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දොළොලක මෙහෙවර

අපදොළ ගංගාවල දැකිය හැකි ගලායන ජල ප්‍රවාහය සමග කාලාන්තරයක් තිස්සේ ස්පර්ශ වෙමින්, රළු හැඩතල ගෙවී වඩා හොඳින් මට්සිලුටු වූ ගල් විශේෂය, ගැමි ජනතාව අතරේ 'දොළගල' නමින් ව්‍යවහාර වේ.

ශ්‍රී ලාංකීය ජන ප්‍රවාහය සමග ලොංගතුව ස්පර්ශ වෙමින්, ඔවුන්ගේ ආර්ථික සිතූම් පැතුම් හඳුනාගනිමින් එව් එන් ඩී ග්‍රාමීන්, එදා සිට අද දක්වා පැමිණි ගමන, සමාන කළ හැකි දොළගල තරම් තවත් උපමාවක් හැකි තරම්ය.

කාලයෙන් කාලයට වැඩෙන ජනතාවගේ මූල්‍ය අවශ්‍යතාවන් හඳුනාගනිමින්ද, මොහොතින් මොහොත අලුත්වන නව තාක්ෂණය සමග බැඳුණු වේගවත් මූල්‍ය සේවා ජනතාවට සමීප කරමින්ද, සෑම මූල්‍ය කටයුත්තක්ම අපේම රටේ ජනතාවගේ ජීවන රටාවට අපේකමට ගැලපෙන ලෙසින් හසුරුවාලමින්ද ශ්‍රී ලාංකීය ජන ප්‍රවාහයේ විශ්වාසවන්තභාවය ගොඩනගාගත් එව් එන් ඩී ග්‍රාමීන් අද දක්වා පැමිණි ගමන නිරායාසයෙන්ම අපට සිහිපත් කරන්නේ දොළගලක මට්සිලුට්ඛවමය.





கூழாங் கற்கள்

River Stone

பல்லாண்டு காலம் ஆற்று நீருடன் போராடி, அதன் ஸ்பரிசத்தை அனுபவித்து, அழகிய ரம்மியமான முகத்தை காட்டுவதால் தான் ஆற்றிலுள்ள கற்களை நாம் “கூழாங்கற்கள்” என அழைக்கின்றோம்.

அதேபோல் இலங்கை மக்களின் வாழ்வுடன் கலந்து, அவர்களின் பொருளாதார அபிவிருத்திகளை இனங்கண்ட எச்.என்.பீ கிராமின், அன்று முதல் இன்று வரை தொடரும் பயணத்தை, இத்தகைய சிறப்பு வாய்ந்த கூலாங்கற்களுடன் ஒப்பிடுவதே சாலச் சிறந்தது.

காலத்திற்கு காலம் மாறும் மக்களின் நிதித் தேவைகளை அறிந்து, புது தொழில்நுட்பங்களுடன் இணைந்த நிதிச் சேவையை மக்களுக்கு வழங்கி, அனைத்து நிதிச் சேவைகளையும் எம்மவர்களுக்கே உரிய முறையில் செயற்படுத்தி, இலங்கையர்கள் மத்தியில் நன்மதிப்பையும் நம்பிக்கையையும் வென்றெடுத்த எச்.என்.பீ கிராமின் இன்று வரை பயணித்த பாதையானது கூழாங்கற்களின் பாதை போன்றதே.

A river stone is not just another stone found in a river. River stones come in many sizes and shapes, but what is commonly referred to as a ‘Dolagala’ in Sinhala parlance are those stones with surfaces which have been made smooth by the flow of water, over the centuries.

There can be no metaphor more appropriate to describe the way HNB Grameen has engaged with the people of Sri Lanka, over the years. The lives, livelihoods and aspirations of the people have been obtained with gentle and consistent interaction over a long period of time.

HNB Grameen has, understood the financial needs of the people and how they change over time, and provided solutions backed by a constant upgrading of technology, without compromising the age old values, traditional ways of being and the cultural ethos of the people. This is how trust has been earned. Gently, with caress. and consistency. Over time, like a dolagala; polished and brought ever closer to perfection from moment to moment.



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Our Vision

“To be the leading and most successful Micro Finance provider with a human touch, committed to helping the poorest of the poor to overcome poverty and develop the economy of Sri Lanka.”

Our Mission

“To provide much needed Micro Finance assistance for self-employed entrepreneurs in Sri Lanka to develop sustainable enterprises and create a friendly inclusive society devoid of class, creed and racial barriers.”



HNB Grameen is at the forefront of change in the industry and continues to grow its strategic capabilities to sustain competitiveness. Our wealth of in-house resources prepare us to welcome a prosperous yet challenging future for which we are well prepared.

The affirmation of a National Long-Term Rating of ‘A(Ika)’ with a Stable Outlook for HNB Grameen by Fitch Ratings in 2017, boosted customer confidence in the Company and strengthened our position in the market.

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Corporate Information /Inner Back Cover

Financial Highlights

		2016/17	2015/16	Change
Income	Rs. Mn	6,234	4,485	39%
Interest Income	Rs. Mn	5,327	3,906	36%
Net Interest Income	Rs. Mn	3,861	2,910	33%
Profit Before Tax (PBT)	Rs. Mn	1,626	1,545	5%
Taxation Expenses	Rs. Mn	567	435	30%
Profit After Tax (PAT)	Rs. Mn	1,059	1,110	-5%
Financial Position				
Total Assets	Rs. Mn	19,553	14,376	36%
Lending Portfolio	Rs. Mn	13,764	9,138	51%
Deposits	Rs. Mn	14,040	10,420	35%
Shareholders' Funds	Rs. Mn	3,390	2,392	42%
Capital Adequacy Ratios				
Core Capital to Risk-Weighted Assets Ratio (Tier - I)	%	17	19	
Minimum Requirement 5%	%			
Total Risk Weighted Capital Ratio (Tier - II) Minimum Requirement 10%	%	18	20	
Other Ratios				
Cost to Income	%	42	43	
Return on Assets (ROA)	%	6	9	
Return on Equity (ROE)	%	37	61	
Non-Performing Loans Ratio (NPL)	%	1.94	0.79	

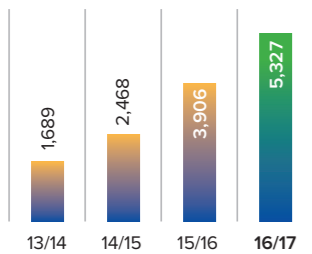
Total Income grew by 39% to
Rs. 6,234 Mn

Cost to Income ratio reduce by 109 bpt to
42%

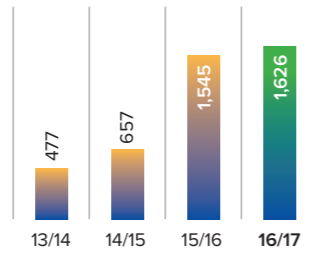
Lending Portfolio grew by 51% to
Rs. 13,764 Mn

Total Deposits grew by 35% to
Rs. 14,040 Mn

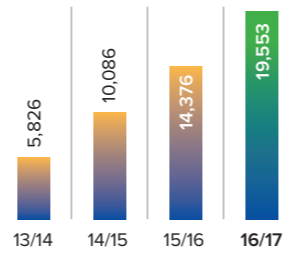
Interest Income Rs. Mn



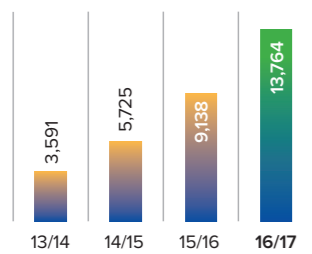
Profit Before Tax Rs. Mn



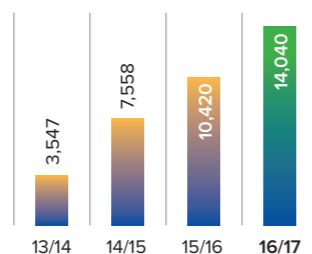
Total Assets Rs. Mn



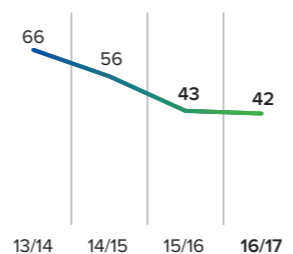
Lending Portfolio Rs. Mn



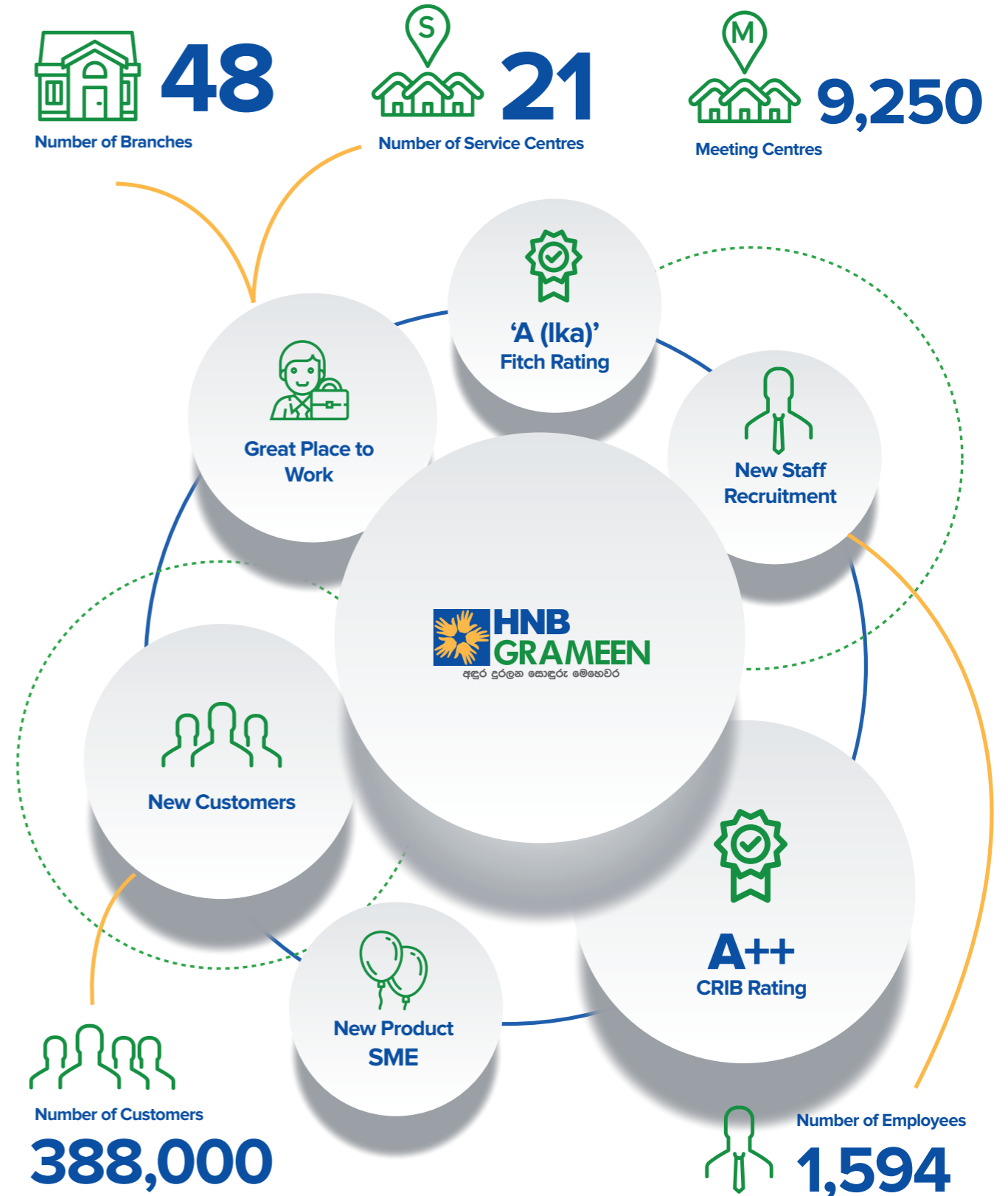
Total Deposits Rs. Mn



Cost to income Ratio

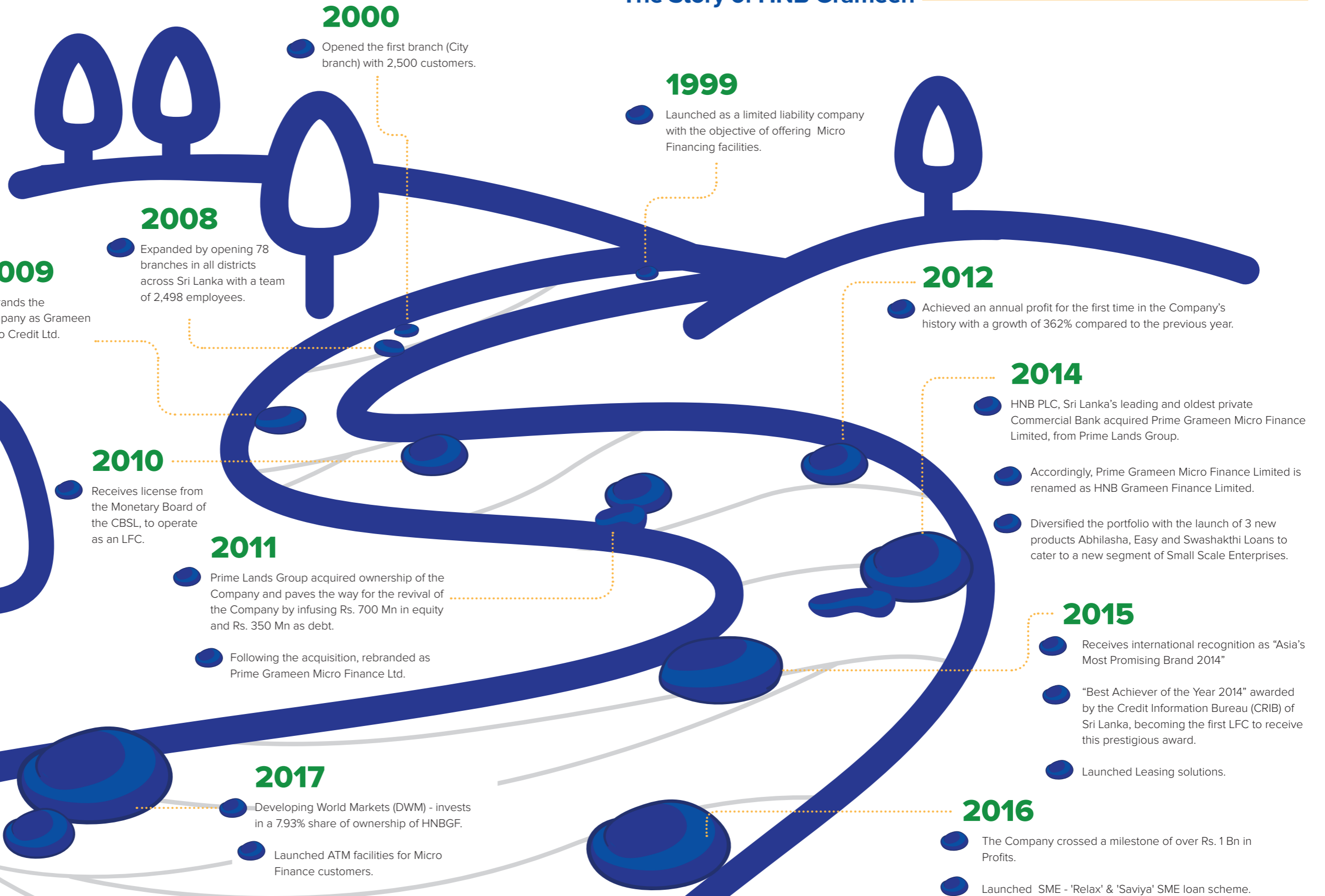


Non-Financial Highlights



සියලුම කාර්යයන් ජනතාවගේ සහය ලබා ගනු ලබන ආකාරයට සැලසුම් කළ බවට විශ්වාසයෙන් සිටිමින් සිටිමු. එමෙන්ම සියලුම කාර්යයන් ජනතාවගේ සහය ලබා ගනු ලබන ආකාරයට සැලසුම් කළ බවට විශ්වාසයෙන් සිටිමු.

The Story of HNB Grameen





മുഖ്യമന്ത്രിയുടെ നേതൃത്വത്തിൽ
കർഷകരുടെ ക്ഷേമം ഉറപ്പാക്കുന്ന
പദ്ധതികൾ തയ്യാറാക്കി



...Company continued on its growth trajectory to achieve commendable increase in revenue and market recognition for its inclusive and sustainable efforts, which create hope and opportunity for many thousands in rural Sri Lanka."

Dear Stakeholder,

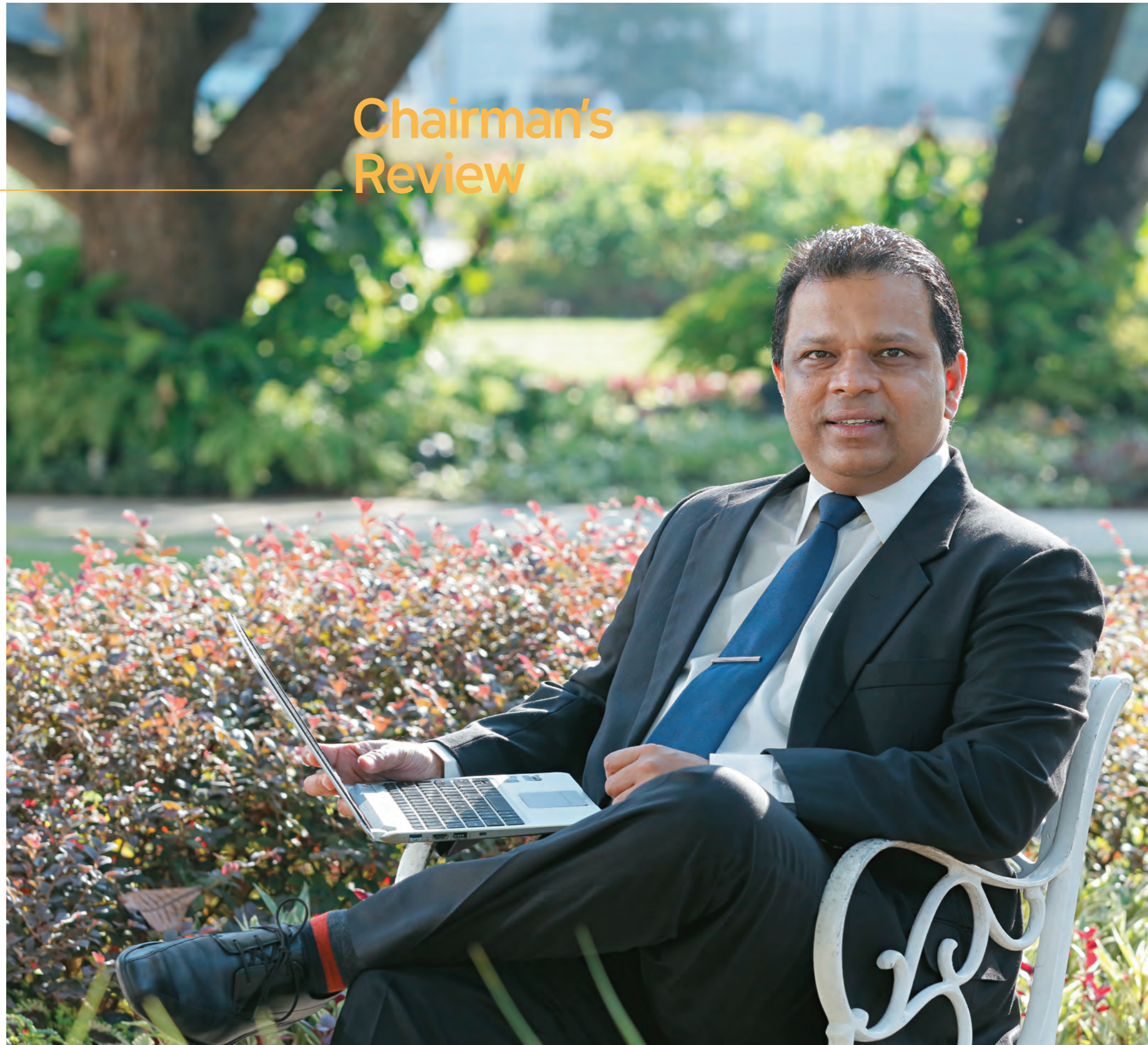
It is my pleasure to share with you the Annual Report and audited financial statements for HNBSG for the year 2016/17. During the period in review, we are pleased to report that the Company continued on its growth trajectory to achieve commendable increase in revenue and market recognition for its inclusive and sustainable efforts, which create hope and opportunity for many thousands in rural Sri Lanka.

Performance

Reflecting on the economic environment, HNBSG achieved excellent credit growth of 51%, which contributed to higher Interest Income for the year. This strong performance contributed to a ROA of over 6% and a ROE of over 37% during the year. It is also noteworthy that the Company's Cost to Income ratio declined by 109 basis points over the previous year, down to 41.87%.

The Company made significant strides towards achieving its strategic imperatives through product diversification and the introduction of new technologies. During the year, ATM facilities for HNBSG's Micro Finance customer base of over 250,000 was introduced, enabling them to access and remit funds through the entire HNB ATM network. This development has yielded significant positive Triple Bottom Line impacts, in relation to efficiency gains and cost savings to the Company, which in turn lead to enhanced customer experiences. Additionally, HNBSG also expanded the distribution of POS machines to encompass all its field staff during the year.

Chairman's Review



Chairman's Review

"Whilst HNBG will continue to strive to enhance the value it creates through its core product of Micro Financing, it will also look to create multiple channels of financial inclusion for its stakeholders. We believe this will give rise to 'win-win' scenarios by facilitating portfolio diversification for the Company while expanding access to credit in sectors where it is most required."

Notably, Developing World Markets (DWM) - a global, emerging and frontier market focused investment company - invested in a 7.93% share of ownership in HNBG during the year under review. Hatton National Bank PLC, which owns 51% of the voting rights of HNBG, has maintained a strong relationship with DWM for nearly a decade focusing on both local and international projects relating to Micro Finance. Complementing HNBG's aspirations, DWM seeks returns commensurate with risks in addition to measurable social and environmental benefits for the developing world. Since its inception in 1994, DWM has invested over U.S. Dollars 1.5 Bn in more than 170 companies across 50 developing nations. In that regard, we are most enthusiastic on the myriad opportunities and synergies that this association offers, to bolster HNBG's market leadership and sustainable growth into the future.

Operating Environment

HNBG's performance during the year is made all the more impressive by the challenging environment in which the Company operated. Sri Lanka's Micro Finance sector was challenged by the high interest regime that prevailed throughout the year in review, while adverse weather impacted the country's agriculture and other small-medium enterprises (SME); due to floods during the months of May-June followed by severe droughts during the second half of the year.

However, Sri Lanka's economic activity began to gather momentum as the year progressed, shedding some of the policy uncertainty that characterised the preceding year of elections and transitions. However, unfavourable weather conditions and a sluggish global economic recovery caused the economy to grow at a slower pace of 4% in real terms, in

comparison to 4.8% in the previous year, although a steady acceleration in quarterly growth was observed during the last two quarters of 2016 despite tightened fiscal and monetary policies. With the primary focus being to stabilise inflationary pressure, the Central Bank initiated several gradual monetary policy tightening steps during the year, which - combined with the gradual decline in excess liquidity - contributed to a considerable increase in both lending and deposit rates. Accordingly, the Average Weighted Deposit Rate (AWDR) increased to 8.17% by end 2016 from 6.20% at end 2015, while the Average Weighted Fixed Deposit Rate (AWFDR) also increased to 10.46% by end 2016 from 7.57% at end 2015. Accordingly your Company increased its interest rates on Savings Deposits by 150bps whilst fixed deposit rates reached a high of 16% during the period. It is heartening to note that notwithstanding this increase, HNBG refrained from increasing its lending rates to clients.

Inflation, as measured by the National Consumer Price Index for Sri Lanka (NCPI), which peaked at 6.4% in June 2016 gradually decelerated to 4.2% by end 2016, to be the same rate as at end 2015. On an annual average basis, however, NCPI based headline inflation increased to 4% by end 2016 compared to 3.8% at end 2015. The prevailing drought conditions, the effect of the tax changes and rising international commodity prices affected the movements in inflation in the first quarter of the year 2017 as well, although tightened monetary and fiscal policies enabled a reigning in of demand pressures on inflation to a great extent. Adverse weather in the second quarter of 2017 however, point to higher inflationary pressure on food items in the year ahead.

The Government's budget proposals for 2017, which focused on reducing the widening budget deficit and on preventing an overheating of the economy, augurs well for stronger macroeconomic fundamentals into the future, albeit posing some challenges due to the proposed increase in levies.

Sri Lanka's enhanced image amongst the international community, supported by the new Government's commitment to good governance, also bodes well for an increase in international investments into the country.

Meanwhile, in the global arena, political changes in the United States point to a loosening of fiscal policy which is likely to prompt the Federal Reserve to adopt a much tighter monetary policy in 2018. This in turn necessitates that we consider the likely implications on domestic interest rates and capital flows. The renegotiation of trade arrangements, due to factors such as Brexit, and the policy changes in the United States leading to the latter's exit from trade arrangements in South Asia, could see China play a more dominant role in order to fill in the vacuum thus created, and these developments in turn could present new opportunities for the region.

Strategy and Outlook

It is most heartening to see that the Micro and Small Scale sectors of the economy have begun to adopt technology, with many beginning to use Debit and Credit cards and POS machines to conduct Micro Finance transactions. HNBG will continue to introduce technology to sustain its advantage in a market which is becoming intensely more competitive. We intend technology to be a key in facilitating several of our Triple Bottom Line objectives. We will look to keep enhancing the value we create for our stakeholders through new technological channels and by expanding the ones already introduced. The ATM card which was introduced during the year will be made more advanced, to enable clients to use it as a Debit card, in the year ahead.

Engaging with the Micro and Small Scale sectors of the economy affords us an opportunity to make a valuable contribution towards achieving some of the nation's macroeconomic goals. These include a more equitable distribution of income across social strata and geographic regions through the empowerment of those who have no access to formal channels of credit. This contribution we make to the country's economic growth is one which we continue to hold as one of our highest priorities, and is intrinsic to the long term approach to enterprise that we have adopted. Whilst HNBG will continue to strive to enhance the value it creates through its core product of Micro Financing, it will also look to create multiple channels of financial inclusion for its stakeholders. We believe this will give rise to 'win-win' scenarios by facilitating portfolio diversification for the Company while expanding access to credit in sectors where it is most required.

The year ahead will see HNBG expand its Leasing solutions which were launched in the previous year, to both existing as well as new customers. The Company will also drive growth of its three higher value lending products: *Abhilasha*, *Swashakthi* and *Easy* loans, with a view to further diversifying its customer profile which at present is predominantly comprised of women and Micro Finance customers. Diversification of the product portfolio to Small Scale and SME sectors is enabling us to partner our stakeholders in their paths to progress creating new vistas, while also aiding in the Company's efforts to minimise risks and maximise returns.

Service excellence will also be a key priority in the years ahead. Facilitated through extensive training of our people and use of new technology, we aim to further expand our reach and improve convenience to customers.

HNBG's people have proved to be the most significant differentiating factor in its success, and hence investing in honing and harnessing their potential will also be a key imperative to sustain the Company's profitability into the future.

Conclusion

Looking ahead, it is our hope that the moderate growth in GDP experienced in the past two years will pick up to a faster pace, as the economy regains the vibrancy that better reflects its potential. We are hopeful that new development projects, planned infrastructure projects and new investments will begin next year; creating the much anticipated ripple effect that would kindle SME and Micro enterprises across the country.

I would like to convey my sincere appreciation to my colleagues on the Board for their constant support and guidance. My gratitude also to the Governor of the Central Bank of Sri Lanka and other regulatory bodies for the vital role they play and their contributions to the industry.

My heartfelt thanks to the Managing Director and the senior management team who continue to provide strong leadership and demonstrate a continuous passion to keep raising the bar. I would also like to convey my sincere appreciation to all of our employees including the sales team who are always on their feet, tirelessly serving customers at their door steps to bring in business, often under difficult conditions and on varying terrain.

My sincere thanks to all our customers and stakeholders for their loyalty and inspiration and for the opportunity to shape and be shaped by their pathways of progress, as a "Riverstone" does.



Jonathan Alles
Chairman

07th September 2017

Chief Executive Officer's Review



It is commendable that HNBG's Asset Quality, continued to be amongst the best with one of the lowest NPL ratios in the industry, at 1.94%, supported by the long term relationships we have nurtured and the capacities of our team of employees."

Dear Stakeholder,

It gives me great pleasure to share with you a commendable performance by your Company and its first Annual Report to adopt an integrated format of reporting. Although this is HNB Grameen's first year of integrated reporting, it has since its inception adopted a win-win and integrated model of value creation, driven by a vision to uplift those who are economically disadvantaged.

Performance

Our Turnover increased significantly by 39% whilst the customer base grew by 18% to 388,000 during the year. It is also noteworthy that these achievements were in an environment which posed several challenges to the industry. The higher cost of capital, due to a continuing rise in interest rates by nearly 400 basis points by year end; was one of the key challenges to the Micro Finance (MF) industry. Furthermore, implications of climate change, namely floods during the second quarter of the year and drought conditions in the latter half of the year impacted purchasing power as well as economic activity of many of our MF clients during the year, and hence, the demand for credit and the payment of installments.

Our Interest Income grew by 36% and the Loan Portfolio grew by 51% over the previous year, despite intense competition in the industry, the inimical weather which impacted our clients and the depreciation of the Rupee vis-à-vis the U.S. Dollar which impacted cost of living in Sri Lanka. However, despite excellent achievements across all parameters, the Company was compelled to make a 50% provisioning off its profits (amounting to Rs. 466 Mn), on account of REPO's invested in through

Chief Executive Officer's Review

a primary dealership which defaulted investors during the year. HNGB's PAT hence declined by 4.59% over the previous year's high, to Rs. 1,059 Mn compared with what would've been a PAT of Rs. 1,328 Mn if no provisioning was required.

Whilst our Total Deposit base grew by 35%, the Fixed Deposit base grew by a commendable 33%, spurred by a movement of funds from capital savings to Fixed Deposits as a result of the trust placed in us by customers and our brand equity. HNGB's Savings Deposit base also grew by 46%.

It is commendable that HNGB's asset quality continued to be amongst the best with one of the lowest NPL ratios in the industry, at 1.94%. The industry knowledge and experience of our team and the value we place on building long term relationships with clients were factors which helped HNGB ensure a high quality loan portfolio despite the adverse environmental conditions that impacted the industry. The NPL ratio for the industry (i.e. Listed Finance Companies) for the period January to December 2017 declined marginally to 5.3%.

It is also commendable that the Cost to Income ratio declined by 109 basis points, mainly on account of a growth in Revenue enabled by an expansion of our product portfolio and customer base, and was one of the best in the industry during the year at 41.87%, despite the loan growth and expansion of the new products.

As mentioned in last year's report, we launched Leasing towards the end of 2015, and the year under review saw the first full year of operations of this new product segment. The Leasing portfolio performed well, despite some operational challenges associated with a launch year and intense competition in the industry, to account for 12% of our total portfolio, amounting to Rs. 1.7 Bn in absolute terms.

The growth in our new business segments and the launch of leasing contributed to an increase in our customer base to 388,000 as at year end, from 328,000 the previous year.

We are also greatly heartened by the fact that HNGB was selected as one of the top 25 "Sri Lanka's Great Places to Work" in 2017, by the globally recognised Great Places to Work Survey. This survey which is based on a set of questions posed to employees is a valuable endorsement of our Company's people driven business model, its ethos and HR management practices.

Another significant milestone during the year was an investment in a 7.93% stake in HNGB by DWM (Developing World Markets) a global emerging and frontier market investment company which seeks appropriate returns as well as measurable social and environmental benefits for the developing world. Their infusion of capital and expertise will further augment our strong position in the MF sector and bring in new synergies. It is also a valuable recognition of the role we play in Sri Lanka's economic progress. As result, the listing of HNGB in the Colombo Stock Exchange although planned for 2016, was kept on hold for next year.

Strategies in Action

In keeping with several of the Company's strategic priorities, of introducing technology to our customer base and leveraging the many synergies of being part of HNB Group; the year under review saw the commencement of the launch of ATM facilities for our 265,000 MF customer base on HNB's 450 ATM's, located across the country. Furthermore, HNGB also linked with LankaPay Network, to enable them to withdraw funds from nearly 3,000 ATM's of other banks. This technology enables "Diriya" (the core MF product brand) customers to withdraw loan funds from their Savings accounts, in amounts they wish to, at times and places convenient to them rather than visit banks to collect and cash cheque payments once a week. It has thus enabled us to make significant strides in customer convenience on one hand and achieve efficiency, and cost savings and paper saving for HNGB on the other hand. This facility has also introduced technology driven banking and financial services to Sri Lankans in the lower income brackets who hitherto had no access to digital channels in the financial services. During the year, HNGB issued 18,000 ATM cards to customers in areas ranging from urban to most of the rural areas with the remaining customers to be afforded the facility in the year ahead.

Following the introduction of POS (Point of Sale) machines for our sales team in 2015, we equipped every Field Executive with a POS machine during the year, facilitating significant improvements to efficiency as well as employee convenience. Moreover, by enabling an instant, electronically generated receipt for an installment payment, the use of this technology has also begun to engender greater customer confidence and trust.

The year under review also saw us establish a separate customer service centre with a hotline, to offer speedy and effective solutions to customer queries and concerns, taking a

"Whilst our total deposit base grew by 35%, the Fixed Deposit base grew by a commendable 33%, spurred by a movement of funds from Capital Savings to Fixed Deposits, reflecting HNGB's brand equity and the trust it has earned in the market."

step forward in our journey towards service excellence – one of our key value propositions.

As I enumerated in my message last year, HNGB made a successful transition from a MF company to a diversified financial solutions provider in 2015. The new products and our expanded reach through new channels has contributed to account for 13% of our portfolio, with MF constituting 73% of the portfolio vis-à-vis a 91% in 2015. We will continue to further diversify our portfolios of products as well as customers to have greater variety in terms of income levels, gender and age. The venture into the SSE (Small Scale Enterprises) in 2014 has created new frontiers of growth and opportunities through the products 'Abhilasha' and 'Swashakthi'. As conveyed by the word's Sinhala meaning, "Abilasha" - supports the higher "aspirations" of MF clients who have succeeded in their micro enterprise and aspire to new horizons of growth and expansion, requiring higher levels of funding.

HNGB's Savings Accounts is a unique win-win proposition which enables customers who have no access to banks, to borrow money by maintaining a minimum deposit, thus reducing the risks faced by the Company. The Children's Savings proposition, branded as "Yalu", which saw rapid growth following a promotional campaign during the year, serves us well in decreasing our cost of capital. A focus on children is also in sync with our social sustainability agenda, which has the nation's future amongst its key priority areas.

Our venture into Leasing has proven to be timely, enabling HNGB to forward integrate and meet a need amongst its client base who would otherwise look for leasing services from other entities. HNGB's Leasing product is unique as it encompasses the entire spectrum of products, from micro-leasing solutions for machinery at the grassroot level to vehicle leasing for existing and new customers. During its first year of launch, HNGB began marketing Leasing to its existing customers whilst the years ahead will see us increase our visibility to reach a wider market. This product, with its long term tenure, will strengthen the Balance Sheet as the other products in our portfolio are short term in nature.

Our Sustainable Model of Value Creation

A win-win approach is intrinsic to our business and we consider our business as an avenue for wealth creation and financial inclusion which is vital for the long term progress of the nation. Since its inception, HNGB's Micro Financing solutions to create livelihoods for the lower income categories has enriched diverse communities across rural and

Chief Executive Officer's Review

urban Sri Lanka. Our engagement with this sector extends beyond financial empowerment and creation of wide ranging livelihoods; to partnering enterprise development and social empowerment through enduring relationships and many capacity building initiatives.

We will continue to kindle and facilitate the spirit of entrepreneurship for future generations of Sri Lankans, through the strength of our financial solutions and enduring relationships.

In addition to the social and environmental engagement which is integrated into our business, HNGB also contributes financially as well as lends its time and effort to several CSR initiatives, with Children and Healthcare as a priority; and these initiatives are discussed in the ensuing Social Capital section of this report.

Our People

HNGB's rapid progress in a journey which spans 17 years has been fueled by the talents, passion and commitment of its people and their belief in the wider objectives of the business. The pathways for economic empowerment that we have created for Sri Lankans from diverse localities, religious and ethnic backgrounds through the Grameen business model has been a result of our team's ability to nurture enduring relationships. As many as 67% of our team is on the field reaching out to customers and sharing their knowledge, encouraging and facilitating the entrepreneurial quests of many economically disadvantaged across the country.

The average age of our team is 30 years, reflecting a younger workforce with high energy, which at the same time prompts more investment by us to impart industry knowledge and skills and to cater to facets which are unique to these millennials.

The passion and effort to uplift people's lives, we believe must begin at home. HNGB thus considers that opportunities for the upward mobility and enhancement of the potential of the individual employee is a pre-requisite to reach the Company's potential and its sustained growth. Our key People initiatives towards this end and key strengths of our People are discussed at length in the Human Capital Review of this Annual Report.

Looking Ahead

We have identified several imperatives as important to achieve the right mix in our Balance Sheet, sustain competitiveness and grow our Profitability to reach the next tier in value creation over the medium to long term.

Technology will remain a key channel for HNGB to sustain Revenue growth, higher productivity and efficiency in resource utilisation and customer service excellence. Moreover, evolving life styles and changing preferences of younger generations also underscore the need for the infusion and the continuous enhancement of technology. For instance, the weekly meetings at our islandwide Grameen centres which not only serve as points of contact for financial transactions, but also as valuable fora for interaction and relationship building; currently enjoy the enthusiastic participation of our "Diriya" customers. However, changing life styles and social factors amongst the younger generation may indicate a need for alternate channels of interaction and transactions in the medium term.

Moreover, other social changes such as changing values, attitudes and priorities which have also begun to permeate the rural communities, pose challenges to how we engage and require solutions for the future.

We will continue to increase our investments to build on the technological platforms to create new business as well as new ways of doing business. Expanding our customer base further through new products and delivery channels will also be a key avenue for Revenue growth.

Being in the financial services industry underscores the importance of the quality of relationships we build with clients, customers, suppliers and amongst ourselves as a team of employees. The capacity building initiatives targeted for 2020 include building of the knowledge base and facilitating progression of the individual.

We welcomed the regulatory framework introduced by the Central Bank's Micro Finance Act No. 6 of 2016 which became effective on 15th July 2016. This regulatory framework is intended for licensing, regulation and supervision of Micro Finance Companies and Micro Finance Non-Governmental Organisations (MNGO's). The aspects it has focused on includes a minimum core capital requirement, statutory

reserve and minimum liquid asset ratio. Whilst these measures will support the sustainability of the industry and all its stakeholders, we are yet to see its effective enforcement with regard to some aspects. For instance, customers continue to access multiple loans, thus threatening the overall asset quality for all players. We hope that the year ahead will see a comprehensive and effective enforcement of this Act.

The cost of capital seems likely to remain high in the year ahead. However, we hope that the pace of economic activity which remained subdued in the periods of transition will gather momentum and the large scale projects will resume, creating new opportunities for micro and small enterprises to flourish.

A holistic concept in enterprise and our intrinsically win-win model of creation; augmented by the strength, stability and brand equity of our business partner - HNB, finds HNGB well poised to meet any challenges and harness the many opportunities we foresee.

As a "Dolagala" - which is molded over time by the river's currents, its ebbs and flows; at the same time creating new pathways for the river's waters to reach into and flow through; HNGB will evolve with time, changing needs, life styles and market expectations for sustained growth, whilst creating new path ways of progress, for our current and future stakeholders.

Acknowledgements

I would like to convey my sincere appreciation to our Chairman and Deputy Chairman and my colleagues on the Board for their guidance and constant support. A number of stakeholders have fueled and created the path for our journey thus far and my heartfelt thanks to them - our employees for their passion, effort and commitment, our customers and our business partners - for their confidence and trust in us. I would also like to convey our appreciation to the Governor of the Central Bank and Director of the NBF for the invaluable role they play in the industry.



Chaminda Prabhath
Managing Director/ CEO

07th September 2017

Board of Directors



1. Mr. A. J. Alles - Chairman

2. Mr. B. Premalal - Deputy Chairman

3. Mr. B. M. D. C. Prabhath - Managing Director /CEO

4. Ms. L. L. C. C. Thambiah - Executive Director

5. Ms. M. A. R. C. Cooray - Non-Independent Non-Executive Director

6. Ms. H. K. S. R. Perera - Non - Independent Non-Executive Director

7. Mr. N. H. T. I. Perera - Non - Independent Non-Executive Director

8. Mr. A. S. Wijesinha - Independent Non-Executive Director

9. Dr. S. U. H. Fernando - Independent Non-Executive Director

10. Mr. P. A. H. D. Wijesundara - Independent Non-Executive Director

Mr. Jonathan Alles

Chairman

Non-Independent Non-Executive Director

Mr. Jonathan Alles was appointed as Chairman of HNB Grameen Finance Ltd in the year 2014. He also holds the position of Managing Director/Chief Executive Officer of Hatton National Bank PLC and counts over 30 years of banking experience having served several international banks including the National Bank of Abu Dhabi, HSBC-Dubai, Saudi British Bank-Riyadh, & HSBC (Sri Lanka).

