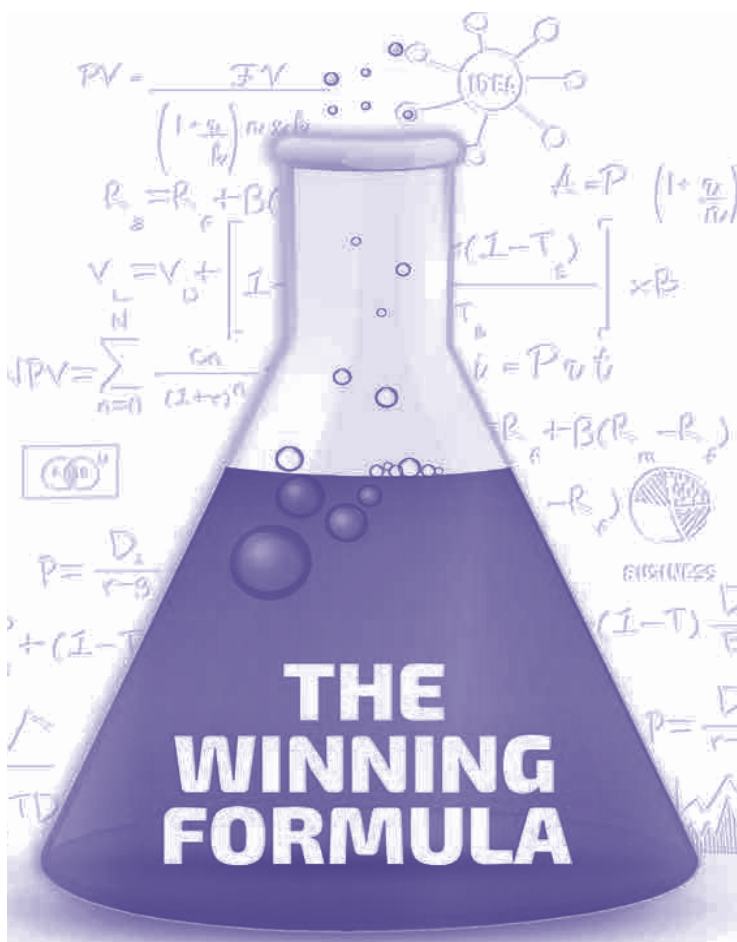




**HNB  
ASSURANCE**

HNB Assurance PLC

Condensed Consolidated Interim Financial Statements  
30<sup>th</sup> September 2018



# Statement of Financial Position

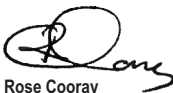
| As at,   | Note | Group                                  |                                      | Company                                |                                      |
|--|------|--|--------------------------------------|--|--------------------------------------|
|  |      | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
| <b>Assets</b>  |      |  |                                      |  |                                      |
| Property, Plant and Equipment                              |      | 158,747                                | 169,620                              | 108,677                                | 119,078                              |
| Intangible Assets  |      | 57,289                                 | 57,841                               | 55,974                                 | 57,841                               |
| Deferred Tax Assets  |      | 38,702                                 | 64,098                               | -                                      | -                                    |
| Financial Investments                                      | 3    | 17,085,336                             | 15,054,910                           | 14,366,222                             | 12,741,015                           |
| Investment in Subsidiary                                   |      | -                                      | -                                    | 1,150,000                              | 1,150,000                            |
| Loans to Life Policyholders                                |      | 215,327                                | 162,285                              | 215,327                                | 162,285                              |
| Reinsurance Receivables                                    |      | 413,101                                | 569,778                              | 48,266                                 | 65,010                               |
| Premium Receivables  |      | 809,538                                | 786,319                              | 10,460                                 | 7,488                                |
| Other Assets   |      | 1,199,722                              | 1,036,846                            | 871,940                                | 764,256                              |
| Insurance Contract - Deferred Expenses                     |      | 142,501                                | 105,287                              | -                                      | -                                    |
| Cash and Cash Equivalents                                  |      | 537,042                                | 641,950                              | 216,722                                | 352,307                              |
| <b>Total Assets</b>  |      | <b>20,657,305</b>                      | <b>18,648,934</b>                    | <b>17,043,588</b>                      | <b>15,419,280</b>                    |
| <b>Equity and Liabilities</b>                              |      |  |                                      |  |                                      |
| <b>Equity Attributable to the Equity Holders of Parent</b> |      |  |                                      |  |                                      |
| Stated Capital   |      | 1,171,875                              | 1,171,875                            | 1,171,875                              | 1,171,875                            |
| Retained Earnings  |      | 2,631,830                              | 2,381,427                            | 2,462,950                              | 2,373,601                            |
| Available for Sale Reserve                                 |      | 6,911                                  | 30,685                               | 6,043                                  | 17,415                               |
| Other Reserves   |      | (13,004)                               | (10,760)                             | (12,128)                               | (9,884)                              |
| Life Policyholders' Available for Sale Reserve Fund        | 5    | 3,208                                  | 223,272                              | 3,208                                  | 223,272                              |
| Restricted Regulatory Reserve                              | 6    | 381,156                                | -                                    | 381,156                                | -                                    |
| <b>Total Equity</b>  |      | <b>4,181,976</b>                       | <b>3,796,499</b>                     | <b>4,013,104</b>                       | <b>3,776,279</b>                     |
| <b>Liabilities</b>   |      |  |                                      |  |                                      |
| Insurance Contract Liabilities - Life Insurance            | 7    | 12,211,612                             | 10,915,858                           | 12,211,612                             | 10,915,858                           |
| Insurance Contract Liabilities - General Insurance         | 8    | 2,554,327                              | 2,384,906                            | -                                      | -                                    |
| Employee Defined Benefit Liabilities                       |      | 143,196                                | 126,083                              | 87,891                                 | 73,875                               |
| Current Tax Liabilities                                    |      | 78,722                                 | 34,598                               | 34,588                                 | -                                    |
| Reinsurance Creditors                                      |      | 366,361                                | 353,042                              | 102,308                                | 90,650                               |
| Other Liabilities  |      | 958,309                                | 896,288                              | 533,178                                | 529,862                              |
| Bank Overdraft   |      | 162,802                                | 141,660                              | 60,907                                 | 32,756                               |
| <b>Total Liabilities</b>                                   |      | <b>16,475,329</b>                      | <b>14,852,435</b>                    | <b>13,030,484</b>                      | <b>11,643,001</b>                    |
| <b>Total Equity and Liabilities</b>                        |      | <b>20,657,305</b>                      | <b>18,648,934</b>                    | <b>17,043,588</b>                      | <b>15,419,280</b>                    |

