission for the year of assessment 2010/11 on General insurance business is liable for Value Added Tax (VAT). Accordingly the Company has received a VAT Assessment on Reinsurance Claims and Commissions amounting to Rs. 13.3 Million for the year of Assessment 2010/2011. This has been a common assessment to most of the Insurance Companies who are in the General Insurance business, issued by Inland Revenue Department (IRD). However the Companies in the insurance industry are of the strong view that they are not liable to pay VAT on Reinsurance claims and commission. The Company has filed due responses in consultation with Tax Consultants and has made an appeal to the Tax Appeals Commission and an appeal hearing was held on the 16th June 2016. The Tax Appeals Commission requested HNBA and the IRD to submit a written appeal in order to grant the final decision. The Company submitted the written appeal on 21st of July 2016 through the tax consultants and are yet to receive a response from the Tax Appeals Commission. The Company has obtained a Bank Guarantee of Rs 3.3 Million against the appeal made. As such the Company is of the strong view that no additional Tax liabilities will arise due to this Assessment. No further response has been received on this matter as of the date of authorizing these Consolidated Financial Statements. VAT on Reinsurance Claims and Commissions has been exempted by the Inland Revenue Department w.e.f. 1st January 2011. This is an indication that realization of this liability is remote.
- (b) The Company has received an official communication from IRD stating that the Company is liable for VAT and NBT on Financial Service (FS). The IRD is of the view that HNBA liability has arisen based on section 25C of VAT Act No 14 of 2002 with the application of attributable method. Accordingly, it stated that the Company has registered to pay VAT and NBT on FS w.e.f 01st January 2014. However, Companies who are in Insurance Industry and our Tax Consultants are of the view that insurance companies are not liable for VAT and NBT on FS, as the Companies are in the insurance business and do not engage in the business of financial service directly. Therefore, the Company has requested the IRD to cancel the registration on VAT and NBT on FS which is the stance of the entire insurance industry. As such we expect no liability to materialize in respect of the same.
- (c) The Company has received a Tax Intimation letter on Life Insurance Taxation for Y/A 2011/2012. However, no Assessment has been issued yet on this intimation. We have filed a response highlighting our view, which was done in consultation with Tax Consultants. However, as per the request of the IRD, we participated in the hearing held at their premises on 25th July 2016 and we were asked to provide a written submission. We made the written submission through our Tax Consultants on 15th August 2016 to IRD. Based on the hearing held and written submission, IRD sent a letter of determination on 20th December 2016 and determine to confirm the assessment. However the Company opposed with the said determination hence the Company submitted a letter of intention to appeal in the Tax Appeals Commission with the consultation of Tax consultants. On 08th February 2017 Company received the reasons for determination from IRD and through our tax consultant we filed a written appeal on 09th March 2017 are yet to receive a response from the Tax Appeals Commission. Even if this tax intimation would materialized against the Company, the Tax Loss recorded will come down by Rs. 310 Million.
- (d) The Company has received a Notice of Assessment for Life Insurance taxation for the year of assessment 2012/2013 and filed a petition of appeal through the Tax Consultants and the Company is of the strong view that no additional tax liability will arise due to this. Even in the event that this Assessment would materialise against the Company, no additional tax liability is required for the Company since the Company has accumulated tax losses. However, the accumulated tax loss of the Life Business will come down by Rs. 278 Million.

Notes to the Condensed Consolidated Interim Financial Statements

- e) The Company has received a Notice of Assessment for Life Insurance taxation for the year of assessment 2013/2014 and filed a petition of appeal through the Tax Consultants. In the event that this Assessment would materialise against the Company, there will be a tax liability of Rs 132 million after utilizing all available tax losses. However, the Company together with Tax Consultants are of the strong view that the liability raised in this assessment would not materialise.
- (f) In the opinion of the Directors, and in consultation with the Company Lawyers, litigations currently pending against the Company would not have a material impact on the reported Interim Financial Results of the Company.
All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

17 TRANSFER PRICING

Provision on transfer pricing under sections 104 and 104A of the Inland Revenue Act, No. 10 of 2006 covers the transactions with associated undertakings. Compliance reporting will be enforced from the year of assessment 2015/16.