Mr. Alles also is the Chairman at Lanka Financial Services Bureau Ltd, Lanka Ventures PLC, LVL Energy Fund and is a Director of Acuity Partners (Pvt) Ltd.

Mr. Alles holds a First Class MBA in Finance from the University of Stirling - (UK) and is an Associate Member of the Institute of Bankers of Sri Lanka. He serves as a member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform, Vice Chairman of the Banking, Financial & Insurance Services Group of the Employers' Federation of Ceylon and also is a Member of the and Chamber Committee of the Ceylon Chamber of Commerce and the Sri Lanka Institute of Directors.

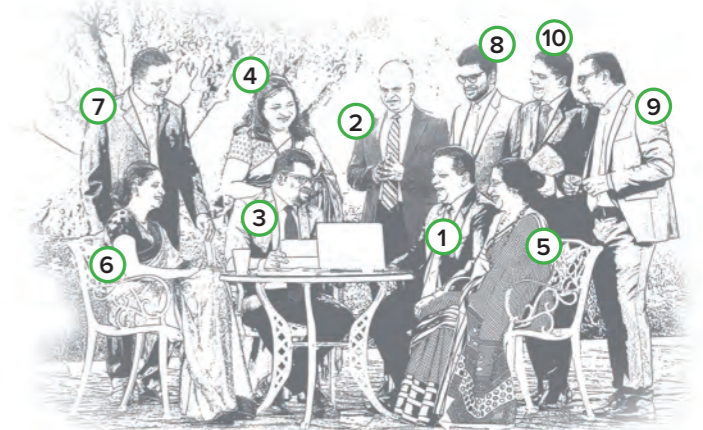
Mr. Premalal Brahmanage

Deputy Chairman

Non-Independent Non-Executive Director

Mr. Brahmanage is the Chairman of Prime Group who has steered same to its current status as Sri Lanka's leading property development conglomerate within a short span of two decades. He is the Deputy Chairman of HNB Grameen Finance Limited. His latest acquisition is the Summit Finance, first listed finance company under Prime umbrella.

He is a Fellow Member of the Chartered Institute of Management Accountants (UK), Chartered Business Administrator (Canada), Member of Sri Lanka Institute of Marketing and holds a Postgraduate Diploma in Marketing from the University of Sri Jayewardenepura. He was conferred with the prestigious UCD Entrepreneur of the Year in 2011 considering his vast experience in the real estate industry and exposure to many other industries as an entrepreneur.



Under his leadership Prime has won many national and international accolades and has earned the reputation of being placed among the Great Place to Work in Sri Lanka for the third consecutive year in 2017.

Mr. B. M. D. C. Prabhath

Managing Director/CEO

Executive Director

Mr. Prabhath is a financier by profession and an internationally certified Micro Finance expert from the Frankfurt School in Germany.

He has over 20 years of experience in the private sector. He holds a Master's Degree in Business Administration (Sp. in Finance) from the University of Southern Queensland, Australia.

He is a Member of the Chartered Institute of Marketing (MCIM) and a Passed Finalist of the Chartered Institute of Management Accountants (UK). He is also a Certified Management Accountant of the Institute of Certified Management Accountants of Australia. He has a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka.

He is the winner of the prestigious award "Game Changer of the year 2014" from WCRC, India, awarded in recognition of his contribution to the Micro Finance Industry in Sri Lanka.

Board of Directors

Ms. Crysanthi Thambiah

Executive Director

Ms. Thambiah is a veteran banker with 42 years of experience in the financial industry. She served as a Corporate Management Officer at HNB PLC for 16 years and held the post of Deputy General Manager - Network Management at the time of her retirement.

She joined HNB Grameen Finance Ltd as an Independent Director in 2013. Thereafter was appointed as a Senior Director of the company in end 2014 and as an Executive Director in March 2016.

Ms. Thambiah is a social service activist and currently serves as the Treasurer of National Stroke Association of Sri Lanka.

Ms. Rose Cooray

Non-Independent Non-Executive Director

Ms. Rose Cooray is a senior Director at Hatton National Bank PLC. She is the Chairperson of HNB Assurance PLC, HNB General Insurance Ltd and Sithma Development (Pvt) Ltd, Ceylon Guardian Investment Trust PLC and Ceylon Investments PLC. She is a Director of Guardian Capital Partners PLC. She is the Chairperson of the Board Integrated Risk Management Committee of HNB and HNB Grameen Finance Ltd and serves as a member of few other Board sub committees at HNB and HNB Assurance PLC. Ms. Cooray is a retired Deputy Governor of the Central Bank of Sri Lanka where she served over 35 years and since her retirement she has continued to serve in the financial sector over seven years.

Whilst at the Central Bank, she served as the Vice Chairperson of the Institute of Bankers of Sri Lanka, Secretary to the Monetary Board and as a member on a number of national level committees covering a variety of subjects representing the Central Bank. She represented the Monetary Board on the Board of West Coast Power (Pvt) Ltd.

On release from the Central Bank to the Ministry of Finance she served in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly six years, and represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, DE La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, and National Housing Development Authority. Ms. Cooray has extensive experience in policy making and implementing

projects and Programmes especially in the area of regional development and Micro Finance and has been a resource person at national and international seminars in these areas. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the Government. She has contributed research papers to professional journals.

She is a certified trainer in Micro Finance by the Asian Development Bank and Tokyo Development Learning Centre. She holds a BA (Hon.) degree from University of Ceylon, Peradeniya, Sri Lanka and an M.Sc. degree from Strathclyde University, UK.

Ms. Sandamini Perera

Non-Independent Non-Executive Director

Ms. Sandamini Perera is a co-founder, Deputy Chairperson of Prime Lands Group, with wide experience in the real estate industry. Being an entrepreneur, she has achieved remarkable results for her own organisation as well as her professional career. She is a holder of an Executive Master of Science in Strategic Marketing from the Asia e-University, Malaysia. She is a Member of Sri Lanka Institute of Marketing and Practising Marketeer. Recognised as the third Most Powerful Business Woman in Sri Lanka by the Echelon Magazine in 2013. She was honoured at the Leaders Excellence Awards 2014 for Excellence in Women's Empowerment from World Consulting and Research Corporation in New-Delhi. She is also a winner of Best Women Entrepreneur - Large Category 2014/2015 in Professional & Career Women Awards from Women in Management in Sri Lanka.

Mr. Thimal Perera

Non-Independent Non-Executive Director

Mr. Perera was appointed to the Board of HNB Grameen in year 2014 by the Central Bank of Sri Lanka. Presently he holds the position of DGM Retail and SME Banking of HNB PLC. He is also a Director of HNB Assurance PLC and HNB General Insurance Ltd. A banker by profession, he has over 20 years of banking experience with foreign exposure in the Middle Eastern and the Northern African regions.

He is a Chartered Accountant and Finalist of the Chartered Institute of Management Accountants (UK).

Mr. Anushka Wijesinha

Independent Non-Executive Director

Mr. Wijesinha is an economist and his research on industry, innovation, SMEs, and international economics, has been published in national and international publications. His latest research is on access to finance for SMEs, innovation eco-systems, technology upgrading of industries, and trade and investment policy. He is currently the Chief Economist of the Ceylon Chamber of Commerce, the country's largest business grouping, and heads the Economic Intelligence Unit. Mr. Wijesinha is also a member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

He is an independent Non-Executive Director on the Boards of Fairfirst Insurance Ltd and Seylan Bank PLC. Mr. Wijesinha was previously the Head of Industry, Competitiveness and Regulatory Policy at the Institute of Policy Studies of Sri Lanka, and has worked with the Presidential Commission on Taxation (2009). He has been a consultant for the World Bank, Asian Development Bank, UNDP, UNESCAP, and GIZ. In 2014, the World Economic Forum recognised him as a 'New Champions Awardee' at the Annual Meeting of New Champions. He is also a Visiting Lecturer at the Bandaranaike Centre for International Studies and founded a Diploma in International Trade. Mr. Wijesinha holds a Masters in Economics and Development from the University of Leeds Business School, UK and a B.Sc. in Economics from the University College London, UK.

Dr. Udan Fernando

Independent Non-Executive Director

Dr. Fernando is an Executive Director of Centre for Poverty Analysis (CEPA), a Colombo-based Think Tank. He has also held leadership positions in the Sri Lankan development organisations and also served as a Guest Researcher at the University of Amsterdam, Senior Consultant of Context International, Netherlands. Dr. Fernando who focuses on areas of development cooperation and aid policy has worked in Sri Lanka, Europe, East and West Africa and South East Asia. Dr. Fernando is also a visiting academic at the Open University of Sri Lanka. He holds a PhD in International Development Cooperation from the University of Amsterdam. His specialisation at Bachelor's and Master's level has been Law, Economics, Management and Labour Studies.

Mr. Hasitha Wijesundara

Independent Non-Executive Director

Mr. Hasitha Wijesundara is an Advisor to GIZ SME Sector Development Program. He is a development expert who counts over a decade of experience in Micro Finance and SME finance in terms of advising on policy, framework conditions, regulatory issue, sector strategies, social performance management and inclusive finance.

He holds a Master's degree in Economics (MA) from the University of Colombo, Bachelor degree in Law (LL.B) and Bachelor degree in Science (B.Sc). He also has fellowships with several local and international professional bodies. He is an Attorney-at-Law of the Supreme Court of Sri Lanka since 2009 and is currently reading for the Master of Laws (LLM) degree at the University of Colombo. Mr. Wijesundara is an accredited trainer of Micro Finance and SME finance with international bodies such as the Frankfurt School of Finance and Management, Germany and CGAP. Further to that he serves as a visiting senior lecturer at several universities and higher educational institutions in Sri Lanka.

In addition to his experience within Sri Lanka; he has hands on experience regionally. Being a team member of appraisal missions for the Sustainable Regional Economic Growth and Investment Program (SREGIP) in Indonesia and the Promotion of Green Economic Development (ProGED) Program in the Philippines, he contributed to the project design and shaping up. He is conversant with the financial systems in countries including India, Bangladesh, Myanmar, Cambodia, Malaysia and Pakistan and involved in numerous assignments.

Corporate Management



① *Left to Right*
S.A.R. Fernando Deputy General Manager - HR & Administration
R.M.P. Dayawansa Deputy General Manager - SME & Leasing
B.S. Seneviratne Deputy General Manager Fixed Deposits & Savings
W.B.A. Fernando Deputy General Manager Branch Network

② *Left to Right*
W.S.P. Arangala Chief Operating Officer
B.M.D.C. Prabhath Managing Director/CEO
L.L.C.C. Thambiah Executive Director

③ *Left to Right*
Pradeepa Dias Head of ICT
M.P.S. Cooray Assistant General Manager - Branch Network
J.M.R. Fonseka Assistant General Manager - Compliance & Risk
R.K.M. Priyanga Assistant General Manager - Branch Network
K.D.D. Prabath Assistant General Manager - Branch Network
R.M. Mahindathissa Assistant General Manager - Branch Network

④ *Left to Right*
Anura Udawatta Head of Training
W. Punchihewa Head of Legal
D.M.K. Munasinghe Head of Business Systems & Development
H.D.S.C. Gunasekara Chief Accountant



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Management Discussion & Analysis

Introduction:

This year's Annual Report is HNB Grameen's first to follow an Integrated format of reporting. Although this is the Company's first year in Integrated Reporting, we have, since inception recognised that sustainable value creation is an integrated process and a result of an interplay between all of an entity's capitals - financial, human, intellectual and manufactured as well as the natural environment and society within which it operates. In fact, the Company's Grameen model of financing is based on such an inclusive business philosophy. As articulated by the Company's Vision and Mission, "social upliftment via financial inclusion" is our raison d'être.

Following the introduction of integrated reporting during the year, the Company adopted a process to identify material topics which the directors and management believe will enable the Group to sustain growth into the future. This process has been informed by the Group's values and vision encapsulated in its business philosophy, as well as the interests of the six key stakeholders, namely, customers, shareholders, employees, the regulators, society and the natural environment. This year's report hence, does not present its Social and Environmental Sustainability performance as a separate section but is integrated into the strategies and discussed in detail under the capital reports of this Management Discussion.

HNB Grameen (HNBG), has identified five key strategic imperatives as important to

achieve its objectives identified below and to reach a new tier in sustainable value creation and be the "leading Micro Finance provider." These strategies which have been formulated considering the strengths and

weaknesses of the Company and the opportunities and risks in the external environment, are also those most likely to influence our key stakeholders and their relationship with the Company.

Strategic Objectives for Year 2020



Strategies for the Sustainable growth of HNBG

Key Imperative	Relevance to HNBG	Progress in 2016	Plans for 2017
Diversify into other products - to maximise returns and reduce risks.	<ul style="list-style-type: none"> Create multiple channels of financial inclusion for our stakeholders. Reduce reliance on one product. Opportunity to harness brand strength and to cross sell to a ready customer base. Meet the needs of the existing customer base. Opportunity to attract new customers and widen our customer profile. Augment our capacity to sustain growth in an intensely competitive market. 	<ul style="list-style-type: none"> Launched Leasing. 	<ul style="list-style-type: none"> Expand Leasing amongst existing MF clients and new customers.
Diversify our customer profile	<ul style="list-style-type: none"> Maximising revenue and reducing risk. Meeting intense competition. 	<ul style="list-style-type: none"> Ventured into the SSE (Small Scale Enterprises) sector- a new customer segment which is between Micro and SME segments of the economy. 	<ul style="list-style-type: none"> Double the contribution from the 3 lending products of Abhilasha, Swashakthi and Easy.
Expand reach	<ul style="list-style-type: none"> Increasing revenue through stronger and higher number of relationships. Increasing geographic presence will see further strengthening of partnerships with existing customers and the forging of new ones. Increasing accessibility and use of IT will enhance customer convenience. Harnessing the synergies of being a member of HNB Group. 	<ul style="list-style-type: none"> Introduced ATM facilities for Micro Finance clients. Carried out different marketing communication campaigns. Entered the digital marketing space. 	<ul style="list-style-type: none"> Enhance the use of the ATM card to also be used as a Debit card. Introduce Western Union for inward remittances. Introduce SLIPS and CEFT fund transfer system.
Customer service excellence	<ul style="list-style-type: none"> Service excellence is a key to sustain a competitive edge in an intensely competitive market of LFC and Leasing sectors. 	<ul style="list-style-type: none"> Created a Customer Service unit with a Call Centre for direct access by customers. Introduced POS machines to enhance customer satisfaction and a more efficient allocation of resources. Launched a door-to-door service. Increased the number of fully fledged customer service centres. 	<ul style="list-style-type: none"> Expand the door-to-door service. Further increase the number of customer service centres. Increase savings base by 10-15% in two years.
Enhance the value of our human capital for enhanced value creation for all our stakeholders.	<ul style="list-style-type: none"> Our human capital has been a core strength and remains vital for HNBG to reach a new tier of value creation for all its stakeholders. Service excellence is a key imperative, which is people driven. Ability to partner with clients to facilitate income and economic growth. An intensely competitive industry environment with high employee attrition. 	<ul style="list-style-type: none"> Provided overseas exposure for exchange of knowledge and expertise on Micro Finance. Upgraded HR information technology to a comprehensive solution. 	<ul style="list-style-type: none"> Build the capacities of our people and bridge the skills gap. Introduce Intranet.
Continuously reduce our carbon footprint and support external initiatives to do so.	<ul style="list-style-type: none"> A reflection of the Group's Triple Bottom Line focus. Our capacity to impact at grassroots level to create awareness and mobilise action. 	<ul style="list-style-type: none"> Expanding in-house software to reduce paper use such as through scanned transmission of documents to eliminate need for printing and courier services. 	<ul style="list-style-type: none"> Continue to expand technology to encompass operations as well channels of delivery, customer service and marketing.

Management Discussion & Analysis

HNBG continued to increase its investments in IT. The year under review saw us launch ATM facilities through the HNB ATM network of 440 machines spread across the island for our customers; thus enabling 335,000 women to withdraw money at a time and place convenient to them and in amounts that suit their requirements.



Strategic Overview

Several industry and social environmental factors influenced and shaped HNBG's strategic priorities, which are presented above. Amongst the key factors we have taken into account are an intensifying competitiveness in the LFC sector; changing demographics and pace of life; rising market expectations of customer service; macro economic changes, the global industry's drive towards technology as key channel and an increasing level of risk associated with the high profit generating Micro Financing (MF) sector due to unethical practices such as multiple borrowings.

HNBG, as the pioneer in the Grameen model of MF in Sri Lanka continues to focus on MF as its core product, in line with its Triple Bottom Line objectives and the role it can play in the national economy. However, we have also identified a need to diversify our product and customer portfolios in line with external environmental factors, market expectations and the expanding potential of the Company. As enumerated in our previous report, a journey of diversification commenced in 2014; the years ahead will see us build on this platform as well as look for new avenues, to further diversify our lending as well as funding streams.

Moreover, the objective of sustained growth into the future and changing market expectations propel us to raise the bar on customer service and convenience and enhance productivity of our people.

As we have enumerated above, our people will be a key driver of our strategic imperatives to reach a new tier in value creation. Towards this end the Company has recognised the need to better hone and harness the potential of its people through capacity building and performance management initiatives. A number of HR initiatives during the year were

hence geared towards the medium to long term objectives of the Company and these are elaborated on, in the Human Capital Review of this report.

Recognising that IT will also be a key enabler of a sustained competitive advantage to enhance customer convenience on the one hand, and to increase efficiency for better margins on the other hand, HNBG continued to increase its investments in IT. The year under review saw us launch ATM facilities through the HNB ATM network of 440 machines spread across the island for our *Diriya* customers; thus enabling 335,000 women to withdraw money at a time and place convenient to them and in amounts that suit their requirements.

The diversification of our product portfolio has also paved the way for the diversification of our customer profile in terms of gender, age as well as income limits. The launch of three new lending products in 2014, namely *Abhilasha*, *Swashakthi* and *Easy* loans has brought in a new customer segment of SSE (Small Scale Enterprises); a category which is between the Micro and SME (Small & Medium Scale Enterprises) sectors which the Company hitherto did not cater to. The products have thus created a foundation for HNBG to make strides towards one of its key strategic priorities for sustained future growth. "*Abhilasha*" has also created pathways for many MF (*Diriya*) clients to migrate to a higher income category by obtaining the required capital to expand their livelihood.

Moreover, the year under review also saw the first full year of operation of the Company's leasing business, which was launched in the last quarter of 2015, enabling the Company to further expand its customer base. The potential in the leasing segment augurs well for the strength of the Company's Balance Sheet, due to its long term tenure vis-à-vis the short term nature of its other products.

Our Product Portfolio

Lending Products

Micro Loan



සහන මුදල
நிவந்தி கடன்
SAHANA LOAN

Small Scale Enterprises Loan



අභිලාෂා
சுவிலாசா
සවය කඩ්ඩි



Leasing



SME/Personal Loan



Funding Products

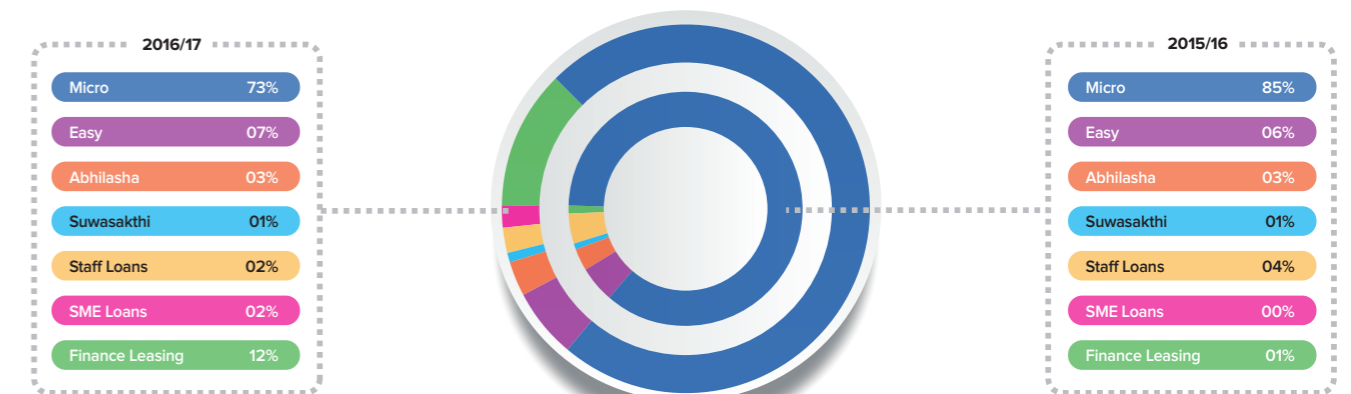
Savings



Fixed Deposit



Loan Portfolio - Product Wise



Management Discussion & Analysis

Value creation by an enterprise occurs in the context of its operating environment. This discussion of the Company's strategies and performance hence begins with a review and preview of relevant aspects of the local and global economic environment.

Backdrop to Performance

Sri Lankan Economy

Sri Lanka's economic activity began to gather momentum and showed signs of stabilisation as the year 2016 left behind some of the policy uncertainties that characterised the preceding year of elections and transitions. June 2016 saw Sri Lanka reach an agreement with the IMF for an Extended Fund Facility (EFF), which was an important milestone during the year, not only to boost the country's foreign reserves but also to boost investor confidence and provide a sustainable fiscal and monetary policy framework.

Unfavourable weather conditions and a sluggish global economic recovery however, caused the economy to grow at a slower 4.4% in real terms in comparison to 4.8% in the previous year although a steady acceleration in quarterly growth was observed from the second quarter of the year amidst tightened fiscal and monetary policies. As per the expenditure approach estimates of the Central Bank, economic growth in 2016 was primarily driven by the expansion in investment expenditure whilst the growth in investment predominantly emanated from the expansion in construction activities during the year.

Meanwhile, consumption expenditure, which is the largest expenditure category of the economy, recorded a modest growth of 4.1% in nominal terms, compared to the growth of 10.3% recorded in the previous year. The slowdown in consumption was mainly due to the moderation in private sector consumption expenditure due to tightened monetary and fiscal policies, and higher cost of living while public sector consumption expenditure also moderated in 2016 with the ongoing fiscal consolidation efforts. Although domestic demand grew by 8.2% in nominal terms (6.2% in real terms) during the year, net external demand declined by 9.6% in nominal terms (22.5% in real terms) in 2016 reflecting both

weakness in Sri Lanka's export markets and a decline in the competitiveness of the economy as evidenced by the continued fall in the country's share of global exports.

The Agriculture sector contracted by 4.2% (compared to a growth of 4.8% in the previous year) due to the adverse weather conditions and this impacted the Banking as well as Non Banking Financial Institutions such as HNBG where agriculture is linked to the income generation of a considerable percentage of our clientele.

The Services related activities which constitute 56.5% of real GDP grew by 4.2% in 2016 on an year-on-year basis supported by the expansion in financial services, insurance telecommunications, as well as transportation and wholesale and retail trade. The value addition in the industry sector recorded a significant growth of 6.7% in 2016 compared with a growth of 2.1% recorded in 2015. The Construction, Mining and quarrying activities which recovered from the contraction recorded in 2015 were the main contributors to the growth in the Industries sector

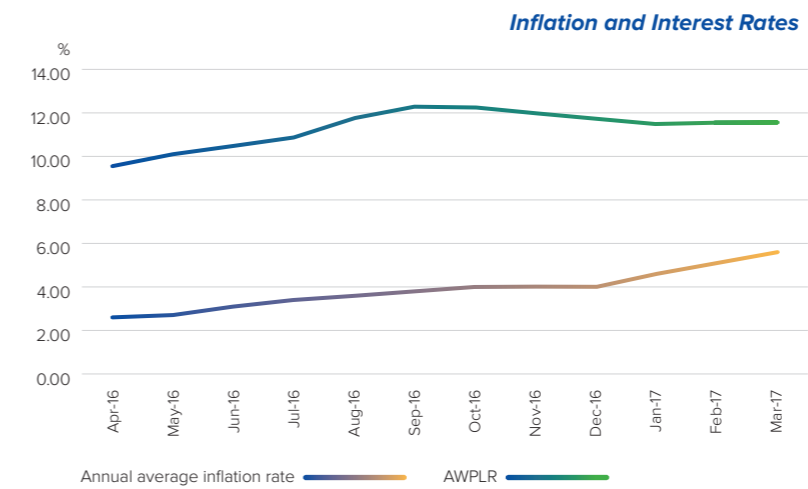
Inflation

Consumer price inflation moved upwards during the first half of 2016, although it stabilised somewhat during the remainder of the year, while core inflation broadly followed an upward trend in 2016. Year-on-year headline inflation based on the NCPI, which peaked at 6.4% in June 2016, gradually decelerated to 4.2% by end 2016, to be the same rate as at end 2015. On an annual average basis, however, NCPI based headline inflation increased to 4% by end 2016 compared to 3.8% at end 2015.

The prevailing drought conditions, the effect of the tax changes and rising international commodity prices affected the movements in inflation in the first quarter of the year 2017 as well, although tightened monetary and fiscal policies enabled reigning in of demand pressures on inflation to a great extent. Adverse weather in the second quarter of 2017 point to higher inflationary pressure on food items in the remainder of the year.

1999-2008 avg	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2022
5.1	3.5	8.0	8.4	9.1	3.4	4.9	4.8	4.3	4.5*	4.8*	5.3*

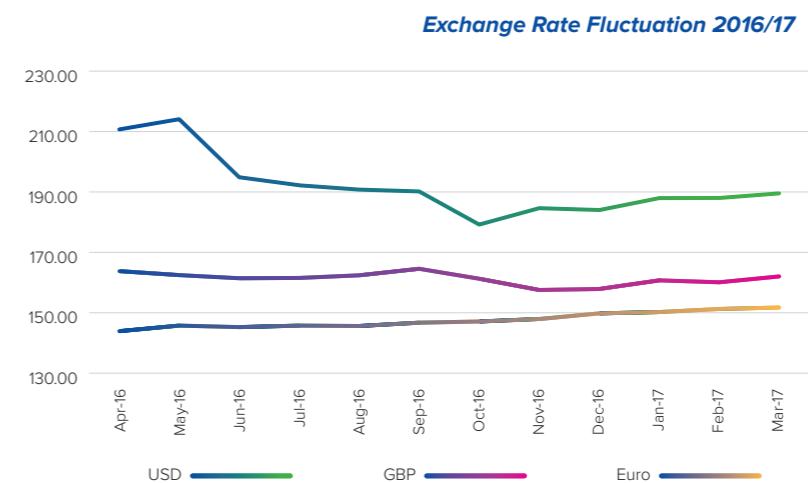
Source: Central Bank of Sri Lanka; *IMF forecasts



Source: Central Bank of Sri Lanka

Interest Rates

Stabilising inflation at mid single digits over the medium term, without compromising growth prospects of the economy, remained the primary focus of the Central Bank's monetary policy in 2016. Accordingly, the Central Bank initiated several gradual monetary policy tightening steps during the year which, combined with the gradual decline in excess liquidity contributed to a considerable rise in both lending and deposit rates during the year. Accordingly, the Average Weighted Deposit Rate (AWDR) increased to 8.17% by end 2016 from 6.20% at end 2015, while the Average Weighted Fixed Deposit Rate (AWFDR) also increased to 10.46% by end 2016 from 7.57% at end 2015. Interest rates offered on new deposits also increased substantially during the year.



Source: Central Bank of Sri Lanka

Exchange Rate

The Rupee, which remained broadly stable due to intervention by the Central Bank in the first four months of the year, was allowed to reflect market demand and supply conditions to a great extent in the second half of the year, resulting in an overall depreciation of the Rupee against the U.S. Dollar by 3.83% in 2016. It depreciated against all major currencies except the Pound Sterling during the year and depreciatory pressure came from increased imports, continued foreign debt service payments and outflows on account of reversal of foreign investments from the government securities market amidst monetary policy normalisation in the USA.

The Non Banking Financial Institutions (NBFI) sector - Listed Finance Companies and Specialised Leasing Companies

Sri Lanka's LFC's/SLC's sector as at end 2016 comprised 46 LFC's, 7 SLC's and 1,313 branches, out of which 886 branches were located outside the Western Province.

As reported by the Central Bank, the LFC/SLC sector recorded a strong performance in terms of asset growth and branch network expansion during 2016 amidst a challenging business environment. The sector also placed emphasis on gradually moving out from its core business of vehicle financing to other loan products. The growth in the sector was mainly funded through domestic borrowings. While maintaining growth, risk remained under control, as reflected in the healthy level of NPLs and comfortable liquidity and capital levels.

Management Discussion & Analysis

The sector was able to expand its asset base by 21.7%, exceeding the one trillion rupee mark while maintaining marginally lower growth than in previous year. The increased assets were funded mainly through borrowings, by 57.6% and the balance by deposits, equity capital and other liabilities which represented 23.3%, 10.6% and 8.4%, respectively. Credit growth of the LFC's/SLC's sector moderated during the first quarter of 2016 as a result of macroprudential measures implemented with respect to the lending on motor vehicles mainly in the form of a Loan To Value ratio (LTV).

The overall funding structure of the sector has changed with a greater reliance on bank borrowings over deposits. The share of borrowings has thus increased to 36.2% in 2016 from 31.6% in 2015, while the share of deposits decreased to 43.8% in 2016 from 48.3% in 2015. The borrowings predominantly were from the banking and finance sector, which accounted for 58.5%, followed by debenture issues (16.5%), foreign borrowings (4.9%) and overdraft facilities (4.5%).

It is encouraging that despite the growth in the sector, the quality of the loans portfolio was maintained due to aggressive credit recovery policies adopted by LFC's and SLC's. The NPL ratio declined from 5.7% in 2015 to 5.3% in 2016. The increase of Rs. 5.6 Bn in NPL's in 2016 was not significant compared to higher growth of the loan portfolio. The total loan loss provisions increased by Rs. 5.9 Bn to Rs. 34.8 Bn mainly due to an increase in the specific provisions made for NPL's with a delinquency period of more than 12 to 24 months. As a result, the net NPL ratio decreased to 1.2% as at end 2016 compared to 1.6% in 2015 and the provision coverage increased to 65.7% in 2016 compared to 61% enabling a minimisation of potential default risk of the sector.

Micro Finance Sector

During the year under review the Central Bank of Sri Lanka (CBSL) introduced a regulatory framework for Micro Finance Companies through the Micro Finance Act, No. 6 of 2016, which came into effect on 15 July 2016, thus establishing a firm platform for the sustainable growth of the industry. The Act entrusts the Central Bank of Sri Lanka with the responsibility of licensing, regulation and supervision of Micro Finance companies in Sri Lanka. It further provides for the registration of Non-Governmental Organisations that accept limited savings deposits by the Registrar of Voluntary Social Service Organisations, as Micro Finance Non-Governmental Organisations (Micro Finance NGOs).

The Act also provides for the establishment of principles, standards and guidelines for the regulation and supervision of Micro Finance NGO's by the Monetary Board of the Central Bank of Sri Lanka. Streamlining the operations of Micro Finance Institutions, through regulation and supervision, is essential for transmitting the real benefits accruing from operations of Micro Finance Institutions (MFI's) to society, effectively.

A regulatory mechanism for Micro Finance is expected to ensure the financial soundness of Micro Finance Institutions, making their operations efficient, viable and sustainable. With the implementation of a sound regulatory framework, effectiveness and efficiency in the delivery of financial services to low income persons, and microenterprises, would improve and thereby, increase financial inclusion. Being regulated under a regulatory and supervisory authority would facilitate Micro Finance Institutions to access wider sources of funding.

Outlook :

Real GDP Growth - Projections% Change

Estimating Institution	% Change			
	2017	2018	2019	2020
Central Bank	5.0	6.0	6.5	7.0
IMF	4.5	4.8	na	na
World Bank	4.7	5.0	na	na

Source: Central Bank of Sri Lanka; IMF, World Bank

The Central Bank projects Sri Lanka's economy to grow at a moderate rate of around 5% in 2017 amidst the adverse impact of unfavourable weather conditions, whilst the IMF estimates the Sri Lankan economy to grow by 4.5% in 2017 and 4.8% in 2018. As per the CBSL's estimates, the economy is expected to improve gradually thereafter to record an annual growth rate of 7% by 2020.

Private sector investment is expected to play a key role in achieving this higher growth momentum by exploiting opportunities in the economy and external markets. Foreign investors are expected to contribute towards a higher level of investment with particular emphasis on services related activities and export oriented industries. The opportunities for the private sector would include the planned establishment of the Colombo Financial City, new opportunities under the Western Region Megapolis Project and the proposed establishment of economic corridors in the North East and South West of the island, and also in the areas surrounding the Hambantota and Trincomalee ports. In addition to these initiatives, domestic investment activities are also expected to continue with emphasis on improving productivity through the adoption of new technology including mechanisation initiatives in the agriculture and Industry sectors together with the adoption of information technology (IT) related improvements. We are optimistic that the expected expansion in economic

activity especially in the spheres of road construction and other infrastructure development outside the Western province would provide the stimulus for small scale and micro enterprises (which are often suppliers of services and other input to these projects) to flourish thus auguring well for the MF industry.

Sri Lanka, along with other small economies in Asia, could experience higher direct investment inflows, given the rising levels of South-South FDIs. The proposed trade and economic partnership arrangements in the region could also create pathways for Sri Lanka to gain access to larger regional markets which possess higher income levels. And this could be the required catalyst for export industry dependent SME, SSE and Micro sectors on Sri Lanka to see higher growth in the next few years.

At the same possible challenges in the second half of 2017 could stem from higher inflation and the impact on purchasing power, especially in the backdrop of the recent floods and the destruction which has impacted the supply of food items in the country.

The increase in oil prices as well as prices of other commodities in the global markets is expected to weigh negatively in aggregate on the BOP and domestic price indices, while stagnant growth in the Middle East could reduce the income from tea exports and remittances by migrant workers. Amongst the other numerous challenges is the tightening in key global financial markets with regard to borrowing in international markets in order to rollover previous borrowings and in relation to payment of interest on U.S. Dollar denominated floating rate instruments that are being used to finance the budget deficit. Tourist arrivals are projected to pick up with high economic growth in Europe, China, India and Russia, which are Sri Lanka's major sources of tourism.

Management Discussion & Analysis

Outlook :

Global Micro Finance Industry Trends & Outlook:

The global Micro Finance Industry is expected to have grown by between 10-15% in 2016, according to research by ResponseAbility; with challenges and opportunities varying substantially across regions, and the Asia Pacific region estimated to be the world's fastest growing Micro Finance market, with a 30% growth in 2016.

As per ResponseAbility research, in the overall funding mix of Micro Finance Institutions, the trend towards local funding sources is set to continue. Client deposits and local debt have gained in importance, with the former being particularly sought after. In addition to allowing an institution to diversify its local currency funding sources, deposits represent an additional service offered to the Micro Finance Institutions' clients.

The high demand for savings solutions is reflected in their rapid growth: they have grown by over 20% in the last two years alone and, according to a majority of experts polled, will become an even more important source of funding for Micro Finance institutions in the future. Yet, while attractive to both clients and institutions, the expansion of savings is constrained by prudent requirements that require deposit taking institutions to undergo more stringent regulation. "In fact, in some countries, Micro Finance Institutions are not allowed to accept deposits at all. Yet as has been seen most recently in India, a growing recognition of Micro Finance's role in promoting financial inclusion can catalyse a sector's transformation and broaden the services Micro Finance Institutions can provide", mentions ResponseAbility's Micro Finance Outlook 2016.

International funding sources are expected to remain important going forward, however, as these provide institutions with special expertise and a means to diversify their funding structures. Although local funding sources are observed to be "catching up"

with international ones, according to industry experts, they are not growing fast enough to meet the sector's growing needs. Hence, it is expected that international Micro Finance investment vehicles such as debt and equity funding will remain amongst the most important sources of funding for at least the next three years.

As for most industries, technology will be a key factor in the Micro Finance industry's growth. Technological break throughs such as mobile money and branchless banking will "enable the Micro Finance industry to leap over phases that it would have otherwise had to go through. In addition, they allow Micro Finance Institutions to adapt their products to the unique environments and business cycles of their clients", according to Micro Finance Industry research. In mature markets in South America and Central Asia, for example, experts expect technological advances to boost institutions' efficiency and outreach capacity, allowing them to provide better services to their clients at lower costs. In increasingly competitive markets, efficiency gains are crucial to gaining market share.

After mobile money and branchless banking, experts quoted by the ResponseAbility research, named "a broader spectrum of services offered" as the second most important trend within the Micro Finance sector. With rapidly evolving client needs, Micro Finance Institutions clients also wish to place deposits, obtain insurance or a lease on their mobile phones. Thus, these new technologies would allow Micro Finance Institutions to design products that provide this broader spectrum of services efficiently and sustainably

In addition to technological advancements, new and improved regulatory frameworks allow Micro Finance Institutions to become specialised banks, thereby expanding the services they are able to offer. For many clients the broader range of products and services – which includes savings and online payment services – is unprecedented and has been made possible with the strong commitment from the regulator.

Performance Highlights



HNBG achieved a remarkable performance during the year with PBT growing by 5% to reach the Rs 1.6 Bn.

Lending growth of 51%

Total staff count rose to 1,594 from 1,363



Launched ATM facilities for all our Micro Finance customers

Became the first LFC engaged in Micro Finance to launch Leasing.

The NPL ratio reached 1.94% remaining amongst the best in the industry.



The Fixed Deposits (as at year end) grew by 33% over last year



Total customers increased to 388,000

The contribution to Revenue from

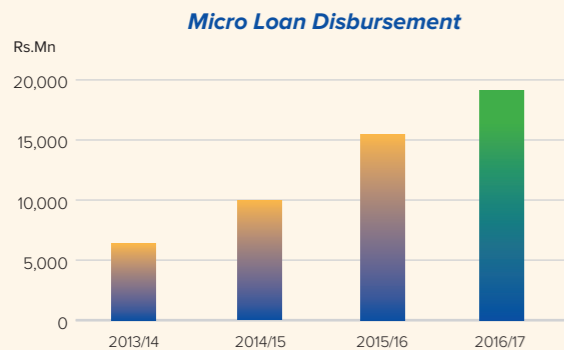


- our core product, declined from 85% to 73%, reflecting progress towards the Company's strategic imperatives.

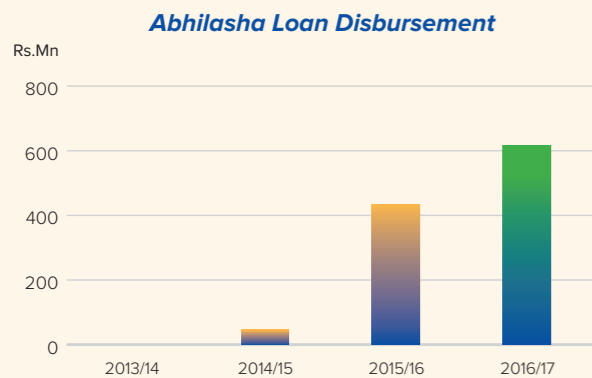
Management Discussion & Analysis

Lending Products

Micro Loan HNBG's pioneering MF product which accounts for 88% of interest income, performed well during the year with the loan portfolio increasing to Rs. 10.2 Bn from Rs. 7.7 Bn in 2015/16. Total disbursements under micro loans amounted to Rs. 19 Bn during the year whilst the product's customer base which is exclusively made up of women, rose to 265,000 as at year end.

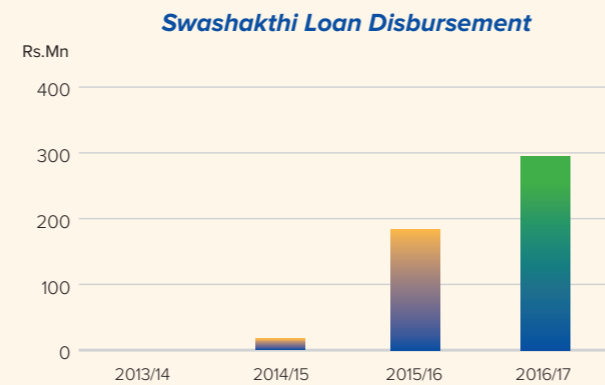


Abhilasha Loans launched in 2014, grew by 41% during the year with total disbursements reaching Rs. 615 Mn. This product also fuels income generation and facilitates higher limits and longer repayment periods and is offered to both women and men. During the past two years Abhilasha has facilitated the migration of as much as 5% of HNBG's MF clients into this higher value category.