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

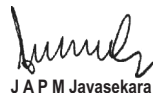


**Indika Perera**  
Chief Financial Officer

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  
26th October 2018

## Statement of Profit or Loss and Other Comprehensive Income

| Group  |  | Group |                               |                               |                               | Change                        |         |           |
|--|--|-------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|---------|-----------|
| Year Ended<br>31 <sup>st</sup> Dec 2017<br>(Audited)<br>Rs. '000 | For Nine Months Ended 30th September,  | Note  | Unaudited<br>2018<br>Rs. '000 | Unaudited<br>2017<br>Rs. '000 | Unaudited<br>2018<br>Rs. '000 | Unaudited<br>2017<br>Rs. '000 | Group % | Company % |
| 7,821,468  | Gross Written Premium  | 9     | 6,536,060                     | 5,805,626                     | 3,245,547                     | 2,918,895                     | 13      | 11        |
| (1,100,573)  | Premium Ceded to Reinsurers  |       | (787,787)                     | (785,479)                     | (158,219)                     | (138,134)                     | 0.3     | 15        |
| 6,720,895  | Net Written Premium  |       | 5,748,273                     | 5,020,147                     | 3,087,328                     | 2,780,761                     | 15      | 11        |
| (328,818)  | Net Change in Reserves for Unearned Premium  |       | (264,276)                     | (333,050)                     | -                             | -                             | (21)    | -         |
| 6,392,077  | <b>Net Earned Premium</b>  |       | <b>5,483,997</b>              | 4,687,097                     | <b>3,087,328</b>              | 2,780,761                     | 17      | 11        |
|  | <b>Other Revenue</b>   |       |                               |                               |                               |                               |         |           |
| 1,693,191  | Interest and Dividend Income   | 10    | 1,384,989                     | 1,165,886                     | 1,168,400                     | 982,574                       | 19      | 19        |
| 33,128   | Net Realised Gains   |       | 64,525                        | 16,623                        | 59,140                        | 12,616                        | 288     | 369       |
| 9,704  | Net Fair Value (Losses)/Gains  |       | (10,238)                      | 14,323                        | (21,480)                      | 12,197                        | (171)   | (276)     |
| 129,099  | Fee and Commission Income  |       | 112,956                       | 116,316                       | 64,168                        | 50,538                        | (3)     | 27        |
| 46,735   | Other Income   |       | 25,043                        | 31,453                        | 11,093                        | 18,811                        | (20)    | (41)      |
| 1,911,857  | <b>Total Other Revenue</b>   |       | <b>1,577,275</b>              | 1,344,601                     | <b>1,281,321</b>              | 1,076,736                     | 17      | 19        |
| 8,303,934  | <b>Net Income</b>  |       | <b>7,061,272</b>              | 6,031,698                     | <b>4,368,649</b>              | 3,857,497                     | 17      | 13        |
|  | <b>Net Benefits, Claims and Expenses</b>   |       |                               |                               |                               |                               |         |           |
| (2,293,406)  | Net Insurance Benefits and Claims  |       | (2,387,550)                   | (1,662,991)                   | (796,473)                     | (403,832)                     | 44      | 97        |
| (2,166,427)  | Change in Contract Liabilities - Life Fund   |       | (1,655,554)                   | (1,923,840)                   | (1,655,554)                   | (1,923,840)                   | (14)    | (14)      |
| -  | Change in Contract Liability due to Transfer of One-off Surplus  | 6     | 381,156                       | -                             | 381,156                       | -                             | 100     | 100       |
| (1,839,018)  | Other Operating and Administration Expenses  |       | (1,515,339)                   | (1,348,396)                   | (836,599)                     | (742,448)                     | 12      | 13        |
| (1,028,872)  | Underwriting and Net Acquisition Costs   |       | (834,597)                     | (752,082)                     | (628,856)                     | (607,129)                     | 11      | 4         |
| (49,184)   | Other Insurance Related Costs  |       | (44,067)                      | (37,694)                      | (27,230)                      | (23,419)                      | 17      | 16        |
| (7,376,907)  | <b>Total Benefits, Claims and Other Expenses</b>   |       | <b>(6,055,951)</b>            | (5,725,003)                   | <b>(3,563,556)</b>            | (3,700,668)                   | 6       | (4)       |
| 927,027  | <b>Profit Before Taxation</b>  |       | <b>1,005,321</b>              | 306,695                       | <b>805,093</b>                | 156,829                       | 228     | 413       |
| (17,275)   | Income Tax Expenses  | 11    | (73,762)                      | (24,776)                      | (34,588)                      | -                             | 198     | 100       |
| 909,752  | <b>Profit for the Period</b>   | 12    | <b>931,559</b>                | 281,919                       | <b>770,505</b>                | 156,829                       | 230     | 391       |
|  | <b>Other Comprehensive Income, Net of Related Tax</b>  |       |                               |                               |                               |                               |         |           |
|  | <b>Items that are or may be reclassified to profit or loss</b>   |       |                               |                               |                               |                               |         |           |
| 489,495  | - Net Change in fair value of Available For Sale financial assets  |       | (185,075)                     | 462,186                       | (173,010)                     | 434,598                       | (140)   | (140)     |
| (30,485)   | - Realised Gains transferred to Income Statement   |       | (63,007)                      | (15,211)                      | (58,426)                      | (12,658)                      | 314     | 362       |
| (414,403)  | - Net Change in fair value of Available For Sale financial assets transferred to Life Policyholders' Available For Sale Reserve Fund |       | 220,064                       | (398,026)                     | 220,064                       | (398,026)                     | 155     | 155       |
| (6,770)  | - Related Tax  | 11    | 4,244                         | (6,483)                       | -                             | -                             | 165     | -         |
|  | <b>Items that will never be reclassified to profit or loss</b>   |       |                               |                               |                               |                               |         |           |
| (12,550)   | Actuarial Losses on Defined Benefit Plans  |       | (2,244)                       | -                             | (2,244)                       | -                             | (100)   | (100)     |
| 25,287   | <b>Total Other Comprehensive Income for the Period net of Related Tax</b>  |       | <b>(26,018)</b>               | 42,466                        | <b>(13,616)</b>               | 23,914                        | (161)   | (157)     |
| 935,039  | <b>Total Comprehensive Income for the Period</b>   |       | <b>905,541</b>                | 324,385                       | <b>756,889</b>                | 180,743                       | 179     | 319       |
|  | <b>Profit Attributable to:</b>   |       |                               |                               |                               |                               |         |           |
| 909,752  | Equity Holders of the Parent   |       | 931,559                       | 281,919                       | -                             | -                             | 230     | -         |
|  | <b>Total Comprehensive Income Attributable to:</b>   |       |                               |                               |                               |                               |         |           |
| 935,039  | Equity Holders of the Parent   |       | 905,541                       | 324,385                       | -                             | -                             | 179     | -         |
| 18.20  | Basic Earnings Per Share (Rs.)   | 13    | 18.63                         | 5.64                          | 15.41                         | 3.14                          | 230     | 391       |
| -  | Basic Earnings Per Share -Excluding One-off Surplus (Rs.)  | 13    | 11.01                         | 5.64                          | 7.79                          | 3.14                          | 95      | 148       |

# Statement of Changes in Equity - Group

For the Period Ended 30th September 2018,

|  | Stated Capital | Retained Earnings | Available for Sale Reserve | Other Reserves | Life Policyholders' AFS Reserve Fund | Restricted Regulatory Reserve | Total Equity |
|--|----------------|-------------------|----------------------------|----------------|--------------------------------------|-------------------------------|--------------|
|  | Rs. '000       | Rs. '000          | Rs. '000                   | Rs. '000       | Rs. '000                             | Rs. '000                      | Rs. '000     |
| Balance as at 01st January 2017                                      | 1,171,875      | 1,721,675         | (7,152)                    | 1,790          | (191,131)                            | -                             | 2,687,057    |
| <b>Total Comprehensive Income for the Period</b>                     |                |                   |                            |                |                                      |                               |              |
| Profit for the Period - Unaudited                                    | -              | 281,919           | -                          | -              | -                                    | -                             | 281,919      |
| <b>Other Comprehensive Income for the Period, net of related tax</b> |                |                   |                            |                |                                      |                               |              |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | 440,492                    | -              | -                                    | -                             | 440,492      |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | (398,026)                  | -              | -                                    | -                             | (398,026)    |
| - transferred to Life Policyholders' Available For Sale Reserve Fund | -              | -                 | 42,466                     | -              | -                                    | -                             | 42,466       |
| Total Other Comprehensive Income for the Period                      | -              | -                 | 42,466                     | -              | -                                    | -                             | 42,466       |
| <b>Total Comprehensive Income for the Period</b>                     |                |                   |                            |                |                                      |                               |              |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | -                          | -              | -                                    | -                             | -            |
| - transferred from Available For Sale Reserve Fund                   | -              | -                 | -                          | -              | 398,026                              | -                             | 398,026      |
| <b>Transactions with owners recorded directly in equity</b>          |                |                   |                            |                |                                      |                               |              |
| Dividend to equity holders for 2016                                  | -              | (250,000)         | -                          | -              | -                                    | -                             | (250,000)    |
| Unaudited balance as at 30th September 2017                          | 1,171,875      | 1,755,584         | 35,314                     | 1,790          | 206,895                              | -                             | 3,169,468    |
| <b>Total Comprehensive Income for the Period</b>                     |                |                   |                            |                |                                      |                               |              |
| Profit for the period - Unaudited                                    | -              | 627,833           | -                          | -              | -                                    | -                             | 627,833      |
| <b>Other Comprehensive Income for the Period, net of related tax</b> |                |                   |                            |                |                                      |                               |              |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | 11,748                     | -              | -                                    | -                             | 11,748       |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | (16,377)                   | -              | -                                    | -                             | (16,377)     |
| - transferred to Life Policyholders' Available For Sale Reserve Fund | -              | -                 | -                          | -              | -                                    | -                             | -            |
| Actuarial Losses on Defined Benefit Plans                            | -              | -                 | -                          | (12,550)       | -                                    | -                             | (12,550)     |
| Total Other Comprehensive Income for the Period                      | -              | -                 | (4,629)                    | (12,550)       | -                                    | -                             | (17,179)     |
| <b>Total Comprehensive Income for the Period</b>                     |                |                   |                            |                |                                      |                               |              |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | (4,629)                    | (12,550)       | -                                    | -                             | (17,179)     |
| - transferred from Available For Sale Reserve Fund                   | -              | -                 | 4,629                      | (12,550)       | -                                    | -                             | (17,179)     |
| Audited balance as at 31st December 2017                             | 1,171,875      | 2,381,427         | 30,665                     | (10,760)       | 223,272                              | -                             | 3,796,499    |
| Balance as at 01st January 2018                                      | 1,171,875      | 2,381,427         | 30,665                     | (10,760)       | 223,272                              | -                             | 3,796,499    |
| <b>Total Comprehensive Income for the Period</b>                     |                |                   |                            |                |                                      |                               |              |
| Profit for the Period - Unaudited                                    | -              | 550,403           | -                          | -              | -                                    | 381,156                       | 931,559      |
| <b>Other Comprehensive Income for the Period, net of related tax</b> |                |                   |                            |                |                                      |                               |              |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | (243,838)                  | -              | -                                    | -                             | (243,838)    |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | 220,064                    | -              | -                                    | -                             | 220,064      |
| - transferred to Life Policyholders' Available For Sale Reserve Fund | -              | -                 | -                          | (2,244)        | -                                    | -                             | (2,244)      |
| Actuarial Losses on Defined Benefit Plans                            | -              | -                 | -                          | (2,244)        | -                                    | -                             | (2,244)      |
| Total Other Comprehensive Income for the period                      | -              | -                 | (23,774)                   | (2,244)        | -                                    | -                             | (26,018)     |
| <b>Total Comprehensive Income for the Period</b>                     |                |                   |                            |                |                                      |                               |              |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | (23,774)                   | (2,244)        | -                                    | -                             | (26,018)     |
| - transferred from Available For Sale Reserve Fund                   | -              | -                 | -                          | -              | -                                    | 381,156                       | 381,156      |
| Net Change in fair value of Available For Sale financial assets      | -              | -                 | -                          | -              | (220,064)                            | -                             | (220,064)    |
| <b>Transactions with owners recorded directly in equity</b>          |                |                   |                            |                |                                      |                               |              |
| Dividend paid to equity holders for 2017                             | -              | (300,000)         | -                          | -              | -                                    | -                             | (300,000)    |
| Unaudited balance as at 30th September 2018                          | 1,171,875      | 2,631,830         | 6,911                      | (13,004)       | 3,208                                | 381,156                       | 4,181,976    |

Stated Capital represents 50 Million Ordinary Shares as at 30th September 2018 (2017 - 50 Million Ordinary Shares).