During the financial period, certain transactions including provision of insurance solutions and placement of deposits have taken place with parent entity (associated undertaking). Both the companies (HNB Assurance PLC and HNB General Insurance Limited) are of the view that the transactions with parent entity have taken place on arm's length pricing.

As the aggregate value of transactions of each company with associated undertaking is more than Rs. 50 Million, both the companies are required to maintain separate documentation as prescribed by Transfer Pricing Regulation. The companies have prepared the relevant documentation to comply with transfer pricing regulation.

Share Information

Top 20 Shareholders

Name of the Shareholder	As at 31st March 2017	
	Shareholding	% on Issued Shares
1 Hatton National Bank PLC A/c No.1	29,993,000	59.99%
2 The Ceylon Guardian Investment Trust PLC A/c No. 2	2,000,000	4.00%
3 Mercantile Merchant Bank Ltd	913,265	1.83%
4 Janashakthi General Insurance Limited	824,425	1.65%
5 Bank of Ceylon A/c Ceybank Century Growth Fund	657,822	1.32%
6 Mr. Mohamed Faizer Hashim	530,534	1.06%
7 Salamander Investments (Pvt) Ltd	475,000	0.95%
8 Mrs. Abiramipillai Kailasapillai	400,000	0.80%
9 Waldock Mackenzie Ltd/Mr.S.N.P.Palihena and Mrs. A.S. Palihena	400,000	0.80%
10 Mrs. Arunthathi Selliah	400,000	0.80%
11 Arunodhaya (Pvt) Ltd	400,000	0.80%
12 Arunodhaya Investments (Pvt) Ltd	400,000	0.80%
13 Arunodhaya Industries (Pvt) Ltd	400,000	0.80%
14 Union Assurance PLC/No. 1 A/c	336,266	0.67%
15 Mr. Dueleep Fairlie George Dalpethado Joint Mrs. Hewa Fonsekage Anne Kumudini Devika Fonseka	299,429	0.60%
16 Corporate Holdings (Pvt) Ltd. A/c No.1	245,103	0.49%
17 Phoenix Ventures (Pvt) Ltd	218,992	0.44%
18 Mr. Madduma Hetti Vidanelage Upali Gunatilake	202,341	0.40%
19 Mr. Kailasapillai Aravinthan	200,000	0.40%
20 Andysel Private Limited	200,000	0.40%
	<u>39,496,177</u>	<u>79.00%</u>

Public Shareholding

	As at 31st March 2017	
	No.	% on Issued Shares
Number of Shares	19,328,462	38.66%

Public Shareholding

	As at 31st March 2017	
	No.	% on Total No. of shareholders
Number of Shareholders	3,481	99.71%

Share Information (Contd.)

Shareholdings of Directors and Chief Executive Officer

Name of the Director	No. of Shares as at As at 31st March 2017
Mrs. M A R C Cooray	18,035
Mr. S C Ratwatte	14,666
Mr. J A P M Jayasekara	83,057
Mr. K Balasundaram	10,000
Mr. D P N Rodrigo	180
Mrs. S N Wickramasinghe	52,500
Dr. S Selliah	100,000
Mr. N H T I Perera	100
Mr. D P Lokuarachchi - (Chief Executive Officer)	Nil

Number of Shares

No. of shares representing the Stated Capital	50,000,000
Class of Share	Ordinary
Voting Rights	One vote per Ordinary Share

Share Performance

	Rs.
Net Asset Value Per Share as at 31st March 2017 - Group	49.50
Net Asset Value Per Share as at 31st March 2017 - Company	52.67
Highest Price Per Share for the Interim Period	68.00
Lowest Price Per Share for the Interim Period	52.00
Last traded Price Per Share as at 31st March 2017	58.10