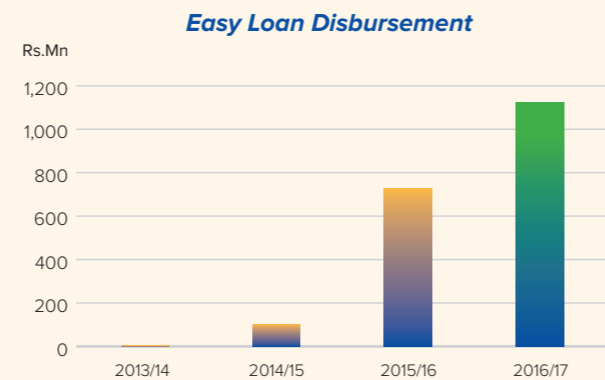
Swashakthi the Savings based loan scheme achieved a phenomenal 186% growth, in value terms during the year, mainly supported by our unique and personalised door-to-door service and the special attributes of the product. Total disbursements for the year thus reached Rs. 295 Mn and

the total Swashakthi loan portfolio grew by 48% to reach Rs. 133 Mn during the year. The customer base grew to 2,000 as at year end. The Company sees tremendous potential in this product to combine its win-win objectives of fueling the growth of micro level entrepreneurs and increasing profitability for sustained growth.



Easy Loan portfolio grew by 80% to Rs. 892 Mn during the year and the number of Easy loan customers as at year end stood at 1,500.

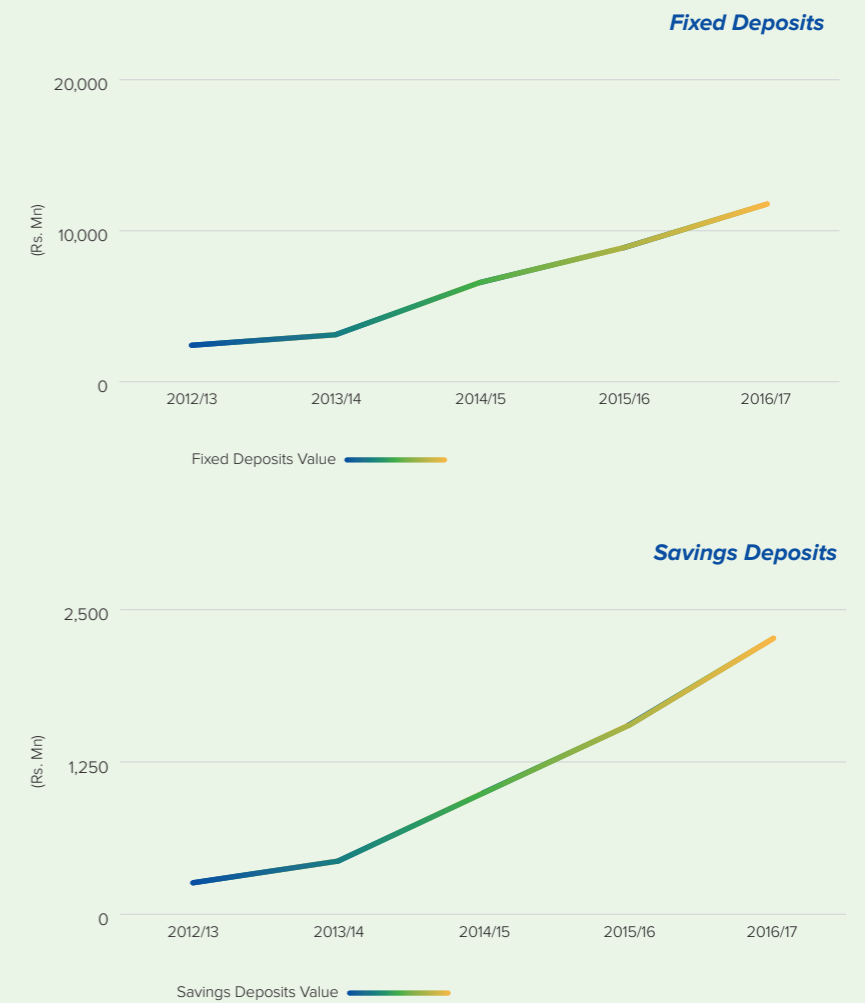
The year under review was the first full year of operation of the Company's leasing business which was introduced in the last quarter of 2015/16. Despite some challenges which are usually associated with the start up year of a business, the Leasing segment contributed 3% to the Company's interest income with an absolute contribution of Rs. 137 Mn HNBG expects 10-15% of its leasing business to be generated from the existing customer base.



Funding Products

The Fixed Deposits base grew by a considerable 33% during the year supported by the prevailing high interest rate regime, HNBG's customer service offering and brand equity. The Company's door-to-door service in deposit collection, combined with word of mouth and ground level activation rather than advertising, were key factors which supported deposit mobilisation. The achievements in deposit growth thus reflect the Company's brand equity and the commitment and ability of our sales teams to provide additional value to our clients such as through their role as investment advisors.

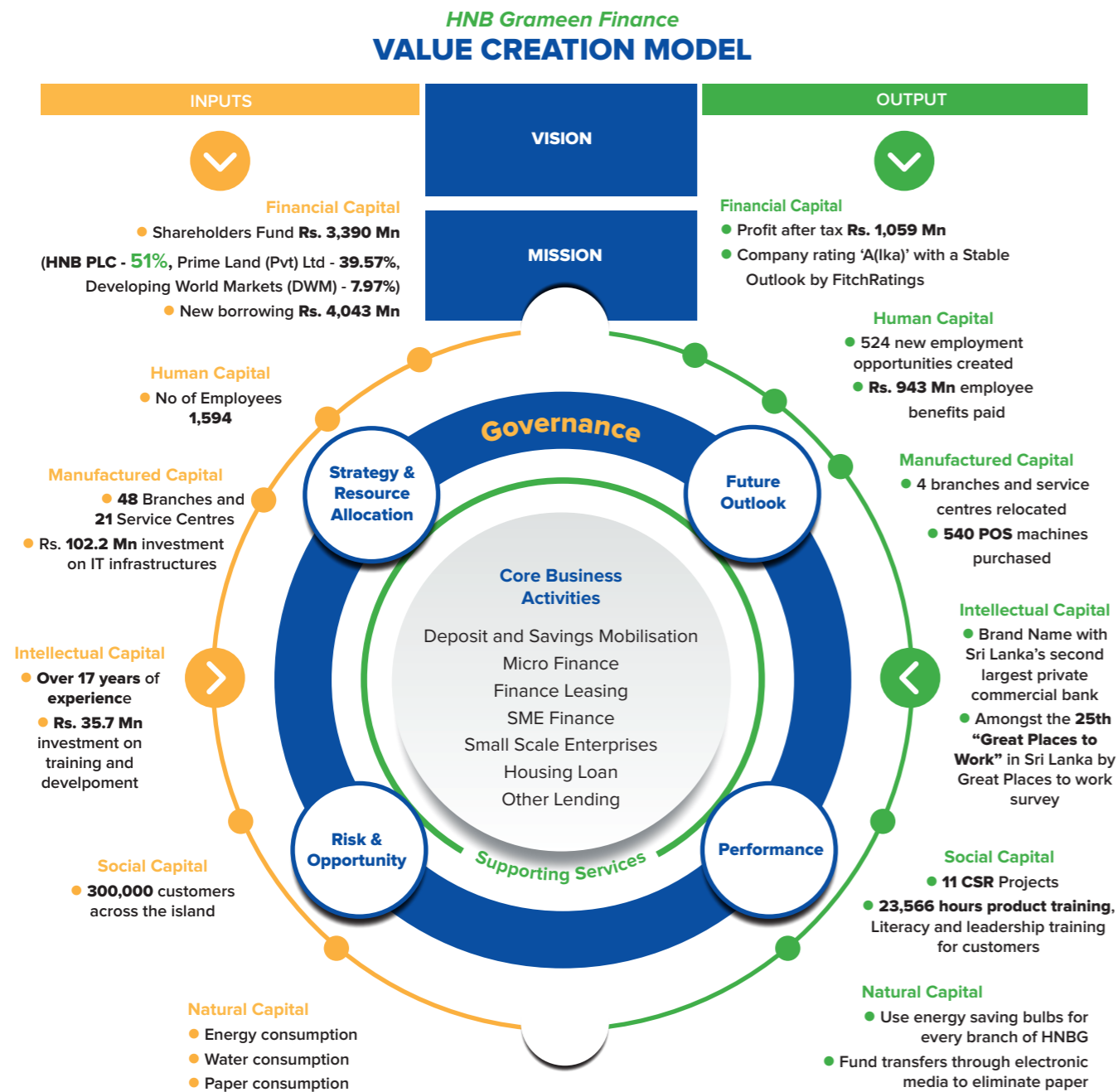
HNBG's savings portfolio, comprising three main products branded as "HNB Grameen Savings", "Miyulasi" and "Yalu" grew by 46% during the year to reach Rs. 2,266 Mn whilst the Savings customer base increased by 33% to 110,000 as at year end.



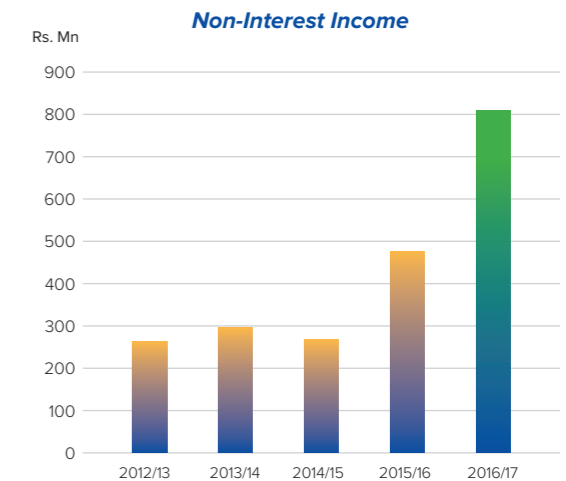
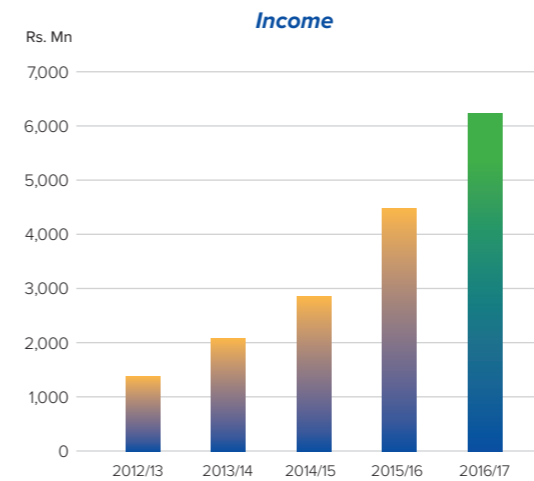
Management Discussion & Analysis

Business Model

Given below is HNBG's Value Creation model depicting how we create value by harnessing our Human, Intellectual and Manufacturing Capitals, by mobilising inputs of Deposits, Shareholders' Funds, Debt Capital in order to create value through interest income to the above. The Company also enhances the value of the Capitals via funding, other social and CSR projects as well as through its environmental initiatives. These activities are integrated into the ultimate value creation of profits to shareholders.

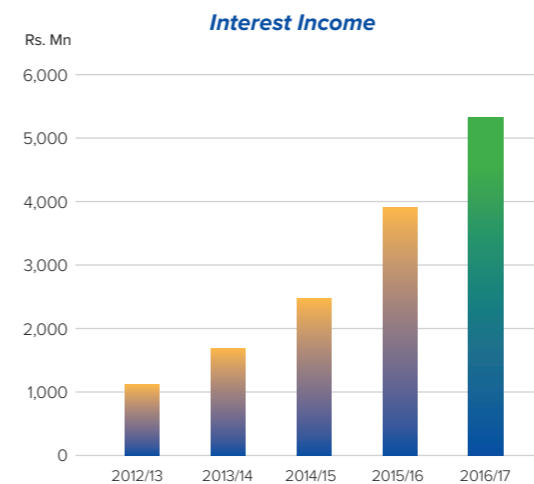


Performance of our Financial Capital

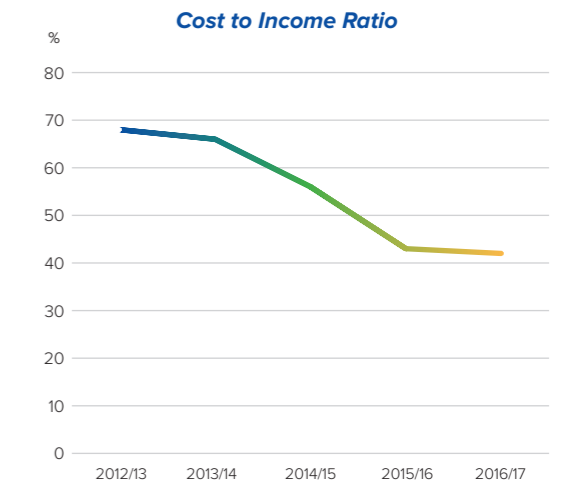


The Company's total income increased by 39% to Rs. 6,234 Mn. (compared with Rs. 4,485 Mn. in 2015/16) with 85% of it comprising Interest Income whilst the remaining 15% came from Non-Interest Income.

Non-Interest Income increased by 70% to Rs. 809 Mn. during the year compared with Rs. 476 Mn. in 2015/16. Document charges were the main component of Non-Interest Income mainly attributable to the increase in Loans and Advances, by 36% during the year. HNBG's leading loan product Diriya contributed Rs. 476 Mn (59%) during the year.



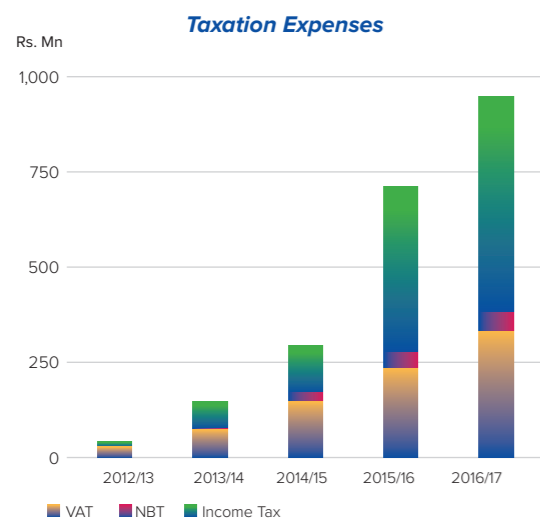
Interest Income increased by 36% to Rs. 5,327 Mn. compared with Rs. 3,906 Mn. in 2015/16. Interest Income received from the Loans and Advances consisted 93% of Interest Income. Whilst Micro Loans showed a 27% increase, the contribution to Interest Income from the newly introduced Leasing business increased by Rs. 135 Mn.



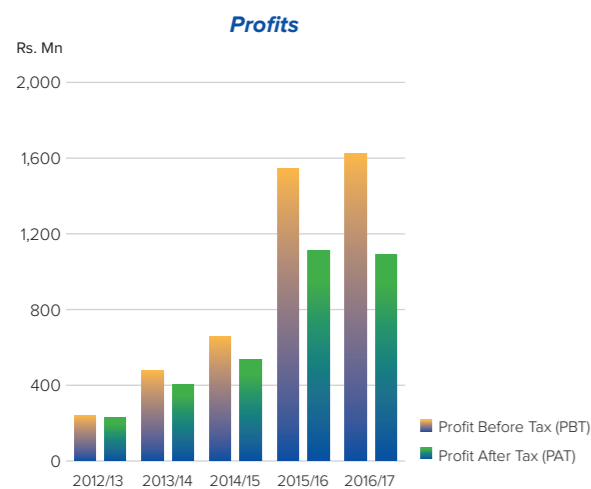
Cost to Income ratio decreased to 42% during the year from 43% in 2015/16 as a result of initiatives to increase income through our diversified portfolio and rigorous cost monitoring initiatives carried out during the year. One of the initiatives was the centralisation of the payment system which would facilitate further cost savings in the future.

Management Discussion & Analysis

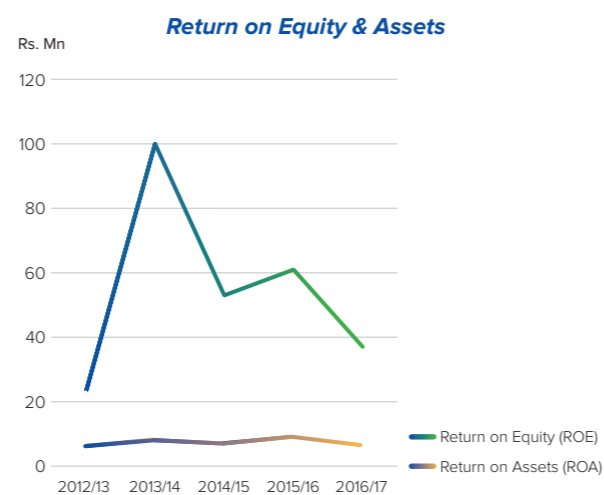
Financial Capital



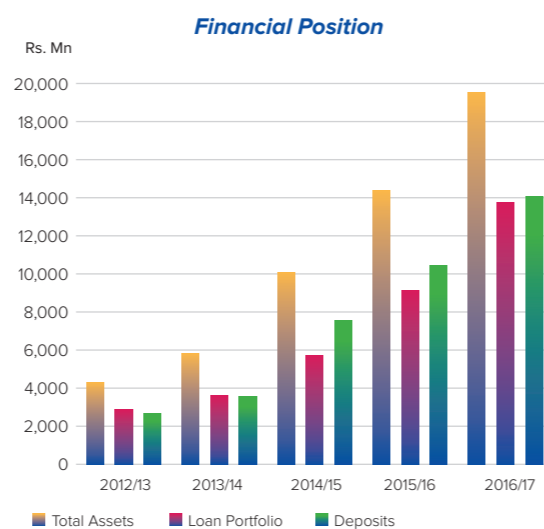
Total tax expense increased by 33% during the year under review. VAT increased by Rs. 97 Mn mainly due to the increase of the VAT rate from 11% to 15%. The Nation Building Tax also increased modestly during the year. As the Company has absorbed tax losses of Rs. 429 Mn. in full last year, there are no pending tax losses from previous years to be recovered this financial year.



PBT increased in line with the healthy credit growth which upheld net income. Subsequently, the Company's PBT increased 5% year-on-year. whilst PAT declined by 5% compared to year 2015/16.

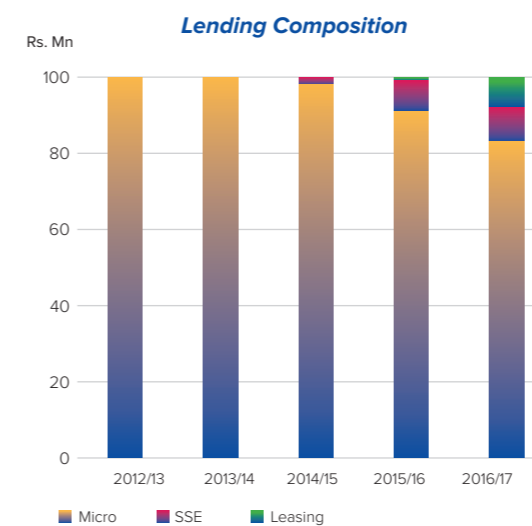


Profitability as measured by ROA and ROE, however declined slightly to 6% and 37% respectively, by end 2016/17 compared to the corresponding period of 2015/16.

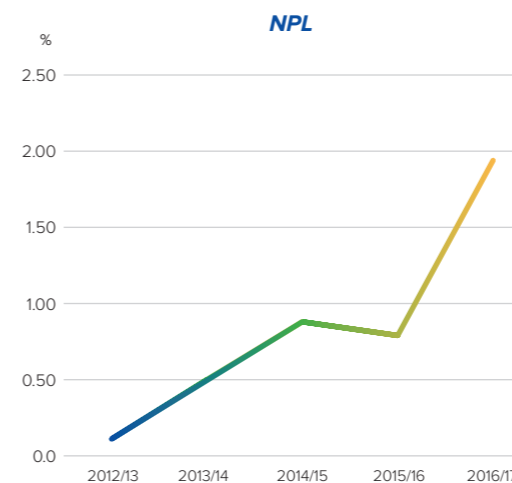


Total assets grew by 36% compared to the previous year in which both Deposits as well as Loans and Advances grew.

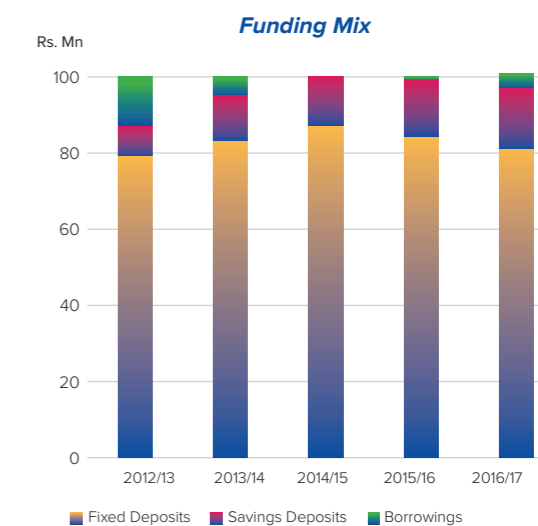
Robust growth in both Loans and Advances and Deposits by 51% and by 35% respectively were driven by new customer acquisitions and increasing our share of business through superior customer service and product diversification.



In addition to the growth in the Company's core product, the year under review also saw growth in SME lending, which augurs well for the Company's strategic intent of product diversification.



Although the NPL ratio increased over the last year, it remained well below the market average. The main cause of the steep increase in the NPL was adverse weather conditions during the year and the financial constraints in the economy.

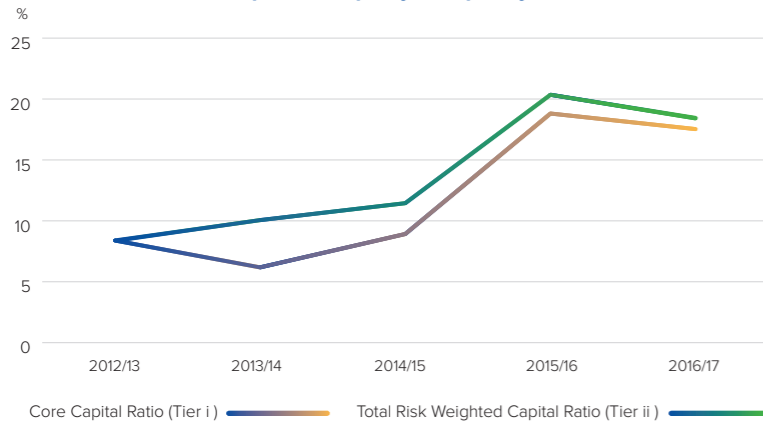


The Company continued an optimistic funding mix throughout the year, with the primary source of funds being Fixed Deposits accounting for more than 75% of the total funding. As depicted above, other borrowings increased slightly due to the borrowing procured from HNB PLC.

Management Discussion & Analysis

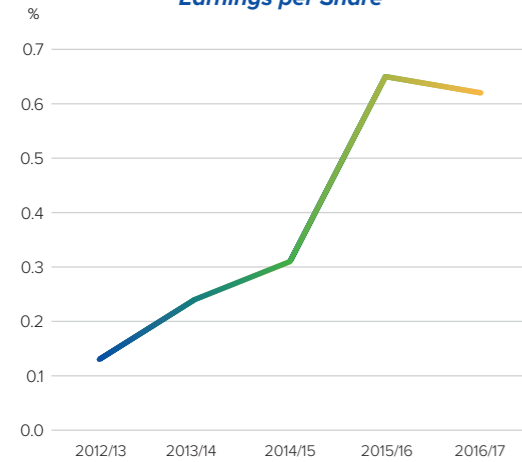
Financial Capital

Capital Adequacy & Liquidity Ratio

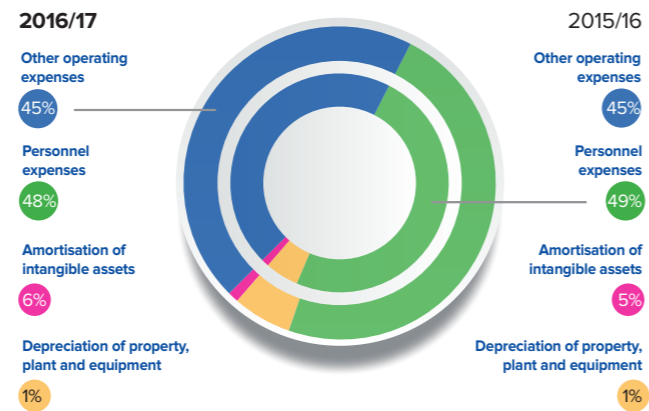


Tier I and Tier II Capital adequacy ratios decreased as excess liquidity positions normalised during the year due to strong credit growth. The Company is in a position of strength, with healthy capital and liquidity ratios above regulatory requirements; well positioned to optimise returns.

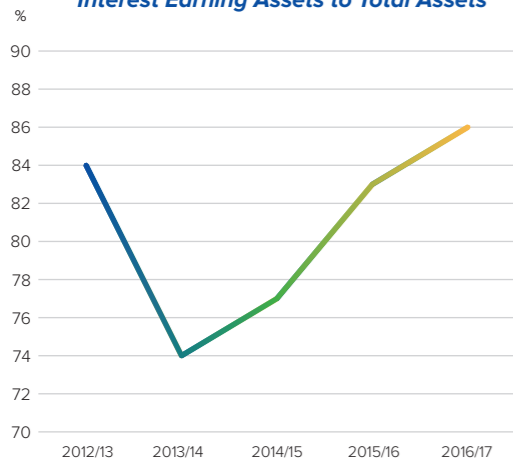
Earnings per Share



Composition of Operating Expenses



Interest Earning Assets to Total Assets

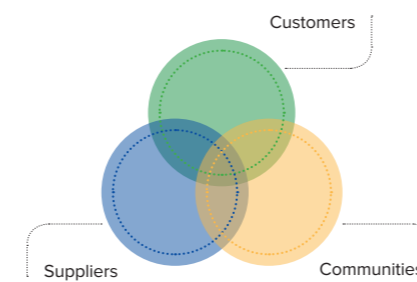


As we look ahead into the next century, leaders will be those who empower others" - Bill Gates

Social Capital

HNBG's vision is to help the "... poorest of the poor" with a mission which includes the development of "sustainable enterprises" and "creating a friendly inclusive society. Thus, adding value to and creating value through our social capital is intrinsic to our business. How we created and enhanced the value of our Social Capital during the year and how we engaged with the three key stakeholders of the Company is presented in this report.

HNBG's Social Capital comprises the following:



True to our mission to be "... devoid of class, creed and racial barriers", HNBG's customer base is spread across every district of the country, and transcends ethnic, religious, demographic and gender divides, whilst women who have been empowered to become entrepreneurs by HNBG Diriya loans make up a majority, constituting 68% of the total customer base.

Increasing the Diversity of our Portfolio

As identified previously in this MD&A, one of HNBG's key strategic imperatives is to diversify its customer base in terms of income levels as well as gender, in order to enhance revenue and minimise risks. Accordingly, leasing, which was launched in 2015 as a step towards becoming a fully fledged LFC, was marketed and promoted during the year. The Company has also been able to drive growth of the Small Scale Enterprises (SSE) segment-through its higher valued lending products such as Abhilasha, Swashakthi and Easy Loans which were launched in 2014. Thus, the year under review saw HNBG make progress towards diversifying its customer base, as 5% of its MF clients progressed into higher income brackets and became eligible for Abhilasha loans.

Geographic diversity of our customer base

Region	Loan Book (Rs. Mn)	Number of Customers
Ampara	718	18,494
Anuradhapura	569	16,244
Badulla	770	17,520
Colombo	701	13,514
Dambulla	665	18,089
Galle	722	14,824
Gampaha	537	11,381
Hambantota	600	14,309
Jaffna	1,361	32,147
Kalutara	554	12,235
Kandy	855	20,582
Kurunegala	477	11,497
Puttalam	778	16,699
Ratnapura	593	14,150
Trincomalee	859	21,033
Wattala	668	12,942
Total	11,426	265,660

Management Discussion & Analysis

Social Capital



How we enhanced our Value Creation for Customers in 2016

- Launched leasing as a win-win strategic initiative.
- Expanded our reach & enhanced customer convenience through the launch of ATM facilities

The year under review saw the Company launch ATM facilities for its Micro Finance clients via the HNB ATM network of 458 machines as well as Lanka Pay network, spread across the island. These customers can now withdraw their loan installments in amounts they wish to, at a time and place convenient to them, without a need to visit a branch to collect a cheque and visit a bank to encash that cheque. In addition to enhancing convenience and a better management of their funds; the card also enabled many a customer to take their first step towards technology enabled banking. ATM cards were issued by 13 of our branches whilst the remainder are to be issued in the year ahead.

- As a step towards service excellence HNBG established a dedicated Customer Service Center with a direct line to address any customer concerns where specific solutions could also be obtained from relevant expertise/ departments.
- Expanded the use of the POS machines to 850 thus facilitating the convenience of door-to-door banking as well as engendering greater customer confidence and trust with an instant electronically generated printed receipt for their installment payments.
- Relocated the Nittambuwas branch to a more customer centric location on the Kandy Road.



Mr. A.M. Harshana Manoj Perera,
"SME Client" - Owner of a Cast Iron Foundry

Having gained industry exposure and technical know-how when he worked at his uncle's cast iron foundry many years ago, Mr. Perera, upon his return from a work stint in the Middle East, decided to invest his savings to start his own enterprise. He began with lathe machines and subsequently began to expand his business to a Cast Iron Foundry. He began his foundry two and a half years ago, and now finds the space at his current facility a constraint to grow his business by meeting a growing demand.

He began to look for a property to cater to the demand for a new type of product. Having found a land a few kilometers away, "I began to scout around with a couple of banks to obtain the required capital for the new capital expenditure and operations. Then I happened to meet a HNB Grameen representative who had come to collect the savings deposits from a boutique close to my place" he explains. "I mentioned my plans to him and the process got going from there. My application was processed in no time and I was afforded the facility. Opening a Savings account has added to the convenience as I can make my monthly payment through that" he continues.

"People like us are always on the move and have to meet so many demands ... and when you are in business you can't afford to lose time" he adds. "Whilst the other two banks I checked out were still processing my application, HNB Grameen had already arranged the facility for me. The promptness of the service and the efficiency of their internal processes was remarkable and a blessing. The excellent service enabled me to proceed with the expansion without hindrance and I am in the midst of making the logistical arrangements to shift part of the facility to the new site" added Mr. Perera.

Igniting and nurturing a spirit of entrepreneurship amongst Sri Lankans



Fueling the "Swashakthiya" of many through "Swashakthi"

True to its meaning in Sinhala: "through one's own initiative/ effort", "Swashakthi" continues to fuel the self generated efforts of many men and women who are disadvantaged only by a lack of funds. The story of forty five year old Ms. A.G. Mallika of Kolongalla, Monaragala is one such example, of many whom we seek to empower.

Mallika who had obtained a facility of Rs. 50,000 from another entity was selling a few FMCG products and looked to access more capital to expand her maiden entrepreneurial venture. Having come to know of HNBG from a branch staff campaign, Mallika came to the nearest branch in 2014, and was able to obtain a Swashakthi loan facility of Rs. 400,000 with which she expanded her business to a retail outlet, where she sells FMCG items purchased from wholesale traders.

Today, her family-run outlet earns an average daily turnover between Rs. 30,000- 40,000 and an average monthly profit of about Rs. 20,000. Mallika gave very positive feedback on her experience over the past 3 years with HNBG's service and its team, highlighting "less documentation, a rapid service provided by the relationship officer and a very positive attitude displayed by the officers" as being key strengths.

Management Discussion & Analysis

Social Capital

Igniting and nurturing a spirit of entrepreneurship amongst Sri Lankans



Facilitating ease of business with "Easy Loans"

Ms. Rishna from Udayagama, Badulla is an agent for dry fish, palm oil, dhal, rice and onions for the areas of Badulla and five of its suburbs. She distributes these to about 300 retail outlets.

Having obtained her first loan of Rs. 1 Mn. as a walk-in customer to HNBG's Badulla branch, of which she knew the Assistant Manager, Ms. Rishna has been a customer of HNBG since 2015 and is now on her third facility of Rs. 2.5 Mn under the Easy Loan scheme.

Her income per month averages around Rs. 5 Mn. while profits amount to 40% of the income. Her future plans include the addition of another 40 products for distribution. Describing her experience with HNBG Ms. Rishna says: "HNBG is the only company which fulfilled my initial requirements in full and their quick service with minimal documentation has been a key asset".



Ms. Inoka Liyanage of Kekandura, Matara; an "Abhilasha" customer who obtained a facility of Rs. 200,000 in December 2016

35 year old Ms. Liyanage runs a garment manufacturing business where she manufactures shirts under the brand name IVA, and supplies an average of 2,500 shirts per month to shops in Maharagama, Pamunuwa and Pettah. The turnover of this venture averages over Rs. 1.6 Mn. per month and she currently employs 12 people and operates 15 sewing machines.

Ms. Liyanage plans to expand her business to meet the growing demand, by recruiting more full time as well as part time staff, and adding more machines. She also intends relocating her factory to her own premises as she is currently at a rented premises. "I got to know about HNBG from one of my staff members and am very thankful for a speedy service and the convenience they are able to offer", says Ms. Liyanage.



Ms. Yogenthiran Yogarani of Koomankulam

Ms. Yogenthiran Yogarani of Koomankulam, Vavuniya is a poultry farmer who owns 500 chickens. Her farm became the runner-up in the Best Chicken Laying Farm Competition conducted by the Veterinary Division of Vavuniya in 2016.

She sells an average of 450 eggs per day to wholesale buyers in Vavuniya, earning an average daily income of Rs. 6,300 per day.

Since being introduced to the Bank by the leader of the MF centre in 2002, Ms. Yogarani has been an inspiring "Diriya" customer of HNBG. She expressed her thoughts thus, "I am so thankful that HNBG is able to come to the financial assistance of lower income individuals like us who are unable to access the banks for lending facilities". She mentioned key attributes such as "trust, the very helpful staff, quick service and convenience" as reasons for her to continue to grow her business with and to recommend this institution to anyone.

Her future plans include the automation of the water supply to the pens to reduce human intervention, speeding up the current operational process as well as expansion of the business with the addition of a new pen and another 400 chickens.



Mr. Gamini Ranasinghe, "Leasing Customer" who has obtained a facility of Rs. 4.5 Mn from HNBG to purchase a freezer truck

Mr. Ranasinghe, who got to know of HNBG from the vehicle dealers at a Leasing Pola in Madampe runs a wholesale business of purchasing PVC items from Colombo and distributing them to hardware shops in Wennapuwa. He also owns a DIMO Batta lorry and a three wheeler and uses part of his premises for storage and delivers the goods upon orders. He recently recruited one employee to the business that he and his wife manage.

Mr. Ranasinghe, whilst thanking god's blessings for the success of his business, describes his satisfaction with HNBG, which he says is "highlighted by the supportive and friendly disposition of marketing and operational staff and the opportunity they give to negotiate."

Management Discussion & Analysis

Social Capital

Marketing Communication

Our marketing communication during the year under review sought to enhance the visibility of the HNBG corporate brand, through several corporate brand building campaigns via television and print media. In addition, we also sought to create awareness of new strategic initiatives such as, the launch of Leasing and the introduction of the HNBG ATM card, and to promote the "Yalu" children's savings account.

Promotional activities carried out around apartment and housing complexes in Colombo and Gampaha districts and the introduction of a gift scheme for the "Yalu" Children's accounts, to coincide with World Children's Day, contributed towards the significant growth in the number of children's savings accounts during the year.

Furthermore, the Company also promoted Fixed Deposits and other general Savings products via ground level activations held across the island, such as the sponsorship of local social events and distribution of hand bills. The success of these BTL communication efforts in mobilising deposits during the year reflects the brand image and its high equity across the different localities in the country. Word of mouth recommendations have been a most encouraging promotion of the Company and a key facilitator of the growth in our customer base and deposit base during the year, as exemplified by some of the testimonials of a cross section of customers we have featured in this section.

Our investments in marketing communications amounted to Rs. 45 Mn during the year compared with Rs. 47 Mn in 2015/16.

Suppliers

The Company's supplier base primarily constitutes suppliers of stationary, furniture, cleaning services, maintenance services and IT equipment.

In keeping with the Company's ethos, it extends support to small scale entrepreneurs by signing service agreements and enabling them to maintain their supply and good faith with the Company. Moreover, we also offer concessionary speed loans to meet the working capital requirements of our long term suppliers. The story of one such supplier is highlighted herein which, typifies our partnership approach and the value we place on long term relationships even with our suppliers, in the spirit of uplifting and supporting start-ups to become big businesses themselves.



Taking the sustainable route - win-win initiatives by partnering the progress of our suppliers

Mr. Suranga Wijesinghe is an off-set printer who has been a supplier of HNBG's numerous printing needs; ranging from manuals to brochures and flyers to account opening documentation and invoices; since his company's inception about 13 years ago. Since receiving its first major order from HNBG, Mr. Wijesinghe's printing business has grown, hand-in-hand with the growth and expansion of HNBG. He is most grateful for the initial patronage he received from HNBG who, to date is his biggest and responsible for his success to a great degree.

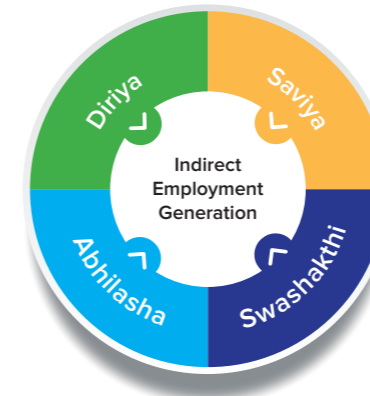
It was, as he says "a boost and a point of reference to market myself to others, enabling me to receive orders from other finance companies and other enterprises thereafter. But most of all I must say my progress has been due to the trust and confidence in knowing that HNBG will continue to give me repeat orders - a key factor which gave me the confidence in my entrepreneurial venture, to continue and to expand". "The confidence one can get from being assured of repeat orders is very unusual in the present day where everything is so uncertain and short term oriented", he reiterates.

"Today, the off-set printing industry is quite competitive, and HNBG is a leading business in the country, but they continue to give me orders for the quality of the work and the relationship we have built up over the years, and the mutual trust and confidence, continuing to be my ideal customer" he adds.

Community

Towards Economic Inclusivity... Livelihood creation by HNBG

- **Direct**
- **Indirect employment generation**



A win-win approach to value creation is intrinsic to our business model. The Grameen concept, which empowers the disadvantaged to become entrepreneurs by providing access to formal funding sans any collateral, has created livelihoods for hundreds of thousands over the past 15 years. In addition to our over 350,000 customer base, the economic value creation activities creates indirect employment and sustains many more families and communities across the island. The business model of the "Diriya" product, which lends exclusively to groups of women, makes a significant contribution to gender equality in the households by empowering women to contribute to economic activity and become financially independent.

Expanding their Horizons

HNBG's role extends beyond mere financial empowerment of those who have no access to formal funding. Our relationship managers become investment partners to clients through knowledge sharing and financial management training, by helping prospective and current clients to grow their businesses and by infusing formal management and accounting tools; an aspect which has also now become a key competitive advantage for the Company. Given below are the training programmes on Financial Literacy and Leadership skills conducted by the Company's own staff. In addition, HNBG also facilitates a plethora of technology transfer programmes such as on manufacturing new products or enhancing their current product for new avenues of income (the statistics of which are given below) by sourcing expertise from institutions such as the National Vidatha Programme,

Ministry of Science & Technology, the Industrial Development Board and the Divisional Secretariat.

The product training afforded during the year covered the manufacture of food products such as Yogurt, different types of bites, food made from Cassava flour, jam, coconut based products and other products such as soap and LED bulbs.



Management Discussion & Analysis

Social Capital

Type	Number of Programmes	No of Participants	Training Hours
Product Training	18	821	3,606
Financial Literacy	8	2,360	19,960
Leadership	15	3,435	
Total	64	12,411	23,566

Reaching out as a Socially Responsible Citizen

In addition to the integral role we play in uplifting the disadvantaged through our businesses, HNBG also actively engages in philanthropy and other CSR initiatives “to uplift others” in numerous ways, to reach out at times of need or disasters, upgrade national and rural infrastructure and support social events in the neighboring localities. The “HNB Grameen Mehewera Fund” made up of contributions from the Company and employees is a fund dedicated to help clients and employees at times of need such as urgent medical treatment, reimbursement of expensive medicine and other related assistance. Furthermore, the Company conducts CSR Projects islandwide through its branch network and actively encourages employees to engage in CSR activities through formal and informal mechanisms. For example, as a formal mechanism, the annual evaluation for branch ranking also includes a points component, for the CSR project(s) carried out by the branch.