# Statement of Changes in Equity - Company

**For the Period Ended 30th September 2018,**

|  | Stated<br>Capital<br>Rs. '000 | Retained<br>Earnings<br>Rs. '000 | Available<br>for Sale<br>Reserve<br>Rs. '000 | Other<br>Reserves<br>Rs. '000 | Life<br>Policyholders'<br>AFS Reserve<br>Fund<br>Rs. '000 | Restricted<br>Regulatory<br>Reserve<br>Rs. '000 | Total<br>Equity<br>Rs. '000 |
|--|-------------------------------|----------------------------------|--|-------------------------------|---|---|-----------------------------|
| <b>Balance as at 01st January 2017</b>                               | 1,171,875                     | 1,897,936                        | (1,465)                                      | (1,886)                       | (191,131)   | -   | 2,875,329                   |
| <b>Total Comprehensive Income for the Period</b>                     |                               |                                  |  |                               |   |   |                             |
| Profit for the Period - Unaudited                                    | -                             | 156,829                          | -  | -                             | -   | -   | 156,829                     |
| <b>Other Comprehensive Income for the Period, net of related tax</b> |                               |                                  |  |                               |   |   |                             |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | 421,940                                      | -                             | -   | -   | 421,940                     |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | (398,026)                                    | -                             | -   | -   | (398,026)                   |
| - transferred to Life Policyholders' Available For Sale Reserve Fund | -                             | -                                | 23,914                                       | -                             | -   | -   | 23,914                      |
| <b>Total Other Comprehensive Income for the Period</b>               |                               |                                  |  |                               |   |   |                             |
| Total Comprehensive Income for the Period                            | -                             | 156,829                          | 23,914                                       | -                             | -   | -   | 180,743                     |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | -  | -                             | 398,026   | -   | 398,026                     |
| - transferred from Available For Sale Reserve Fund                   | -                             | -                                | -  | -                             | -   | -   | -                           |
| <b>Transactions with owners recorded directly in equity</b>          |                               |                                  |  |                               |   |   |                             |
| Distributions to owners of the Company                               | -                             | (250,000)                        | -  | -                             | -   | -   | (250,000)                   |
| Dividend paid to equity holders for 2016                             | -                             | 1,804,765                        | 22,449                                       | (1,886)                       | 206,895   | -   | 3,204,098                   |
| <b>Unaudited balance as at 30th September 2017</b>                   | 1,171,875                     | 1,804,765                        | 22,449                                       | (1,886)                       | 206,895   | -   | 3,204,098                   |
| <b>Total Comprehensive Income for the Period</b>                     |                               |                                  |  |                               |   |   |                             |
| Profit for the Period - Unaudited                                    | -                             | 568,836                          | -  | -                             | -   | -   | 568,836                     |
| <b>Other Comprehensive Income for the Period, net of related tax</b> |                               |                                  |  |                               |   |   |                             |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | 11,343                                       | -                             | -   | -   | 11,343                      |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | (16,377)                                     | -                             | -   | -   | (16,377)                    |
| - transferred to Life Policyholders' Available For Sale Reserve Fund | -                             | -                                | (5,034)                                      | (7,998)                       | -   | -   | (13,032)                    |
| Actual Losses on Defined Benefit Plans                               | -                             | -                                | (5,034)                                      | (7,998)                       | -   | -   | (13,032)                    |
| <b>Total Other Comprehensive Income for the Period</b>               |                               |                                  |  |                               |   |   |                             |
| Total Comprehensive Income for the Period                            | -                             | 568,836                          | (5,034)                                      | (7,998)                       | -   | -   | 555,804                     |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | -  | -                             | 16,377  | -   | 16,377                      |
| - transferred from Available For Sale Reserve Fund                   | -                             | -                                | -  | -                             | 223,272   | -   | 223,272                     |
| <b>Audited balance as at 31st December 2017</b>                      | 1,171,875                     | 2,373,601                        | 17,415                                       | (9,884)                       | 223,272   | -   | 3,776,279                   |
| <b>Balance as at 01st January 2018</b>                               | 1,171,875                     | 2,373,601                        | 17,415                                       | (9,884)                       | 223,272   | -   | 3,776,279                   |
| <b>Total Comprehensive Income for the Period</b>                     |                               |                                  |  |                               |   |   |                             |
| Profit for the period - Unaudited                                    | -                             | 385,349                          | -  | -                             | -   | 381,156   | 770,505                     |
| <b>Other Comprehensive Income for the Period, net of related tax</b> |                               |                                  |  |                               |   |   |                             |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | (231,436)                                    | -                             | -   | -   | (231,436)                   |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | 220,064                                      | (2,244)                       | -   | -   | 217,820                     |
| - transferred to Life Policyholders' Available For Sale Reserve Fund | -                             | -                                | (11,372)                                     | (2,244)                       | -   | -   | (13,616)                    |
| Actual Losses on Defined Benefit Plans                               | -                             | -                                | (11,372)                                     | (2,244)                       | -   | -   | (13,616)                    |
| <b>Total Other Comprehensive Income for the Period</b>               |                               |                                  |  |                               |   |   |                             |
| Total Comprehensive Income for the Period                            | -                             | 385,349                          | (11,372)                                     | (2,244)                       | -   | 381,156   | 756,889                     |
| Net Change in fair value of Available For Sale financial assets      | -                             | -                                | -  | -                             | (220,064)   | -   | (220,064)                   |
| - transferred from Available For Sale Reserve Fund                   | -                             | -                                | -  | -                             | -   | -   | -                           |
| <b>Transactions with owners recorded directly in equity</b>          |                               |                                  |  |                               |   |   |                             |
| Distributions to owners of the Company                               | -                             | (300,000)                        | -  | -                             | -   | -   | (300,000)                   |
| Dividend paid to equity holders for 2017                             | -                             | 2,462,950                        | 6,043  | (12,128)                      | 3,208   | -   | 4,013,104                   |
| <b>Unaudited balance as at 30th September 2018</b>                   | 1,171,875                     | 2,462,950                        | 6,043  | (12,128)                      | 3,208   | 381,156   | 4,013,104                   |

Stated Capital represents 50 Million Ordinary Shares as at 30th September 2018 (2017 - 50 Million Ordinary Shares).

# Statement of Cash Flows

| <i>For the Period Ended 30th September ,</i>                   | Group             |                   | Company            |                   |                    |
|--|-------------------|-------------------|--------------------|-------------------|--------------------|
|  | Unaudited<br>2018 | Unaudited<br>2017 | Unaudited<br>2018  | Unaudited<br>2017 |                    |
|  | Note              | Rs. '000          | Rs. '000           | Rs. '000          |                    |
| <b>Cash Flow from Operating Activities</b>                     |                   |                   |                    |                   |                    |
| Profit Before Taxation   |                   | 1,005,321         | 306,695            | 805,093           | 156,829            |
| <i>Adjustments for:</i>  |                   |                   |                    |                   |                    |
| Interest Income  | 10                | (1,381,395)       | (1,158,477)        | (1,165,330)       | (976,490)          |
| Dividend Income  | 10                | (3,594)           | (7,409)            | (3,070)           | (6,084)            |
| Amortisation of Intangible Assets                              |                   | 14,604            | 13,958             | 14,519            | 13,958             |
| Depreciation   |                   | 37,191            | 39,841             | 26,078            | 27,971             |
| Provision for Employee Benefits                                |                   | 26,528            | 19,918             | 15,791            | 11,537             |
| Net Realised Gains   |                   | (64,525)          | (16,623)           | (59,140)          | (12,616)           |
| Net Fair Value Losses/(Gains)                                  |                   | 10,238            | (14,323)           | 21,480            | (12,197)           |
| Gains on Sale of Property, Plant and Equipment                 |                   | (345)             | (6,431)            | (338)             | (6,035)            |
|  |                   | (355,977)         | (822,851)          | (344,917)         | (803,127)          |
| Change in Operating Assets                                     | A                 | (98,256)          | (456,297)          | (147,280)         | (100,109)          |
| Change in Operating Liabilities                                | B                 | 1,533,604         | 2,484,585          | 1,310,728         | 1,933,202          |
| <b>Cash Flows from Operating Activities</b>                    |                   | <b>1,079,371</b>  | <b>1,205,437</b>   | <b>818,531</b>    | <b>1,029,966</b>   |
| Gratuity Paid  |                   | (11,659)          | (4,186)            | (4,019)           | (2,311)            |
| Economic Service Charges (ESC) Paid                            |                   | (15,001)          | (12,294)           | -                 | -                  |
| <b>Net Cash Generated from Operating Activities</b>            |                   | <b>1,052,711</b>  | <b>1,188,957</b>   | <b>814,512</b>    | <b>1,027,655</b>   |
| <b>Cash Flows from Investing Activities</b>                    |                   |                   |                    |                   |                    |
| Net Acquisition of Investment Securities                       |                   | (2,103,558)       | (2,266,225)        | (1,713,255)       | (1,891,973)        |
| Interest Received  |                   | 1,260,732         | 1,004,922          | 1,059,602         | 847,241            |
| Dividend Received  |                   | 4,088             | 8,175              | 3,396             | 6,645              |
| Acquisition of Intangible Assets                               |                   | (14,052)          | (10,306)           | (12,652)          | (10,306)           |
| Acquisition of Property, Plant and Equipment                   |                   | (28,319)          | (49,418)           | (16,857)          | (34,743)           |
| Proceeds from the Sale of Property, Plant and Equipment        |                   | 2,348             | 11,134             | 1,518             | 8,953              |
| <b>Net Cash Used in Investing Activities</b>                   |                   | <b>(878,761)</b>  | <b>(1,301,718)</b> | <b>(678,248)</b>  | <b>(1,074,183)</b> |
| <b>Cash Flows from Financing Activities</b>                    |                   |                   |                    |                   |                    |
| Dividend Paid  |                   | (300,000)         | (250,000)          | (300,000)         | (250,000)          |
| <b>Net Cash Used in Financing Activities</b>                   |                   | <b>(300,000)</b>  | <b>(250,000)</b>   | <b>(300,000)</b>  | <b>(250,000)</b>   |
| <b>Net Decrease in Cash and Cash Equivalents</b>               |                   | <b>(126,050)</b>  | <b>(362,761)</b>   | <b>(163,736)</b>  | <b>(296,528)</b>   |
| Cash and Cash Equivalents at the beginning of the Period       |                   | 500,290           | 625,527            | 319,551           | 476,572            |
| <b>Cash and Cash Equivalents at the end of the Period</b>      |                   | <b>374,240</b>    | <b>262,766</b>     | <b>155,815</b>    | <b>180,044</b>     |
| <b>Notes to the Cash Flow Statement</b>                        |                   |                   |                    |                   |                    |
| <b>A. Change in Operating Assets</b>                           |                   |                   |                    |                   |                    |
| Increase in Deferred Expenses                                  |                   | (37,214)          | (36,417)           | -                 | -                  |
| Increase in Loans to Life Policyholders                        |                   | (53,042)          | (29,195)           | (53,042)          | (29,195)           |
| Decrease/(Increase) in Reinsurance Receivables                 |                   | 156,677           | (202,199)          | 16,744            | (14,601)           |
| Increase in Premium Receivables                                |                   | (23,219)          | (47,629)           | (2,972)           | (1,729)            |
| Increase in Other Assets                                       |                   | (141,458)         | (140,857)          | (108,010)         | (54,584)           |
|  |                   | (98,256)          | (456,297)          | (147,280)         | (100,109)          |
| <b>B. Change in Operating Liabilities</b>                      |                   |                   |                    |                   |                    |
| Increase/(Decrease) in Other Liabilities                       |                   | 55,110            | (11,591)           | 3,316             | (46,640)           |
| Increase in Insurance Contract Liabilities - Life Insurance    |                   | 1,295,754         | 1,903,926          | 1,295,754         | 1,903,926          |
| Increase in Insurance Contract Liabilities - General Insurance |                   | 169,421           | 585,449            | -                 | -                  |
| Increase in Reinsurance Creditors                              |                   | 13,319            | 6,801              | 11,658            | 75,916             |
|  |                   | 1,533,604         | 2,484,585          | 1,310,728         | 1,933,202          |