Believing that “Health is Wealth” and “Children are the Future of a nation”

In line with the Company’s holistic model of value creation through Micro Finance, Children and Healthcare were amongst our key focus areas during the year. The initiatives included clients as well as support for a healthcare institution which is of critical importance to the country - the Lady Ridgeway hospital.

Supporting Child Healthcare

HNBG, together with voluntary contributions from its employees and customers, donated a much needed microscope to the Lady Ridgeway Children’s Hospital at a cost of Rs. 3.5 Mn. The special five headed Olympus teaching microscope, enables a team of up to five medical students and doctors to observe a Hematological specimen simultaneously, for diagnosis and teaching and offers higher clarity of detail and better illumination, eliminating the need for additional lighting equipment. Photo depicts the donation of the Microscope.

In addition, the Company also donated Capnography extensions to the preliminary care unit of the hospital to enable easy detection of Carbon Dioxide levels of children suffering from Asthma and to help in the early detection of lung diseases.

Health of our Clients

The age old adage that “Health is Wealth” can be true literally for a number of our clients, where missing out on their income generating activity for even a few days due to ill health could mean doing without the basic daily requirements for their loved ones.

Women are most often the caregivers and care takers of their families and often neglect their own health, with focus being the wellbeing of their loved ones. Recognising this fact, HNBG marked International Women’s Day by organising a health clinic and seminar at an investment of Rs. 140,000 during the year.

The seminar held at Ape Gama in Battaramulla, saw the participation of over 600 women from areas of Homagama, Kaduwela and the City branch. The Company arranged the services of a private hospital to conduct diagnostic testing and assess the risk levels for NCD’s and other health concerns amongst the participants. The clinical examination processes were followed by an educational session conducted by a Doctor who provided valuable input such as how best they could ensure better health and wellbeing for



themselves and their families through exercise, better nutrition and food habits and by maintaining a healthy BMI.

Promoting Nutrition

The Horana branch sought to promote Manioc (Cassava), which, as per recent medical research offers numerous health benefits including cancer prevention. The training programme, held at a temple hall in Ingiriya aimed to create awareness on the health benefits of the Manioc flour as a healthier alternative to other types of flour and demonstrated the varieties of foods that can be made from this flour such as, cakes, buns, kokis, other sweet meets and string hoppers. The programme benefited 30 women clients from five of our MF centres.

As “Children are the Future of a Nation”- Contributing to an Underprivileged School

During the year under review, HNBG supported Kudawewa Vidyalaya - an underprivileged primary school in Dimulagala, Pollonnaruwa to mark International Children’s Day. Amongst the items donated by the Company were school books, library books, a 32” LED Television, a sound system and a name board for the school.



If you want to lift yourself, Lift Someone else” - Booker T. Washington



Supporting an Orphanage

The HNBG branch in Nikaweratiya contributed Rs. 140,000 to construct a bathing facility for a girl’s orphanage in the village of Andigama in the Chilaw district.

Reaching Out at Times of Need

HNBG employees also reached out to help flood victims by providing essential items which included food, medicine and sanitary items during the floods that impacted many in the outskirts of Colombo and other parts of the country, during May 2016.

The Welimada branch also reached out to help victims of a landslide that impacted many on the Glenory Estate in Haputale.

A blood donation campaign by our Ratnapura branch.

Contribution of a lunch and presents for 30 children at the Swathodaya Orphanage in Pamunuwa.

A lunch and gifts to children at the Apeksha Cancer Hospital in Maharagama.

Providing lunch, clothes and other gifts to over 40 inmates of the Home for the Aged in Korathota.

Management Discussion & Analysis

Human Capital

Deriving and Delivering Value with our Core Strength - Our People

The talents and passion of our 1,595 team of employees has been the vital factor in nurturing Sri Lankan entrepreneurship across the country. Our people, through uplifting and consistent interactions over a period of time have fueled the growth of the Company and ensured a sustained performance over varying market conditions. It is the quality of the relationships we nurture within the organisation that has also paved the way for enduring and win-win partnerships with our customers and other stakeholders.

It is thus a most heartening and fitting endorsement that HNBG was placed amongst the top twenty five “Great Places to Work” in Sri Lanka, by the global “Great Places to Work” survey conducted in 2016.

The survey, conducted for the fifth consecutive year in Sri Lanka, assessed about 100 organisations across 16 sectors, representing an employee population of 31,000 of which 18,000 were surveyed at an 81% response rate. Great Places to Work, following over 30 years of research identifies three key relationships as the key to be a “Great Place to Work”. Namely, trust between



employer and employee, pride in what they do and camaraderie amongst colleagues. The first 25 Companies had 9 out of 10 employees respond “Yes” to the question. HNBG’s team of employees is spread across 48 branches and 21 service centres with as much as 78% working outside Head Office; a fact which underscores the Company’s success in being able to build mutual trust, a sense of ownership of its business model and brand loyalty. Participating in the survey also helped us identify our strengths and weaknesses and benchmark ourselves against industry standards.

A few testimonials of a cross section of our relationship managers shared in this section reflects some of these attributes of HNBG’s most vital capital.

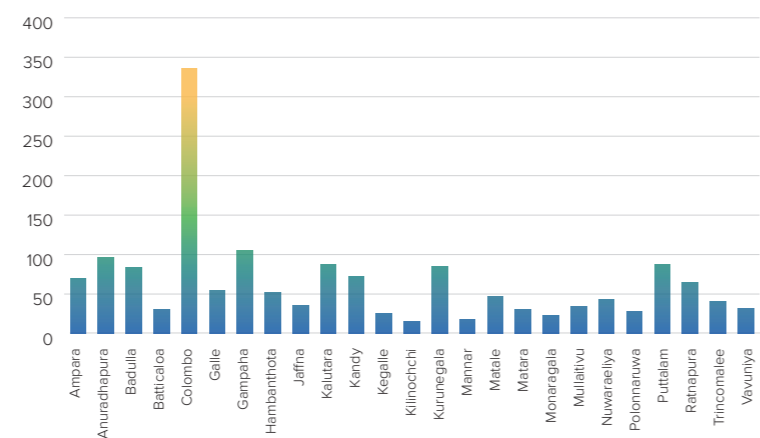
Employment Generation in Rural Areas by HNBG

It is significant that more than 78% of HNBG employees work and live outside Colombo – a fact we take pride in, due to the value addition to the local economies and the contribution we make to the nation’s objectives, of reducing the geographic disparity of Sri Lanka’s income distribution.



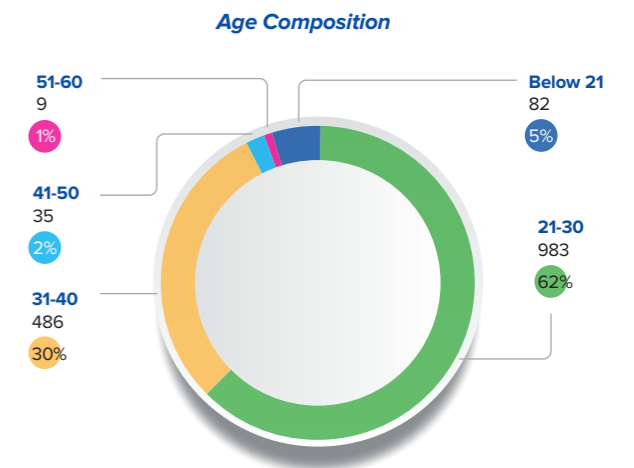
	2015/16	%	2016/17	%
Rural Areas	366	76	411	78
Urban Areas	118	24	113	22
Total Recruited	484		524	

No of Employees **Geographical Distribution of Employees**



As depicted, as much as 67% of our employees are below the age of 30 years - the category known as the Generation Y (Gen Y) and they are the future leaders of our Company and the nation, who will define how business is done. The Company is thus focused on creating an environment which is conducive to tapping into their energy and creativity. At the same time, a high percentage of Gen Y has sprung a need for us to understand and address the differences between the Generation X and Generation Y (Gen Y) employees of our workforce. For example, Gen Y are found to look for more instantaneous rewards and faster career progression, use technology as a primary form of communication and require different opportunities for informal engagement. Research has found Generation Y employees to be continuous learners, team players, collaborators, diverse, optimistic, achievement-oriented, socially conscious and highly educated, auguring well for dynamism and fresh perspectives for the future of our organisation. Our HR development hence focuses on ways to enhance the engagement with the Gen Y amongst us.

Whilst the average age of our employees is 30 years, a large percentage of our senior management counts years of experience and possess tacit knowledge which equips them well to provide astute leadership.



At the same time, over 31% of the team that makes up HNBG have been with the Company for over 5 years, whilst 21% have been employees of HNBG for more than 10 years contributing industry experience and valuable tacit knowledge; a fact we have identified as a key strength as well as an intangible capital.

HNBG’s gender distribution, as depicted below, indicates a predominantly male composition with females comprising only 5% of total employees; a fact primarily due to the nature of work of Micro Finance sales team, which requires extensive field work with travel across diverse locales. However, the Company is committed to being an equal opportunity employer whose recruitment decisions are based solely on meeting the selection criteria - whether it be academic

HNBG is a Company which is constantly mindful of ensuring employee satisfaction and to creating opportunities for employees to advance themselves. I was given the opportunity to participate in the Asia Pacific Conference on Micro Financing, held during the year, in Vietnam. The knowledge I gained on how technology can be used to enhance value creation in Micro Financing at this seminar has been extremely useful.

Gamini Ariyasinghe - Badulla Region



HNBG has begun to expand its portfolio from Micro Financing only, to new Loans and Savings products. It is most heartening that HNBG gave priority for us existing staff rather than external recruitment to take on the responsibility for these new products as well. It has given us the opportunity to widen our horizons and gain training and experience in other financial services.

Aruna Wasantha Siriwardena - Galle Region

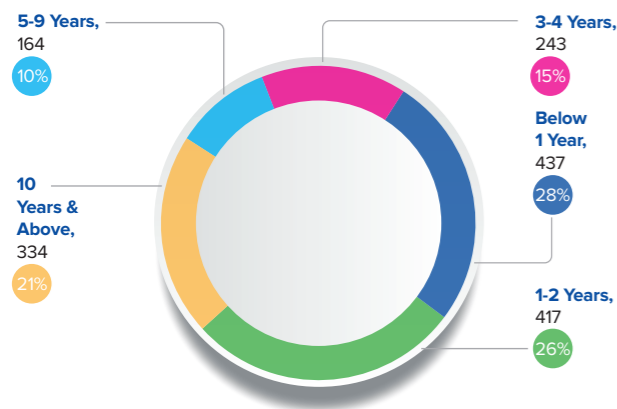


Management Discussion & Analysis

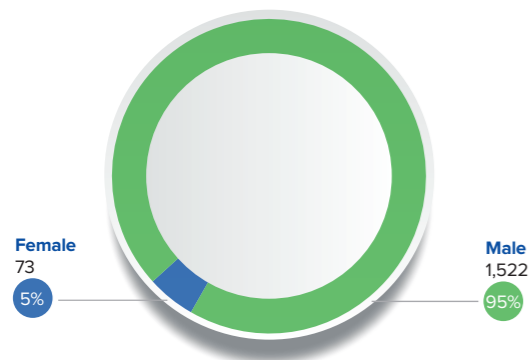
Human Capital

or technical qualifications, experience or expertise or the required personality traits and attitudes; with no consideration for gender, ethnicity or religion. We are in fact looking to increase the female cadre and envisage that women would be willing to take up such sales roles in the future.

Period of Service Analysis



Gender Distribution



Key Performance Indicators

	2016/17	2015/16
Employee retention	87.17	84.59
Profits per employee (Rs.)	684,00	815,000
Average training hours per employee	33.41	29.19

Performance Management

The Company's Performance Management system translates & aligns business strategy into goals for teams and individuals across all levels of the Company, and rewards and recognises contributions to and achievements of organisational goals which have been set at the beginning of the year. All employees have an opportunity for a two way appraisal conducted biannually where performance targets and measures are agreed on, and monitored. The higher achievers are recognised and rewarded at the end of the year.

HNBG also believes in the importance of building capacities and honing and harnessing the potential of the individual for the Company to expand its own potential to create value.

Training & Development

Employees are our most valuable asset, and hence one of our critical strategic imperatives is to enhance the value of that asset. Thus, promoting education, training and a culture of continuous learning is a key focus of the Company. Our employees across the different functions and the different locations were afforded a variety of training opportunities conducted inhouse and externally during the year.

The table below provides a summary of the Group's investment in training and development.

Training & Development	2015/16	2016/17
Investments (Rs. Mn)	35.7	31.6
Total training hours	54,376	39,581
Number who benefitted	1,594	1,356
Average cost per staff member (Rs.)	22,419.97	23,370.25
Average hours per staff member	33.41	29.19

As much as 85% of our new recruits are those who have just completed their A'Level examination, whilst a majority are from rural backgrounds. Thus, the Company identifies a need to provide rigorous training for KSA (Knowledge, Skills and Attitudes) which begins at point of induction; following a gap analysis for KSA.

In addition, HNBG provides tailor made KSA training for current employees on a regular basis as we believe that harnessing the potential of the Company goes hand-in-hand with reaching the potential of the individual employee. As such, the Company's training programmes include a gamut of aspects such as Micro Finance knowledge, personal development and leadership training, as per the individual needs of the employee and his or her functions.

Individual training needs are identified by past performance, interviews, superiors' feedback, personal achievements and career achievement and goals of the employee. Such training programmes are conducted in-house as well as by external parities such as the Central Bank, Institute of Bankers of Sri Lanka, Sri Lanka Institute of Development Administration and Development Facilitators.

The much looked forward to Annual Quiz is an informal mechanism by which the Company promotes and rewards a thirst for knowledge gathering in the spirit of fun and fellowship.



HNBG has been able to win the trust and confidence of its employees and we consider this workplace our second home. I think one of the key strengths is the great team spirit amongst us employees who consider ourselves a family. In addition to our salaries we also benefit from a monthly bonus which is based on sharing of the Company's profits, and this helps promote a feeling of ownership of the Company.

Joseph John - Jaffna Region



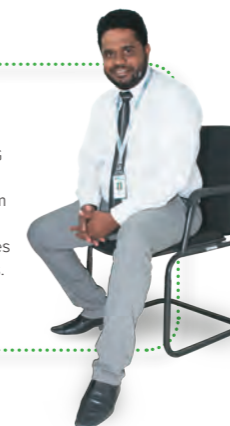
The effort HNBG's senior management takes to encourage and facilitate employees to pursue higher educational and professional qualifications as appropriate is most encouraging to us. They also make every effort to identify and recognise each individual's talents and abilities.

Priyantha Dissanayaka - Ampara Region



The first time I went overseas was with HNBG and it was the same for a lot of my colleagues who went on tours to gain exposure in MF. I am also thankful that HNBG helps us develop our language skills and facilitates new opportunities and helps us progress in our professional lives.

Asitha Uduwella - Wattala Region



I won't be wrong if I say that HNBG is a Company which engages a lot with youth. For most of us, HNBG is our first place of work and it is whilst at HNBG that most of us have been able to fulfil our aspirations such as to own a house, or a car. We are grateful to HNBG for the supportive environment it offers for us youth to advance economically as well as socially.

Dilan Thamel - Puttalam Region



Management Discussion & Analysis

Human Capital

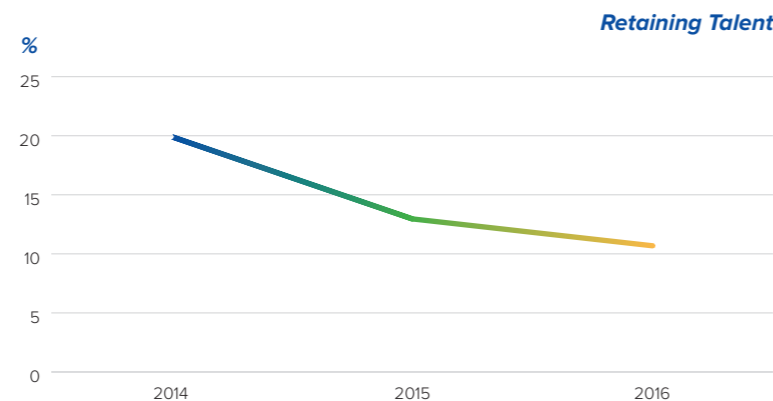
Programme/ Training	2015/16			2016/17		
	No. of Programmes	No. of Participants	Training Hours	No. of Programmes	No. of Participants	Training Hours
CBSL Programmes				3	11	96
CMA Programmes				1	35	70
Diploma In Compliance (IBSL)				1	1	96
Diploma in Credit Management				1	2	168
IT Programmes				3	8	166
Certificate in Micro Finance (DF)	4	171	7,602	10	461	22128
Diploma in SME (IBSL)	1	5	520			
Diploma in Micro Finance (IBSL)	1	11	1,034	1	11	1034
Induction Programmes	15	430	16,172	14	382	14402
Leadership & Management Development	21	1,086	8,706	9	287	1801
Other Institute Workshops	9	251	1,542	17	725	5636
Overseas Programmes	6	188	3,008	2	112	2688
Wisdom Trainer International				3	207	4512
Fire Safety Programme				1	140	560
Sales & Customer Service Excellence	4	143	667	4	154	1019
Total	62	2,285	39,251	70	2,536	54,376

Strategic Priorities in HR Management for the Year Ahead

Our people philosophy focuses on attracting, developing and building a talented, dynamic and motivated human resource base with the right competencies to proactively meet our mission and objectives. Some of our key priorities for the next year can be summarised as follows

Retaining Talent

Given the intense competition in the industry and the strengths and expertise of the HNBG team, gained from being part of an organisation which has pioneered MF in Sri Lanka, the threat of attrition is a challenge. We have identified that the ability to recruit and retain younger workers is becoming essential for employers to ensure long term business success, especially as Baby Boomers begin to retire in increasing numbers. However, it is also noteworthy that 95% of employees who have left HNBG are those who have been with the Company for less than two years. This reflects the Gen Y workforce who are often on the field.



As depicted in graph above, the attrition rate during the year under review declined by over 2%. Several measures taken by the Company supported this fact. Some of these include, better selection at recruitment supported by behavior-based testing and competency screening; enhancements to the benefits package; strengthening the practice and processes in offering employee feedback and recognition of good performance and contributions and establishing clear paths for career progression.

Amongst the other initiatives planned for the year ahead, to address this issue are, conducting exit interviews, stabilisation of the salary scale following a benchmarking with peers and competition, obtaining continuous feedback from new recruits, training and development programmes for all employees, an induction programme for new comers, and streamlining of the screening process.

Enhancing Technology for Improved Productivity, Processes and Employee Satisfaction and Working Conditions

This would be a Triple Bottom Line initiative for the medium term, which would lead to better margins, better employee and customer satisfaction through streamlining of work, and greater efficiency.

Enhancing Reward and Recognition Schemes

Introducing new ways to reward and recognise employees achievements is always a priority for continuous improvement in productivity, and is further underscored by the industry competitiveness for trained talent as well as the increasing percentage of Generation Y in our workforce. Some of the employee recognition events held during the year are depicted pictorially.

During the year, the Company also made a decision to replace cash rewards given to the winners with gift vouchers, as it was found that a household item or gift purchased with such a voucher to be of greater appeal to an employee's spouse or mother than a gift of cash; and these family members would also begin to feel greater affinity with the Company, which in turn would encourage the employee's loyalty.

Establishing formalised pathways and grooming employees for career progression

Some of the measures in place include the Micro Finance certificate and Diploma, foreign training and exposure to ICT, Micro Finance and Islamic Finance and leadership building for managerial level and above.

Augmenting our channels for engagement and internal and external communication

The year under review saw the Company venture into social media with an active Facebook page whilst the HNB Grameen Magazine and intercom facility for head office staff continued to be key channels of internal communication.

In addition to the formal channels of communication, the Company encourages and facilitates a number of other informal engagement, such as the Company Sports Club and its activities, the IQ Master – a quiz programme which draws much enthusiasm from across the entire branch network, a talent show and voluntary participation in CSR activities.

Management Discussion & Analysis

Intellectual Capital

Value creation and intellectual capital are interdependent. At HNB Grameen, three elements of Intellectual Capital play a significant role in its value creation activities and these three intangible assets which are manifest in the synergies of value creation are the Company's brand reputation i.e: name, logo and public perceptions of the Company; organisational knowledge and expertise and the Company's unique systems and processes.

Brand Reputation

Since pioneering Micro Finance under the Grameen model in Sri Lanka, in 1999, the Company became synonymous with the unique Grameen concept of group based lending in Sri Lanka. True to its Vision and Mission, HNBG has differentiated itself through its objectives of nurturing and fuelling entrepreneurship, to assist the "poorest of the poor to overcome poverty" and to create an "... inclusive society". Its brand reputation has come to represent these objectives. Since the acquisition of the Company, then known as "Prime Grameen", by HNB - Sri Lanka's oldest private commercial

Bank, one of the country's most respected entities and today Sri Lanka's second largest private commercial bank, the Company's brand equity has risen significantly. With its 126 year heritage, brand HNB has been synonymous with attributes of trust, stability and strength which have in turn reinforced our brand equity with attributes of trust, dependability, stability and confidence in the public eye.

In addition to the Company's brand identity, we also consider the brands, which constitute our product portfolio, to be valuable intangible capitals which either currently, or are being positioned for the future, to play a vital role, in our value creation process. They have been carefully conceptualised, crafted and designed to differentiate the HNBG offering, and to appeal to and be identified with, different aspirations of different groups of people we strive to empower. They are hence effective channels of market segmentation and strategic positioning which will enhance market share and hence value creation in the future. These sub brands are as shown below.



True to its Vision and Mission, HNBG has differentiated itself through its objectives of nurturing and fueling entrepreneurship, to assist the "poorest of the poor to overcome poverty" and to create an "... inclusive society".

HNBG has been in business for 17 years, and as much as 31% of its staff are those who have worked in the company for more than five years whilst 21% have been with the company for more than ten years. These employees represent and contribute immensely to the Company's value creation process with a store of tacit and explicit knowledge, including specialised expertise in the business domain of Micro Finance and knowledge of rural communities. These intangibles have been a key to the sustainability of the Company's business model in an industry in which lending decisions are seldom based on black or white number crunching, but instead based on experience and insights of our relationship managers, community based knowledge and most of all relationships. The quality of the relationships have also proven to be a valuable asset in the Company's risk management strategy



Knowledge base

"In 2011, when the Company was going through a difficult period, Prime Lands saw the potential of the people rather than the Balance Sheet and acquired the Company... HNB acquired 51% stake thereafter in 2014..."

- MD/CEO, B.M.D.C. Prabhath

and its effectiveness. This knowledge is a valuable element in HNBG's Intellectual Capital as a key differentiator in an industry which is based on forging and nurturing relationships with varying market segments. The Company's tacit and explicit knowledge has also been interdependent with its ability to integrate into rural communities, another valuable element of its intangible capital base.

The knowledge base is also significant in the Company's differentiation strategy being more than mere providers of financial capital such as playing a role as investment advisors to clients.

Systems & Processes

One of the key success factors of HNBG's sustainable model of value creation in the MF industry has been its processes with regard to delivery, customer service and customer engagement, which over the years the Company has fine tuned to be a key differentiator and an intangible capital. Since pioneering the Grameen concept in Sri Lanka, HNBG has established the necessary systems and processes dedicated to ensure that over 250,000 customers across the island, are met once every week at a designated meeting centre; a practice which the Company has carried out consistently during the 17 years in business. These systems and processes add value through customer engagement, fostering of customer loyalty and

motivation, customer education, reducing risk, ensuring timely payments, and facilitating another key differentiator of being investment advisors to customers. The passion, dedication and consistency with which this well structured weekly meetings are carried out have become a vital element of the sustainability of the HNBG business model vis-à-vis competition. Moreover, the tacit knowledge and the employees' appreciation of the wider objectives of our business model have contributed to the success and sustainability of this value creating processes of customer engagement, service and delivery, thus making them a key competitive advantage and an element of the Company's intangible capital.

External Endorsements Achieved During the Year

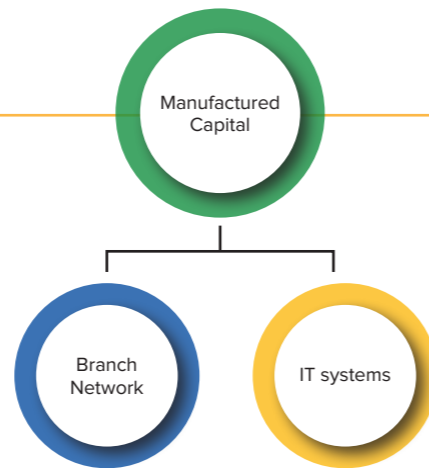
The awards and recognition we have received bear testimony to our commitment to quality and excellence, the strength of our knowledge base and the quality of our systems and processes.

- Amongst the 25 "Great Places to Work" in Sri Lanka by Great Place to Work survey.
- Compliance Award under Finance and Leasing Company category, at the Annual Report Awards 2016 conducted by CA Sri Lanka.



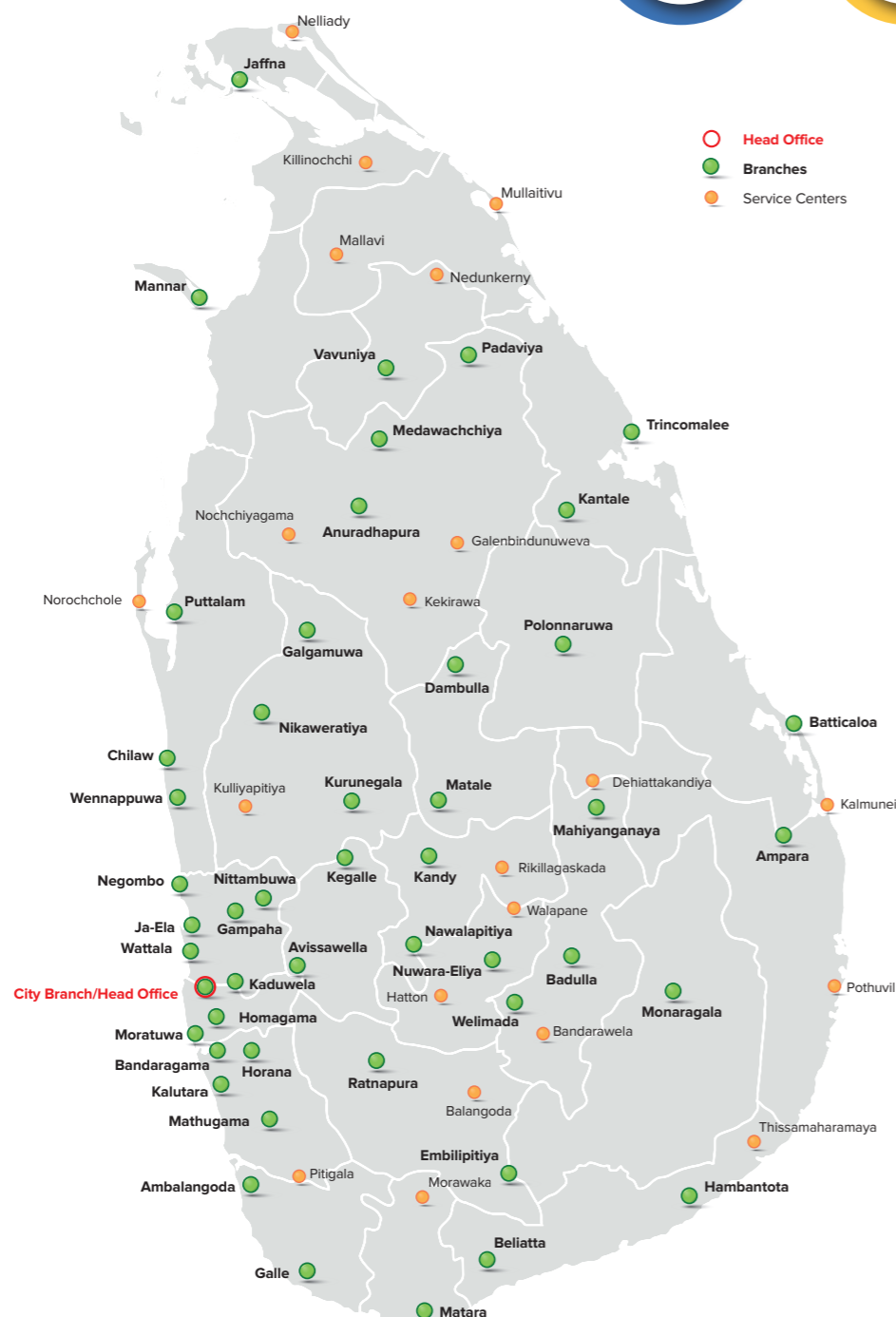
Management Discussion & Analysis

Manufactured Capital



48
Branches

21
Service Centers



Branch Network

Our physical presence, with 48 branches and 21 service centers located across the length and breadth of the country has been one of our key competitive advantages. The Company's focus on Micro Finance has necessitated that a majority of the branches be located in rural areas such as Monaragala, Padaviya and Kanthale.

During the year under review no new branches or service centers were opened as the Company focused on expanding its digital reach.

Customer Touch Points

	2013	2014	2015	2016	2017
Number of Branches	48	48	48	48	48
Number of Service Centres	3	5	11	21	21

Technological Platforms :

Over the past few years, HNBG's technological investments have sought to impact all aspects of the enterprise; these include enhancing operations and facilitating a better utilisation of all resources, to customer service excellence and product innovation, thereby leading to a Triple Bottom Line impact.

We have recognised that technology has become an imperative to sustain and grow our profitability; by facilitating the better management of costs on the one hand and the creation of new delivery channels, new products and new opportunities to generate revenue.

Augmenting our Technological Platform in 2016

- The Leasing system was launched to facilitate the Company's venture into the Leasing business in line with its diversification strategy.
- The launch of the ATM card (as also elaborated under Social Capital) resulted in significant improvements to efficiency and cost savings to the Company. A total of 18,000 cards was issued during the year with roll out of the remaining to be continued in 2017/18. By eliminating the need for the issuance of cheques to customers who obtain loans; the launch of ATM cards expected to

yield a cost saving of Rs. 9 Mn per annum. The following branches commenced ATM operations during the year under review - Ampara, Bandaragama, Chilaw, Colombo's City branch, Embilipitiya, Jaffna, Kandy, Kurunegala, Mannar, Moratuwa, Ratnapura, Trincomalee and Vavuniya.

- The number of POS machines were increased to 850 during the year, enabling significant changes to how our employees carry out their daily routine tasks including collection of cash repayment and service customers. They have enabled remarkable improvements to process efficiency, customer convenience and confidence through the instant update of account balances and statements on the one hand; eliminating the need for a customer to come to the nearest branch to get an account update. Employee convenience and efficiency is also facilitated by eliminating the need for them to visit the nearest branch to consolidate and prepare their daily balances at the end of the day as the machines ensures automated consolidation whilst they are on the field. The machines have further enhanced customer convenience by facilitating door-to-door banking for savings customers. In addition, by enabling the provision of instant electronically generated printed receipts for their cash deposits, the POS machines have also strengthened customer trust and confidence when transacting with the Company.
- 568 of the desktops used by some of the branches located at different corners of the country were replaced with new ones at an investment of Rs. 28 Mn during the year. The new desktops have improved efficiencies, and productivity at those branches and reduced overall downtime and risks associated with aged computers.
- The year under review saw the Company commence the implementation of a Document Management System and Share Point based workflow which, when fully operational, will automate the workflows and yield significant efficiencies in the year ahead.

The total investments in enhancing our IT platforms during the past few years are given below.

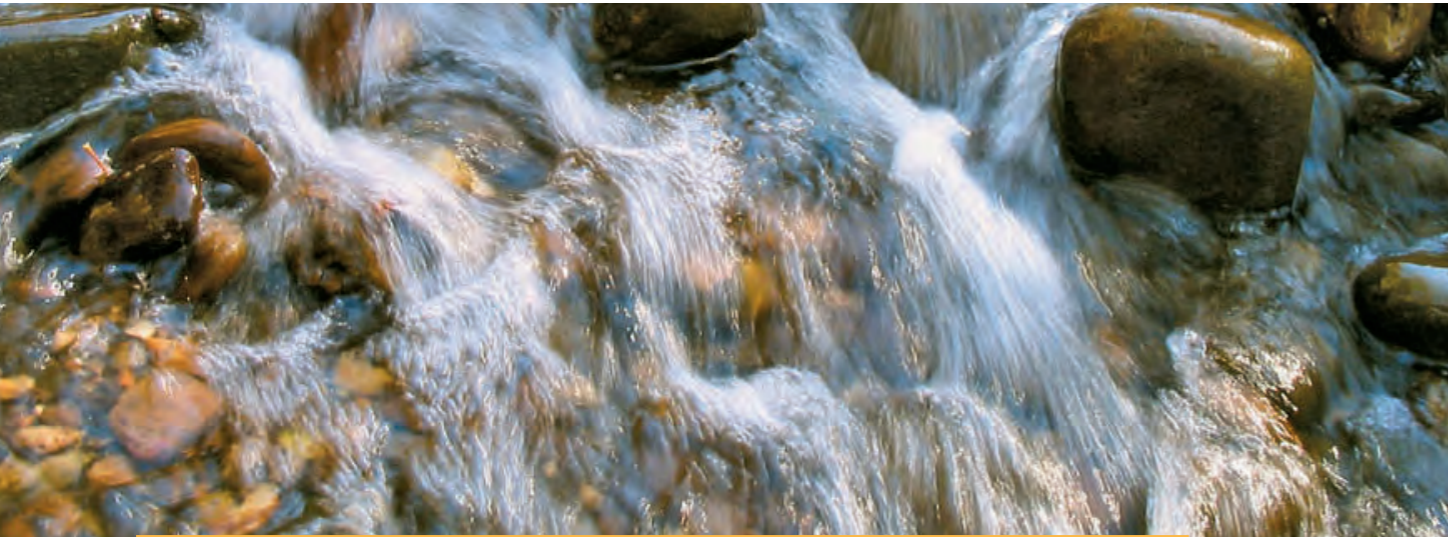
	2013	2014	2015	2016
Investments in IT (Rs. Mn)	928	288	565	102.2

Management Discussion & Analysis



We do not inherit the earth from our ancestors, we borrow it from our children" - Chief Seattle

Natural Capital



Given the nature of our business (i.e. financial services), the direct impact we have on the environment is comparatively minimal and limited to a relatively low consumption of natural resources such as energy and water and the carbon footprint of business related travel. However, climate change or global warming is recognised as the world's biggest environmental challenge of the 21st century and a continuous effort to reduce our carbon footprint is thus a key priority for HNBG; driven by the fact that every little footstep takes us forward towards an urgent imperative.

Kindling and Enabling Green Friendly Enterprises

Our environmental conservation efforts begin at point of lending where we consider the possible environmental impact of the Micro Financing activity and do not lend to any activity which has an environmentally detrimental impact. We also proactively encourage environment friendly businesses by funding such projects.

One such project we lent to during the year under review was a facility of Rs. 200,000 granted to an entrepreneur for the manufacture and distribution of environment friendly and soil enhancing compost fertiliser.

A Classic Example - of a Triple Bottom Line Initiative of Courage and Entrepreneurial Spirit

The inspiring story of Ms. D.A. Iranagane, who lives in Walapane in the Nuwara Eliya district epitomises the meaning of the Sinhala word "Diriya" - which conveys courage, strength and perseverance. Her comfortable life changed suddenly with the tragic death of her husband who died by drowning in 2006. Left with two children to fend for, and in dire need of a source of income, she began to look for employment. Being Ordinary Level qualified helped her to get a job in the Ministry of Health, which however was only for one year. Following the end of her employment she decided to try an income generating activity and her first thought was to begin a dairy business, as she already owned a cow at home. However, she needed at least some basic equipment to make it an income generating activity, and needed money to purchase them. It is at this juncture, in 2007, that she came to HNBG and was able to obtain a "Diriya" loan to buy a few tools she needed.

Thus began her dairy business on a very small scale, as she started to sell a couple of litres of milk per day, which was delivered to the outlet through her children on their way to school, and the payment collected by them on their return from school. She subsequently benefited from a gift of a second cow given by a member of parliament in the area, and this bolstered the opportunities for her in her entrepreneurial quest. Before long she was also able to obtain expertise from a Vet and commence the manufacture of Bio Gas using

'Goma" (the cows' excreta). Using this environment friendly source of energy (Bio Gas) manufactured by her for her household energy requirements, has helped to reduce her LP Gas bill by as much as 50%.

Today, Iranganee owns nine cows and in addition to the manufacture of Bio Gas, sells environment friendly fertiliser (i.e. Goma) and also provides tuition to students, to earn an additional income.

In addition to funding environment friendly initiatives, we also extend our efforts to create awareness, disseminate knowledge and advocate environmental consciousness and environment friendly behavior amongst our clients. The Micro Finance meeting centres across the island, where our over 250,000 members gather every week to make their installment payments, provides an ideal forum to educate and advocate communities on the critical and urgent imperative of environmental conservation and sustainability practices, and on how each of them can contribute perhaps even in a small way, to greening their footprints. The awareness generating sessions include energy saving tips to choosing organic ingredients in the manufacture of foods, home gardening and cultivation and other green friendly income activities and the win-win impact of going green. We believe that knowledge and access to funds are tools of empowerment which will help nurture an environmental consciousness amongst our customers across the country.

Our Green Steps in 2016

Towards a paperless office : the Company continued to infuse technology for a Triple Bottom Line impact. For instance, making our processes more efficient during the year enhanced customer service as well as reduced our paper consumption to have a favourable impact on the environment and reduce stationary costs. The transmission of scanned documents instead of couriering documents to head office reduced paper consumption and expedited decision making. Moreover, the launch of ATM facilities for clients, which has enabled customers to withdraw their funds via the nearest ATM machine at a time and place convenient to them, by eliminating the need for weekly cheque payments to over 300,000 customers, has yielded significant efficiency and paper saving. Furthermore, the ATM and the POS machines have also reduced the carbon footprint of travel by eliminating the need for clients to travel to the nearest branch or MF centre to collect payments or obtain an account balance. The paper saved during the year under review by eliminating cheque payments for 230,000 clients.

Following the conversion of light fittings at Head Office and the branches to LED fittings in 2015, the year under review saw the Company continue this process and replace more conventional bulbs with LED and fluorescent bulbs in several locations. These enabled an energy saving of up to 70% via the LED bulbs and a reduction of 5-7% via the use of fluorescent lights.



the launch of ATM facilities for clients, which has enabled customers to withdraw their funds via the nearest ATM machine at a time and place convenient to them, by eliminating the need for weekly cheque payments to over 300,000 customers, has yielded significant efficiency and paper saving.



energy saving up to

70%

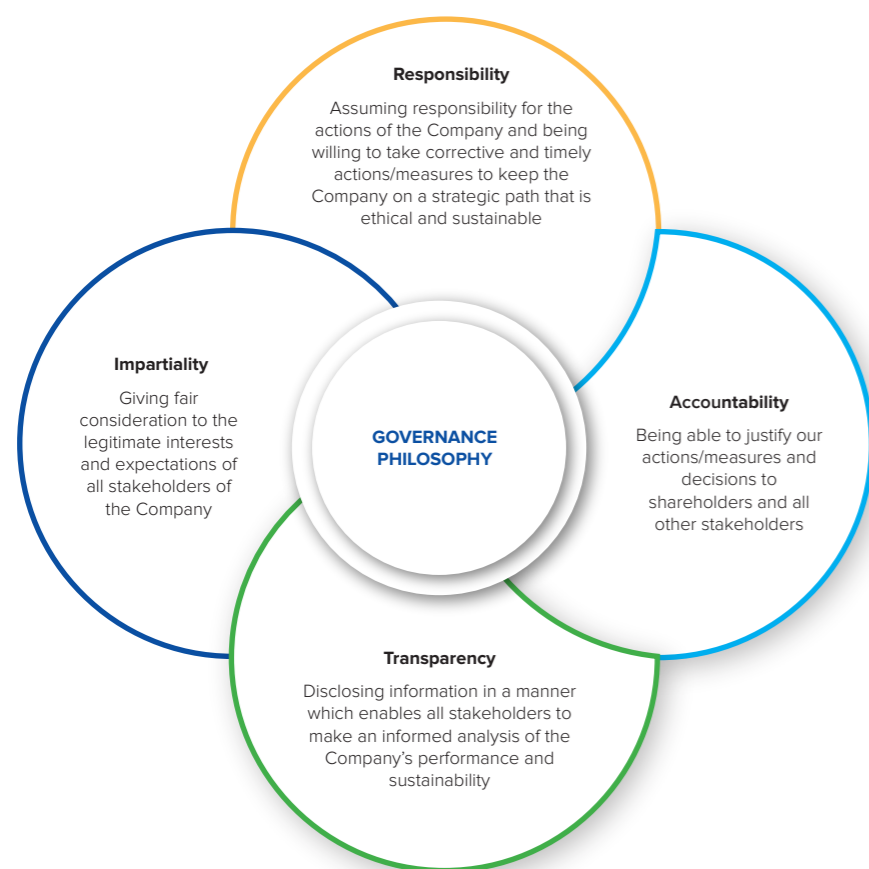
via the LED bulbs and a reduction of 5-7% via the use of fluorescent lights.

Corporate Governance

Governance Philosophy

Good governance practices result from the dynamic culture and positive mindset of the organisation and thus, remain integral to the way HNB Grameen Finance Ltd(HNGB) operates. This is well demonstrated in the good credit ratings, shareholder returns, governance processes and the entrepreneurial performance focused work environment in the Company.

HNGB firmly believes that Corporate governance results in promoting and maintaining responsibility, accountability, transparency and impartiality at all levels of the organisation.



Corporate culture is based on an organisational environment in which sound governance practices have become a way of life in daily operations for each member within the company. This encompasses four key practices instilled into the Company strategy.

- Compliance with the law and commercial legitimacy
- Fair treatment of employees and business partners
- Responsibility to the environment and the community in which it operates and
- Probity, integrity and business ethics in its operational practices

Governance Framework

In HNGB, the ultimate responsibility to ensure that it operates within a robust and sound governance framework rests with the Board of Directors. Accordingly, the Board provides entrepreneurial leadership within a framework of prudent and effective controls enabling risks to be assessed and managed whilst setting the Company's values and standards to meet the obligations towards the shareholders and other stakeholders.

The governance framework of the Company is based on the following key elements:

- A. Internal Governance Structure** comprising units and components within the company that ensures effective monitoring and execution of governance related initiatives, systems and processes thus including a culture of good governance and sustainability of the Company's business model.

- B. External Governance Structure** within which the Company conforms to applicable laws, regulations and best practices.
- C. Assurance** which is the supervisory mechanism of the Company's governance framework which ensures integrity of the operations

A. Internal Governance Structure

The internal governance structure at HNGB allows for effective and efficient decision making with accountabilities, is based on the following,

• The Board of Directors

The Board is the highest decision maker and holds ultimate responsibility for governance. Governance framework/ structure enables the board to balance its role of providing risk oversight and strategic counsel, ensuring adherence to regulatory requirements and risk tolerance.

• Board sub committees

The Board delegates some of its functions to Board Sub Committees, but remain responsible as a whole for the areas covered by these Sub Committees.

• Management Committees

Under the supervision and directions of the Board of Directors, the Management Committees implement the policies and strategies determined by the Board and manage the business and affairs of HNGB.

• Internal Charters and Policies

The internal policies support a higher growth, best processed for governance, management of risk, controls and compliance across the organisation. These form a basis for the Board and the Management to develop and maintain a transparent and effective internal control system.

B. External Governance Structure

The external governance structure, one of the three main components of the governance framework at HNGB, comprises laws, regulations and best practices which enable HNGB to operate within a sound corporate governance framework, as mentioned below. Internal governance

structure at HNGB is shaped to create the necessary checks and balances and controls to ensure that the Company conforms to and complies with the external governance structure.

Applicable major Law/ Regulation/ Best practices

- Companies Act No 7 of 2007
- Finance Business Act No 42 of 2011
- Directions, Rules, Determinations, Notices and guidelines applicable to Licensed Finance Companies
- Inland Revenue Act No 10 of 2006 as amended

Details HNGB's level of compliance with Finance Companies (Corporate Governance) Directions is set out on pages 69 To 83.

C. Assurance

Different components within the assurance act as the supervisory module of HNGB's Corporate Governance framework which ensures integrity of its operations and existence of a sound governance system and practices.

• Compliance

Recognising the importance of strengthening governance with internal control, HNGB has established a compliance function whose task is to monitor and assess the Company's compliance with laws, regulations, regulatory guidelines and other approved policies.

The Compliance officer reviews the changes in regulations and takes necessary action to ensure that the Company is in compliance with applicable regulatory requirements. An advanced monitoring mechanism is adopted by HNGB to monitor reporting and compliance with all mandatory reporting requirements with the intention of establishing a fully compliant Corporate Governance and risk mitigating culture.

• Internal Audit

HNGB's internal audit function which provides an independent risk based oversight to Board Audit Committee, on the processes and controls within the Company and its level of compliance with laws and regulations, plays a vital role in the governance structure

Corporate Governance

of the Company. The Internal Audit is responsible for independent, objective assurance on internal control mechanisms, in order to systematically evaluate and propose improvements for more effective internal control processes and governance. Internal Audit also carries out independent reviews of compliance with risk policies and procedures to ensure the efficacy of the risk management procedures in place at HNBG. To maintain its independence, the Internal Audit reports to the Board, through the Board Audit Committee. M/s. KPMG, Chartered Accountants are the internal auditors of HNBG.

External Audit

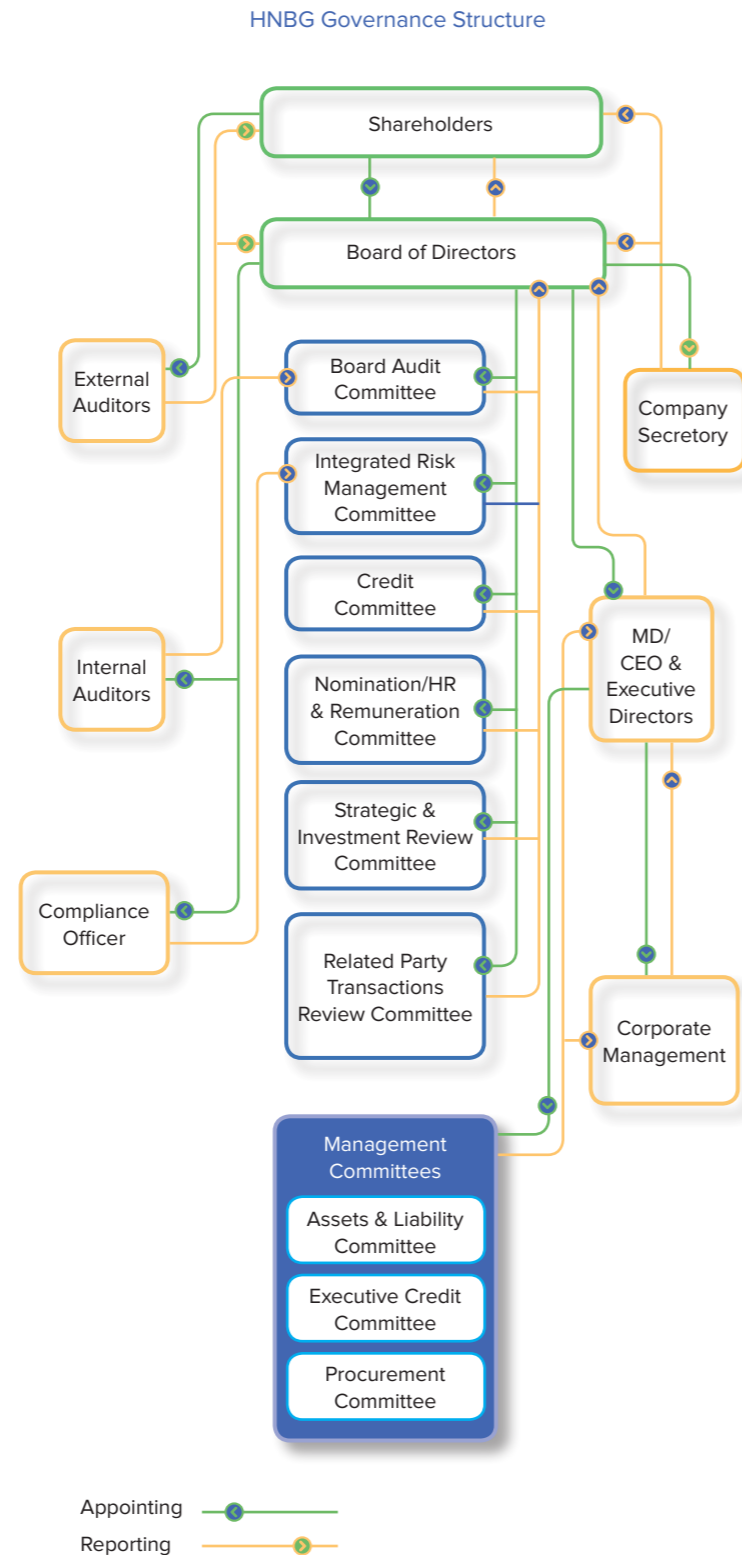
The External Audit Report furnishes the Board with the necessary proof to determine the appropriateness, adequacy and effectiveness of the Company's internal controls which form an essential part of a sound corporate governance mechanism.

In addition to the year-end audit, HNBG performs an interim audit to obtain assurance that the internal controls in place for the preparation and presentation of the financial statements are adequate and effective.

M/s. Ernst & Young, Chartered Accountants are the external auditors of HNBG. In addition to the normal audit services, the external auditors also provide certain non-audit services to the Company. All such services are provided with the approval of the Board Audit Committee and in a manner which ensures that there are no adverse effects on the independence of their audit work or the perception of such independence. The external auditors also provide a certificate of independence on an annual basis.

External Auditor's Certification on Compliance

In terms of the requirements of the Finance Companies (Corporate Governance) Directions, the External Auditors perform procedures in line with the Sri Lanka Standards on Related Service (SLSRS) issued by the Institute of Chartered Accountants of Sri Lanka, to assess the Company's level of compliance with the requirements of the above direction and provide a certification thereon to the Board. Findings reported by the External Auditors for the preceding year were deliberated by the Board and their recommendations for further improvements were implemented within the financial year.



Statement of Compliance

Company's compliance with Finance Companies (Corporate Governance) Direction No.03 of 2008 as amended by Finance Companies (Corporate Governance) Direction No.04 of 2008 and No 6 of 2013 issued by Central Bank of Sri Lanka ("Corporate Governance Directions")

The Monetary Board of the Central Bank of Sri Lanka has issued the above Direction which shall apply to every finance company licensed in terms of Section 02 of the Finance Business Act No.42 of 2011 and shall come into operation with effect from 01st January 2009. The directions based on the following fundamental principles set out the corporate governance requirements to be adhered by finance companies,

- Responsibilities of the Board
- Meetings of the Board
- Composition of the Board
- Fitness and Propriety of Directors
- Delegation of Functions
- The Chairman and the Chief Executive Officer
- Board Appointed Committees
- Related Party Transactions
- Disclosures

The Company's compliance with the Corporate Governance Directions is tabulated below,

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
2. THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS		
2 (1)	Strengthening the safety and soundness of the company	
	(a) Approve, oversee and communicate the strategic objectives and corporate values	The Company's strategic objectives and corporate values are determined by the Board and the views relating to the above are communicated to all levels of staff through structured meetings.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	The Company's strategic plan was approved by the Board for three years covering the period from 2017 to 2019. However, the Company is in the process of preparing a board approved overall Risk Management Policy which includes risk policy, risk management procedures and mechanisms.
	(c) Identifying and managing risk	The Board appointed Board Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying and managing the overall risk of the Company. The Risk Management Report in Annual Report provides further details in this regard.
(d) Communication policy with all stakeholders	The Board approved communication policy is available and ensure the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.	

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
(e)	Adequacy and integrity of the internal control system and management information system	<p>The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control for reviewing its effectiveness. The Board Audit Committee, on behalf of the Board undertakes the detailed monitoring and reviewing of the internal controls and reports to the Board on its findings Board approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and observations were monitored by the Board and confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting.</p> <p>Company has to establish a valid process to review the reliability and the accuracy of non-financial information which are used by the Board and the Board sub committees and the Board to ensure the adequacy and the integrity of the Company's management information system.</p>
(f)	Identifying and designating key management personnel	Board identified Key Management Personnel according to the Sri Lanka Accounting Standards and as per the guidelines issued by the Central Bank of Sri Lanka for the purpose of corporate governance and it includes Board of Directors, Chief Executive Officer/Managing Director.
(g)	Authority and responsibilities of the Board and Key Management Personnel	The Company has a Board approved schedule of matters specifically reserved for the Board defining the areas of authority and key responsibilities of key management personnel and their jobs descriptions. However, Company will initiate the actions to define the areas of authority and key responsibilities for the board directors themselves
(h)	Oversight of affairs of the Company by key management personnel	Oversights of the affairs of the Company by its key management personnel take place at the regular Board meetings and Sub-committee meetings and Key Management Personnel make regular presentations to the Board on matters under their purview.
(i)	Assess effectiveness of own governance practice	<p>According to the Company's Articles of Association, Board has delegated the functions of selection and nomination of Directors and Key Management Personnel to the Board Nomination Committee</p> <p>The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of this has been submitted to the Board Chairman by the Company Secretaries for further recommendations.</p> <p>Company will initiate a conflict of interest policy to strength the company's governance practices.</p>
(j)	Succession plan of key management personnel	The succession plan of key management personnel of the Company has to be approved by the board.
(k)	Regular meeting with the key management personnel	The key managerial personnel regularly make presentations and participate in discussions on their areas of responsibility at the Board and its Sub-committee meetings where progress towards corporate objectives are also reviewed.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
(l)	Regulatory environment	The Board of Directors of the Company monitors closely, regulatory compliances at monthly Board meetings and review new Directions issued from time to time by the regulator. All Board members attend the Director's and CEO's forums arranged by the CBSL and the management personnel of the Company maintain dialogues on an ongoing basis.
(m)	Hiring and oversight of External Auditors	The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of the Board, External Auditors are appointed by the shareholders of the Company, at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with external audit
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities	<p>The Chairman and the Chief Executive Officer are appointed by the Board and their functions and responsibilities are separated and further defined and approved by the Board of Directors.</p> <p>The Chairman is a Non Independent Non-Executive Director. The Chief Executive Officer is in-charge of the overall management of the Company.</p>
2 (3)	Availability of a procedure determined by the Board to enable directors, to seek independent professional advice at the Company's expense	The Directors are able to obtain independent professional advice as and when necessary at Company expense and a Board approved procedure is in place.
2 (4)	Avoidance of conflicts of interest	<p>Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to HNBGF and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his / her interest and unless the Board resolves otherwise, he / she do not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings.</p> <p>We confirm that such a situation has not arisen during the financial year under review.</p>
2 (5)	Availability of a formal schedule of matters specifically reserved to the Board for decision	A formal schedule of matters specifically reserved for the Board is in place.
2 (6)	Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions	No such situation has arisen during the year
2 (7)	Inclusion of an annual corporate governance report on compliance with the Corporate Governance Directions in the Annual Report	This report addresses the requirement

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
2 (8)	Annual self-assessment by the Directors	The Board has developed a scheme of self-assessment to be undertaken by each Director which had been approved by the Board.
3. MEETING OF THE BOARD		
3 (1)	Convening Board meetings at least twelve times a financial year at monthly intervals	The Board has met 13 times for the financial year under review and have ensured that the performance of the Company for the financial year under review has been duly assessed at those meetings.
3 (2)	Inclusion of proposals by all Directors in the agenda	The Board has put in place a process that will enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business, management of risks and finances.
3 (3)	Notice of Meetings	Directors are given adequate time and at least 7 days of notice for regular Board meetings. For all other meetings a reasonable notice period is given
3 (4)	Directors attendance at board meetings	All Directors have attended at least two-thirds of the meetings held during the year and no Director has been absent from three consecutive regular Board meetings during the year 2016/17.
3 (5)	Appointment of a Company Secretary to handle the secretariat services to the Board	SSP Corporate services (Private) Limited, a Company registered with the Registrar General of Companies as a qualified secretary, handles the secretarial services for the Board and shareholder meetings and carryout other functions specified in related laws and regulations.
3 (6)	Preparation of agenda for a Board meeting by the Company Secretary	The Company secretary prepares the agenda and approved by the Chairman
3 (7)	Directors access to advice and services of the Company Secretary.	All the directors have access to secretary and records of board meetings, Board will introduce a procedure to comply with the direction
3 (8)	Maintenance of minutes of Board meetings inspection thereof by the directors	The Company Secretary maintains meeting minutes and circulates them to all Board Members Which shall be open for inspection at any reasonable time to any director. Additionally, the Directors have access to past Board papers and minutes through a secure electronic link.
3 (9)	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities	Minutes of all meetings are duly recorded with sufficient detail and retained by the Company Secretary under the supervision of the Chairman.
4. COMPOSITION OF THE BOARD		
4 (1)	Number of Directors	As at 31st March 2017, Board comprised of ten Directors with five of them being Non Independent Non-Executive, three are Independent Non- Executive, and two are Executive Directors.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
4 (2)	Subject to transitional provisions contained herein and subject to para 5.(1) of this direction the total period of service of the Director other than a Director who holds the position of CEO of Executive Director shall not exceed nine years.	The total period of service of all Non-Executive Directors does not exceed the nine-year period
4 (3)	Appointment, election or Nomination of an employee as a director of the company & number of Executive Directors shall not exceed one half of the number of Directors in the Board.	There are two Executive Directors including Chief Executive Officer out of 10 Directors which is well balanced and within the requirement to limit the number of Executive Directors shall not exceed one half of the number of directors of the board.
4 (4)	Independent Non-Executive Directors	Three out of ten Directors are independent non-executive directors. The Board evaluates Independence of the Directors annually based on the Directors self-declaration.
4 (5)	Appointment of Alternative Director	This situation has not arisen during the financial year 2016/17
4 (6)	Skills and experience of Non-Executive Directors	The Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on this annual report.
4 (7)	More than half the quorum of Non-Executive Directors in Board Meetings	One half of the quorum was non-executive directors in all meetings held.
4 (8)	Expressly identification of the Independent Non-Executive Directors in corporate communications and disclose in the details of Directors	Details of Directors included in this Annual Report.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	The new appointments to the Board is based on the recommendations made by the Board Nomination/HR & remuneration Committee and there is a procedure in place for the appointments to the Board. After complying with this procedure the names are referred to the CBSL for approval prior to appointment. During the financial year 2016/17 following person was appointed to the Board with effect from 27th September 2016 Mr. P. A. H. D Wijesundara – Independent Non-Executive Director.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at first General Meeting after their appointment	All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting after their appointments and there were no casual vacancies during the year.

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
4 (11)	Disclosure of resignations/removal of directors to the shareholders and the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka	Resignation of Directors has been informed to the Director Non-Bank Supervision including reasons for such resignation. During the year 2016/17 Mr. A. L. Somaratne (Non Independent/Non Executive Director). resigned and the Board informed the regulator.
5. CRITERIA TO ASSESS THE FITNESS AND PROPERTY OF DIRECTORS		
5 (1)	The age of a Director shall not exceed 70 years	There are no Directors who are over 70 years of age.
5 (2)	Holding in office as director of more than 20 companies/ entities/ institutions including associate and subsidiary companies	There are no Directors who hold office as a Director of more than 20 companies.
6. DELEGATION OF FUNCTIONS		
6 (1)	Delegation of Board functions	By Article 113 Board is empowered to delegate its powers to a Committee of Directors or to any other person as it deems fit.
6 (2)	Periodical evaluation of the delegation process	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.
7. THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER		
7 (1)	Division of responsibilities of the Chairman and Chief Executive Officer	The role of Chairman and Chief Executive Officer are separated and held by the individuals appointed by the Board.
7 (2)	Chairman preferably an Independent Non- Executive Director and if not appoint a senior Director	Chairman is a Non-Executive Director. Nevertheless, the Board was designated Mr. A.S Wijesinhe (Independent Non-Executive Director) as the Senior Director.
7 (3)	Disclosure of the identity of the Chairman and CEO and any relationship with the board members.	No material relationship including financial, business or family exists between Chairman Mr. A. J. Alles and Managing Director/Chief Executive Officer, Mr. B. M. D. C. Prabhath. However, Managing Director/Chief Executive Officer, Mr. B. M. D. C. Prabhath and Non Independent/ Non-Executive Director Ms. H. K. S. R. Perera are from the same family. (Ms. H. K. S. R Perera has tendered her resignation w.e.f 31st July 2017.)
7(4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	Board has approved list of functions and responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. All key and appropriate issues are discussed by the Board on a timely basis.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
7 (5)	Role of the Chairman in the preparation of the agenda for Board meetings	The Chairman has delegated the function of preparing the agenda to the Company Secretary.
7 (6)	The Chairman to ensure that all directors are informed adequately and timely of the issues arising at Board meetings	The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to meeting.
7 (7)	Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company	All Directors actively participate in Board affairs.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Non- Executive and Executive Directors work together with the best interests of the Company. Non-Executive Directors participate in Board Sub-committees to provide further opportunities for active participation.
7 (9)	Avoidance of engaging in activities involving direct supervision of key management personnel or any other executive duties by the Chairman	The Chairman is a Non-Executive Director who does not directly get involved in any of the executive duties of the Company.
7 (10)	Maintain effective communication with shareholders	Company maintains effective communication with shareholders at the AGM of the company and views of shareholders are communicated to the Board.
7 (11)	Chief Executive Officer/MD functions as the apex executive-in-charge of the day-today operations and businesses	As per the Company's organisations chart, the CEO/MD functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
8. BOARD APPOINTED COMMITTEES		
8 (1)	Establishing Board committees, their functions and reporting	<p>The following Board sub-committees have been appointed by the Board and each such Committee is required to report to the Board:</p> <ol style="list-style-type: none"> 1. Credit Committee 2. Board Integrated Risk Management Committee 3. Nomination, Human Resource and Remuneration Committee. 4. Audit Committee 5. Related Party Transaction Review Committee 6. Strategic and Investment Committee. <p>Recommendations of these Committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings.</p> <p>The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.</p>
8 (2)	Audit Committee	
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	For the financial year 2016/17 the Chairman of the Audit Committee, Mr. N. H. T. I. Perera was a Non-Executive Director and an Associate member of The Institute of Chartered Accountants of Sri Lanka (Resigned with effect from 31st May 2017). Current Chairman of the Audit committee, Mr. A. G. R. Dissanayake is a Non-Executive Director with required qualifications and experience.
	(b) All members of the Committee to be Non- Executive Directors	All members of the Audit Committee are Non-Executive Directors.
	(c) Responsibility of the Audit Committee to recommend:	The Board Audit Committee (BAC) has at its meetings recommended,
	i. The appointment of the external auditor	That M/s Ernst & Young, Chartered Accountants be reappointed as the external auditors of the Company for the financial year 2016/17;
	ii. The implementation of the Central Bank guidelines	BAC has reviewed and implemented the Central Bank guidelines issued to auditors from time to time;
	iii. The application of the relevant accounting standards; and	The application of International Financial Reporting Standards;(IFRS's) is complied.
	iv. The service period, audit fee and any resignation or dismissal of the Auditor;	No resignation or dismissal of the auditors has taken place during the year 2016/17. The term of engagement of the present audit partner who was appointed during the financial year 2015/16, does not exceed five (05) years. BAC has recommended the audit Fee for the financial year 2016/17.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(d) Review and monitor the External Auditors' independence, objectivity and the effectiveness of the audit processes	The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. External Auditors directly report to Board Audit Committee.
	e) Develop and implement a Policy on the engagement of an External Auditor to provide non-audit services	The company will initiate a policy regarding the engagement of an external auditor to provide non audit services in accordance with relevant regulations.
	(f) Responsibility of the Audit Committee to discuss and finalise with the external auditors the nature and scope of the audit	The Board Audit Committee meets with the external auditors to discuss their audit plan, nature and the scope of the audit before the commencement of an audit. Accordingly, the Board Audit Committee met the external auditors M/S Ernst & Young, Chartered Accountants during the year under review to discuss and finalise the scope of the audit.
	(g) The Committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board, the Committee shall focus particularly on:	Quarterly, bi annual financial statements as well as year-end financial statements are circulated to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements takes place and obtains required clarifications in respect of all areas, before the Committee making its recommendations for Board's approval.
	(l) major judgmental areas;	
	(ii) any changes in accounting policies and practices;	
	(iii) significant adjustments arising from the audit;	
	(iv) the going concern assumption; and	
	(v) the compliance with relevant accounting standards and other legal requirements.	

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
h)	Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Managerial Persons	The Committee met the External Auditors without the presence of the Executive Directors and Corporate Management.
(i)	Reviewing of the External Auditors' Management Letter and the response thereto	During the year, the Board Audit Committee reviewed External Auditor's Management Letter for the year 2015/16 and the Management's responses thereto
(j)	<p>Review of the internal audit function</p> <p>* the adequacy of the scope, functions and resources of the internal audit department;</p> <p>* review the internal audit programme and results of the internal audit process;</p> <p>* review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>* recommend any Appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>* ensure that the committee is apprised of resignations Of senior staff members of the internal audit department including the chief internal auditor and any outsourced serviceproviders;</p> <p>* ensure that the internal audit function is independent of the activities it audits</p>	<p>*The Committee has reviewed the scope, functions and the resources of the internal auditors</p> <p>* Committee has reviewed and approved the Internal Audit Plan for the F/Y 2016/17 presented by the Internal Auditors prepared on overall risk assessment and the significant observations made during the previous year.</p> <p>*This does not apply to the Company as the Internal Audit function is outsourced</p> <p>*No such situation has arisen during the year 2016/17.</p> <p>*No such situation has arisen during the year 2016/17.</p> <p>*Internal audit function is independent as it is outsourced to KPMG. They present final reports directly to the Board Audit Committee..</p>
(k)	consideration about the major findings of internal investigations and management's responses thereto;	Based on the reports submitted by the Internal Auditor (KPMG), the Board Audit Committee reviews and considers major audit findings and the management's responses thereto. However, no such major audit findings have been reported during the year 2016/17.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
(l)	Participants at the Audit Committee meetings and the need to meet with the external auditors without the presence of the executive directors	<p>The Committee met two times with the External Auditors without the presence of Executive Directors.</p> <p>The Managing Director, Executive Directors, Chief Operating Officer, AGM- Risk & Compliance, and other corporate management members attend the meetings by invitation and the Internal Auditors normally attend all meetings, where it is deemed necessary, members of the corporate management may also attend meetings by invitation.</p>
(m)	<p>Terms of reference of the Audit committee will ensure that there is;</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; And authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;</p>	Approved Terms of Reference of the Committee evidence that it contains the matters stipulated.
(n)	Regular Meetings of the Audit Committee	The Board Audit Committee met 4 times during the financial year under review.
(o)	Disclosure of activities of the Audit Committee and attendance of members at meetings thereof in the Annual Report	The Report of the Audit Committee is on pages 91 to 92 includes details of the activities, meetings held during the year and the Directors attendance to the Audit Committee.
(p)	Recording and maintenance of detailed minutes of the Audit Committee meetings	The Company Secretary acts as the secretary of the Audit Committee and records and maintains all minutes of the meetings
(q)	Responsibility of the Audit Committee to review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters	The Company has a Board approved Whistle-blowing Policy whereby employees of the Company raise concerns in confidence about the malpractices of the Company.

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
8 (3)	Integrated Risk Management Committee	
(a)	Composition of the Integrated Risk Management Committee and the duty of the committee to work with key management personnel closely and make decisions on behalf of the Board within the framework of authority	As at 31st March 2017, the Integrated Risk Management Committee comprises three Non- Executive Directors, and Chief Executive Officer supervising broad risk categories such as credit, market, liquidity, operational and strategic risk. Head of Internal Audit, Chief Operating Officer, AGM Compliance & Risk, Manager Risk and AGM Risk (HNB PLC) attend meetings by invitation.
(b)	The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	BIRMC has a process to assess risks, i.e., Credit, Market, Liquidity and Operational risks to the Company on a regular basis through appropriate risk indicators. The Company follows the format (risk dashboards) in identifying and reporting credit risk, market risk and operational risks in addition to other methodology and formats. The Company will initiate to strengthen the assessment process by adding more risk indicators and causality variables.
(c)	Responsibility of the Integrated Risk Management Committee to review the adequacy and effectiveness of all management level committees	ALCO reviews and monitors the liquidity investment policies and report submitted to the Audit Committee. It also carries out a maturity gap analysis of any mismatch of assets and liabilities. Further the Company has identified risk and monitors them through relevant risk indicators such as NPL and increase in NPA ratio, risk arising out of internal and external frauds through BIRMC. Committee will have to review the adequacy and effectiveness of all management level committees bench marking against their TOR.
(d)	Responsibility of the Integrated Risk Management Committee to take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the committee	The risk indicators introduced have been reviewed against the benchmark and corrective actions are taken to mitigate the effects of such risks that are at a level beyond the prudent levels decided by the Committee
(e)	Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management	The Integrated Risk Management Committee met nine times during the financial year 2016/2017.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
(f)	Responsibility of the Integrated Risk Management Committee to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka	Committee refers such matters, if any, to the HR Department for necessary action. However, the specific risk and limits identified by the Integrated Risk Management Committee and such decisions are taken collectively.
(g)	Responsibility of the Integrated Risk Management Committee to submit a risk assessment report within a week of each meeting to the Board	Minutes of the Board Integrated Risk Management Committee (BIRMC) meeting are submitted to the next immediate Board meeting.
(h)	Establishment of a compliance function	The Company's compliance with laws and regulations were monitored by the Compliance Officer(AGM – Compliance & Risk). The Company has established a process to assess the compliance with internal controls and approved policies pertaining to all areas of business operations.
9. RELATED PARTY TRANSACTIONS		
9 (2)	Responsibility of the Board to take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with related parties	The Related Party Transaction Policy is in place which describes the related parties, types of related party transactions and the favourable treatment granted to the said parties and stipulate that Board members should avoid any conflicts of interest that may arise from any transactions with the Company. During the year Board appointed a Related Party Transactions Review Committee to ensure that the transactions with related parties are in accordance with best practices. Transactions carried out with Related Parties in the normal course of business are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 39 of Financial Statements.
9 (3)	Nature of transactions with related parties to which the Corporate Governance Directions apply	The Related Party Transaction Policy as updated during 2016/17 covers all transactions with related parties irrespective of their nature and value.
9 (4)	Responsibility of the Board to ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" proprietary, confidential	Related Party Transactions Policy contains provisions to ensure compliance and newly appointed Related Party Transactions Review Committee will ensure that all the Transactions with related parties are on arm's length basis. The company is in the process of getting board approval for the RPT policy.

Corporate Governance

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
10. DISCLOSURES		
10 (1)	(a) Preparation and publication of annual audited financial statements and periodical financial statements in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2016/17 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.
	(b) Publication of Above mentioned statements in the newspapers in an abridged form, in Sinhala, Tamil and English	Such statements are published in the newspapers in compliance with CBSL regulations.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report: (a) A statement to the effect that The annual audited financial Statements have been prepared in lin with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Directors' Responsibility for Financial Reporting" on page 111.
	(b) A Report by the Board on the finance company's internal control mechanism	Directors' Statement on Internal Control System over Financial Reporting is given on page 112.
	(c) The External Auditor's Certification on the effectiveness of the internal control mechanism	The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.
	(d) Details of Directors Including names, Transactions with the finance Company	Details of Directors Including names, transactions with the finance company are included in the annual report.
	(e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	Refer Note No 39 to the Financial Statements on Fees/remuneration paid by the finance company to the Directors in aggregate in the annual report
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds	As at 31st March 2017, HNBG has not granted any accomadation to related parties.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel	Aggregate remuneration paid to the KMPs as defined in LKAS 24 - 'Related Party Disclosures' for financial reporting purpose, disclosed under Note. 39 to financial statement.
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls	Refer the Report of the Board of Directors' on the Affairs of the Company and Financial Review in this Annual Report
	(i) a statement of the regulatory and supervisory concerns on lapses in the Company's risk management, or noncompliance (if any) with the Finance Business Act, and rules and directions that need to be disclosed to the public as directed by the Monetary Board	There were no significant lapses in Company's risk management or non-compliance with this Direction that have been pointed out by the Director of Non-Bank Financial Institution Supervision and requested by the Monetary Board to be disclosed to the public
	(j) The External Auditor's certification of the compliance with the Corporate Governance directions	The Company has obtained a Report from External Auditors over the compliance of Corporate Governance directions.
11. TRANSITIONAL PROVISIONS		
	Transitional and other general provisions	The Company has complied with transitional provisions when applicable

Risk Management

What is Risk Management

Risk management is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions. Essentially, risk management occurs any time an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and takes appropriate action (or inaction) given the investment objectives and tolerance for risk. An effective risk management process is an essential element for sustainable performance and pertinent growth of an organisation.

Risk Management framework of HNBG

HNBG's strategies for growth are fittingly supported by an integrated risk management framework which ensures that risk deliberations form a critical input in business decisions. Through Board approved policies, and governance structures HNBG's risk management framework sets the context for setting standards and establishing appropriate risk practices across the Company.

The HNBG integrated risk management tools, techniques and activities are in place to ensure all risk materials are identified, measured, prioritised, monitored, managed and reported so that measures to mitigate them are taken well in advance.

Credit risk	Operational Risk	Liquidity Risk	Strategic and reputational Risk	Business Risk
Streamline the process of credit evaluation techniques and systems	New system implementation for Leasing.	Maintain the LDR (Loan to Deposit) rate above the central bank requirement.	Expansion of Grameen concept and branding.	Grant access to POS machines for every field officer.
execution of internal control, management and monitoring system	Improvement in IT security systems to mitigate cyber risk.	Increasing the Savings portfolio by 46%	Product diversification (Ex: Leasing , SME, Consumer, Personal)	Door-to-door customer service execution.
Maintain NPL ratio well below the industry average of 1.94% as at year end.	DR site execution	Increase Fixed deposit portfolio by 33%	Marking a significant milestone, DWM partners HNBG as the 3rd largest shareholder (refer the page No 12)	Strengthen the center structure by locating in potential areas .

Key Risk Management Objectives of HNBG

- Implement a framework which supports the business activities to maximise risk adjusted returns within the Board's risk appetite and other constraints such as regulatory requirements and internal controls.
- Precisely identify and measure the sources of risks.
- Control the level of risks by establishing parameters and regularly monitoring the risk exposures against accepted parameters.
- Ensure compliance with relevant CBSL regulations, requirements and other applicable laws by the company.
- Add value to the HNBG's business units, Senior Management and Board by providing MIS analysis and recommendations to support the achievement of the overall strategic objectives of HNBG.
- Design policies and procedures to create opportunities for growth while managing risks and revise the policies and procedures as necessary.

Directives of BIRMC

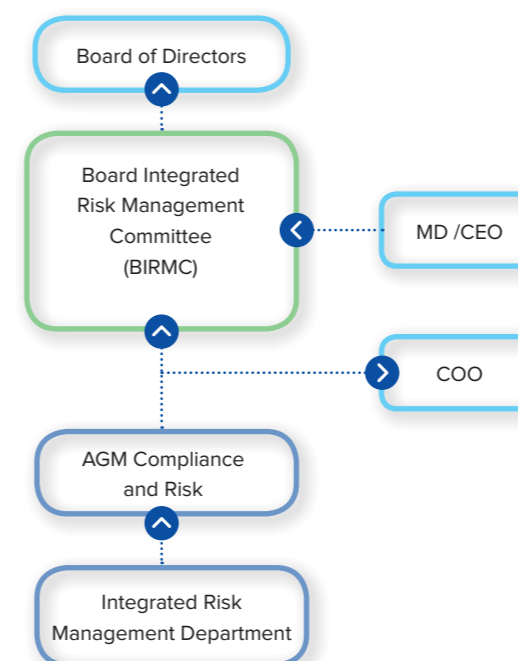
- Supervise the overall risk aspects associated with the Company
- Monitor, evaluate and regulate the credit risk portfolio of the company
- Oversee the development of the Company's risk management policies and strategies as per the guidelines
- Submit an overall risk assessment of the Company to the Board
- Develop the appropriate risk monitoring techniques and approaches.

Risk Management Process

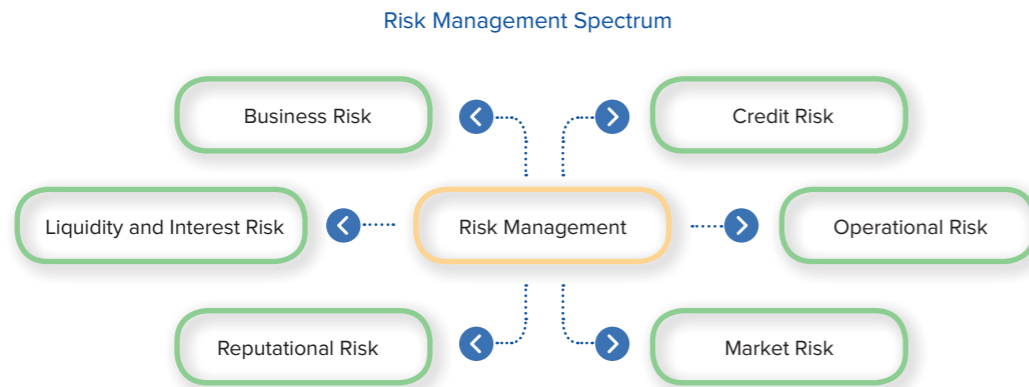
Risk management is the process of analyzing exposure to risk and determining how best to handle such exposure. HNBG's risk management process adopts a best practices approach, focuses on understanding key risks and containing them to within acceptable levels. Some of the strategies the company deploys for managing risks include:

- Avoidance - Avoiding risk by discontinuing the activity that generates it
- Acceptance - Retaining the risk since it is within the risk appetite accepted
- Mitigation - Reducing the likelihood and impact of a risk (loss control Programmes)

Risk Management Structure



Risk Management

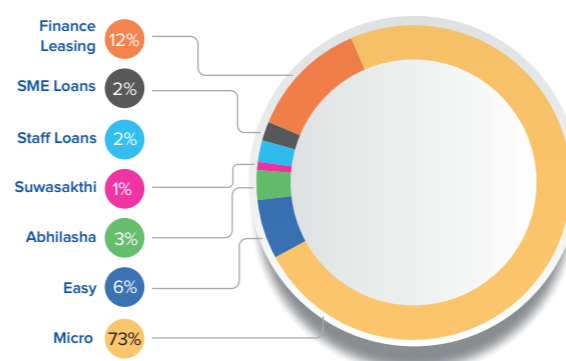


Credit Risk	Operational Risk	Market Risk	Reputational Risk	Liquidity Risk	Business Risk
Transactions	Human capacity	Investment portfolio	Transparency	Profitability	Strategy
Portfolio	Information technology	Foreign exchange rates	Undeliverable social expectation	Liquidity	Compliance risk
Product Development	Fraud and mismanagement risk		Cyber risk	Lack of funding	Governance risk
Interest Rates	External business risk Competition Microeconomic trends Political interference			Excess funding	

Credit Risk

Credit risk is in simple terms defined as the likelihood that a borrower or counterparty would fail to meet its/his/her obligations of repaying the borrowed sum with interest, in accordance with the agreed on terms. It is important that a proper credit evaluation is conducted to understand the borrowers' cash flows and repayment capacity. It is also important to Risk profile the borrower upon which pricing needs to be based, in order to accommodate adequate margins to reward the credit risk taken on the sum loaned.

Exposure by Product type



"Diriya" is our primary Micro-finance product which follows HNB Grameen's most renowned 'trust group' concept. This is the Company's most popular product accounting for more than 70% of our client portfolio amounting to a total value of Rs. 10 Mn. The Company launched Leasing in the previous year and the portfolio as at year end stood at Rs. 1.7 Bn. Being a new product and currently in a growth phase, the Leasing segment has seen a rise in its NPA, specially in the backdrop of a deterioration in the Trading and Retail sectors of the country. However the Company is in the process of augmenting its recovery process.

Non Performing Advances Against Portfolio 2016/17

As depicted in graph above, HNGB's NPA has been on an upward trend over the past year, mainly due to a significant increase in our portfolio. The Company has hence launched continuous monitoring and strengthened recovery efforts across the network to reduce the NPA risk in the company.

The Loans and Advances portfolio has grown sharply more than last year, with highest growth contribution coming from the Western Province due to Leasing and the Other Advances portfolio being booked under the Head office branch. However, Vavuniya, Batticaloa and Jaffna achieved the highest in terms of individual branch wise portfolios with a significant increase in their credit portfolios during the year under review.

Market Risk

Market risk is the possibility of experiencing losses due to factors that affect the overall performance of the financial markets in which one has invested. Sources of market risk include recessions, political turmoil, changes in interest rates and natural adversities. Market Risk is also referred to as systematic risk or non-diversifiable risk. Market risk although cannot be eliminated through diversification, can be hedged for.

Risk Management

Operational Risk

Migration to a new system and its growth

HNBG implemented OMNI - a new globally recognised system to streamline processes and it encompasses the following elements:

- Application development and data analysis
- Cyber security and information assurance
- Network infrastructure solutions
- Operations and maintenance.
- Information systems engineering

Action taken to mitigate internal frauds

The management has implemented precaution and monitoring actions by streamlining the operational processes to prevent internal frauds, and strengthened the capacities of branch and regional managers to tactically identify, anticipate and prevent frauds before they occur.