## Statement of Profit or Loss and Other Comprehensive Income

| For Three Months Ended 30th September,  | Note | Group              |                    | Company            |                    | Change       |              |
|---|------|--------------------|--------------------|--------------------|--------------------|--------------|--------------|
|   |      | Unaudited          | Unaudited          | Unaudited          | Unaudited          | Group        | Company      |
|   |      | 2018<br>Rs. '000   | 2017<br>Rs. '000   | 2018<br>Rs. '000   | 2017<br>Rs. '000   | %            | %            |
| Gross Written Premium   | 9    | 2,277,765          | 2,000,395          | 1,184,149          | 999,758            | 14           | 18           |
| Premium Ceded to Reinsurers   |      | (256,098)          | (237,356)          | (54,233)           | (46,522)           | 8            | 17           |
| Net Written Premium   |      | 2,021,667          | 1,763,039          | 1,129,916          | 953,236            | 15           | 19           |
| Net Change in Reserves for Unearned Premium   |      | (58,946)           | (124,029)          | -                  | -                  | (52)         | -            |
| <b>Net Earned Premium</b>   |      | <b>1,962,721</b>   | <b>1,639,010</b>   | <b>1,129,916</b>   | <b>953,236</b>     | <b>20</b>    | <b>19</b>    |
| <b>Other Revenue</b>  |      |                    |                    |                    |                    |              |              |
| Interest and Dividend Income  | 10   | 480,319            | 422,475            | 403,648            | 355,962            | 14           | 13           |
| Net Realised Gains  |      | 29,206             | 8,681              | 29,206             | 7,670              | 236          | 281          |
| Net Fair Value (Losses)/Gains   |      | (449)              | (5,527)            | (8,582)            | (3,640)            | (92)         | 136          |
| Fee and Commission Income   |      | 32,409             | 27,441             | 14,665             | 9,945              | 18           | 47           |
| Other Income  |      | 7,744              | 9,485              | 4,463              | 7,818              | (18)         | (43)         |
| <b>Total Other Revenue</b>  |      | <b>549,229</b>     | <b>462,555</b>     | <b>443,400</b>     | <b>377,755</b>     | <b>19</b>    | <b>17</b>    |
| <b>Net Income</b>   |      | <b>2,511,950</b>   | <b>2,101,565</b>   | <b>1,573,316</b>   | <b>1,330,991</b>   | <b>20</b>    | <b>18</b>    |
| <b>Net Benefits, Claims and Expenses</b>  |      |                    |                    |                    |                    |              |              |
| Net Insurance Benefits and Claims   |      | (939,108)          | (623,989)          | (403,205)          | (167,800)          | 51           | 140          |
| Change in Contract Liabilities - Life Fund  |      | (593,616)          | (686,818)          | (593,616)          | (686,818)          | (14)         | (14)         |
| Other Operating and Administration Expenses   |      | (511,964)          | (448,766)          | (281,107)          | (249,273)          | 14           | 13           |
| Underwriting and Net Acquisition Costs  |      | (284,437)          | (257,030)          | (211,393)          | (201,707)          | 11           | 5            |
| Other Insurance Related Costs   |      | (15,113)           | (11,415)           | (9,672)            | (6,164)            | 32           | 57           |
| <b>Total Benefits, Claims and Other Expenses</b>  |      | <b>(2,344,238)</b> | <b>(2,028,018)</b> | <b>(1,498,993)</b> | <b>(1,311,762)</b> | <b>16</b>    | <b>14</b>    |
| <b>Profit Before Taxation</b>   |      | <b>167,712</b>     | <b>73,547</b>      | <b>74,323</b>      | <b>19,229</b>      | <b>128</b>   | <b>287</b>   |
| Income Tax (Expenses)/Reversals   | 11   | (41,203)           | 32,192             | (17,337)           | 37,595             | (228)        | (146)        |
| <b>Profit for the Period</b>  | 12   | <b>126,509</b>     | <b>105,739</b>     | <b>56,986</b>      | <b>56,824</b>      | <b>20</b>    | <b>0.3</b>   |
| <b>Other Comprehensive Income, Net of Related Tax</b>   |      |                    |                    |                    |                    |              |              |
| <b>Items that are or may be reclassified to profit or loss</b>  |      |                    |                    |                    |                    |              |              |
| - Net Change in fair value of Available For Sale financial assets   |      | (63,677)           | 299,721            | (59,057)           | 280,269            | (121)        | (121)        |
| - Realised Gains transferred to Income Statement  |      | (29,206)           | (21,447)           | (29,206)           | (17,106)           | 36           | 71           |
| - Net Change in fair value of Available For Sale financial assets transferred to Life Policyholder's Available For Reserve Fund |      | 86,489             | (246,703)          | 86,489             | (246,703)          | 135          | 135          |
| - Related Tax   | 11   | 1,173              | (8,436)            | -                  | -                  | 114          | -            |
| <b>Total Other Comprehensive Income for the Period, net of related tax</b>  |      | <b>(5,221)</b>     | <b>23,135</b>      | <b>(1,774)</b>     | <b>16,460</b>      | <b>(123)</b> | <b>(111)</b> |
| <b>Total Comprehensive Income for the Period</b>  |      | <b>121,288</b>     | <b>128,874</b>     | <b>55,212</b>      | <b>73,284</b>      | <b>(6)</b>   | <b>(25)</b>  |
| <b>Profit Attributable to:</b>  |      |                    |                    |                    |                    |              |              |
| Equity Holders of the Parent  |      | 126,509            | 105,739            | -                  | -                  | 20           | -            |
| <b>Total Comprehensive Income Attributable to:</b>  |      |                    |                    |                    |                    |              |              |
| Equity Holders of the Parent  |      | 121,288            | 128,874            | -                  | -                  | (6)          | -            |
| Basic Earnings Per Share (Rs.)  | 13   | 2.53               | 2.11               | 1.14               | 1.14               | 20           | 0.3          |

## Operating Segment Information - Assets and Liabilities

| As at,   | Unaudited                     |                                  | Audited                       |                                  |
|--|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
|  | 30th September 2018           |                                  | 31st December 2017            |                                  |
|  | Life<br>Insurance<br>Rs. '000 | General<br>Insurance<br>Rs. '000 | Life<br>Insurance<br>Rs. '000 | General<br>Insurance<br>Rs. '000 |
| <b>Assets</b>                                      |                               |                                  |                               |                                  |
| Property, Plant and Equipment                      | 108,677                       | 50,070                           | 119,078                       | 50,542                           |
| Intangible Assets                                  | 55,974                        | 1,315                            | 57,841                        | -                                |
| Deferred Tax Assets                                | -                             | 38,702                           | -                             | 64,098                           |
| Financial Investments                              | 14,366,222                    | 2,719,114                        | 12,741,015                    | 2,313,895                        |
| Investment in Subsidiary                           | 1,150,000                     | -                                | 1,150,000                     | -                                |
| Loans to Life Policyholders                        | 215,327                       | -                                | 162,285                       | -                                |
| Reinsurance Receivables                            | 48,266                        | 364,835                          | 65,010                        | 504,768                          |
| Premium Receivables                                | 10,460                        | 799,078                          | 7,488                         | 778,831                          |
| Other Assets                                       | 871,940                       | 348,129                          | 764,256                       | 278,711                          |
| Insurance Contract - Deferred Expenses             | -                             | 142,501                          | -                             | 105,287                          |
| Cash and Cash Equivalents                          | 216,722                       | 320,320                          | 352,307                       | 289,643                          |
| <b>Total Assets</b>                                | <b>17,043,588</b>             | <b>4,784,064</b>                 | <b>15,419,280</b>             | <b>4,385,775</b>                 |
| <b>Liabilities</b>                                 |                               |                                  |                               |                                  |
| Insurance Contract Liabilities - Life Insurance    | 12,211,612                    | -                                | 10,915,858                    | -                                |
| Insurance Contract Liabilities - General Insurance | -                             | 2,554,327                        | -                             | 2,384,906                        |
| Employee Defined Benefit Liabilities               | 87,891                        | 55,305                           | 73,875                        | 52,208                           |
| Current Tax Liabilities                            | 34,588                        | 44,134                           | -                             | 34,598                           |
| Reinsurance Creditors                              | 102,308                       | 264,053                          | 90,650                        | 262,392                          |
| Other Liabilities                                  | 533,178                       | 445,478                          | 529,862                       | 372,547                          |
| Bank Overdraft                                     | 60,907                        | 101,895                          | 32,756                        | 108,904                          |
| <b>Total Liabilities</b>                           | <b>13,030,484</b>             | <b>3,465,192</b>                 | <b>11,643,001</b>             | <b>3,215,555</b>                 |

## Operating Segment Information - Profitability

| For the Nine Months Ended,                                      | Unaudited                     |                                  | Unaudited                     |                                  |
|---|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
|   | 30th September 2018           |                                  | 30th September 2017           |                                  |
|   | Life<br>Insurance<br>Rs. '000 | General<br>Insurance<br>Rs. '000 | Life<br>Insurance<br>Rs. '000 | General<br>Insurance<br>Rs. '000 |
| Gross Written Premium   | 3,245,547                     | 3,317,837                        | 2,918,895                     | 2,911,453                        |
| Premium Ceded to Reinsurers                                     | (158,219)                     | (629,568)                        | (138,134)                     | (647,345)                        |
| Net Written Premium   | 3,087,328                     | 2,688,269                        | 2,780,761                     | 2,264,108                        |
| Net Change in Reserves for Unearned Premium                     | -                             | (264,276)                        | -                             | (333,050)                        |
| <b>Net Earned Premium</b>                                       | <b>3,087,328</b>              | <b>2,423,993</b>                 | <b>2,780,761</b>              | <b>1,931,058</b>                 |
| <b>Other Revenue</b>  |                               |                                  |                               |                                  |
| Interest and Dividend Income                                    | 1,168,400                     | 216,589                          | 982,574                       | 183,312                          |
| Net Realised Gains  | 59,140                        | 5,385                            | 12,616                        | 4,007                            |
| Net Fair Value (Losses)/Gains                                   | (21,480)                      | 11,242                           | 12,197                        | 2,126                            |
| Fee and Commission Income                                       | 64,168                        | 59,545                           | 50,538                        | 75,554                           |
| Other Income  | 11,093                        | 13,950                           | 18,811                        | 12,642                           |
| <b>Total Other Revenue</b>                                      | <b>1,281,321</b>              | <b>306,711</b>                   | <b>1,076,736</b>              | <b>277,641</b>                   |
| <b>Net Income</b>   | <b>4,368,649</b>              | <b>2,730,704</b>                 | <b>3,857,497</b>              | <b>2,208,699</b>                 |
| <b>Net Benefits, Claims and Expenses</b>                        |                               |                                  |                               |                                  |
| Net Insurance Benefits and Claims                               | (796,473)                     | (1,591,901)                      | (403,832)                     | (1,259,544)                      |
| Change in Contract Liabilities - Life Fund                      | (1,655,554)                   | -                                | (1,923,840)                   | -                                |
| Change in Contract Liability due to Transfer of One-off Surplus | 381,156                       | -                                | -                             | -                                |
| Other Operating and Administration Expenses                     | (836,599)                     | (709,242)                        | (742,448)                     | (633,627)                        |
| Underwriting and Net Acquisition Cost                           | (628,856)                     | (212,496)                        | (607,129)                     | (151,387)                        |
| Other Insurance Related Cost                                    | (27,230)                      | (16,837)                         | (23,419)                      | (14,275)                         |
| <b>Total Benefits, Claims and other Expenses</b>                | <b>(3,563,556)</b>            | <b>(2,530,476)</b>               | <b>(3,700,668)</b>            | <b>(2,058,833)</b>               |
| <b>Profit Before Taxation</b>                                   | <b>805,093</b>                | <b>200,228</b>                   | <b>156,829</b>                | <b>149,866</b>                   |
| Income Tax Expenses   | (34,588)                      | (39,174)                         | -                             | (24,776)                         |
| <b>Profit for the Period</b>                                    | <b>770,505</b>                | <b>161,054</b>                   | <b>156,829</b>                | <b>125,090</b>                   |



# 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 No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03. 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 authorised for issue by the Board of Directors on 26th October 2018.

Figures in these Condensed Consolidated Interim Financial Statements for the period ended 30th September 2018 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 - 2017 have been followed in preparation of these Condensed Consolidated Interim Financial Statements.

### Temporary Exemption for Application of SLFRS 09

SLFRS 09 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1st January 2018. However, for an insurer that meets the criteria in paragraph 20B of SLFRS 4 (Amended) provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 Financial Instruments: Recognition and Measurement rather than SLFRS 09 for annual periods beginning before 1st January 2021.

Having considered the above, since HNB Assurance PLC and HNB General Insurance Limited are predominantly carrying out Insurance activities, both Companies continue to apply LKAS 39 Financial Instruments: Recognition and Measurement rather than SLFRS 09 for annual periods beginning before 1st January 2021.

Group has not early adopted the new SLFRSs and interpretations issued but not yet effective.

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           |
|   | 30th Sep 2018     | 31st Dec 2017     | 30th Sep 2018     | 31st Dec 2017     |
|   | Rs. '000          | Rs. '000          | Rs. '000          | Rs. '000          |
| Held to Maturity Financial Assets                     | -                 | 180,460           | -                 | 180,460           |
| Loans and Receivables                                 | 10,495,908        | 8,417,430         | 8,579,136         | 6,789,740         |
| Available for Sale Financial Assets                   | 6,499,469         | 6,326,735         | 5,710,880         | 5,659,291         |
| Financial Assets at Fair value Through Profit or Loss | 89,959            | 130,285           | 76,206            | 111,524           |
| <b>Total Financial Investments</b>                    | <b>17,085,336</b> | <b>15,054,910</b> | <b>14,366,222</b> | <b>12,741,015</b> |

## 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 where necessary.

## Notes to the Condensed Consolidated Interim Financial Statements

### 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 are included under Life Policyholders' Available For Sale Reserve Fund in Equity.

### 6 RESTRICTED REGULATORY RESERVE

|  | Group                                  |                                      | Company                                |                                      |
|--|--|--------------------------------------|--|--------------------------------------|
|  | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
| Balance at the beginning of the period                                 | -                                      | -                                    | -                                      | -                                    |
| Transfer of One-off Surplus from Policyholder Fund to Shareholder Fund | <b>381,156</b>                         | -                                    | <b>381,156</b>                         | -                                    |
| Balance at the end of the period                                       | <b>381,156</b>                         | -                                    | <b>381,156</b>                         | -                                    |

#### 6 a) Nature and Purpose of Reserve

The Insurance Regulatory Commission of Sri Lanka (IRCSL) has issued Direction No. 16 on 20th March 2018 on "Identification and Treatment of One-off Surplus" and has instructed all Life Insurance Companies to comply with the new Direction. Based on the new Direction, Life Insurance Companies are allowed to transfer One-off surplus attributable to Policyholder Non-Participating Fund to Shareholder Fund. The transfer has been presented as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with the direction above. The distribution of One-off Surplus to shareholders as dividend shall remain restricted until the requirements disclosed in Note 7 (c) are met. As required by the said Direction, the Company received the approval for this transfer on 11th May 2018.

#### 6 b) Composition of Investments Supporting the Restricted Regulatory Reserve as at 30th September 2018

Based on the direction issued by IRCSL following Instruments have been marked to support the Restricted Regulatory Reserve of the Company.

| Asset Category | Market Value / Carrying Value as at<br>30th Sep 2018 (Rs. '000) |
|----------------|---|
| Term Deposits  | 396,510   |

### 7 INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE

| As at,                                      | Group                                  |                                      | Company                                |                                      |
|---|--|--------------------------------------|--|--------------------------------------|
|   | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
| Life Insurance Fund (Note 7a)               | <b>12,075,219</b>                      | 10,800,821                           | <b>12,075,219</b>                      | 10,800,821                           |
| Claims Outstanding                          | <b>136,393</b>                         | 115,037                              | <b>136,393</b>                         | 115,037                              |
| <b>Total Insurance Contract Liabilities</b> | <b>12,211,612</b>                      | 10,915,858                           | <b>12,211,612</b>                      | 10,915,858                           |

## Notes to the Condensed Consolidated Interim Financial Statements

### 7 INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (Contd.)

| As at,   | Group                                  |                                      | Company                                |                                      |
|--|--|--------------------------------------|--|--------------------------------------|
|  | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
| <b>7 a) Life Insurance Fund</b>  |  |                                      |  |                                      |
| The movement in the Life Insurance Fund is as follows:                       |  |                                      |  |                                      |
| Balance as at the beginning of the period                                    | 10,800,821                             | 8,634,394                            | 10,800,821                             | 8,634,394                            |
| Change in Contract Liability due to transfer<br>of One-off Surplus (Note 7b) | (381,156)                              | -                                    | (381,156)                              | -                                    |
|  | <b>10,419,665</b>                      | 8,634,394                            | <b>10,419,665</b>                      | 8,634,394                            |
| <b>Change in Contract Liabilities Life Fund</b>                              |  |                                      |  |                                      |
| Increase in Life Insurance Fund Before                                       |  |                                      |  |                                      |
| - Surplus Distribution to Shareholders                                       | 1,865,326                              | 2,684,985                            | 1,865,326                              | 2,684,985                            |
| Surplus Distributed to Shareholders  | (209,772)                              | (518,558)                            | (209,772)                              | (518,558)                            |
| Increase in Life Insurance Fund  | <b>1,655,554</b>                       | 2,166,427                            | <b>1,655,554</b>                       | 2,166,427                            |
| <b>Balance as at the end of the period</b>                                   | <b>12,075,219</b>                      | 10,800,821                           | <b>12,075,219</b>                      | 10,800,821                           |

7 b) As required by the IRCSL, 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 Insurers are required to value Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and valuation rules and methodologies stipulated by the IRCSL. The change in the valuation method from NPV to GPV resulted a release in Life Policyholder Liabilities of the Company as of 01st January 2016.