Mitigatory action to reduce External frauds

Since launching in 2015, the year under review saw HNBG provide POS (Point of sale) machines to all field officers, enabling the generation of instant deposit slips and a collection summary which, in case of a fraud can be produced as n evidence to an Insurance company.

Staff turnover Ratio

Staff turnover ratio of both permanent and probation cadre show an increasing trend over the previous year a factor common to the MFI and the fact that an increasing number leaving are within the first three years is not considered a cause for concern.

Liquidity Risk

Liquidity Risk is the risk that a company may be unable to meet on short term demand. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. It is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.

LIQUIDITY & FUNDING RATIO	31 Mar-16	31 Mar-17
Current Ratio	1.80 : 1	1.67 : 1
Quick Assets Ratio	0.49 : 1	0.36 : 1
Liquid Assets Ratio	29.51%	20.95%
Customer Deposits to Total Interest Bearing Funds	91.97%	91.33%
CASA Deposits to Total Deposits	14.90%	16.14%
Loans to Deposits (LDR)	89.22%	93.47%

Reputational Risk

A threat or danger to the good name or standing of a business or entity. Reputational risk can occur due different reasons; directly, as the result of the actions of the company itself; indirectly due to the actions of an employee or employees; or indirectly through other peripheral parties, such as joint venture partners or suppliers. In addition to having good governance practices and transparency, the Company also needs to be socially responsible and environmentally conscious to avoid reputational risk.

Business Risk (Regulatory Risk)

Business risk is the possibility of a Company earning lower than anticipated profits or experiencing a loss. Business risk is influenced by numerous factors, including sales volume, per-unit price, input costs, competition, the overall economic climate and government regulations. A company with a higher business risk should choose a capital structure which has a lower Debt Ratio to ensure it can meet its financial obligations at all times.

Compliance : Measure to ensure guarantee conformity with laws, policies and formalities.

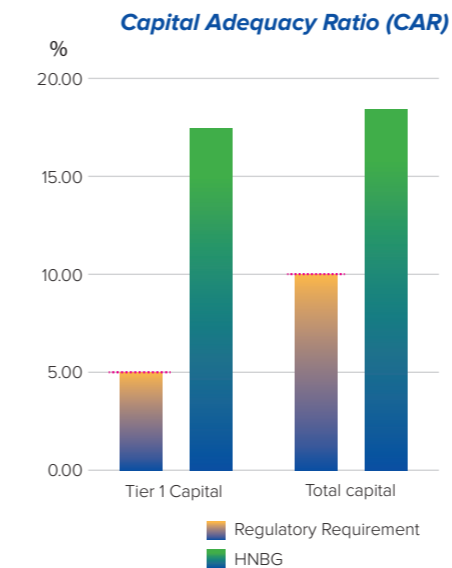
Governance : Abide by Company strategy and policy management.

Strategy : Inappropriate implementation of business strategies or lack of responsiveness to industry changes.

Capital Adequacy Ratio (CAR)

Capital Adequacy means the statutory minimum reserves of capital the financial institution must maintain. CAR is the measurement tool which used to express the percentage of a HNBG's risk weighted credit exposures. This used to protect depositors and promote the stability and efficiency of financial systems of the company, which is also known as "Capital to Risk Weighted Assets Ratio (CRAR).

CAR	31 Mar-16	31 Mar-17
Tier -1 Regulatory Risk- Weighted Capital Adequacy Ratio	18.81%	17.43%
Overall Regulatory Risk -Weighted Capital Adequacy Ratio	20.35%	18.37%

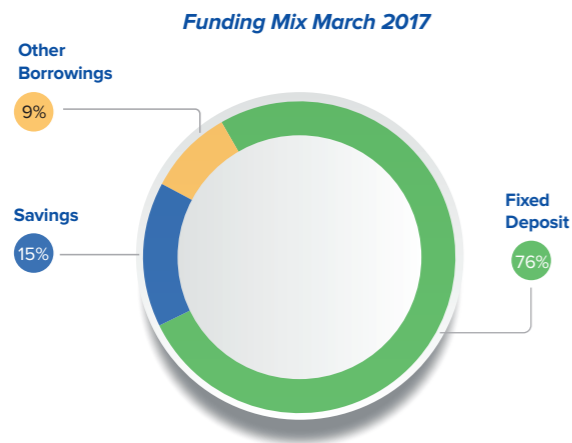


As of 31st March 2017, HNBG reported a Tier 1 ratio of 17.43% and a total CAR of 18.37% which remain comfortably above CBSL's capital requirements. This is primarily due to the remarkable 5% increase in PBT which reached Rs. 1.6 Bn. for the year ended March 2017.

Risk Management

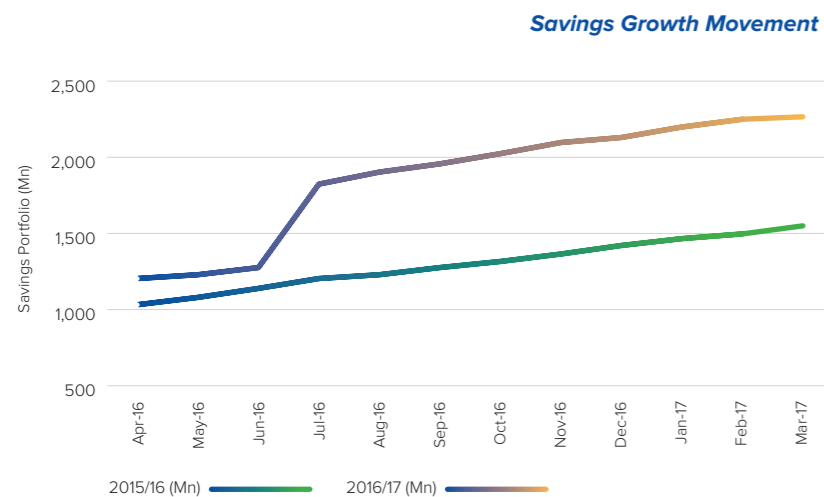
Funding Mix of HNBG

HNBG holds a positive funding mix which is primarily funded by FD's (Fixed Deposits) which account for over 76% of the total funding and prefers to hold a higher proportion of lowest cost deposits in its deposit mix. Therefore, comparing the interest rate alone, the order of preference would read as Fixed deposits and Demand Deposits.



Savings Growth

Savings growth Savings Growth during the year was 46% during the year under review compared to 33% in year 2015-2016.



Board Audit Committee Report

Composition of the Committee

The Audit Committee ("the Committee"), appointed by the Board of Directors comprises three Non-Executive Directors. The following members serve / served on the Audit Committee:

Mr. N. H. T. I. Perera, (Non-Executive Director) Chairman - Resigned with effect from 31st May 2017

Ms. M. A. R. C. Cooray, (Non-Executive Director)

Mr. A. S. Wijesinha (Independent/Non-Executive Director)

The Committee was reconstituted as given below on 25th July 2017.

Mr. A. G. R. Dissanayake - Chairman

Ms. M. A. R. C. Cooray - Member

Mr. A. S. Wijesinha - Member

Other management officers who attended meetings on invitation:

Mr. B. M. D. C. Prabath - Managing Director/CEO

Ms. L. L. C. C. Thambiah - Executive Director

Mr. W. S. P. Arangala - Chief Operating Officer

Mr. J. M. R. Fonseka - AGM (Risk & Compliance)

Mr. S. Gunasekara- Chief Accountant

The Board Secretary functions as the Secretary to the Audit Committee.

Terms of Reference

The scope and responsibilities of the Board Audit Committee emanates from its Terms of Reference. The Committee reviewed and expanded the Terms of Reference of the Board Audit Committee during the financial year.

Audit Committee Responsibilities

The Committee is mainly responsible for:

- (i) monitoring the integrity of the Company's financial reporting and satisfying itself that all significant financial judgements by the management are sound;
- (ii) monitoring the Company's internal controls including controls related to financial statements reporting
- (iii) monitoring and reviewing of the activities and

performance of the internal, external and outsourced auditor/s, including monitoring their independence and objectivity, and

- (iv) ensuring compliance with directions and instructions of the Central Bank with regard to reporting requirements.

Meetings

For the purpose of discharging the above duties the Audit Committee met 4 times during the year. On the invitation of the Committee, the Engagement Partner of the Company's external auditors, Messrs. Ernst & Young as well as the engagement partner of the outsourced internal auditor Messrs. KPMG attended Committee meetings during the year to discuss their findings on continuous audits carried out by them throughout the year.

Financial Reporting

The Committee, as part of its responsibility to oversee the Company's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the management, the annual and the quarterly financial statements prior to their release. The review included the extent of compliance with the Sri Lanka Accounting Standards, the Companies Act No 7 of 2007, the Finance Business Act No 42 of 2011 and amendments thereto.

The Committee also reviewed the effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided and the accounting policies to determine the most appropriate accounting policies upon considering all choices available. The committee assessed, whether the disclosures made under the financial reporting is appropriate and fair. Matters of special interest in the current environment and the processes that support certification of the financial statements by the Company's Chief Executive Officer, COO, AGM – Risk & Compliance and Chief Accountant were also brought up for discussion.

Risk and Internal Control

The Committee assesses the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards. The Committee also understands the scope of internal and external auditor's review of risk management and internal control systems.

The external auditors have issued an Assurance Report on Directors' Statement on Internal Controls. The Committee has reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the company.

Board Audit Committee Report

External Audit

The Committee reviewed the services provided by the External Auditors, Messrs. Ernst & Young (Chartered Accountants), to evaluate their independence and objectivity. It also reviewed and approved the scope of non-audit services provided by the External Auditors, to ensure that there was no impairment of their independence.

The Management Letter issued by the External Auditors, in respect of the financial year ended 31st March 2016(7)? was discussed with them and the management and the concerns of the auditors were addressed.

Prior to commencement of the annual audit, the Committee discussed with the External Auditors, their audit plan, audit approach and matters relating to the scope of the audit.

The Committee meetings which were held with the External Auditors, without the presence of the Executive Directors and the Management team during the year, ensured that there was no limitation of scope in relation to the audit and allowed for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit.

The Audit Committee, having considered the independence and performance of the External Auditors, Ernst & Young (Chartered Accountants) recommend that they be re-appointed as the Company's Statutory Auditors for the financial year ending 31st December 2017, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Internal Audit

To fulfil its responsibility to monitor the internal audit function carried out by Messrs. KPMG the Committee reviewed:

- the adequacy of the scope, functions and resources of the internal audit function.
- the internal audit program and results of the internal audit process and where necessary, the actions taken on the recommendations.
- any appraisal or assessment of the performance of staff members involved in the internal audit function

During the year under review Messrs. KPMG was appointed to carry out a systems migration audit to ensure the validity of the processes and the completeness of the data migrated on to the new technology platform which was implemented during the year. This review is ongoing at present.

During the year, the Committee reviewed the independence, objectivity and performance of the internal audit function, the findings of the internal audits and their evaluation of the Company's internal control systems.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview

Committee Evaluation

An independent evaluation of the effectiveness of the Committee was carried out by the members of the Board during the year, considering the overall conduct of the Committee and its contribution to the overall performance of the Company. The process provides the Committee with the opportunity to further improve on its performance.

Conclusion

Based on the review of reports submitted by the External and Internal Auditors, the information obtained by the Committee and having examined the adequacy and efficacy of the internal controls which have been designed to provide reasonable assurance to Directors that the assets of the Company are safeguarded; the Audit Committee is satisfied that the financial position of the Company is regularly monitored and that steps are being taken continuously to improve the controllable environment in which the Company operates.



A. G. R. Dissanayake

Chairman
Audit Committee

07th September 2017
Colombo

Credit Committee Report

Composition

The composition of Credit Committee during the year.

- Ms. L. L. C. C. Thambiah (Executive Director) -Chairperson
- Mr. N. H. T. I. Perera (Non-Executive Director) (resigned w.e.f 31st May 2017)
- Mr. A. S. Wijesinha (Independent/Non-Executive Director)

The Committee was reconstituted as given below on 25th July 2017.

- Mr. P. A. H. D. Wijesundara - Chairman
- Ms. L. L. C. C. Thambiah - Member
- Mr. A. S. Wijesinha - Member

Invitees

- Mr. B. M. D. C. Prabhath - Managing Director/CEO
- Mr. W. S. P. Arangala - Chief Operating Officer
- Mr. P. Dayawansa - DGM SME & Leasing functions as the Secretary to the Committee.

Terms of Reference

The Board periodically reviews the Committee Charter as and when required. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Board Credit Committee also assists the Board in its general oversight of recommending Credit Policy of the Company.

Responsibilities

- Review the methodologies in assessing Company's credit risks whilst recommending appropriate exposure limits.
- Ensure concentration of credit risks are within the risk tolerance of the Company.
- Monitor new areas of lending through Product Development Committee.
- Monitor adherence and ensure compliance with the limits set out in the Lending policy.
- Approve and monitor the risk elements of the Company and review the Credit Risk report on a quarterly basis.
- Recommend actions to the Board to mitigate credit risk where applicable.

- The Committee shall submit minutes of the discussion paper of each Board Credit Committee (BCC) Meeting to the Board, seeking its views, concurrence and/or specific directions, at the Board meeting immediately followed by the BCC.

Meetings

The Committee met two times during the financial year under review.

Authority

- The Committee is authorised to seek any information it requires from any employee of the Company, in order to perform its duties.
- The Committee, with the authorisation of the Board may obtain, at the Company's expense, outside legal and other professional advice on any matters within its terms of reference.
- The Committee is authorised to monitor the Company's policies, plans, processes and any proposed changes to those policies for controlling significant Credit risk.

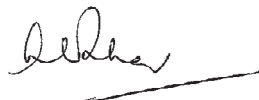
Activities in 2016/17

- HNBG recorded 36% growth in lending during the year under review. The Company continued to pursue a strategy to reduce concentration risk in Micro Finance by diversifying its product range. This is reflected in the change in the composition of the portfolio, with Micro Finance reducing from 85% in 2015/16 to 73% of the portfolio in 2016/17. The Company revisited the MFI model aspiring to differentiate its product from other Companies' with a strong commitment to professional ethics and its brand image as a trusted partner.
- The SME business was strategically launched during last quarter of 2016, creating a platform for cross selling and the opportunities to bundle products to our clients. Leasing, which was launched in 2015, experienced exponential growth by strengthening our sales teams in high potential branches and through successful strategic alliances with vehicle dealers.

Credit Committee Report

- A new loans scheme for consumer and agriculture loans were introduced to further diversify our product range and increase the asset based loan portfolio of the company.
- The existing Easy, Abhilasha and Swashakthi products, which come under the Small Scale Enterprises Segment, were repositioned to remain competitive. The Company also strengthened its post credit mechanism to maintain a quality portfolio.
- The Credit Dash Boards were further developed with appropriate analytics to identify behavior region wise and sector wise.
- The Board Credit Committee constantly paid close attention to the NPA ratio which reflected a slight increase due to natural disasters and subdued economic activities. However, Vintage Analysis that captured early warning signals to minimise loans falling into NPA's coupled with continuous aggressive recovery processes, helped the Company to sustain its NPA ratio below industry levels.

HNBG, which pioneered Micro Finance will continue to grow this area of business with a renewed focus to suit the changing demographics, whilst aggressively diversifying its product range to achieve the position of a leading and stable Finance Company.



L. L. C. C. Thambiah
Chairperson- Credit Committee

07th September 2017
Colombo

Nomination / Human Resources & Remuneration Committee Report

Composition of the Committee

The Remuneration and Nomination Committee is appointed by the Board of Directors of the Company. And as at 31st March 2017, it comprised three Non-Executive Directors as follows.

Name of the Member	Directorship status	Membership status
Ms. M. A. R. C. Cooray	Non-Executive, Non-Independent Director	Chairperson
Mr. A. J. Alles	Non-Executive, Non-Independent Director	Member
Mr. B. Premalal	Non-Executive, Non-Independent Director	Member

Mr. B. M. D. C Prabhath – Managing Director/CEO, Mr. Ruwan Fernando – DGM (HR) and Ms. Chiranthi Cooray- DGM(HR) HNB PLC attended meetings of the Committee by invitation, other than in instances where matters relating to them have been discussed. The Company Secretary functioned as the Secretary of the Committee.

Brief profiles of the members of the Nomination/ Human Resources & Remuneration Committee are given on Pages 21 to 23.

Policy

The Company's remuneration policy aims to recruit, retain and motivate high caliber personnel who possess appropriate professional, managerial and operational expertise; at Board and corporate levels, in order to achieve the Company's objectives over the foreseeable future. The policy also rewards the employees in commensurate with each individual's level of experience and contribution, bearing in mind the business performance and long term shareholder return. The Company is holds responsibility to ensure that the total remuneration package is sufficiently competitive to attract the best talent for the Company.

Committee Responsibilities

Nomination Related:

The Committee works closely with the Board of Directors to review the structure and skills needed for a dynamic and stable organisation. Further, the Committee also reviews annually its own performance, constitution and terms of reference to ensure that it is operating effectively and if required recommends necessary changes to the Board. The main responsibilities entrusted to the Committee include the following;

- select/appoint new Directors/ Managing Director/CEO and the key management personnel.
- ensure that Directors are fit and proper to hold office as per the criteria set out in the Direction issued by the Central Bank of Sri Lanka.
- review the structure, size, composition and competencies of the Board regularly.
- consider and recommend the re-election of the current Directors, taking into account their caliber and capability for the Company to reach greater heights and the contribution made towards the overall discharge of the Board's responsibilities
- establish criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Managing Director and other Key Management positions.
- determine the independence of the Directors of the Board, the independence should be based on standards and norms set out in regulations by the Central Bank and the Colombo Stock Exchange amongst others.

Human Resources & Remuneration Related:

The Committee is vested with powers to;

- Determine the remuneration policies (salaries, allowances and other incentives) relating to Directors, Managing Director and key Management positions of the Company.
- Determine and recommend to the Board of Directors, annual increments, bonuses and incentives for the Managing Director and the senior management team, based on individual and corporate performance against set targets and goals

Nomination / Human Resources & Remuneration Committee Report

- Make recommendations from time to time to the Board of Directors, on the additional/new expertise required by the company.
- Interview applicants for senior management positions based on recommendations by the Managing Director/CEO, taking into account their performance and achievements. Also, , decide on new recruitments, extensions and terminations after evaluating criteria for same.
- Make recommendations/decisions/ directions pertaining to the statutory payments made by the Company on behalf of its employees (EPF, ETF, Terminal benefits etc) ensuring the effective fulfillment of all commitments arising from the employer employee relationship.
- Recommend/decide/give directions on disciplinary matters, concerning key management personnel which have caused a significant financial loss to the Company.

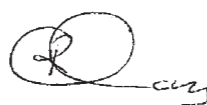
They may also receive an attendance fee for attending sub - committee meetings. They do not receive any performance or incentive payments.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

Succession Planning

The Committee continuously assesses the adequacy of the expertise available at the Senior Management level and ensures that the company maintains a succession plan for the Key Management positions of the Company.



M. A. R. C. Cooray

Chairperson
Nomination/Human Resources &
Remuneration Committee

07th September 2017
Colombo

Meetings of the Committee

The Committee met two times during the year under review. The quorum for a meeting is two (2) members. The members of the Senior Management team were invited to participate at the meetings of the Committee as and when it was required and the proceedings of the Committee were duly reported to the Board.

Attendance at meetings is given in the table on page 108 of the Annual Report.

Fees

All Non-Executive Directors receive a monthly attendance fee for participation in the deliberations at the Committee as per the Director's Remuneration Policy approved by the Board.

Board Integrated Risk Management Committee Report

Composition

The Board Integrated Risk Management Committee (BIRMC) in 2016 comprised the following Directors :

- Ms. M. A. R. C. Cooray (Non-Executive Director) - Chairperson
- Mr. B. Premalal (Non-Executive Director)
- Mr. B. M. D. C. Prabhath (Managing Director/CEO)
- Mr. A. S. Wijesinha (Independent/Non-Executive Director)

The Committee was reconstituted as given below on 25th July 2017.

- Mrs. M. A. R. C. Cooray - Chairperson
- Mr. A. S. Wijesinha - Member
- Mr. B. M. D. C. Prabhath - Member

Chief Executive Officer Mr. B. M. D. C. Prabhath and the following key management team members attended meetings of The BIRMC as stipulated under Direction No. 03 of 2008, clause 3 on Corporate Governance for Finance Companies.

- Mr. J. M. R. Fonseka AGM - Compliance & Risk functions as the Secretary to the Committee.
- Mr. S. N. Kothalawala Manager Risk w.e.f. 31 .01.2017 Invitees
- Mr. W. S. P. Arangala Chief Operating Officer
- Mr. Damith Pallewatte AGM Risk (HNB PLC)

Terms of Reference

The Terms of Reference of BIRMC as set out by the Board of Directors of HNB Grameen Finance Limited (HNBG), include the following:

- Assessing the effectiveness of HNBG's risk management system and monitoring the impact to the Company from risk types such as Credit, Market, Liquidity, Financial, Operational and Strategies of the Company on a monthly basis through appropriate risk indicators/dash boards and management information.
- Ensuring the suitability of data captured and facilitating appropriate modelling, data analysis and enabling timely and effective management information for risk monitoring and decision making.
- Ensuring that HNBG has a comprehensive risk management framework in place appropriate to the Company's accomplishments and risk profile.
- Considering the adequacy and efficacy of IT and infrastructure supporting the Risk management framework.
- Taking prompt corrective action to mitigate the effect of specific risks, in case such risks are at levels beyond the prudent levels and as decided by the Committee on the basis of the Company's policies and regulatory/ supervisory requirements.

- Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective action as recommended by the Committee, and/ or as directed by the Director of the Dept. of SNBFI of CBSL.
- The Committee shall submit minutes of discussion papers at each BIRMC meeting to the Board, seeking its views, concurrence and / or specific directions, at the Board meeting, immediately followed by the BIRMC meeting.
- Ensuring that the Board of Directors is kept updated of the risk exposure in relation to the appropriate risk appetite.

Meetings

The BIRMC met 9 times during the year for the purpose of discharging the stated duties. The Chairperson of the Committee briefs the Board of Directors on the main findings of the Committee at each Board meeting. The minutes of the BIRMC Meetings were regularly forwarded to the Board. The BIRMC reviewed the Company's risk policy framework, risk management strategies and key risk indicators and was satisfied that the risk exposures of the Bank are being appropriately managed.

The Year in Prospect

The Committee, at its meetings, through reviews of appropriate risk techniques, extensively dealt with all risk factors that might have an impact or are likely to have an impact on the operations of the organisation. They include, Operational Risk, Credit Risk, Liquidity Risk, Compliance Risk and Reputational Risk as well as the strategies of the Company. During the year under review, the BIRMC assisted the management to achieve a NPL rate within 2% whilst maintaining a high quality loan portfolio through continuous and close monitoring and recommending remedial action at every meeting. Timely information was provided to the main Board through development of appropriate dash boards and stress test results on liquidity, interest rates etc under several shock scenarios. Coverage of information was reviewed regularly and action was taken to expand with regard to several areas, such as credit and operational areas..

The Committee also periodically reviewed the progress of implementing the CBSL on-site examination recommendations in order to ascertain the level of compliance..



M. A. R. C. Cooray

Chairperson
Board Integrated Risk Management Committee

07th September 2017
Colombo

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee was established by the HNBBG Board on 18th November 2016 to assist the Board in ensuring that interest of shareholders as a whole are taken into account when entering into transactions with related parties and in enhancing the Company's internal control mechanisms and corporate governance.

Composition of the Committee

The Committee, as at 31st March 2017 comprised the following Directors:

Mr. A. S. Wijesinha	Independent Non-Executive Director - Chairman
Mr. B. M. D. C. Prabhath	Executive Director – Managing Director/ CEO
Mr. N. H. T. I. Perera	Non Independent Non-Executive Director (Resigned with effect from 31st May 2017)
Mr. Ramesh Fonseka	(Assistant General Manager- Risk and Compliance)
Mr. S. Chandranath	(Chief Accountant - Secretary to the committee)

The Committee was reconstituted as given below on 25th July 2017.

Mr. A. S. Wijesinha - Chairman
Mr. B. M. D. C. Prabhath - Member
Mr. P. A. H. D Wijesundara - Member

Purpose of the Committee

The purpose of the Committee is to review all proposed related party transactions other than those transactions explicitly exempted in the Code. Accordingly, except for transactions mentioned under Rule 27 of the Code, all other related party transactions require review by the Committee either prior to entering into a transaction or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Scope of the Committee :

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures;
- Reviewing in advance all propose related party transactions of the Company except those explicitly exempted by the Code under Rule 27;
- Determining whether related party transactions to be entered into by the Company require Board or shareholder approval;
- Establishing a set of guidelines as explained in the Code where related party transactions are "recurrent in nature" , for the Senior Management to follow in their continuing dealings with the relevant related party.
- Ensuring that no Director of the Company participates in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the expressed purpose of providing information concerning the related party transaction to the Committee.
- If there is any potential conflict in any related party transaction, the Committee may recommend the creation of a special committee (including independent consultant if necessary) to review and approve the proposed related party transaction.
- Ensuring that immediate market and Annual Report disclosures are made in a timely and detailed manner as required by the Code.

Policies and Procedures

The Company has in place a comprehensive Related Party Transaction (RPT) policy whereby the categories of persons who will be considered as 'related parties' have been identified. This was further updated in the year 2016/17 to be in full compliance with the rules and regulations applicable to related party transactions as set out in the Finance

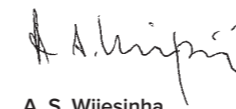
Companies (Corporate Governance) Direction No. 3 of 2008 (as amended) and the Listing Rules. The Company has developed a mechanism which enables to obtain, monitor and report transactions with identified related parties.

Meetings

Since its formation, the Committee had one meeting.

Review of Transactions for the Financial Year 2016/17

During the year 2016/17, there were no non-recurrent or recurrent related party transactions which exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange. Further, all the related party transactions which occurred during the year are disclosed in the Audited Financial Statements. Please refer pages 151 to 153 for RPTs published in the Note 39 to the Financial Statements.



A. S. Wijesinha

Chairman

Board-Related Party Transactions Review Committee

07th September 2017

Colombo

Strategic / Investment Review Committee Report

The Board Strategic/Investment Review Committee ("Committee") appointed on 27th November 2014 by the Board of Directors, which comprises Five Non-Executive Directors is responsible to the Board of Directors.

The composition of the Committee as at 31st March 2017:

Members.

Mr. A. J. Alles - Non Independent Non-Executive Director (Committee Chairman)

Mr. B. Premalal - Non Independent Non-Executive Director

Ms. M. A. R. C. Cooray, - Non Independent Non-Executive Director

Mr. N. H. T. I. Perera, - Non Independent Non-Executive Director (Resigned with effect from 31st May 2017)

Ms. H. K. S. R. Perera - Non Independent Non-Executive Director (Resigned with effect from 31st July 2017)

The Committee was reconstituted as given below on 25th July 2017:

Mr. A. J. Alles -Chairman

Mr. B. Premalal -Member

Mr. A. G. R. Dissanayake -Member

Invitees:

Mr. B. M. D. C. Prabhath - Managing Director/CEO

Mr. W. S. P. Arangala - Chief Operating Officer functions as the secretary to the Committee.

Strategic / Investment Review Committee Objective

To provide oversight in driving the Company towards achieving its strategic objectives

The Committee is entrusted with the following responsibilities by the Board of Directors:

- oversee and monitor the preparation of the Strategic Plan and the Annual Budget of the Company,
- monitor and review periodically the implementation of these strategic initiatives under the Strategic Plan and evaluate their effectiveness in the light of the achievements.
- monitor and assess achievement of the financial goals & targets against the Annual Budget.
- review adequacy and composition of the Company's capital structure in the context of the growth targets and developments in the regulatory framework and where necessary, recommend capital augmentation plans for approval of the Board
- review and evaluate the strategic investment decisions and overseas expansion projects of the Company and advise the Board accordingly,
- evaluate both local and international developments, trends, opportunities and threats, impacting the macro economic conditions and the financial services industry in general and their implications on the Company
- in light of the above, formulate short term, medium term and long term strategies to optimise opportunities or to minimise down side impacts and advise the Board accordingly
- carry out any tasks assigned to the Committee through the Company's investment policy and/or as required by the Board of Directors.

The Committee engaged in discussions with the Corporate Management and Strategic Planning Teams to determine the strategic direction of the company for the period 2017 to 2019 and this formed the basis for the development of the Strategic Plan for this period. The Committee reviewed the performance of the company during the year against the three year rolling plan and annual budget for 2017, to identify areas of concern which needed changes/ improvements. The three year rolling plan was submitted to the Board of Directors and approval was obtained for the annual budget for 2017 which was developed in line with the strategic plan.

Meetings

The Committee had two meetings during 2016/2017. Other Members attend meetings on invitation.

Professional Advice

The Committee has the authority to seek external professional advice on matters under its purview

On behalf of the
Board Strategic Planning Committee



A. J. Alles
Chairman
Board Strategic/Investment Review Committee

07th September 2017
Colombo

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Annual Report of the Board of Directors

General

The Directors of HNB Grameen Finance Ltd (HNBG) have pleasure in presenting to the shareholders this report together with the Audited Financial Statements of the Company for the year ended 31st March 2017 together with the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and amendments thereto and the Directions issued on the same. The details set out herein provide appropriate information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued under the Finance Business Act No. 42 of 2011 and subsequent amendments thereto and recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on 07th September 2017.

Overview of the Company

The HNB Grameen Finance Ltd (HNBG) is a licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and was incorporated as a limited liability Company on 20th December 1999 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 under the Company Registration Number PB 965. The Company is registered under the Finance Leasing Act No. 56 of 2000.

Fitch Ratings Lanka Limited has affirmed National long-term Rating at 'A (lka)'; Outlook Stable to the Company.

The registered office of the Company is at "HNB Grameen Building" No. 168, Nawala Road, Nugegoda.

Vision, Mission and Corporate Conduct

The Company's Vision, Mission are given on Page 2 of this Annual Report, in achieving same its all directors, management and employees conduct their activities to the highest level of ethical standards and integrity as set out in the Code of Ethics.

Principal Activities

The Company's principal activities during the year were providing micro finance, finance lease, and vehicle loan facilities, mortgage loans, other credit facilities, acceptance of fixed deposits, maintenance of savings accounts and value added services to the finance sector.

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

Review of Operations

A review of Company's business and its performance during the year with comments on financial results and future developments is contained in the Chairman's Review, Managing Director's Review and Management Discussion which are given in this Annual Report present an overall appraisal of the business operations, financial performance and the overall financial position of the Company which form an integral part of this Report.

Future Development

An overview of the future developments of the company are given in the Chairman's review, Managing Director's Review and the Management Discussion and analysis in this Annual Report.

Financial Statements

The financial statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions issued under the said Finance Business Act.

Consequent to the Audit Committee's recommendations, the financial statements were reviewed and approved by the Board of Directors on 07th September 2017.

The financial statements of the Company, duly signed by the Chief Operating Officer and two Directors on behalf of the Board are given on page 116, which form an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

Directors' Responsibility for Financial Reporting

The Statement of Directors' Responsibility for Financial Reporting is given on page 111 and forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

Auditors' Report

The Company's Auditors, Messrs. Ernst & Young (Chartered Accountants) performed the audit on the Financial Statements for the year ended 31st March 2017 and the Auditors' Report issued thereon is given on page 113 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

Accounting Policies and changes during the year

The Financial Statements for the year ended 31st March 2017 were prepared in accordance with the revised Sri Lanka Accounting Standards. The significant accounting policies adopted in the preparation of the Financial Statements of the Company are given on pages 120 to 133.

Review of the Financial Performance During the Year

Income

The Income of the company for the year 2016/17 is Rs. 6,234,033,583 (In 2015/16 it was Rs. 4,485,107,633) An analysis of the Income is given in Note No 4 to the financial statements.

Financial Results and Appropriations

The net profit of the company 2016/2017 is Rs. 1,058,834,186 (Rs. 1,110,093,205 for 2015/16). Details regarding the profit and appropriations of the company are given below.

	Company	
	2016/17 Rs.	2015/16 Rs.
Profit before tax	1,626,380,875	1,544,842,138
Income Tax expenses	(567,546,689)	(434,748,933)
Net Profit	1,058,834,186	1,110,093,205
Retained earnings brought forward	1,396,512,510	(3,173,126,422)
Profit available for appropriation	2,461,677,806	(2,053,729,608)
Appropriation		
Statutory reserve fund	(211,766,837)	(222,018,641)
Capital reduction	-	3,672,260,759
Final Cash dividend paid	(189,153,868)	-
Balance carried forward	2,060,757,101	1,396,512,510

Reserves

The reserves of the Company with the movements during the year are given in the financial statements on page 117.

Taxation

The Income Tax rate applicable to the Company's operations is 28 percent (28 percent in 2015/16). It is the Company's policy to provide for deferred taxation on all known temporary differences under the liability method.

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15 percent (2015/16: 11 percent) and Nation Building Tax (NBT) on Financial Services VAT at 2 percent (2015/16: 2 percent).

Dividends on Ordinary Shares

An interim dividend of Rs. 0.10 has been declared for distribution to the holders of the ordinary shares (both voting and non-voting) for the financial year 2016/17.

As required by Section 56 of the Companies Act, the Directors have certified that they are satisfied that the Company will, immediately after the said distribution is made, satisfy the solvency test in accordance with the Companies Act. In compliance with Finance Companies Guideline No. 01 of 2013, the Company has obtained the approval of the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the aforesaid interim dividend.

Minimum Capital Requirement

The Company ensures that it maintains the statutory requirement on minimum capital, to mitigate the liquidity, credit and other associate risks and safeguarding the depositors, thus ensuring the sustainability of the Company and the industry as a whole. The information on Minimum Capital Requirement is given in the Annual Report.

Capital Expenditure

The total capital expenditure on acquisition of Property, Plant & Equipment and intangible assets of the Company amounted to Rs. 196 Mn. (2015/2016 Company: Rs. 216 Mn). Details are given in Note 24 & 25 to the Financial Statements.

Market Value of freehold Property

All freehold lands of the Company were revalued by a professionally qualified independent valuer as at 31st March 2017 and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of the freehold properties owned by the Company are given in Note 43 to the Financial Statements.

Stated Capital and Debentures

The stated capital of the Company as at 31st March 2017 was Rs. 223,545,481 consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000 (2015/16 - Rs. 223,545,481 consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000).

Annual Report of the Board of Directors

The debentures of the Company as at 31st March 2017 amounted to Rs. 765 Mn consisting of 765 debentures at Rs.1 Mn (2015/16 - Rs. 765 Mn).

Share Holding

The shareholding distribution is reflected on page 170 and 171. As at 31st March 2017, 100,377 voting registered shareholders and 3 non-voting registered shareholders were recorded.

Major Shareholders

Page No 170 indicates the shareholding analysis of the top ten voting (volume wise) and 03 non-voting (volume wise) shareholders of the company, as at 31st March 2017.

The Board of Directors

The Board of Directors of the Company as at 31st March 2017, comprised of 10 Directors with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors' - Profile' on pages 20 to 23 of this Annual Report.

Names of the persons holding office as Directors of the Company as at 31st March 2017 as required by Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

Name of the Director	Date of Appointment	Other Information
Mr. A. J. Alles	18th November 2014	Chairman - Non Independent Non-Executive Director
Mr. B. Premalal	29th June 2011	Deputy Chairman - Non Independent Non-Executive Director
Mr. B. M. D. C. Prabhath	29th June 2011	Executive Director/ Chief Executive Officer/ Managing Director
Ms. H. K. S. R. Perera*	29th June 2011	Non Independent Non-Executive Director
Ms. L. L. C. C. Thambiah	13th June 2013	Executive Director
Mr. N. H. T. I. Perera**	18th November 2014	Non Independent Non-Executive Director
Ms. M. A. R. C. Cooray	18th November 2014	Non Independent Non-Executive Director
Mr. A. L. Somaratne***	18th November 2014	Independent Non-Executive Director
Mr. A. S. Wijesinha	18th June 2015	Independent Non-Executive Director
Dr. S. U. H. Fernando	25th June 2015	Independent Non-Executive Director
Mr. P. A. H. D. Wijesundara	27th September 2016	Independent Non-Executive Director

Resignation of Directors

The following Directors resigned on the dates indicated against their names.

* Ms H. K. S. R. Perera - Non Independent Non-Executive Director resigned w.e.f. 31st July 2017

** Mr. N. H. T. I. Perera - Non Independent Non-Executive Director resigned w.e.f. 31st May 2017

*** Mr. A. L. Somaratne - Independent Non-Executive Director resigned w.e.f. 01st June 2016

New appointments during the year

The following directors were appointed with the concurrence of the CBSL in terms of Article 87(a) of the Articles of Association of the Company.

Mr. P. A. H. D. Wijesundara - Independent Non-Executive Director w.e.f 27th September 2016.

Mr. A. G. R. Dissanayake - Non Independent Non-Executive Director w.e.f 29th August 2017.

Retirement and Re-election of Directors Recommended

The following Director who was appointed during the Financial Year 2016/17 retired at the Annual General Meeting in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008 and offered themselves for re-election under the said Direction.

Mr. P. A. H. D. Wijesundara - Independent Non-Executive Director.

The undernoted Director retired by rotation at the Annual General Meeting under Article 27 of the Articles of Association of the company and offered themselves for re-election under the said Article.

Mr. A. S. Wijesinha - Independent Non-Executive Director

The re-election of the aforesaid Directors has the unanimous approval of the Board.

In compliance with the Finance Business Act No 42 of 2011 and clause 3.4 of the Finance Companies (Assessment of fitness and propriety of Directors and officers performing Executive functions) Direction 3 of 2011 issued by the Department of Supervision of Non- Bank Financial Institutions of Central Bank of Sri Lanka, the Company has obtained the approval of Monetary Board of Central Bank of Sri Lanka for the re- appointment of the above mentioned Directors.

Register of Directors and Secretaries

As required under Section 223 (1) of the Companies Act No. 7 of 2007 the Secretaries of the Company maintains a Register of Directors and Secretaries on behalf of the Company, which contains information of each Director and the Secretary.

Board Sub –Committees

The Board of Directors while assuming the overall responsibility and accountability for the management of the Company has also appointed Board Sub-committees to ensure oversight and control over certain affairs of the Company, conforming to Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka issued under the Finance Business Act No. 42 of 2011 and adopting the best practices accordingly.

Committee	Members of Directors
Audit Committee	Mr. N. H. T. I. Perera, -Non Independent Non-Executive Director (Committee Chairman) * Ms. M. A. R. C. Cooray, - Non Independent Non-Executive Director Mr. A. S. Wijesinha - Independent Non-Executive Director
Integrated Risk Management Committee	Ms. M. A. R. C. Cooray, - Non Independent Non-Executive Director (Committee Chairperson) Mr. B. Premalal- Non Independent Non-Executive Director Mr. B. M. D. C. Prabhath - Executive Director-Managing Director/ CEO Mr. A. S. Wijesinha Independent Non-Executive Director
Credit Committee	Ms. L. L. C. C. Thambiah - Executive Director (Committee Chairperson) Mr. A. S. Wijesinha - Independent Non-Executive Director Mr. B. M. D. C. Prabhath, - Executive Director-Managing Director/ CEO Mr. N. H. T. I. Perera - Non Independent Non-Executive Director *
Nomination/Human Resources & Remuneration Committee	Ms. M. A. R. C. Cooray- Non Independent Non-Executive Director (Committee Chairperson) Mr. A. J. Alles - Non Independent Non-Executive Director Mr. B. Premalal - Non Independent Non-Executive Director
Related Party Transaction Review Committee	Mr. A. S. Wijesinha - Independent Non-Executive Director (Committee Chairman) Mr. N. H. T. I. Perera, -Non Independent Non-Executive Director * Mr. B. M. D. C. Prabhath - Executive Director-Managing Director/ CEO
Strategic/Investment Committee	Mr. A. J. Alles - Non Independent Non-Executive Director (Committee Chairman) Mr. B. Premalal- Non Independent Non-Executive Director Ms. M. A. R. C. Cooray, - Non Independent Non-Executive Director Mr. N. H. T. I. Perera, -Non Independent Non-Executive Director * Ms. H. K. S. R. Perera- Non Independent Non-Executive Director **

* Mr. N. H. T. I. Perera, -Non Independent Non-Executive Director resigned w.e.f 31st May 2017

**Ms. H. K. S. R. Perera - Non Independent Non-Executive Director resigned w.e.f 31st July 2017

Annual Report of the Board of Directors

Aforesaid Subcommittees were reconstituted by the Board of Directors at their meeting held on 25th July 2017 in the following manner;

Committee	Members of Directors
Audit Committee* *	Mr. A.G. R. Dissanayake - Chairman Ms. M. A. R. C. Cooray - Member Mr. A. S. Wijesinha - Member
Integrated Risk Management Committee*	Ms. M. A. R. C. Cooray - Chairperson Mr. B. M. D. C. Prabhath - Member Mr. A. S. Wijesinha - Member
Strategic/Investment Committee**	Mr. A. J. Alles - Chairman Mr. B. Premalal - Member Mr. A. G. R. Dissanayake - Member
Credit Committee*	Mr. P. A. H. D. Wijesundara - Chairman Mr. A. S. Wijesinha - Member Ms. L. L. C. C. Thambiah - Member
Nomination/Human Resources & Remuneration Committee*	Ms. M. A. R. C. Cooray - Chairperson Mr. A. J. Alles - Member Mr. B. Premalal- Member
Related Party Transaction Review Committee*	Mr. A. S. Wijesinha - Chairman Mr. B. M. D. C. Prabhath - Member Mr. P. A. H. D. Wijesundara - Member

* The Committee was reconstituted w.e.f. 25th July 2017 ** The Committee was reconstituted w.e.f. 29th August 2017

Directors Meetings

The number of Directors' meeting, which comprise Board Meeting, Audit Committee meeting, Integrated Risk Management Committee meeting, Credit Committee meeting, Nomination/Human Resources & Remuneration Committee meeting, Related Party Transaction Review Committee meeting and strategic/Investment Committee meeting together with the attendance of each Director at these meeting during the financial year is tabulated below

Name of the Director	Board Meeting		Audit Committee		Integrated Risk Management Committee		Credit Committee		Nomination/HR & Remuneration Committee		Strategic & Investment Review Committee		Related Party Transaction Review Committee	
	No of Meeting (a)	No of Meeting Attended	No of Meeting (a)	No of Meeting Attended	No of Meeting (a)	No of Meeting Attended	No of Meeting (a)	No of Meeting Attended	No of Meeting (a)	No of Meeting Attended	No of Meeting (a)	No of Meeting Attended	No of Meeting (a)	No of Meeting Attended
Mr. A. J. Alles	13	11							2	2	2	2		
Mr. B. Premalal	13	13			9	3			2	2	2	1		
Mr. B. M. D. C. Prabhath *	13	13	4	4	9	6							1	1
Ms. H. K. S. R. Perera	13	12									2	1		
Ms. L. L. C. C. Thambiah *	13	13	4	4			2	2						
Mr. N. H. T. I. Perera (Resigned on 31.05.2017)	13	12	4	4			2	2			2	2	1	1
Ms. M. A. R. C. Cooray	13	13	4	4	9	9			2	2				
Mr. A. S. Wijesinha	13	11	4	3	9	7	2	2					1	1
Dr. S. U. H. Fernando	13	10												
Mr. P. A. H. D. Wijesundara (Appointed on 27.09.2016)	6	6												

(a) - Number of meetings held in the period during the year when the Director held office

* Mr. B. M. D. C. Prabhath - MD/CEO and Ms. L. L. C. C. Thambiah - Executive Director attended Board Audit Committee by invitation

Directors' Interests Register and Directors' Interests in Contracts or Proposed Contracts

The Company maintains the Directors' Interests Register in terms of the Companies Act No. 07 of 2007.

Directors of the Company have made necessary declarations of their interests in contracts and proposed contracts in terms of Sections 192 (1) and 192 (2) of the Companies Act. These interests are entered in the Interests Register which is deemed to form part and partial of this Annual Report and available for inspection upon request.

The particulars of the Directors Interests in Contracts with the Company are given in related party disclosures to the Financial Statements on page 151 and form an integral part of this Annual Report.

The remuneration paid to the Directors during the year under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under "Directors' Remuneration".

The relevant interests of Directors in the shares of the Company as at 31st March 2017 as recorded in the Interests Register are given in this Report under Directors' shareholding.

The Directors have no direct or indirect interest in any contract or proposed contracts with the company.

Related Party Transactions

Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures', which is adopted in preparation of the Financial Statements. This Disclosure is given in Note 39 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors

Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 39 to the Financial Statements on page 151.

Directors' Interest in Shares

In compliance with Section 200 of the Companies Act, the Board of Directors of HNB Grameen Finance Ltd who hold applicable interest in the shares of the respective companies, have thus disclosed details of their shareholdings and acquisitions /disposals to the Board.

At the commencement and closing of the year under review, the shareholdings of the Board of Directors were listed as follows,

Mr. B.M.D.C Prabhath- MD/CEO holds 0.07% voting shares of the company.

Directors' Interest in Debentures

There were no debentures registered in the name of any Director as at 31st March 2017.

Corporate Governance

The significance of maintaining an effective corporate governance practice in relation to the management and operations of the company was reiterated by the Directors. As such with the purpose of enhancing risk management measures while improving accountability and transparency of the Company, systems and structures were implemented for continuous improvement of all such practices. The corporate governance report is given on pages from 66 to 83 of this Annual Report.

Internal Controls

The Board of Directors has instituted an effective and comprehensive system of implementing internal control measures. As such the Internal Control system covers financial operations, compliance, control and risk management while safeguarding assets and ensuring the security of the records to the best of its ability.

Directors' Statement of Internal Controls

As per Section 10 of the Direction No. 03 of 2008 on Corporate Governance, the Board of Directors issued a report in relation to the internal control mechanism of the company. As such the Board authenticates that the financial reporting system is designed to assure the reliability of financial reporting in relation to the preparation of financial statements. When preparing such financial statements, the Board has complied with relevant accounting principles and regulatory requirements. The said report is given on page 112 of the Annual Report. The Board has also obtained an assurance report from the external Auditors on Directors' Statement of Internal Control which is given in the Annual Report.

Annual Report of the Board of Directors

Environmental Protection

There have been no activities carried out by the Company that were detrimental to the environment. As such the Board of Directors affirms that to the best of their knowledge, the company has complied with the applicable environmental laws and regulations

Human Resources

The employment strategies of the company are framed to recruit, train, develop and retain the best talents available within the industry. In order to facilitate the process of matching people to jobs, the Company's employment policy is structured to include recruitment from external sources as well as through internal promotions. The Company always respects the merits of the individual and provides equal career opportunities irrespective of gender, race or religion. The Company has not experienced any employee related issues during the year under review.

Compliance with Laws and Regulations

The Board of Directors along with all personnel responsible for legal compliance warrants that the company has not carried out any activities that breach the applicable laws and regulations. As such, the relevant officers confirm their compliance to the Board on a monthly basis.

Auditors

The Financial Statements for the year ended 31st March 2017, have been audited by Messrs. Ernst & Young, (Chartered Accountants) who offer themselves for reappointment. The retiring Auditors Messrs. Ernst & Young, (Chartered Accountants) have signified their willingness to continue in office and a resolution relating to their reappointment and authorising Directors to fix their remuneration as recommended by the Board, will be proposed at the forthcoming Annual General Meeting.

The Board further confirms that the retiring Auditors, Ernst & Young, (Chartered Accountants) are listed in the approved panel of External Auditors, in terms of the guidelines issued by the Monetary Board of Central Bank of Sri Lanka under Section 30 (2) of the Finance Business Act No. 42 of 2011

The Auditors have been paid a fee of Rs. 4,175,000 as audit fee for the year ended 31st March 2017, which has been approved by the Board. The Directors recommend their reappointment.

Annual General Meeting

The 07th Annual General Meeting of the Company will be held at the Auditorium on Level 6 of "HNB Grameen Building" at No. 168, Nawala Road, Nugegoda, on 29th September 2017 at 2.00 p.m. The notice of the 7th Annual General Meeting is given on page 174 for and on behalf of the Board.

Acknowledgements of the contents of the Report

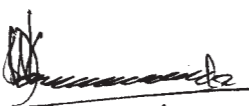
The Board of Directors does hereby acknowledge the contents of this Annual Report as per the requirement of Section 168 (1) (k) of the Companies Act No. 07 of 2007.

Signed in accordance with the resolution adopted by the Directors.

By Order of the Board,



A. J. Alles
Chairman



B. M. D. C. Prabhath
Managing Director/CEO



SSP CORPORATE SERVICES (Pvt) LIMITED
Company Secretary

07th September 2017
Colombo

Directors' Responsibility for Financial Reporting

The following statement sets out responsibility of the Directors in relation to the financial statements of the Company prepared in accordance with the provisions of the Companies Act No. 07 of 2007.

The responsibility of the External Auditor in relation to the financial statements is set out in the Report of the Auditors given on page 113 of this Annual Report.

As per the provisions of Sections 150 (1) and 151 of the Companies Act No. 07 of 2007, the Directors are required to prepare financial statements for each financial year, which should give a true and fair view of the state of affairs of the Company as at each financial year end and its profit or loss for the financial year then ended, and place them before a General Meeting.

In preparing the financial statements, the Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and all applicable accounting standards have been complied with.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with accuracy, the financial position of the Company.

Financial statements prepared and presented in this Report have been prepared based on Sri Lanka Accounting Standards (SLFRS/LKAS) which came to effect from 1st January 2012 and are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Directions issued under the Finance Business Act No. 42 of 2011, Sri Lanka Accounting and Auditing Standards Act No. 16 of 1995.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording evaluating and managing the significant risks faced by the Company throughout the year.

The financial statements of the Company have been certified by the Chief Operating Officer of the Company, as the officer responsible for their preparation as required by the Section 150 (1) (b) and they have also been signed by two Directors of the Company as required by Section 150 (1) (c) of the Companies Act.

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

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



A. J. Alles
Chairman



B. M. D. C. Prabhath
Managing Director/CEO

07th September 2017
Colombo

Directors' Responsibility Statement on Internal Control over Financial Reporting

Responsibility

In line with section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on internal controls over financial reporting.

The overall responsibility for internal controls and financial reporting and reviewing their adequacy and effectiveness rests with the Board of Directors of HNB Grameen Finance Ltd.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting as and when changes occur in the operating business environment or to regulatory guidelines. This process is regularly reviewed by the Board.

The Board is of the view that the system of internal control over financial reporting which is in place at HNB Grameen is adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of the financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the policies and procedures on risk and control, by identifying and assessing the risks faced and in design, operation and monitoring of suitable internal controls over financial reporting to mitigate and control these risks.

Internal controls over financial reporting are checked by the Internal Auditors of the Company for suitability of design and efficacy, on an ongoing basis. The scope, quality and reports of internal audits are reviewed by the Board Audit Committee at its meetings and improvements recommended wherever necessary.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement By External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

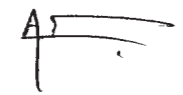
By order of the Board,



A. G. R. Dissanayake
Audit Committee
Chairman



B. M. D. C. Prabhath
Managing Director/CEO



W. S. P. Arangala
Chief Operating Officer

07th September 2017
Colombo

Independent Auditor's Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
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TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of HNB Grameen Finance Limited, (the "Company"), which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
 - The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.



07th September 2017
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Statement of Comprehensive Income

		2017	2016
	Note	LKR	LKR
Gross Income	4	6,234,033,583	4,485,107,633
Interest income		5,327,018,057	3,906,231,603
Interest expenses		(1,465,618,208)	(995,689,242)
Net Interest Income	5	3,861,399,849	2,910,542,361
Fee and commission income		670,219,063	485,813,442
Fee and commission expenses		(98,395,049)	(75,520,940)
Net Fee and Commission Income	6	571,824,014	410,292,502
Net Interest, Fee and Commission Income		4,433,223,863	3,320,834,863
Other operating income		236,796,463	93,062,588
Capital loss from trading		-	(26,578,802)
Net mark to market valuation gain		81,840	-
Total Operating Income	7	4,670,102,166	3,387,318,649
Impairment charges for loans and other losses	8	(707,508,300)	(110,452,151)
Net Operating Income		3,962,593,866	3,276,866,498
Personnel expenses	9	(943,611,008)	(712,015,514)
Other expenses	10	(1,011,929,349)	(743,321,460)
Total Operating Expenses		(1,955,540,357)	(1,455,336,974)
Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		2,007,053,509	1,821,529,524
Value added tax (VAT) on financial services	11	(331,394,045)	(234,120,096)
Nation building tax (NBT) on financial services	12	(49,278,589)	(42,567,290)
Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		1,626,380,875	1,544,842,138
Income tax expenses	13	(567,546,689)	(434,748,933)
Profit for the Year		1,058,834,186	1,110,093,205
Basic earnings per share	14	0.62	0.65

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Statement of Other Comprehensive Income

Year ended 31 March

		2017	2016
	Note	LKR	LKR
Profit for the Year		1,058,834,186	1,110,093,205
Other Comprehensive Income for the Year, Net of Tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(losses) on defined benefit plans	32	8,793,209	12,921,679
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	26	(2,462,099)	(3,618,070)
Revaluation reserve of freehold Land & buildings	25	166,240,013	-
Deferred tax effect on revaluation of buildings	26	(44,069,830)	-
Other Comprehensive Income for the Year, Net of Tax		128,501,293	9,303,609
Total Comprehensive Income for the Year		1,187,335,479	1,119,396,814

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

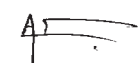
Statement of Financial Position

As at 31 March

	Note	2017 LKR	2016 LKR
ASSETS			
Cash and cash equivalents	15	1,204,483,946	451,223,290
Financial assets held for trading	16	15,024,960	14,943,120
Loans and advances to members	17	13,260,731,825	8,759,039,215
Loans and advances to others	18	503,034,338	379,450,581
Financial investments - loans & receivables	19	307,112,770	-
Financial investments - available-for-sale	20	12,430,283	12,430,283
Financial investments - held-to-maturity	21	1,743,275,943	2,639,328,475
Other assets	22	210,611,575	196,666,654
Investment properties	23	1,049,600,000	904,500,000
Intangible assets	24	127,078,155	67,807,042
Property, plant & equipment	25	1,119,409,029	950,441,553
Total Assets		19,552,792,824	14,375,830,213
LIABILITIES			
Due to customers	27	14,040,245,231	10,420,418,906
Debt issued and other borrowed funds	28	1,333,380,268	909,572,460
Income tax payable	29	353,447,803	278,240,026
Value added tax payable	30	(6,263,276)	41,305,715
Other liabilities	31	268,153,945	150,860,944
Retiring benefit obligation	32	157,508,878	134,383,355
Deferred tax liability	26	16,115,738	49,026,181
Total Liabilities		16,162,588,587	11,983,807,587
SHAREHOLDERS' FUND			
Stated capital	33	223,545,481	223,545,481
General reserve	34	82,897,989	82,897,989
Statutory reserve fund	35	638,519,637	426,752,800
Revaluation reserve		384,484,029	262,313,846
Retained earnings		2,060,757,101	1,396,512,510
Total Equity and Liabilities		19,552,792,824	14,375,830,213

The accounting policies and notes on pages 120 to 169 form an integral part of the financial statements.

I certify these financial statements are in compliance with the requirements of the companies act No. 07 of 2007.



W.S.P. Arangala
Chief Operating Officer

The board of directors are responsible for the preparation and presentation of these financial statements.

signed for and on behalf of the board by;



A.J. Alles
Chairman



B.M.D.C. Prabhath
Managing Director/CEO

07th September 2017
Colombo

Statement of Changes in Equity

Year ended 31 March

	Stated Capital LKR	General Reserves LKR	Statutory Reserve LKR	Investment Fund LKR	Revaluation Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 01 April 2015	3,895,806,240	82,897,989	204,734,159	-	262,313,846	(3,173,126,422)	1,272,625,812
Profit for the year	-	-	-	-	-	1,110,093,205	1,110,093,205
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						12,921,679	12,921,679
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(3,618,070)	(3,618,070)
Total comprehensive income for the year	-	-	-	-	-	1,119,396,814	1,119,396,814
Transactions recorded directly in equity							
Transfer to statutory reserve fund	-	-	222,018,641	-	-	(222,018,641)	-
Capital reduction	(3,672,260,759)					3,672,260,759	
Balance as at 31 March 2016	223,545,481	82,897,989	426,752,800	-	262,313,846	1,396,512,510	2,392,022,626
Profit for the year	-	-	-	-	-	1,058,834,186	1,058,834,186
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans	-	-	-	-	-	8,793,209	8,793,209
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(2,462,099)	(2,462,099)
Revaluation reserve of freehold Land & buildings	-	-	-	-	166,240,013	-	166,240,013
Deferred tax effect on revaluation of buildings	-	-	-	-	(44,069,830)	-	(44,069,830)
	-	-	-	-	122,170,183	1,065,165,296	1,187,335,479
Transactions recorded directly in equity							
Transferred to statutory reserve fund	-	-	211,766,837	-	-	(211,766,837)	-
Dividend paid	-	-	-	-	-	(189,153,868)	(189,153,868)
Balance as at 31 March 2017	223,545,481	82,897,989	638,519,637	-	384,484,029	2,060,757,101	3,390,204,237

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 March

	Note	2017 LKR	2016 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		1,626,380,875	1,544,842,138
Adjustments			
Interest expenses on borrowings	5.2	24,503,761	8,511,811
Interest expenses on debentures	5.2	89,328,560	69,904,419
Interest income from financial investments held to maturity	5.1	(143,357,077)	(124,404,108)
Interest income on treasury bond	5.1	(1,600,000)	(12,372,066)
Dividend income	7.1	(65,000)	(60,000)
Profit/(loss) on disposal of property, plant & equipment	7.1	754,272	(296,872)
Fair value gain on investment property	7.1	(149,300,000)	(14,000,000)
Impairment charge/(reversal) for loans and other assets	8	712,008,300	110,452,151
Provision for value added tax	30	331,394,045	234,120,096
Crop insurance levy	10	11,601,542	11,349,144
Provision for nation building tax	12	49,278,589	42,567,290
Ammortisation on intangible assests	24	23,738,355	8,180,662
Depreciation - on property, plant & equipment	25	110,572,370	78,173,019
Gratuity provision	9	35,619,133	31,690,645
(Gain)/loss on mark to market valuation of treasury bond	7	(81,840)	1,787,152
Disposal (gain)/loss from treasury bond	7	-	26,578,802
Provision for amount payable under sip saviya scheme	31.1	1,200,000	1,100,000
Staff loan fair value adjustment	18.1	(4,500,000)	4,500,000
Operating profit/(loss) before changes in operating assets and liabilities		2,717,475,885	2,022,624,283
(Increase)/decrease in operating assets			
Loans & advances to members	17	(4,688,005,502)	(3,259,289,662)
Loans & advances to others	18	(119,076,674)	(195,023,753)
Other assets	22	(13,944,921)	(40,532,630)
Increase/(decrease) in operating liabilities			
Due to customers	27	3,558,442,443	2,752,125,940
Other liabilities	31	117,293,001	54,065,373
Cash flow from operating activities		1,572,184,232	1,333,969,551
Gratuity paid	32	(3,700,400)	(3,582,213)
VAT paid	30	(378,963,036)	(307,532,596)
Income tax paid	29	(530,294,140)	(201,303,324)
WHT paid	31	(11,090,158)	(1,129,598)

	Note	2017 LKR	2016 LKR
Notional tax		(9,489,647)	(12,172,457)
NBT paid		(55,193,347)	(39,912,801)
Crop insurance levy paid		(13,037,934)	(10,158,536)
ESC paid		(22,880,212)	-
Dividend paid		(189,153,868)	-
Net Cash Flow from Operating Activities		358,381,490	758,178,026
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	25	(113,828,308)	(148,402,241)
Purchase of intangible asset	24	(83,009,468)	(68,323,759)
Investment properties purchased/disposal	23	4,200,000	(4,200,000)
Proceeds from sale of property, plant & equipment		824,939	559,528
Net of investment in government security	20.1	440,069,336	342,324,589
Investment on debentures	20	-	(150,000,000)
Net investment in fixed deposits	20	(290,000,000)	(984,467,991)
Investment in treasury bond	21	-	182,107,650
Fixed deposit interest received	20	40,242,123	967,782
Treasury bill interest received	20.1	47,888,930	8,976,547
Reverse repurchase interest received	20.1	-	49,836,339
Treasury bond Interest received	21	1,440,000	17,520,000
Dividend income	7.1	65,000	60,000
Debentures interest received		16,875,000	-
Net Cash Flow from Investing Activities		64,767,552	(753,041,556)
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid	29	(5,363,379)	(4,074,608)
Interest payments on debentures	6	(88,771,246)	(61,902,416)
Interest payments on borrowings	29	(24,503,761)	(8,511,811)
Borrowings during the year	29	500,000,000	131,237,876
Loans repayments during the year	29	(51,250,000)	(15,003,000)
Net Cash Flow from Financing Activities		330,111,614	41,746,041
Net increase/(decrease) in cash and cash equivalents		753,260,656	46,882,511
Cash and cash equivalents at the beginning of the year	15	451,223,290	404,340,779
Cash and Cash Equivalents at the end of the year	15	1,204,483,946	451,223,290

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Notes to the Financial Statements

Year ended 31 March

1. REPORTING ENTITY

1.1 Corporate Information

HNB Grameen Finance Limited, ("the Company") is a public limited liability Company and domiciled in Sri Lanka. The registered office and the principal place of business of the Company is located at No. 168, Nawala Road, Nugegoda.

On 17 February 2010, the Company was registered as a Finance Company by the Monetary Board of the Central Bank of Sri Lanka in terms of section 2 of the Finance companies Act No. 78 of 1988 and is permitted in terms of section 7 (1) of the said Act to carry on finance business.

The Company has been registered as a registered Finance Leasing Company establishment under Section 5 of the Finance Leasing Act No. 56 of 2000 and is permitted to carry on Finance Leasing Business with effect from 31 March 2014.

The name of the Company was changed from Prime Grameen Micro Finance Limited to HNB Grameen Finance Limited on 28 July 2015.

1.2 Principal Activities and Nature of Operations

The principal activities of the Company are the provision of micro finance facilities, primarily focusing on the lower income segment of the Community and mobilisation of public deposits.

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

1.3 Parent Enterprise & Ultimate Parent Enterprise

The Company's immediate and ultimate parent undertaking and controlling entity is Hatton National Bank PLC, which is incorporated in Sri Lanka. Hatton National Bank PLC which acquired a shareholding of 51% of the Company's voting ordinary shares on 07 November 2014.

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

1.5 Date of Authorisation of Issue

The financial statements were authorised for issue by the Board of Directors on 07th September 2017

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The financial statements of the Company which comprise the Statement of Financial position, Income Statement, Statement of comprehensive income, Statement of changes in equity, Statement of Cash Flows and notes thereto have been prepared in accordance with Sri Lanka Accounting Standards prefixed both SLFRS and LKAS (here after known as "SLFRSs/LAKSs"), promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and comply with the requirements of the Companies Act, No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendment thereto.

2.1.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following items in the Statement of Financial Position.

Items	Measurement basis
Fair value through profit or loss financial assets	Fair value
Available-for-sale financial assets	Fair value
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation
Investment property	Fair value
Net defined benefit assets/ (liabilities)	Actuarially valued and recognised at the present value

2.1.3 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42 to the financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standards (LKAS 1) - Presentation of Financial Statements.

2.1.4 Functional and Presentation Currency

The financial Statement of the Company is presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which Company operates (Company's functional currency). The financial statements are presented in Sri Lanka Rupees and all values are rounded to the nearest rupees, except where otherwise indicated.

2.1.5 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.1.6 Changes in Accounting Policies

There were no changes in accounting policies and the accounting policies adopted are consistent with those of the previous financial year.

2.1.7 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the financial statements have been discussed in the individual notes of the related financial statement line items.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2.2.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 43 to the financial statements.

2.2.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when

Notes to the Financial Statements

Year ended 31 March

determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, and the performance of different individual groups).

2.2.4 Impairment of Available for Sale Investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.2.5 Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances necessitate to do so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.6 Fair Value of Property, Plant and Equipment

The land and buildings of the Company is reflected at fair value. The Company engaged independent valuers to determine fair value of land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) - Fair Value Measurement. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets.

2.2.7 Useful Life Time of Property, Plant and Equipment and Intangible Assets

The Company review the residual values, useful lives and methods of depreciation of property, plant and equipment and intangible assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.2.8 Classification of Investment Property

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company had developed criteria so it can exercise its judgment consistently.

A property that is held to earn rentals or for capital appreciation or both, and which generates cash flows largely independently of the other assets held by the Company is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Company assess on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties.

2.2.9 Taxation

The Company is subject to income tax and judgment was required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and

deferred tax amounts in the period in which the determination is made.

2.2.10 Deferred Tax Assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2.2.11 Defined Benefit Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Company. Details of the key assumptions used in the estimates are contained in Note 32 to the financial statements.

2.2.12 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the financial statements are described in Notes 38.

2.3 Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, unless otherwise indicated.

2.3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected.

Financial statements of the Company are presented in Sri Lankan Rupees, which is the functional and presentation currency of the Company. Transactions in foreign currencies are re-translated into Sri Lankan rupees at the spot rate of exchange prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial position date are re-translated into Sri Lanka rupees at the closing rate of exchange prevailing at the date. The foreign currency gain or loss on monetary items and all differences are taken to Other Operating Income in the income statement. Foreign currency differences arising on re-translation of available for sale financial instruments are recognised in Statement of Comprehensive Income. Non-monetary assets are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

2.3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

2.3.2.1 Non-Derivative Financial Assets

Initial recognition of financial assets

Date of recognition

The Company initially recognises loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial

Notes to the Financial Statements

Year ended 31 March

assets at fair value through profit or loss as per the Sri Lanka Accounting Standard (LKAS 39) - Financial Instruments: Recognition and Measurement.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the Statement of profit or loss.

'Day 1' profit or loss on employee below market loans

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter

Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

- (a) financial assets at fair value through profit or loss;
- (b) held-to-maturity financial assets;
- (c) loans and receivables; and
- (d) available-for-sale financial assets.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit and loss are carried in the Statement of financial position at fair value with changes in fair value recognised in the Statement of profit or loss

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

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition held to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in interest income in the Statement of profit or loss and the Statement of comprehensive income. The losses arising from impairment are recognised as impairment cost in the Statement of profit or loss and the Statement of comprehensive income.

Loans and receivables

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

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in REPOs, lease receivables, advances and other loans granted, and other receivables.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(b) Finance leases and hire purchase

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the Statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

(c) Advances and other loans to customers

Advances and other loans to customers comprised of revolving loans and loans with fixed instalment. Loans to customers are reflected in the Statement of financial position at amounts disbursed less repayments and provision for impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in Statement of comprehensive income is transferred to the Statement of profit or loss.

2.3.2.2 Non-Derivative Financial Liabilities

Classification and Subsequent Measurement of Financial Liabilities

The Company initially recognises non-derivative financial liabilities on the date that they are originated.

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

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals and other payables:

Bank overdrafts

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

Deposits and bank borrowings - classified as other financial liabilities carried at amortised cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortised cost using the effective interest method.

2.3.2.3 Reclassification of Financial Assets and Liabilities

The Company reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard (LKAS 39) - Financial Instruments: Recognition and Measurement. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

No reclassifications of financial instruments were done during the year

2.3.2.4 Derecognition of Financial Assets and Financial Liabilities

Financial assets

The Company derecognises a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;

Notes to the Financial Statements

Year ended 31 March

- (a) The Company has transferred substantially all the risks and rewards of the asset, or
- (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

- (a) The consideration received (including any new asset obtained less any new liability assumed), and
- (b) Any cumulative gain or loss that had been recognised in comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.2.5 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity

2.3.2.6 Renegotiated Loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to

ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

2.3.2.7 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.3.2.8 Fair value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability, or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (a) **Level 1** - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- (b) **Level 2** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- (c) **Level 3** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures.

The Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.3.2.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss

Reversal of Impairment

If the amount of an impairment loss decreases in subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the income statement.

Write Off of Financial Assets Carried at Amortised Cost

Financial Assets (and related impairment allowance accounts) are normally written off either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security

Notes to the Financial Statements

Year ended 31 March

2.3.3 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.3.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.4.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.3.4.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessee

Operating lease payments are recognised as an expense in the Statement of profit or loss on a straight line basis over the lease term. Contingent rent payable

is recognised as an expense in the period in which they are incurred.

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.3.5 Property and equipment

2.3.5.1 Basis of Recognition

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

2.3.5.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Carrying amount of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Cost Model

The Company applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Company applies the revaluation model to the entire class of freehold land and buildings. Such

properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Freehold land and buildings of the Company is revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

2.3.5.3 Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.3.5.4 Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

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

The estimated useful lives for the current year are as follows;

(a)	Buildings	40 years
(b)	Motor Vehicles	05 years
(c)	Furniture & Fittings	05 years
(d)	Computer & Accessories	05 years
(e)	Machinery & Equipment	05 years
(f)	Fixtures & Fittings	05 years

2.3.5.5 De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the income statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

2.3.5.6 Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

2.3.6 Intangible assets

2.3.6.1 Basis of recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the assets can be measured reliably.

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Year ended 31 March

2.3.6.2 Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the 'Statement of financial position' under the category 'intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged against income statement in the year in which the expenditure is incurred.

2.3.6.3 Amortisation and impairment

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic lives based on a pattern in which the asset's economic benefits are consumed by the Company, at 20% per annum, except for software licenses which is 6.67% per annum. Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with infinite useful lives such as license are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

2.3.6.4 Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.3.6.5 Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

2.3.7 Investment Properties

Investment property is property held either to earn rental income or for capital appreciation of for both, but not for sale in the ordinary course of business, use in the production or supply of goods or service or for administrative purposes.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of investment Property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.3.8 Impairment of non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use

that are largely independent of the cash inflows of other assets or CGUs.

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

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

2.3.9 Retirement benefits

2.3.9.1 Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.3.9.2 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.3.9.3 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted.

The calculation is performed every three years by a qualified actuary using the projected unit credit method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Company recognises all actuarial gains and losses arising from the defined benefit plan in the Statement of comprehensive income (OCI) and all other expenses related to defined benefit plans are recognise as personnel expenses in Statement of comprehensive income. This retirement benefit obligation is not externally funded.

2.3.10 Provisions

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

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

2.3.11 Income Tax Expense

2.3.11.1 Current Tax Expense

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

Notes to the Financial Statements

Year ended 31 March

Management has used its judgment on the application of tax laws in determining the current tax liability including transfer pricing regulation involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

2.3.11.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

2.3.11.3 Value Added Tax on Financial Services (VAT)

Company's total value addition is subjected to a 11% Value Added Tax up to 01 May 2016, 15% from 02 May 2016, 11% from 12.07.2016 and 15% from 01 November 2016 up to 31.12.2016 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

2.3.11.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (Amendment) Act No. 11 of 2012, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

2.3.11.5 Crop Insurance Levy

In terms of Section 14 of the Finance Act No. 12 of 2013 all institutions under the purview of Finance Companies Act No. 78 of 1988 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

2.3.11.6 Nation Building Tax (NBT)

The business of banking and finance will be liable for NBT at 2% of the liable turnover from 01 January 2014 onwards. The liable turnover with reference to any person engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

2.3.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

2.3.12.1 Interest Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.12.2 Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Such income is recognised as revenue when the services are provided.

2.3.12.3 Dividend Income

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

2.3.12.4 Rent Income

Rent income is recognised on an accrual basis.

2.3.12.5 Other Income

Other income is recognised on an accrual basis.

3. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE REPORTING DATE

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Financial Statements. Analyses of the possible effect from those standards are given below.

Standards issued but not yet adopted which may have impact

3.1 SLFRS 9 Financial Instruments

Summary of the Requirements

SLFRS 9, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 month expected credit loss; or

- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carries guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

Possible Impact on Financial Statements

The company has completed the initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operations, this standard is expected to have a pervasive impact on the company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

3.2 SLFRS 15 Revenue from Contracts with Customers

Summary of the Requirements

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Possible Impact on Financial Statements

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15

3.3 SLFRS 16 – 'Leases'

Summary of the Requirements

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

Possible Impact on Financial Statements

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16

Notes to the Financial Statements

Year ended 31 March

		2017	2016
		LKR	LKR
4. GROSS INCOME			
Interest income		5,327,018,057	3,906,231,603
Fee and commission income		670,219,063	485,813,442
Other income		236,796,463	93,062,588
Total income		6,234,033,583	4,485,107,633
5. NET INTEREST INCOME			
Interest income	5.1	5,327,018,057	3,906,231,603
Interest expense	5.2	(1,465,618,208)	(995,689,242)
Net interest income		3,861,399,849	2,910,542,361

Notional tax credit for withholding tax on government securities on secondary market transactions.

Section 137 of the Inland Revenue Act No. 10 of 2006 provide that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income), provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to 9.49 Mn.

		2017	2016
		LKR	LKR
5.1 Interest Income			
Loans and advances given to members		4,917,689,948	3,715,702,304
Loans and advances given to non members		55,683,105	37,502,989
Financial Investments - held to maturity		143,357,077	124,404,108
Financial Investment - fair value through profit and loss		1,600,000	13,746,636
Savings deposits		71,869,994	13,247,456
Finance leases		136,817,933	1,628,110
Net interest income		5,327,018,057	3,906,231,603
5.2 Interest Expense			
Deposits from customers		1,351,785,887	917,273,012
Debentures		89,328,560	69,904,419
Other borrowings		24,503,761	8,511,811
		1,465,618,208	995,689,242

		2017	2016
		LKR	LKR
6. NET FEE AND COMMISSION INCOME			
Trade related documentation charges		670,219,063	485,813,442
Fee and commission expenses		(98,395,049)	(75,520,940)
		571,824,014	410,292,502
7. OTHER INCOME			
Other operating income	7.1	236,796,463	93,062,588
Capital loss from trading		-	(26,578,802)
Net mark to market valuation gain		81,840	-
		236,878,303	66,483,786
7.1 Other Operating Income			
Rent income		45,044,775	43,917,700
Recovery of loan balance written-off		17,440,711	18,540,442
Revaluation of investment properties		149,300,000	14,000,000
Fair valuation on available-for-sale investments		-	12,196,283
Sundry income		25,700,249	4,051,291
Profit from disposal of property, plant & equipment		(754,272)	296,872
Dividend income		65,000	60,000
		236,796,463	93,062,588
8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES			
Loans and receivable from members	8.1	245,704,462	105,918,099
Loans and receivable from lease	8.2	324,926	-
Other assets	8.3	(4,500,000)	4,534,052
Impairment losses from financial investments - loans & receivables	8.4	465,978,912	-
		707,508,300	110,452,151
8.1 Loans and Advances to Members			
Individual impairment losses		143,325,742	79,537,316
Collective impairment losses		102,378,720	26,380,783
		245,704,462	105,918,099
8.2 Loans and Receivable from Lease			
Individual impairment losses		324,926	-
		324,926	-

Notes to the Financial Statements

Year ended 31 March

		2017	2016
		LKR	LKR
8.3	Other Assets		
	Other impairment	(4,500,000)	4,534,052
		(4,500,000)	4,534,052
8.4	Financial Investments - loans & receivables		
	Impairment losses from financial investments - loans & receivables	465,978,912	-
		465,978,912	-
9.	PERSONNEL COST		
	Salaries and bonus	765,801,913	568,932,269
	Other personnel cost	54,535,719	45,099,845
	Employer's contribution to employees' provident fund	70,123,394	53,034,203
	Employer's contribution to employees' trust fund	17,530,849	13,258,552
	Retirement benefit cost	35,619,133	31,690,645
	Total	943,611,008	712,015,514
10.	OTHER EXPENSES		
	Other operating expenses, among others include the following:		
	Depreciation on property, plant & equipment	110,572,371	77,562,766
	Advertising & publications	45,687,622	47,292,737
	Repairs & maintenance	80,192,643	56,392,960
	Crop insurance levy	11,601,542	11,349,144
	Amortisation of intangible assets	23,738,354	8,790,909
	Directors remuneration	15,505,000	7,565,000
	Auditors' remuneration	4,175,000	4,156,000
	Legal charges	10,082,325	5,395,125
	Donation	3,288,237	4,205,029
11.	PROVISION FOR VALUE ADDED TAX		
	Value added tax for the year		
	Financial services	331,394,045	234,120,096
		331,394,045	234,120,096

Value Added Tax

Company's total value addition is subjected to a 11% Value Added Tax up to 01 May 2016, 15% from 02 May 2016, 11% from 12 July 2016 and 15% from 01 November 2016 up to 31 March 2017 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

		2017	2016
		LKR	LKR
12.	PROVISION FOR NATION BUILDING TAX		
	Nation building tax for the year		
	Financial services	49,278,589	42,567,290
		49,278,589	42,567,290
13.	INCOME TAX		
	Current Income Tax		
	Current income tax charge	665,720,164	383,361,840
	Over provision during previous year	(18,731,103)	-
	Deferred Income Tax		
	Deferred taxation charge / (reversal)	(79,442,372)	51,387,093
	Income tax expense reported in the statement of profit or loss	567,546,689	434,748,933

13.1 Reconciliation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate

Accounting profit before tax	1,626,380,875	1,544,842,138
At the statutory income tax rate of 28% (2016: 28%)	455,386,645	432,555,799
Tax Effect on;		
Income exempt from tax	(18,200)	(16,800)
Non deductible expenses	432,190,639	131,950,122
Deductible expenses	(221,838,920)	(60,775,954)
Current tax on profits for the year	665,720,164	503,713,167
Tax effect on utilised tax losses	-	(120,351,327)
Current income tax charge	665,720,164	383,361,840
Over provision during previous year	(18,731,103)	-
Deferred taxation charge	(79,442,372)	51,387,093
Income tax expense at the effective income tax rate of 34.9% (2015: 28.1%)	567,546,689	434,748,933
Tax Losses Brought Forward and Utilised during the Year		
Balance at the beginning of the year	-	429,826,167
Tax losses utilised during the year	-	(429,826,167)
Tax losses not utilised and carried forward	-	-

Notes to the Financial Statements

Year ended 31 March

14. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2017	2016
	LKR	LKR
Net profit for the period	1,058,834,186	1,110,093,205
Profit attributable to ordinary shareholders	1,058,834,186	1,110,093,205

	2017	2016
	Number	Number
Weighted average number of ordinary shares in issue	1,719,580,624	1,719,580,624
	1,719,580,624	1,719,580,624

Basic earnings per ordinary share	0.62	0.65
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	2017	2016
	LKR	LKR
15. CASH AND CASH EQUIVALENTS		
Cash in hand	39,107,948	50,851,152
Balances with banks	1,165,375,998	400,372,138
Total	1,204,483,946	451,223,290

	2017	2016
	LKR	LKR
16. FINANCIAL ASSETS HELD FOR TRADING		
Cost of treasury bond investment	16,250,272	16,250,272
Interest receivable	480,000	480,000
	16,730,272	16,730,272
Less: Loss from mark to market valuation	(1,705,312)	(1,787,152)
	15,024,960	14,943,120

As at 31 March 2017	Year of Maturity	Cost of Investment	Face Value	Carrying Value
		LKR	LKR	LKR
Treasury bond	01.May.2021	16,250,272	16,000,000	14,943,120
		16,250,272	16,000,000	14,943,120

		2017	2016
		LKR	LKR
17. LOANS AND ADVANCES TO MEMBERS			
At amortised cost:			
Loans and advances to members		13,629,635,943	8,913,718,165
Less: Allowance for impairment losses		(368,904,118)	(154,678,950)
		13,260,731,825	8,759,039,215
17.1 Product-Wise Analysis of Loans And Advances To Members			
Loans		11,486,285,715	8,476,840,827
Leases	17.1.1	1,703,990,476	114,417,229
Saving advance	17.1.2	209,717,224	181,804,948
Loan against deposits	17.1.3	229,642,528	140,655,161
		13,629,635,943	8,913,718,165

		2017	2016
		LKR	LKR
17.1.1 Lease Receivables			
Rentals receivable		2,421,338,589	159,217,756
Unearned lease income		(752,609,150)	(44,927,473)
Rental in arrears - lease		35,585,963	126,946
Gross lease rental receivable		1,704,315,402	114,417,229
Less : Allowance for impairment losses		(324,926)	-
Net receivables		1,703,990,476	114,417,229
Net receivables within one year		402,127,483	23,782,714
Net receivables from one to five years		1,298,611,428	89,182,504
Net receivables after five years		3,251,565	1,452,011
		1,703,990,476	114,417,229
17.1.2 Saving Advance			
Saving advance		209,717,224	186,577,253
Less : Deferred interest on concessional lending		-	(4,772,305)
		209,717,224	181,804,948
17.1.3 Loan against Deposits			
Loan against deposits		225,547,198	139,511,612
Interest receivable on loan against deposits		4,095,330	1,143,549
		229,642,528	140,655,161

Notes to the Financial Statements

Year ended 31 March

17. LOANS AND ADVANCES TO MEMBERS (Contd...)

		Individual impairment	Collective impairment	Total
		LKR	LKR	LKR
17.2 Allowance For Impairment Losses				
Balance as at 01 April 2015		52,892,896	23,472,503	76,365,399
Charge for the year- Loans		79,537,316	26,380,783	105,918,099
Written off during the year		(27,604,548)	-	(27,604,548)
Balance as at 31 March 2016		104,825,664	49,853,286	154,678,950
Amount written off		(31,479,294)	-	(31,479,294)
Charge for the year - Loans	8.1	143,325,742	102,378,720	245,704,462
Charge for the year - Lease	8.2		324,926	324,926
Balance as at 31 March 2017		216,672,112	152,556,932	369,229,044

		2017	2016
		LKR	LKR
18. LOANS AND ADVANCES TO OTHERS			
Staff loans	18.1	331,890,240	261,184,797
Mortgage loan		174,733,733	121,862,502
		506,623,973	383,047,299
Less: Allowance for impairment losses	18.2	(3,589,635)	(3,596,718)
		503,034,338	379,450,581
18.1 Staff Loans			
At the beginning of the year		261,184,797	174,465,981
Loan granted during the year		217,584,000	158,249,500
Recovered during the year		(146,878,557)	(67,030,684)
		331,890,240	265,684,797
Less: Fair value gain		-	(4,500,000)
		331,890,240	261,184,797

	Balance as at 31 March 2016	Balance as at 01 April 2015	Provision made during the year	Written Off during the year	Balance as at 31 March 2016
18.2 Allowance for impairment losses					
Staff loan		4,585,597	34,052	(4,585,597)	34,052
Loan to other entities		105,949,420	-	(105,949,420)	-
Mortgage loan		3,562,666	-	-	3,562,666
		114,097,683	34,052	(110,535,017)	3,596,718

	Balance as at 31 March 2017	Balance as at 01 April 2016	Provision made during the year	Written Off during the year	Balance as at 31 March 2017
Staff loans		34,052	-	(7,083)	26,969
Mortgage loan		3,562,666	-	-	3,562,666
		3,596,718	-	(7,083)	3,589,635

		2017	2016
		LKR	LKR
19. FINANCIAL INVESTMENT - LOANS & RECEIVABLES			
Other loan & Receivable		773,091,682	-
Impairment losses Financial Investments - Loans & Receivables		(465,978,912)	-
		307,112,770	-

		2017	2016
		LKR	LKR
20. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE			
Unquoted equity securities	20.1	12,430,283	12,430,283
		12,430,283	12,430,283

These investments are unquoted and has no active market from which a reliable fair value could be obtained. The different valuation methods used did not provide a reasonable range of values. As a result these investments are carried at cost since the fair value cannot be determined reliably.