The IRCSL had directed insurance Companies to maintain this One-off Surplus arising from change in the policy liability valuation within the long term insurance fund / insurance contract liabilities separately in the name of "Surplus created due to change in valuation method from NPV to GPV" and not to transfer / distribute any part surplus until specific instructions are issued in this regard.

#### Surplus created due to Change in Valuation Method

| Description  |       | Participating Fund<br>Rs. '000 | Non Participating Fund<br>Rs. '000 | Total<br>Rs. '000 |
|--|-------|--------------------------------|------------------------------------|-------------------|
| Value of Insurance contract liability based on NPV<br>as at 31st December 2015 | A     | 2,988,500                      | 3,856,964                          | 6,845,464         |
| Value of Insurance contract liability based on GPV<br>31st December 2015       | B     | 3,015,001                      | 3,475,808                          | 6,490,809         |
| Zerorisation of Negative Surplus as per Direction No. 16                       | C     | 26,501                         | -                                  | 26,501            |
| Surplus created due to Change in Valuation Method                              |       |                                |                                    |                   |
| - One-off Surplus as at 01st January 2016                                      | A-B+C | -                              | 381,156                            | 381,156           |

Subsequently IRCSL, through the Direction No. 16 issued on 20th March 2018 on "Directions for identification and treatment of One-off Surplus" Life Insurance Companies were directed to transfer One-off Surplus attributable to Policyholder Non-Participating Fund to Shareholder Fund in the relevant period. The transfer has been presented as a separate line item in the Income Statement as "Change in contract Liability due to transfer of One-off Surplus" and as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with Direction. As required by the said Direction, the Company received the approval of the IRCSL for this transfer on 11th May 2018.

## Notes to the Condensed Consolidated Interim Financial Statements

Further, distribution of One-off Surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released as dividends upon receiving approval from the IRCSL. The One-off surplus in the shareholder Fund will remain invested in Term deposits as disclosed in Note No. 6(b) as per the directions of IRCSL.

The Financial ratios presented in these Consolidated Interim Financial Statements have been determined in accordance with Sri Lanka Accounting Standards. Additionally the Company has voluntarily presented financial ratios without One-off surplus impact. As per the Direction, One-off Surplus in respect of participating business is to be held within the participating fund as part of the unallocated valuation surplus and may only be transferred to the Shareholder Fund by means of bonuses to policyholders in line with Section 38 of the "Regulation of Insurance Industry, Act No. 43 of 2000".

### 7 c) Distribution of One-off Surplus

The distribution of one-off surplus to shareholders as dividends shall remain restricted until a Company develops appropriate policies and procedures for effective management of its business, as listed below.

- Expense allocation policy setting out basis of allocation of expenses between the Shareholder Fund and the Policyholder Fund as well as between different lines of business within the Policyholder Fund, particularly Participating and Non-participating.
- Dividend declaration policy for universal life business.
- Bonus policy for the participating business, which should include treatment of One-off Surplus for the purpose of bonus declaration.
- Asset Liability Management policy
- Policy on internal target Capital Adequacy Ratio.
- Considerations for transfer of funds from Policyholder Fund to Shareholder Fund.

These policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by IRCSL from time to time. Further IRCSL will consider the distribution of One-off Surplus when the RBC rules are revised.

The IRCSL will permit distribution of One-off Surplus subject to yearly distribution caps on a case by case basis.

- 7 d) Valuation of the Life Insurance Contract Liabilities for the period ended 30th June 2018 was carried out by the Consultant Actuary, 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. The Group has recognised a profit of Rs. 209.8 Million for the three months ended 31st March 2018 (31st December 2017 - Rs. 518.6 Million) from the Life Insurance Business based on the recommendations made by the Life Insurance Consultant Actuary Mr. Hassan Scott Odierno, of M/S Actuarial Partners Consulting Sdn Bhd.

### 7 e) Liability Adequacy Test

A Liability Adequacy Test ("LAT") for the Life Insurance Contract Liability was carried out by Consultant Actuary, Mr. Hassan Scott Odierno, FSA for and on behalf of M/S Actuarial Partners Consulting Sdn Bhd, as at 30th June 2018 as required by SLFRS 4 - Insurance Contracts.

## Notes to the Condensed Consolidated Interim Financial Statements

### 8 INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE

| As at,                                      | Group                                  |                                      | Company                                |                                      |
|---|--|--------------------------------------|--|--------------------------------------|
|   | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
| Reserves for Net Unearned Premium           | 1,846,863                              | 1,592,450                            | -                                      | -                                    |
| Reserves for Title Insurance                | 44,703                                 | 34,840                               | -                                      | -                                    |
| Reserves for Gross Outstanding Claims       | 662,761                                | 757,616                              | -                                      | -                                    |
| <b>Total Insurance Contract Liabilities</b> | <b>2,554,327</b>                       | <b>2,384,906</b>                     | -                                      | -                                    |

8 a) Valuation of the IBNR/IBNER was carried by the Consultant Actuary, Mr. Sivaraman Kumar, FIA, for and behalf of NMG Consulting as at 30th September 2018 and have ensured that adequate provisions have been made in these Condensed Consolidated Interim Financial Statements.

#### 8 b) Liability Adequacy Test

A Liability Adequacy Test ("LAT") for the General Insurance Contract Liability was carried out by Consultant Actuary for and on behalf of NMG Consulting as at 30th June 2018 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed semi-annually.

### 9 GROSS WRITTEN PREMIUM

| Group                    | Audited<br>31st Dec 2017<br>Rs. '000 | For the Nine Months Ended,              | Group                                  |  | Company                                |  |
|--------------------------|--------------------------------------|---|--|--|--|--|
|                          |                                      |   | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <b>Life Insurance</b>    |                                      |   |  |  |  |  |
| 3,891,527                |                                      | Individual Policies                     | 3,215,555                              | 2,855,337                              | 3,215,555                              | 2,855,337                              |
| 72,115                   |                                      | Corporate Policies                      | 29,992                                 | 63,558                                 | 29,992                                 | 63,558                                 |
| (25,632)                 |                                      | Adjustment for Inter Company Premiums   | (22,418)                               | (17,621)                               | -                                      | -                                      |
| 3,938,010                |                                      | Life Insurance Gross Written Premium    | <b>3,223,129</b>                       | 2,901,274                              | <b>3,245,547</b>                       | 2,918,895                              |
| <b>General Insurance</b> |                                      |   |  |  |  |  |
| 539,350                  |                                      | Fire                                    | 438,628                                | 420,893                                | -                                      | -                                      |
| 2,849,042                |                                      | Motor                                   | 2,552,384                              | 2,162,476                              | -                                      | -                                      |
| 57,451                   |                                      | Marine                                  | 57,029                                 | 40,928                                 | -                                      | -                                      |
| 460,660                  |                                      | Miscellaneous                           | 269,796                                | 287,156                                | -                                      | -                                      |
| (23,045)                 |                                      | Adjustment for Inter Company Premiums   | (4,906)                                | (7,101)                                | -                                      | -                                      |
| 3,883,458                |                                      | General Insurance Gross Written Premium | <b>3,312,931</b>                       | 2,904,352                              | -                                      | -                                      |
| 7,821,468                |                                      | <b>Total Gross Written Premium</b>      | <b>6,536,060</b>                       | 5,805,626                              | <b>3,245,547</b>                       | 2,918,895                              |

## Notes to the Condensed Consolidated Interim Financial Statements

### 9 GROSS WRITTEN PREMIUM (Contd.)

|  | Group                                  |  | Company                                |  |
|--|--|--|--|--|
|  | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Three Months Ended,</i>             |  |  |  |  |
| <b>Life Insurance</b>                          |  |  |  |  |
| Individual Policies                            | 1,175,316                              | 991,259                                | 1,175,316                              | 991,259                                |
| Corporate Policies                             | 8,833                                  | 8,499                                  | 8,833                                  | 8,499                                  |
| Adjustment for Inter Company Premiums          | (8,015)                                | (7,255)                                | -                                      | -                                      |
| <b>Life Insurance Gross Written Premium</b>    | <b>1,176,134</b>                       | <b>992,503</b>                         | <b>1,184,149</b>                       | <b>999,758</b>                         |
| <b>General Insurance</b>                       |  |  |  |  |
| Fire   | 122,305                                | 125,590                                | -                                      | -                                      |
| Motor  | 873,667                                | 787,940                                | -                                      | -                                      |
| Marine   | 22,263                                 | 15,017                                 | -                                      | -                                      |
| Miscellaneous                                  | 84,032                                 | 81,549                                 | -                                      | -                                      |
| Adjustment for Inter Company Premiums          | (636)                                  | (2,204)                                | -                                      | -                                      |
| <b>General Insurance Gross Written Premium</b> | <b>1,101,631</b>                       | <b>1,007,892</b>                       | <b>-</b>                               | <b>-</b>                               |
| <b>Total Gross Written Premium</b>             | <b>2,277,765</b>                       | <b>2,000,395</b>                       | <b>1,184,149</b>                       | <b>999,758</b>                         |

### 10 INTEREST AND DIVIDEND INCOME

|                  | Group                                |                                   | Company                                |  |
|------------------|--------------------------------------|-----------------------------------|--|--|
|                  | Audited<br>31st Dec 2017<br>Rs. '000 | <i>For the Nine Months Ended,</i> | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| 1,684,689        | Interest Income                      | 1,381,395                         | 1,158,477                              | 1,165,330                              |
| 8,502            | Dividend Income                      | 3,594                             | 7,409                                  | 3,070                                  |
| <b>1,693,191</b> | <b>Total</b>                         | <b>1,384,989</b>                  | <b>1,165,886</b>                       | <b>1,168,400</b>                       |

|                                    | Group                                  |  | Company                                |  |
|------------------------------------|--|--|--|--|
|                                    | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Three Months Ended,</i> |  |  |  |  |
| Interest Income                    | 479,546                                | 419,359                                | 403,044                                | 353,303                                |
| Dividend Income                    | 773                                    | 3,116                                  | 604                                    | 2,659                                  |
| <b>Total</b>                       | <b>480,319</b>                         | <b>422,475</b>                         | <b>403,648</b>                         | <b>355,962</b>                         |

### 11 INCOME TAX EXPENSES

|                 | Group  |                                   | Company                                |  |
|-----------------|--|-----------------------------------|--|--|
|                 | Audited<br>31st Dec 2017<br>Rs. '000                       | <i>For the Nine Months Ended,</i> | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| (34,600)        | Income Tax on Current Period's Profits                     | (44,123)                          | (24,776)                               | (34,588)                               |
| (621)           | Under Provision of Current Taxes in respect of Prior Years | -                                 | -                                      | -                                      |
| 17,946          | Deferred Income Tax - Profit or Loss                       | (29,639)                          | -                                      | -                                      |
| <b>(17,275)</b> | <b>Total Tax charge in Profit or Loss</b>                  | <b>(73,762)</b>                   | <b>(24,776)</b>                        | <b>(34,588)</b>                        |
| (6,770)         | Deferred Income Tax - Other Comprehensive Income           | 4,244                             | (6,483)                                | -                                      |
| <b>(6,770)</b>  | <b>Total Tax charge in Other Comprehensive Income</b>      | <b>4,244</b>                      | <b>(6,483)</b>                         | <b>-</b>                               |

# Notes to the Condensed Consolidated Interim Financial Statements

## 11 INCOME TAX EXPENSES (Contd.)

|  | Group                                  |  | Company                                |  |
|--|--|--|--|--|
|  | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Three Months Ended,</i>               |  |  |  |  |
| Current Tax Charge                               | (17,337)                               | (5,403)                                | (17,337)                               | -                                      |
| Reversal of Provision for Tax Credits            | -                                      | 37,595                                 | -                                      | 37,595                                 |
| Deferred Income Tax - Profit or Loss             | (23,866)                               | -                                      | -                                      | -                                      |
| <b>Total</b>                                     | <b>(41,203)</b>                        | <b>32,192</b>                          | <b>(17,337)</b>                        | <b>37,595</b>                          |
| Deferred Income Tax - Other Comprehensive Income | 1,173                                  | (8,436)                                | -                                      | -                                      |
| <b>Total</b>                                     | <b>1,173</b>                           | <b>(8,436)</b>                         | <b>-</b>                               | <b>-</b>                               |

The Company and its subsidiary are liable to pay income tax at the rate of 28% (2017 - 28%) of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017.

## 12 PROFIT FOR THE PERIOD

|                                   | Group | Group                                  |  | Company                                |  |
|-----------------------------------|-------|--|--|--|--|
|                                   |       | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Nine Months Ended,</i> |       |  |  |  |  |
| 725,665 HNB Assurance PLC         |       | 770,505                                | 156,829                                | 770,505                                | 156,829                                |
| 184,087 HNB General Insurance Ltd |       | 161,054                                | 125,090                                | -                                      | -                                      |
| <b>909,752 Total</b>              |       | <b>931,559</b>                         | <b>281,919</b>                         | <b>770,505</b>                         | <b>156,829</b>                         |

|                                    | Group | Group                                  |  | Company                                |  |
|------------------------------------|-------|--|--|--|--|
|                                    |       | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Three Months Ended,</i> |       |  |  |  |  |
| HNB Assurance PLC                  |       | 56,986                                 | 56,824                                 | 56,986                                 | 56,824                                 |
| HNB General Insurance Ltd          |       | 69,523                                 | 48,915                                 | -                                      | -                                      |
| <b>Total</b>                       |       | <b>126,509</b>                         | <b>105,739</b>                         | <b>56,986</b>                          | <b>56,824</b>                          |

Profit for the Nine month period ended 30th September 2018 includes Rs.209.8 Million transferred to the Shareholder Fund as surplus out of the non-participating fund of the Life fund on the recommendations made by the Life Insurance Consultant Actuary Mr. Hassan Scott Odierno, of M/S Actuarial Partners Consulting Sdn Bhd as of 31st March 2018 (31st March 2017: Nil), and Rs. 381.1 Million transferred to the Shareholder Fund as One-off Surplus attributable to Policyholder Non-Participating Fund of the Life Fund as per the Direction No. 16 of the Insurance Regulatory Commission of Sri Lanka. Similar transactions were not carried out during last year as shown in the comparative figures.

## 13 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                    |                            |
|---|-------|----------------------------|----------------------------|----------------------------|----------------------------|
|   |       | Unaudited<br>30th Sep 2018 | Unaudited<br>30th Sep 2017 | Unaudited<br>30th Sep 2018 | Unaudited<br>30th Sep 2017 |
| <i>For the Nine Months Ended,</i>               |       |                            |                            |                            |                            |
| 909,752 Profit for the Period (Rs. '000)        |       | 931,559                    | 281,919                    | 770,505                    | 156,829                    |
| 50,000 Weighted average number of shares ('000) |       | 50,000                     | 50,000                     | 50,000                     | 50,000                     |
| <b>18.20 Basic Earnings Per Share (Rs.)</b>     |       | <b>18.63</b>               | <b>5.64</b>                | <b>15.41</b>               | <b>3.14</b>                |

## Notes to the Condensed Consolidated Interim Financial Statements

### BASIC EARNINGS PER SHARE – EXCLUDING ONE-OFF SURPLUS (EPS)

| <i>For the Nine Months Ended,</i>        | Group                      |                            | Company                    |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | Unaudited<br>30th Sep 2018 | Unaudited<br>30th Sep 2017 | Unaudited<br>30th Sep 2018 | Unaudited<br>30th Sep 2017 |
| Profit for the Period (Rs. '000)         | <b>550,403</b>             | 281,919                    | <b>389,349</b>             | 156,829                    |
| Weighted average number of shares ('000) | <b>50,000</b>              | 50,000                     | <b>50,000</b>              | 50,000                     |
| Basic Earnings Per Share (Rs.)           | <b>11.01</b>               | 5.64                       | <b>7.79</b>                | 3.14                       |

### BASIC EARNINGS PER SHARE (EPS)

| <i>For the Three Months Ended,</i>       | Group                      |                            | Company                    |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | Unaudited<br>30th Sep 2018 | Unaudited<br>30th Sep 2017 | Unaudited<br>30th Sep 2018 | Unaudited<br>30th Sep 2017 |
| Profit for the Period (Rs. '000)         | <b>126,509</b>             | 105,739                    | <b>56,986</b>              | 56,824                     |
| Weighted average number of shares ('000) | <b>50,000</b>              | 50,000                     | <b>50,000</b>              | 50,000                     |
| Basic Earnings Per Share (Rs.)           | <b>2.53</b>                | 2.11                       | <b>1.14</b>                | 1.14                       |

### 14 RELATED PARTY DISCLOSURES

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

| Nature of Transaction             | Group                                  |  | Company                                |  |
|-----------------------------------|--|--|--|--|
|                                   | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Nine Months Ended,</i> |  |  |  |  |
| Insurance Premium                 | <b>8,775</b>                           | 8,269                                  | -                                      | -                                      |
| Claims Incurred                   | <b>13,029</b>                          | 11,058                                 | -                                      | -                                      |
| Investment Income                 | <b>47,827</b>                          | 32,027                                 | <b>35,977</b>                          | 25,462                                 |
| Administration Expenses           | <b>186,924</b>                         | 161,697                                | <b>115,434</b>                         | 473,680                                |
| Rent and other Expenses           | <b>7,113</b>                           | 6,551                                  | <b>4,704</b>                           | 4,709                                  |
| Dividend Paid                     | <b>179,958</b>                         | 149,965                                | <b>179,958</b>                         | 149,965                                |

| Nature of Transaction                                  | Group                                  |                                      | Company                                |                                      |
|--|--|--------------------------------------|--|--------------------------------------|
|  | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
| <i>Balance as at,</i>                                  |  |                                      |  |                                      |
| Investments Balance (Includes Deposits and Debentures) | <b>816,493</b>                         | 411,461                              | <b>661,514</b>                         | 358,497                              |
| Cash at Bank Balances                                  | <b>348,840</b>                         | 426,156                              | <b>149,250</b>                         | 260,759                              |

#### b) Transaction with the Subsidiary Company - HNB General Insurance Ltd

| Nature of Transaction                  | Unaudited                 | Unaudited                 |
|--|---------------------------|---------------------------|
|  | 30th Sep 2018<br>Rs. '000 | 30th Sep 2017<br>Rs. '000 |
| <i>For the Nine Months Ended,</i>      |                           |                           |
| Insurance Premium                      | <b>22,418</b>             | 17,621                    |
| Insurance Expenses                     | <b>4,906</b>              | 7,101                     |
| Claims Received                        | <b>824</b>                | 385                       |
| Claims Paid                            | -                         | 3,500                     |
| Administrations Expenses Reimbursement | <b>188,729</b>            | 181,384                   |
| Fund Management Fee                    | <b>4,002</b>              | 3,342                     |
| Profit Commission Expense              | <b>6,756</b>              | 6,434                     |



## Notes to the Condensed Consolidated Interim Financial Statements

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

| Name of the Company               | Nature of Transaction       | Group                                  |  | Company                                |  |
|-----------------------------------|-----------------------------|--|--|--|--|
|                                   |                             | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Nine Months Ended,</i> |                             |  |  |  |  |
| Sithma Development (Pvt) Ltd      | Insurance Premium           | 268                                    | -                                      | -                                      | -                                      |
|                                   | Claims Incurred             | 2,981                                  | -                                      | -                                      | -                                      |
| HNB Finance Ltd                   | Insurance Premium           | 5,134                                  | 38,513                                 | -                                      | 38,098                                 |
|                                   | Claims Incurred             | 1,462                                  | 83,563                                 | -                                      | 83,355                                 |
|                                   | Administration Expenses     | 4,849                                  | 5,160                                  | -                                      | 2,951                                  |
|                                   | Interest Income             | 5,609                                  | 3,103                                  | 5,609                                  | 3,103                                  |
| Name of the Company               | Nature of Transaction       | Group                                  |  | Company                                |  |
| As at,                            |                             | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000   | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000   |
| HNB Finance Ltd                   | Investment in Term Deposits | 50,071                                 | 50,243                                 | 50,071                                 | 50,243                                 |

### d) Transactions with other Related Entities

| Name of the Company               | Nature of Transaction       | Group                                  |  | Company                                |  |
|-----------------------------------|-----------------------------|--|--|--|--|
|                                   |                             | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
| <i>For the Nine Months Ended,</i> |                             |  |  |  |  |
| ACUITY Partners (Pvt) Ltd         | Insurance Premium           | 339                                    | 11                                     | 4                                      | -                                      |
|                                   | Claims incurred             | 450                                    | -                                      | -                                      | -                                      |
| ACUITY Stock Brokers (Pvt) Ltd    | Insurance Premium           | 608                                    | 38                                     | -                                      | -                                      |
|                                   | Claims incurred             | 245                                    | -                                      | -                                      | -                                      |
| ACUITY Securities Ltd             | Insurance Premium           | 458                                    | -                                      | -                                      | -                                      |
|                                   | Claims incurred             | 223                                    | -                                      | -                                      | -                                      |
|                                   | Investment Income from REPO | 50,923                                 | 48,870                                 | 35,451                                 | 37,008                                 |
| Name of the Company               | Nature of Transaction       | Group                                  |  | Company                                |  |
| As at,                            |                             | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000   | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000   |
| ACUITY Securities Ltd             | Investment In REPO          | 555,404                                | 643,217                                | 446,259                                | 464,790                                |

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

| Nature of Transaction                    | Unaudited<br>30th Sep 2018<br>Rs. '000 | Unaudited<br>30th Sep 2017<br>Rs. '000 |
|--|--|--|
| <i>For the Nine Months Ended,</i>        |  |  |
| Director Fee                             | 13,894                                 | 9,075                                  |
| Short -term and Post employment benefits | 43,888                                 | 35,868                                 |
| Insurance Premium                        | 1,992                                  | 1,541                                  |
| Claims Paid                              | 383                                    | 34                                     |

Mr. Darshan Ravindra Abeyesuriya has been appointed as an Independent Non-Executive Director to the Board of HNB Assurance PLC w.e.f. 01st January 2018.

The nature of the related party transactions in the current period was similar to those reported in the Audited Financial Statements – 2017 except for the above changes.

### 15 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 16 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. (2017 - Nil).
- b) Future commitments on operating leases

| Nature of Transaction<br>As at,          | Unaudited<br>30th Sep 2018<br>Rs. '000 | Audited<br>31st Dec 2017<br>Rs. '000 |
|--|--|--------------------------------------|
| Less than one year                       | 121,839                                | 116,311                              |
| Between one and five years               | 243,279                                | 299,855                              |
| More than five years                     | 2,614                                  | 6,424                                |
| <b>Total Operating Lease Commitments</b> | <b>367,732</b>                         | <b>422,590</b>                       |

### 17 CONTINGENCIES

- a) The Company has received a VAT Assessment on Reinsurance Claims amounting to Rs. 13.3 Million for the year of Assessment 2010/2011. This is a common assessment issued by IRD to most of the Insurance companies in the General Insurance business. The Company has filed due responses in consultation with Tax Consultants and made an appeal to the Tax Appeals Commission. Following a hearing, Tax Appeals Commission has granted their determination confirming the assessment. The Company in consultation with our tax consultant and has filed a case in the Court of Appeal through an externally hired Lawyer and court proceedings are in progress.
- b) The Company received a Notice of Assessment on VAT on Financial Services informing that the Company is liable for VAT on Financial Services for the taxable periods 01.01.2014 to 31.12.2014. The Company made a Petition of Appeal against the assessment as the Company's stance is that, it is in the business of Insurance and hence is not liable for VAT on FS. Other insurers have also received similar assessments and have appealed against them. As such no provision is made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 31.6 Million.
- c) The Company has received Income Tax Assessments for Life Insurance Taxation for the years of assessments 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016. These Assessments were issued by the Inland Revenue Department in contrary to the Section 92 of Inland Revenue Act, No. 10 of 2006. Further, these Income Tax Assessments have been common Assessments for all Life Insurance companies in the insurance industry. It is the view of the industry and the Company's Tax Consultant that these assessments will not materialize. Therefore no additional provision has been made in the Financial Statements.

The Company has duly appealed against these Assessments in consultation with Tax Consultants and the status of each Assessment is provided in the table below,

| Year of Assessment | Status of Assessment  | Nature of contingent impact to the company | Measurement of contingent impact to the company  |
|--------------------|---|--|--|
| 2011/2012          | Pending decision from Tax Appeals Commission                            | Loss adjustment                            | Brought forward Tax loss of Life Insurance business will be reduced by Rs. 310 Million |
| 2012/2013          | Pending decision from Tax Appeals Commission                            | Loss adjustment                            | Brought forward Tax loss of Life Insurance business will be reduced by Rs. 278 Million |
| 2013/2014          | Company is in the process of filing an appeal in Tax Appeals Commission | Additional tax liability                   | An additional Tax Liability of Rs. 132 Million will arise                              |
| 2014/2015          | Pending decision from Commissioner General of Inland Revenue            | Additional tax liability                   | An additional Tax Liability of Rs. 136 Million will arise                              |
| 2015/2016          | Pending decision from Commissioner General of Inland Revenue            | Additional tax liability                   | An additional Tax Liability of Rs. 164 Million will arise                              |

## Share Information

### Top 20 Shareholders

| Name of the Shareholder                           | 30th September 2018 |                    |
|---|---------------------|--------------------|
|   | Shareholding        | % on Issued Shares |
| 1 Hatton National Bank PLC A/c No.1               | 29,993,000          | 59.99%             |
| 2 Ceylon Guardian Investment Trust PLC A/c No.2   | 1,892,800           | 3.79%              |
| 3 Mrs. A.S. Palihena and Mr.S.N.P.Palihena        | 900,000             | 1.80%              |
| 4 Janashakthi General Insurance Limited           | 824,425             | 1.65%              |
| 5 Mr.S.N.P.Palihena and Mrs. A.S. Palihena        | 600,000             | 1.20%              |
| 6 Mr. Mohamed Faizer Hashim                       | 510,000             | 1.02%              |
| 7 Mrs. Arunthathi Selliah                         | 400,000             | 0.80%              |
| 8 Mrs. Abiramipillai Kailasapillai                | 400,000             | 0.80%              |
| 9 Arunodhaya Industries (Pvt) Ltd                 | 400,000             | 0.80%              |
| 10 Arunodhaya (Pvt) Ltd                           | 400,000             | 0.80%              |
| 11 Arunodhaya Investments (Pvt) Ltd               | 400,000             | 0.80%              |
| 12 Ceylon Investment PLC A/c No. 2                | 380,561             | 0.76%              |
| 13 Mr. P.H.D Waidyatilaka                         | 272,683             | 0.55%              |
| 14 Corporate Holdings (Pvt) Ltd. A/c No.1         | 245,103             | 0.49%              |
| 15 Suktam Holdings (Pvt) Ltd                      | 234,434             | 0.47%              |
| 16 Bank of Ceylon A/c Ceybank Century Growth Fund | 234,367             | 0.47%              |
| 17 Peacock Properties (Pvt) Ltd                   | 218,633             | 0.44%              |
| 18 Mr. M.H.V.U Gunatilaka                         | 206,273             | 0.41%              |
| 19 Mr. Vikas Sharda                               | 203,000             | 0.41%              |
| 20 Mr. A.A.A Rifkee                               | 200,000             | 0.40%              |
|   | <b>38,915,279</b>   | <b>77.85%</b>      |

### Public Shareholding

**30th September 2018**

|  |               |
|--|---------------|
| * Float Adjusted Market Capitalisation (Rs.) | 2,125,296,974 |
| Percentage of Shares held by the Public      | 38.68%        |
| Number of Public Shareholders                | 3,403         |

The Company complies the minimum public Shareholding required under section 7.131 (a) of the Listing Rules.

\* Float Adjusted Market Capitalisation = Market Capitalisation X Public Holding Percentage

## Share Information (Contd.)

### Shareholdings of Directors

| Name of the Director   | No. of Shares<br>as at 30th September 2018 |
|--|--|
| Mrs. M A R C Cooray  | 18,035                                     |
| Mr. S C Ratwatte   | 14,666                                     |
| Mr. J A P M Jayasekara   | 83,057                                     |
| Mr. D P N Rodrigo  | 180  |
| Mrs. S N Wickramasinghe  | 52,500                                     |
| Dr. S Selliah  | 100,000                                    |
| Mr. A G R Dissanayake (Joint Mrs. M.A.W. Samaranayake)             | 100  |
| Mr. D R Abeyuriya  | Nil  |
| Mr. D P Lokuarachchi - (Managing Director/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 30th September 2018 - Group                           | 83.64  |
| Net Asset Value Per Share as at 30th September 2018 - Company                         | 80.26  |
| Net Asset Value Per Share as at 30th September 2018 without one-off Surplus - Group   | 76.02  |
| Net Asset Value Per Share as at 30th September 2018 without one-off Surplus - Company | 72.64  |
| Highest Price Per Share for the Interim Period  | 118.90 |
| Lowest Price Per Share for the Interim Period   | 100.00 |
| Last traded Price Per Share as at 30th September 2018                                 | 109.90 |