		2017		2016	
		Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
20.1 Investments In Non Quoted Shares					
Credit information bureau of sri lanka		100	234,000	100	234,000
Standard credit lanka Ltd		38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd		1,742,326	12,196,283	1,742,326	12,196,283
			50,888,757		50,888,757
Less: Allowance for impairment losses			(38,458,474)		(38,458,474)
			12,430,283		12,430,283

Notes to the Financial Statements

Year ended 31 March

		2017	2016
		LKR	LKR
21.	FINANCIAL INVESTMENTS - HELD-TO-MATURITY		
	Fixed deposits	1,295,105,342	1,015,545,077
	Debentures	150,000,000	150,000,000
	Sri Lanka government securities 21.1	298,170,601	1,473,783,398
		1,743,275,943	2,639,328,475
21.1	Sri Lanka Government Securities		
	Treasury bills	285,140,500	725,209,836
	Repurchase agreement - REPO	-	703,104,335
		285,140,500	1,428,314,171
	Interest receivable	13,030,101	45,469,227
		298,170,601	1,473,783,398

		2017	2016
		LKR	LKR
22.	OTHER ASSETS		
	Other financial assets	94,051,090	128,048,274
	Other non financial assets 22.1	116,560,485	68,618,380
		210,611,575	196,666,654
22.1	Other Non Financial Assets		
	Other receivables	117,235,615	78,512,870
	Less: Allowance for impairment losses	(675,130)	(9,894,490)
		116,560,485	68,618,380

		2017	2016
		LKR	LKR
23.	INVESTMENTS PROPERTIES		
	Land		
	Balance at the beginning of the year	334,155,169	315,638,224
	Additions / disposal during the year	(4,200,000)	4,200,000
	Fair value adjustment for the period	68,219,584	14,316,945
	Balance at the end of the year	398,174,753	334,155,169
	Building		
	Balance at the beginning of the year	570,344,831	570,661,776
	fair value adjustment for the period	81,080,416	(316,945)
	Balance at the end of the year	651,425,247	570,344,831
	Net Book Value	1,049,600,000	904,500,000

The Company carries investment properties at fair value. Valuations of the above investment properties were carried out as at 31st December 2016 by R. S. Wijesuriya, Professional Independent Valuer. Company earned LKR 33.88 Mn as rental income for the financial year.

		2017	2016
		LKR	LKR
24.	INTANGIBLE ASSETS		
	Cost		
	Balance at the beginning of the year	92,527,926	27,255,398
	Transfer during the year	-	(3,051,231)
	Additions during the year	83,009,468	68,323,759
	Balance at the end of the year	175,537,394	92,527,926
	Amortisation and Impairment		
	Balance at the beginning of the year	24,720,884	16,540,222
	Transfers during the year	-	(943,664)
	Charge for the year	23,738,355	9,124,326
	Balance at the end of the year	48,459,239	24,720,884
	Net Book Value	127,078,155	67,807,042

Notes to the Financial Statements

Year ended 31 March

	Cost	Accumulated Amortisation	Net Book Value
24. INTANGIBLE ASSETS (Contd.)			
24.1 Intangible Assets by Class			
Balance as at 31 March 2016			
Software	75,158,704	23,562,936	51,595,768
License	17,369,222	1,157,948	16,211,274
	92,527,926	24,720,884	67,807,042
Balance as at 31 March 2017			
Software	119,321,847	41,474,342	77,847,505
License	56,215,547	6,984,897	49,230,651
	175,537,394	48,459,239	127,078,156

25. PROPERTY, PLANT & EQUIPMENT

25.1 Carried at cost/Valuation

25.1.1 Cost/Fair Value

	As at 01 April 2015			As at 31 March 2016			As at 31 March 2017		
	Transfers during the year	Additions during the year	Disposals during the year	Transfers during the year	Additions during the year	Disposals during the year	Transfers during the year	Additions during the year	Disposals during the year
Land	-	-	-	-	-	-	-	-	-
Building	183,654,358	-	-	183,654,358	-	-	8,847,764	-	192,502,122
Furniture & fittings - (free hold)	500,945,642	-	-	500,945,642	-	-	122,952,237	-	623,897,879
Office equipment - (free hold)	44,201,343	10,105,497	(3,505,926)	50,800,914	12,835,917	(2,890,968)	-	(348,439)	60,745,863
Computer - (free hold)	68,329,048	39,698,376	(1,247,160)	105,568,820	71,294,611	(10,363,917)	-	(184,900)	176,514,992
Computer - (lease hold)	63,778,570	67,060,778	(912,476)	130,076,872	10,141,734	-	-	(450,000)	129,854,689
Computer - (lease hold)	12,792,000	-	-	12,642,000	-	-	-	-	12,457,000
Motor cycles - (free hold)	450,000	-	-	450,000	-	-	-	-	7,000,000
Motor vehicles	7,000,000	-	-	7,000,000	-	-	-	-	12,300,000
Motor vehicles - (lease)	12,300,000	-	-	12,300,000	-	-	-	-	2,638,601
Machinery & equipment	2,638,601	-	-	2,638,601	-	-	-	-	74,947,974
Fixtures & fittings	47,036,062	17,044,419	(287,140)	65,004,785	10,470,089	(526,900)	-	(970,564)	105,817,129
Network accessories	83,208,565	14,493,171	-	97,701,736	9,085,957	-	-	-	131,800,001
	1,026,334,189	148,402,241	(5,952,702)	1,168,783,728	113,828,308	(15,735,688)	131,800,001	(15,735,688)	1,398,676,349

25.1.2 Accumulated Depreciation and Impairment

	As at 01 April 2015			As at 31 March 2016			As at 31 March 2017		
	Transfers during the year	Additions during the year	Disposals during the year	Transfers during the year	Additions during the year	Disposals during the year	Transfers during the year	Additions during the year	Disposals during the year
Building	12,523,641	12,523,641	-	25,047,282	13,292,093	-	(34,440,013)	-	3,899,362
Furniture & fittings - (free hold)	32,251,155	4,094,060	(3,464,932)	32,763,193	6,291,776	(2,877,851)	-	-	36,177,118
Office equipment - (free hold)	23,591,717	15,408,389	(1,247,157)	37,899,148	30,433,784	(326,388)	-	-	68,006,544
Computer - (free hold)	40,885,614	10,086,235	(891,815)	49,934,390	20,741,693	(10,344,006)	-	-	60,332,077
Computer - (lease hold)	5,247,223	2,533,646	-	7,710,868	2,522,545	(148,247)	-	-	10,085,166
Motor cycles - (free hold)	450,000	-	-	450,000	-	(450,000)	-	-	-
Motor vehicles	233,333	1,400,000	-	1,633,333	1,400,000	-	-	-	3,033,333
Motor vehicles - (lease)	3,793,333	2,460,000	-	6,253,333	2,460,000	-	-	-	8,713,333
Machinery & equipment	2,202,143	407,991	-	2,610,134	28,467	-	-	-	2,638,601
Fixtures & fittings	15,258,303	11,579,832	(86,143)	26,949,767	13,541,457	(375,557)	-	-	40,115,667
Network accessories	9,422,741	17,679,225	-	27,090,727	19,860,555	(685,163)	-	-	46,266,119
	145,859,203	78,173,019	(5,690,047)	218,342,175	110,572,370	(15,207,212)	(34,440,013)	(15,207,212)	279,267,320

Notes to the Financial Statements

Year ended 31 March

25. PROPERTY, PLANT & EQUIPMENT (Contd...)

25.1 Carried at cost/Valuation

25.1.2 Written Down Value

	2017	2016
	LKR	LKR
Land	192,502,122	183,654,358
Building	619,998,517	475,898,360
Furniture & fittings - (free hold)	24,568,745	18,037,721
Office equipment - (free hold)	108,508,448	67,669,672
Computer - (free hold)	69,522,612	80,142,482
Computer - (fease hold)	2,371,934	4,931,132
Motor cycles - (free hold)	-	-
Motor vehicles	3,966,667	5,366,667
Motor vehicles - (lease)	3,586,667	6,046,667
Machinery & equipment	-	28,467
Fixtures & fittings	34,832,307	38,055,018
Network accessories	59,551,010	70,611,009
	1,119,409,029	950,441,553
26. DEFERRED TAX LIABILITY/(ASSET)		
Balance at the beginning of the period	49,026,181	(5,978,982)
Transfer from / (to) income statement	(79,442,372)	51,387,093
Transfer from / (to) other comprehensive income	46,531,929	3,618,070
Balance at the end of the year	16,115,738	49,026,181
Deferred tax assets, liabilities relates to the following		
Deferred tax liabilities		
Accelerated depreciation for tax purposes	158,128,264	91,689,042
Revaluation gain on buildings Investment Property	22,702,516	
Finance leases	54,210,433	(5,035,522)
Other Comprehensive Income		
Revaluation surplus on buildings	44,069,830	
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	2,462,099	-
Deferred tax assets		
Retirement benefit obligation	(44,102,486)	(37,627,339)
Unutilised tax losses	(50,420,518)	-
Impairment losses for loans and other losses	(170,934,400)	
Net deferred tax liabilities	16,115,738	49,026,181

		2017	2016
		LKR	LKR
27. DUE TO CUSTOMERS			
Fixed deposits		11,515,325,320	8,672,682,124
Deferred transaction cost		(59,789,075)	(47,940,218)
Interest payable on fixed deposits		318,180,703	244,947,964
		11,773,716,948	8,869,689,870
Savings deposits		2,266,528,283	1,550,729,036
		14,040,245,231	10,420,418,906
28. DEBT ISSUED AND OTHER BORROWED FUNDS			
Redeemable debentures	28.1	771,099,781	770,337,308
Borrowings		533,743,002	84,997,000
Finance leases		28,537,485	54,238,152
		1,333,380,268	909,572,460
28.1 Redeemable Debentures			
Balance at the beginning of the year		765,000,000	765,000,000
Interest payable to debenture holders		6,099,781	5,337,308
		771,099,781	770,337,308

28.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2017	Outstanding as at 31 March 2016
2010	Seylan bank PLC	001	Secured	125,000,000	125,000,000
2010	Seylan bank PLC	002	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	003	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	004	Secured	140,000,000	140,000,000
2013	Prime lands (private) limited	001	Unsecured	100,000,000	100,000,000
				765,000,000	765,000,000

The outstanding debentures amounting to LKR. 665,000,000 issued to Seylan bank is redeemable from 2020 to 2040 and with interest payments at annual average treasury bill rate as per the rescheduling terms agreed with Seylan bank.

During the year 2013/2014, The loan balance due to Prime Land (Private) Limited amounting to LKR, 100,000,000 has been converted to an unsecured subordinated non convertible debentures. This debenture is redeemable on 16 June 2018 with interest payments at the rate of 17% p.a as per the terms agreed with Prime Land (Private) Limited.

Notes to the Financial Statements

Year ended 31 March

		2017	2016
		LKR	LKR
29. PROVISION FOR INCOME TAX			
Balance at the beginning of the year		278,240,026	109,483,565
Provision for the year		665,720,164	383,361,840
Over provision during previous year		(18,731,104)	-
		925,229,086	492,845,405
Payment made during the year		(530,294,140)	(201,303,324)
WHT paid		(11,090,158)	(1,129,598)
Notional tax		(9,489,646)	(12,172,457)
ESC receivables		(20,907,339)	-
Balance at the end of the year		353,447,803	278,240,026
30. VALUE ADDED TAX PAYABLE			
Balance at the beginning of the year		41,305,715	114,718,215
Provision made			
VAT on financial services		331,394,045	234,120,096
		372,699,760	348,838,311
Payment made during the year		(378,963,036)	(307,532,596)
		(6,263,276)	41,305,715
31. OTHER LIABILITIES			
Other financial liabilities	311	236,020,182	120,332,406
Other non financial liabilities	31.2	32,133,763	30,528,538
		268,153,945	150,860,944
31.1 Other Financial Liabilities			
Other payables		236,020,182	120,332,406
		236,020,182	120,332,406
31.2 Other Non Financial Liabilities			
NBT payable		(739,435)	5,038,079
WHT payable		1,901,413	1,499,027
Other payables		30,971,785	23,991,432
		32,133,763	30,528,538

		2017	2016
		LKR	LKR
32. RETIRING BENEFIT OBLIGATION			
Movements in present value of the the retirement benefit obligation are as follows.			
Balance at the beginning of the year		134,383,355	119,196,601
Add : Retiring gratuity expenses	32.1	26,825,923	18,768,967
		161,209,278	137,965,568
Less : Benefits paid during the year		(3,700,400)	(3,582,213)
Balance at the end of the year		157,508,878	134,383,355
32.1 Retiring Gratuity Expense			
Current service cost		21,508,880	18,377,698
Interest cost		14,110,252	13,312,948
		35,619,132	31,690,646
Actuarial (gain) / loss		(8,793,209)	(12,921,679)
		26,825,923	18,768,967

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st March 2017 using "Projected Unit Credit method" as recommended by Sri Lanka Accounting Standards (LKAS 19) - Employee Benefits.

The principal assumptions used in the actuarial valuations are as follows:

Long term interest rate	11.5%	10.5%
Retirement age	55 years	55 years
Future salary increase rate	10.0%	9.5%

Assumptions regarding future mortality is based on 1967-70 mortality table issued by the Institute of Actuaries, London. The define benefit obligation is not externally funded. Actuarial gain on defined benefit plan is recognised in other comprehensive income.

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis for all employees assuming the above is as follows;

Discount rate	Present value of defined benefit obligation
1% Less	168,992,085
1% More	147,376,721

Salary escalation rate	Present value of defined benefit obligation
1% Less	147,635,425
1% More	168,505,394

Notes to the Financial Statements

Year ended 31 March

	Issued and Fully Paid Voting Ordinary Shares	Issued and Fully Paid Non Voting Ordinary Shares	Total
	Number	Number	Number
33. STATED CAPITAL			
Balance on 01 April 2015	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	-	-	-
Balance on 31 March 2016	1,421,380,624	298,200,000	1,719,580,624
Share issued during the year	-	-	-
Balance on 31 March 2017	1,421,380,624	298,200,000	1,719,580,624

	LKR	LKR	LKR
Balance on 01 April 2015	913,806,240	2,982,000,000	3,895,806,240
Share issued during the year	729,026,759	2,943,234,000	3,672,260,759
Balance on 31 March 2016	184,779,481	38,766,000	223,545,481
Share issued during the year	-	-	-
Balance on 31 March 2017	184,779,481	38,766,000	223,545,481

The company carried out a capital reduction of LKR 3.6 Bn with the approval of shareholders, granted at the annual general meeting held 17 July 2015.

	2017	2016
	LKR	LKR
34. GENERAL RESERVE		
Balance at the beginning of the year	82,897,989	82,897,989
Balance at the end of the year	82,897,989	82,897,989

	Statutory Reserve Fund	Total
35. STATUTORY RESERVES FUND		
Balance on 01 April 2015	204,734,159	204,734,159
Transferred during the year	222,018,641	222,018,641
Balance on 31 March 2016	426,752,800	426,752,800
Transferred during the year	211,766,837	211,766,837
Balance on 31 March 2017	638,519,637	638,519,637

35.1 Statutory Reserve Fund

20% of the net profits for the year is transferred to the reserve fund as required by direction (No. 01 of 2003 capital fund) issued by the central bank of Sri Lanka.

36. CAPITAL COMMITMENTS

There are no capital commitments as at 31st March 2017.

37. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these financial statements.

38. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2017.

39. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" in Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures. The Terms and Conditions of such transactions are disclosed under 39.1 and 39.2

39.1 Transactions With Parent Company and Related Companies

During the year ended 31 March 2017 and 2016, the Company has carried out transactions with its related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

Notes to the Financial Statements

Year ended 31 March

39. RELATED PARTY TRANSACTIONS (Contd.)

39.1.1 Transactions with the Parent Company

Hatton National Bank PLC is the parent and the ultimate controlling party of the company.

	2017	2016
	LKR	LKR
Statement of Profit or Loss		
Interest income - Financial investments - Held to Maturity	16,875,000	16,045,082
Interest income - Savings deposits	43,023,335	2,647,292
Interest income - Fixed deposits	34,760,274	
Interest expense - Other borrowings	24,020,871	7,376,090
Other expenses - Bank Charges	1,164,216	424,868
Statement of Financial Position		
Cash And Cash Equivalents - Balances with banks	600,548,285	116,603,679
Financial Investments - Held-To-Maturity - Fixed Deposits	750,000,000	1,000,000,000
Financial Investments - Held-To-Maturity - Debentures	150,000,000	150,000,000
Debt Issued And Other Borrowed Funds - Borrowings	533,743,002	84,997,000
Debt Issued And Other Borrowed Funds - Finance leases	-	24,606,557
39.1.2 Transactions with Related Companies		
Transactions with Prime Lands (Pvt) Ltd		
Statement of Profit or Loss		
Other Operating Income - Rent income	-	390,000
Interest expense - Debentures	17,000,000	17,046,575
Fixed Deposit interest expenses	2,244,510	3,144,086
Other expenses - Vehicle rent	2,358,790	2,721,096
Statement of Financial Position		
Debt Issued And Other Borrowed Funds - Redeemable debentures	100,000,000	100,000,000
Due To Customers - Fixed deposits	3,360,986	33,360,986
Debt Issued And Other Borrowed Funds - Other Borrowings	-	-
Transactions with HNB Assurance		
Statement of Profit or Loss		
Commission Income	8,278,958	5,211,475
Statement of Financial Position		
Commission Receivable	2,089,631	
Claim Receivable	12,310,082	-
HNB Assurance Premium	7,039,058	7,259,132

39.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

According to Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Key Management personnel of the Company are the members of its Board of Directors and that of its Parent.

	2017	2016
	LKR	LKR
39.2.1 Compensation Paid To Key Management Personnel of The Company		
Balance as at 31 March		
The following represents the compensation paid to Key Management Personnel of the company		
Short-term Benefits	17,915,000	9,925,000
	17,915,000	9,925,000

39.2.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/Commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The Transactions didn't involve more than the normal risk of repayment or present other unfavourable features.

	2017	2016
	LKR	LKR
Statement of Profit or Loss		
Interest expense - Deposits From Customers	18,407,200	6,207,805
Statement of Financial Position		
Due To Customers - Fixed Deposits	259,696,440	121,728,379
Due to customers - Interest Payable	8,594,485	-

40. PLEDGED ASSETS

Nature of Assets	Nature of Liability	Carrying Amount Pledged	2016	Included under
		2017	LKR	
		LKR	LKR	
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties
Leased Assets	Charged over leased assets on finance lease liabilities	5,958,602	10,977,799	Property, Plant & Equipment

Notes to the Financial Statements

Year ended 31 March

41. FINANCIAL RISK MANAGEMENT

41.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

41.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

41.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers and investment in debt securities.

a) Allowances for Impairment

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of customer receivables. The Company policy on impairment consists of allowance for individual impairment that identified based on specific loss event and a collective impairment established for similar receivables in term of their Credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

b) Write-off Policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Micro Finance Concept works with the Group Peer Pressure where members being pressurised by the other members to pay installments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the company. Immovable assets are taken as securities for high valued loan disbursements such as Abhilasha. Other Securities such as personal guarantees are taken for Diriya and Swashakthi Loan facilities. In this context group members will be cross-guarantors each other by which they are pressurised to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2017 (2016: no collaterals held).

c) Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Company's credit risk, including:

- 1 Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- 2 Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Committee which consists of two directors.
- 3 Reviewing and assessing credit risk. Company Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned.
- 4 Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Notes to the Financial Statements

Year ended 31 March

FINANCIAL RISK MANAGEMENT (Contd.)

As at 31 March 2017		Current	Overdue	Impaired	Total
		LKR	LKR	LKR	LKR
41.3.1	Credit Quality by Class of Financial Assets				
	Cash and cash equivalents	1,204,483,946	-	-	1,204,483,946
	Financial Assets Held for Trading	15,024,960	-	-	15,024,960
	Loans and advances to members	13,002,226,475	627,734,394	(369,229,044)	13,260,731,825
	Loans and advances to others	502,900,627	3,723,346	(3,589,635)	503,034,338
	Financial investments - loans & receivables	773,091,682	-	(465,978,912)	307,112,770
	Financial investments - available-for-sale	12,430,283	-	-	12,430,283
	Financial investments - held-to-maturity	1,743,275,943	-	-	1,743,275,943
	Other financial assets	94,051,089	-	-	94,051,089
	Total financial assets	17,347,485,005	631,457,740	(838,797,591)	17,140,145,154

As at 31 March 2017		Overdue				Total
		Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
	Loans and advances to members	353,516,352	56,101,985	37,865,032	180,251,025	627,734,394
	Loans and advances to others	124,320	137,676	2,893,555	567,794	3,723,346
		353,640,672	56,239,661	40,758,587	180,818,819	631,457,740

As at 31 March 2016		Current	Overdue	Impaired	Total
		LKR	LKR	LKR	LKR
	Cash and cash equivalents	451,223,290	-	-	451,223,290
	Financial Assets Held for Trading	14,943,120	-	-	14,943,120
	Loans and advances to members	8,608,100,975	305,617,190	(154,678,950)	8,759,039,215
	Loans and advances to others	379,847,299	3,200,000	(3,596,718)	379,450,581
	Financial investments - Available-For-Sale	12,430,283	-	-	12,430,283
	Financial investments - Held-To-Maturity	2,639,328,475	-	-	2,639,328,475
	Other financial assets	128,048,274	-	-	128,048,274
	Total financial assets	12,233,921,716	308,817,190	(158,275,668)	12,384,463,238

As at 31 March 2016		Overdue				Total
		Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
	Loans and advances to members	114,954,289	30,323,207	19,093,733	141,245,961	305,617,190
	Loans and advances to others	-	-	3,200,000	-	3,200,000
		114,954,289	30,323,207	22,293,733	141,245,961	308,817,190

41.3.2 Maximum Exposure Disclosure of Financial Assets

As at 31 March 2017		Gross carrying amount (Net of provision)	Net exposure
	Cash and cash equivalents	1,204,483,946	1,204,483,946
	Financial assets held for trading	15,024,960	-
	Loans and advances to members	13,260,731,825	12,730,379,415
	Loans and advances to others	503,034,338	310,921,094
	Financial investments - loans & receivables	307,112,770	307,112,770
	Financial investments - available-for-sale	12,430,283	-
	Financial investments - held-to-maturity	1,743,275,943	-
	Other financial assets	94,051,090	94,051,090
	Total financial assets	17,140,145,154	14,646,948,314

As at 31 March 2016		Gross carrying amount (Net of provision)	Net exposure
	Cash and cash equivalents	451,223,290	451,223,290
	Financial assets held for trading	14,943,120	-
	Loans and advances to members	8,759,039,215	8,322,161,877
	Loans and advances to others	379,450,581	260,788,078
	Financial investments - available-for-sale	12,430,283	-
	Financial investments - held-to-maturity	2,639,328,475	735,428,906
	Other financial assets	128,048,274	128,048,274
	Total financial assets	12,384,463,238	9,897,650,425

41.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements. The treasury manages the liquidity position as per the treasury policies and procedures.

The treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at Company ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to Monthly ALCO meetings.

The Company relies on Fixed Deposits, savings and debt facility by banks were main primary sources of funding. Company actively manages this risk through maintaining competitive pricing and constant.

Notes to the Financial Statements

Year ended 31 March

41. FINANCIAL RISK MANAGEMENT (Contd.)

41.4 Liquidity Risk (Contd...)

41.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below.

As at 31st March 2017	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Financial assets held for trading	15,024,960	16,250,272	-	-	16,250,272
Loans and advances to members	13,260,731,825	16,204,210,818	5,854,997,336	7,865,431,530	2,483,781,952
Loans and advances to others	503,034,338	637,552,840	31,141,644	96,314,551	510,096,645
Financial investments - loans & receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - available-for-sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - held-to-maturity	1,743,275,943	1,841,046,613	964,906,849	659,379,490	216,760,274
Other financial assets	94,051,089	94,051,089	35,654,897	30,476,983	27,919,207
	17,140,145,154	20,411,653,072	8,091,184,675	8,718,540,423	3,601,927,976
Due to customers	14,040,245,231	16,477,704,512	4,556,206,198	3,852,125,900	8,069,372,415
Debt issued and other borrowed funds	1,333,380,268	2,850,570,752	12,876,279	32,425,016	2,805,269,457
Other Financial Liabilities	236,020,182	236,020,182	202,866,863	15,767,987	17,385,332
	15,609,645,681	19,564,295,446	4,771,949,340	3,900,318,902	10,892,027,203
Liquidity gap related period	-	847,357,626	3,319,235,334	4,818,221,521	(7,290,099,227)
Liquidity gap cumulative	-	-	3,319,235,334	8,137,456,853	847,357,626

As at 31st March 2016	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	451,223,290	451,223,290	451,223,290	-	-
Financial assets held for trading	14,943,120	24,170,272	720,000	720,000	22,730,272
Loans and advances to members	8,759,039,215	10,357,833,260	3,938,123,440	5,985,666,228	434,043,593
Loans and advances to others	379,450,581	495,883,702	16,393,591	66,864,676	412,625,434
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,639,328,475	2,754,709,875	1,962,626,080	574,583,795	217,500,000
Other financial assets	128,048,274	128,048,274	128,048,274	-	-
	12,384,463,238	14,224,298,956	6,497,134,675	6,627,834,699	1,099,329,582
Due to customers	10,420,418,907	11,664,733,816	2,977,762,297	3,610,631,624	5,076,339,895
Debt issued and other borrowed funds	909,572,460	1,816,661,910	39,649,821	100,035,474	1,676,976,615
Other Financial Liabilities	120,332,406	120,332,406	120,332,406	-	-
	11,450,323,773	13,601,728,132	3,137,744,524	3,710,667,098	6,753,316,510
Liquidity gap related period	-	622,570,824	3,359,390,151	2,917,167,601	(5,653,986,928)
Liquidity gap cumulative	-	-	3,359,390,151	6,276,557,752	622,570,824

41.5 Market Risk

The Company is exposed to market risk due to changes in interest rates.

The Company ensures the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are monitored by the treasury division which get advises from the ALCO meetings.

41.5.1 Sensitivity Analysis

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2017
Interest earning assets					
Cash and cash equivalents	1,204,483,946	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	15,024,960
Financial investments - held-to-maturity	942,858,918	650,417,025	150,000,000	-	1,743,275,943
Loans and advances to members (gross)	4,967,622,864	6,738,024,795	1,920,726,034	3,358,454	13,629,732,147
Loans and advances to others (gross)	22,246,782	62,580,093	352,526,618	69,499,204	506,852,697
Financial investments - loans & receivables	-	128,848,614	515,394,455	128,848,613	773,091,682
Total interest earning assets	7,152,237,470	7,579,870,527	2,938,647,107	201,706,271	17,872,461,374
Interest bearing liabilities					
Due to customers	4,328,376,113	3,561,433,334	5,975,125,470	175,115,869	14,040,050,786
Debt issued and other borrowed funds	48,550,088	121,983,413	497,846,736	665,000,000	1,333,380,237
Total interest bearing liabilities	4,376,926,202	3,683,416,747	6,472,972,206	840,115,869	15,373,431,024
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,775,311,268	3,896,453,780	(3,534,325,098)	(638,409,599)	2,499,030,351
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect	27,753,113	38,964,534	(35,343,251)	(6,384,096)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect	(27,753,113)	(38,964,534)	35,343,251	6,384,096	-

Notes to the Financial Statements

Year ended 31 March

41. FINANCIAL RISK MANAGEMENT (Contd.)

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2016
Interest earning assets					
Cash and cash equivalents	451,223,290	-	-	-	451,223,290
Financial assets held for trading	14,943,120	-	-	-	14,943,120
Financial investments - held-to-maturity	1,954,113,933	535,214,542	150,000,000	-	2,639,328,475
Loans and advances to members (gross)	3,266,139,961	5,259,780,186	386,346,007	1,452,011	8,913,718,165
Loans and advances to others (gross)	10,019,859	38,373,324	277,381,238	57,272,876	383,047,297
Total interest earning assets	5,696,440,163	5,833,368,052	813,727,245	58,724,887	12,402,260,347
Interest bearing liabilities					
Due to customers	2,745,784,899	3,118,993,134	4,478,211,761	77,429,113	10,420,418,907
Debt issued and other borrowed funds	16,408,228	33,409,981	194,754,251	665,000,000	909,572,460
Total interest bearing liabilities	2,762,193,127	3,152,403,115	4,672,966,012	742,429,113	11,329,991,367
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,934,247,036	2,680,964,937	(3,859,238,767)	(683,704,226)	1,072,268,980
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect	29,342,470	26,809,649	(38,592,388)	(6,837,042)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect	(29,342,470)	(26,809,649)	38,592,388	6,837,042	-

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	As at 31 March 2017	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets									
Cash and cash equivalents		1,204,483,946							1,204,483,946
Financial assets held for trading		15,024,960							15,024,960
Loans and advances to members		4,692,417,770	3,396,649,715	3,255,843,978	1,328,133,541	584,329,793	3,357,028		13,260,731,824
Loans and advances to others		18,428,423	19,520,162	43,059,931	225,679,204	126,847,415	69,499,204		503,034,338
Financial investments - loans & receivables		-	-	51,185,462	102,370,923	102,370,923	51,185,462		307,112,770
Financial investments - Available-For-Sale		-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity		1,287,937,076	205,811,382	99,527,485	-	150,000,000	-		1,743,275,943
Other assets		121,858,703	36,021,779	20,442,235	27,454,658	2,532,049	2,302,150		210,611,574
Investment properties								1,049,600,000	1,049,600,000
Intangible assets								127,078,155	127,078,155
Property, plant & equipment								1,119,409,029	1,119,409,029
		7,340,150,878	3,658,003,039	3,470,059,091	1,683,638,326	966,080,180	126,343,843	2,308,517,467	19,552,792,824
Liabilities									
Due to customers		4,328,570,558	1,069,776,415	2,491,656,919	4,504,692,330	1,470,433,140	175,115,869		14,040,245,231
Debt issued and other borrowed funds		48,550,119	41,697,699	80,285,713	399,115,742	98,730,994	665,000,000		1,333,380,268
Income Tax payable		90,162,428	263,285,375						353,447,803
Value Added Tax payable		(6,263,276)							(6,263,276)
Other liabilities		226,545,070	11,655,556	12,567,987	4,472,827	1,667,185	11,245,320		268,153,945
Retiring benefit obligation								157,508,878	157,508,878
Shareholder's Fund								3,390,204,237	3,390,204,237
Deferred tax liability		4,687,564,899	1,386,415,045	2,584,510,619	4,908,280,899	1,570,831,319	851,361,189	16,115,738	16,115,738
		4,687,564,899	1,386,415,045	2,584,510,619	4,908,280,899	1,570,831,319	851,361,189	3,563,828,853	19,552,792,824

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42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd.)

As at 31 March 2016	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	451,223,290	-	-	-	-	-	-	451,223,290
Financial assets held for trading	14,943,120	-	-	-	-	-	-	14,943,120
Loans and advances to members	3,143,047,194	2,669,185,141	2,561,177,767	334,555,939	49,629,284	1,443,890	-	8,759,039,215
Loans and advances to others	6,423,142	11,986,693	26,386,632	149,946,326	127,434,912	57,272,876	-	379,450,581
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	1,954,113,933	19,631,477	515,583,065	-	150,000,000	-	-	2,639,328,475
Other assets	88,006,791	35,799,694	18,675,527	41,852,563	5,821,396	6,510,683	-	196,666,654
Investment properties	-	-	-	-	-	-	904,500,000	904,500,000
Intangible assets	-	-	-	-	-	-	67,807,042	67,807,042
Property, plant & equipment	-	-	-	-	-	-	950,441,553	950,441,553
	5,657,757,470	2,736,603,005	3,121,822,991	526,354,828	332,885,592	65,227,449	1,935,178,878	14,375,830,213
Liabilities								
Due to customers	2,745,784,896	946,793,068	2,172,200,067	3,763,159,491	715,052,271	77,429,113	-	10,420,418,906
Debt issued and other borrowed funds	16,408,228	11,103,119	22,306,862	168,457,751	26,296,500	665,000,000	-	909,572,460
Income Tax payable	-	278,240,026	-	-	-	-	-	278,240,026
Value Added Tax payable	41,305,715	-	-	-	-	-	-	41,305,715
Other liabilities	150,860,944	-	-	-	-	-	-	150,860,944
Retiring benefit obligation	-	-	-	-	-	-	134,383,355	134,383,355
Shareholder's Fund	-	-	-	-	-	-	2,392,022,626	2,392,022,626
Deferred tax liability	-	-	-	-	-	-	49,026,181	49,026,181
	2,954,359,783	1,236,136,213	2,194,506,929	3,931,617,242	741,348,771	742,429,113	2,575,432,162	14,375,830,213

43. FAIR VALUE OF ASSETS AND LIABILITIES

43.1 Assets and Liabilities Measured at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

43.1.1 Financial Investments – Available-For-Sale

Available-For-Sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

43.1.2 Financial Assets at Fair Value through Profit or Loss - Held for Trading

Financial assets held for trading consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

43.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 43.4.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

43.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 43.4.1 and 43.4.2.

43.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

43.2.1 Loans and Receivables to Customers

The estimated fair value of loans and receivables with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

43.2.2 Financial Investments Held to Maturity

Financial assets held to maturity consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

43.2.3 Due to Customers

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

43.2.4 Debt Securities Issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

Notes to the Financial Statements

Year ended 31 March

43. FAIR VALUATION (Contd.) 43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2017	Fair Value through Profit and Loss	Available for Sale	Amortised cost Loans and Receivable	Total carrying amount	Fair Value	"Increase/Decrease) in Fair Value"	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	1,204,483,946	1,204,483,946	1,204,483,946	-	
Investment Securities	-	-	-	-	-	-	
- Measured at Fair Value	15,024,960	-	-	15,024,960	15,024,960	-	
- Measured at Amortised Cost	-	-	298,170,601	298,170,601	298,170,601	-	
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	
Investment Fixed deposits	-	-	1,295,105,342	1,295,105,342	1,295,105,342	-	
Finance Lease Receivables	-	-	1,704,446,462	1,704,446,462	1,717,595,462	13,149,000	Level II
Advances & Other Loans	-	-	12,621,462,914	12,621,462,914	12,704,570,044	83,107,131	Level II
Financial investments - loan & receivables	-	-	307,112,770	307,112,770	307,112,770	-	
Other Financial Assets	-	-	94,021,922	94,021,922	94,021,922	-	
Due To Customers - Fixed deposits	-	-	5,092,059,583	5,092,059,583	4,744,511,719	(347,547,864)	Level II
Debt issued & Other borrowed Funds	-	-	1,327,326,382	1,327,326,382	1,329,333,700	2,007,318	Level II
Trade & Other Payables	-	-	236,020,182	236,020,182	236,020,182	-	

43.3 Fair value of Financial Assets and Liabilities

As at 31 March 2016	Fair Value through Profit and Loss	Available for Sale	Amortised cost Loans and Receivable	Total carrying amount	Fair Value	"Increase/Decrease) in Fair Value"	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	451,223,290	451,223,290	451,223,290	-	
Investment Securities	-	-	-	-	-	-	
- Measured at Fair Value	14,943,120	-	14,943,120	14,943,120	-	-	Level-1
- Measured at Amortised Cost	-	-	1,473,783,398	1,473,783,398	1,473,783,398	-	
Investment Fixed deposits	-	-	1,165,545,077	1,165,545,077	1,165,469,465	(75,612)	Level II
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	
Finance Lease Receivables	-	-	114,417,229	114,417,229	116,922,599	2,505,370	Level II
Advances & Other Loans	-	-	9,138,489,796	9,138,489,796	8,722,948,341	(415,541,455)	Level II
Other Financial Assets	-	-	128,048,274	128,048,274	128,048,274	-	
Due To Customers - Fixed deposits	-	-	10,420,418,906	10,420,418,906	10,418,220,834	(2,198,072)	Level II
Debt issued & Other borrowed Funds	-	-	909,572,460	909,572,460	897,267,738	(12,304,722)	Level II
Trade & Other Payables	-	-	120,332,406	120,332,406	120,332,406	-	

Notes to the Financial Statements

Year ended 31 March

43.4 Valuation of Non-Financial Assets 43.4.1 Changes in Value of Non-Financial Assets

As at 31 March 2017

	Cost/Carring Amount			Fair Value		
	Building Sq.ft	Extent Perches	Total	Land	Building	Total
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	5,755	705	83,600,000	20,350,515	66,449,485	86,800,000
No. 46/A, Thangalle Rd, Hambanthota.	2,113	926	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5,400	926	73,000,000	22,062,259	55,937,741	78,000,000
No. 168, Nawala Rd, Nugegoda.	30,887	25.9	510,000,000	143,483,594	490,116,406	633,600,000
			684,600,000	192,502,121	623,897,879	816,400,000
Investment Properties						
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24,952	39.6	564,000,000	205,133,851	482,366,149	687,500,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	15,400,000	-	15,400,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20,494	182.59	125,000,000	56,755,335	72,844,665	129,600,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8	121,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	20,000,000	25,000,000	-	25,000,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	34,500,000	36,800,000	-	36,800,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000	16,300,000	-	16,300,000
			900,300,000	398,174,753	651,425,247	1,049,600,000

As at 31 March 2016

	Cost/Carring Amount			Fair Value		
	Extent Perches	Building	Total	Land	Building	Total
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	5,755	60,799,747	80,400,013	19,600,266	60,799,747	80,400,013
No. 46/A, Thangalle Rd, Hambanthota.	2,113	10,824,536	17,430,288	6,605,752	10,824,536	17,430,288
No. 677, William Gopallawa Mw, Kandy.	5,400	51,639,548	70,282,129	18,642,581	51,639,548	70,282,129
No. 168, Nawala Rd, Nugegoda.	30,887	352,634,529	491,440,288	138,805,759	352,634,529	491,440,288
		475,898,360	659,552,718	183,654,358	475,898,360	659,552,718
Investment Properties						
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24,952	407,937,000	559,000,000	156,474,658	407,525,342	564,000,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	12,800,000	-	12,800,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20,494	71,992,000	121,000,000	54,740,871	70,259,129	125,000,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	90,733,000	116,000,000	28,439,640	92,560,360	121,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	20,000,000	20,000,000	-	20,000,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	34,500,000	34,500,000	-	34,500,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000	14,000,000	-	14,000,000
Nalluruwa, Panadura.	Land	17.8	4,200,000	4,200,000	-	4,200,000
		570,662,000	890,500,000	334,155,169	570,344,831	904,500,000

43.4 Valuation of Non-Financial Assets (Contd..)

43.4.2 Valuation details of Non-Financial Assets

	Valuation Method	Value per Perch (Land)	Range of estimates for unobservable inputs			
			Value per sq. ft. (Building)	Estimated rent per month	Discount Rate	Rate per perch for land
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	Cost approach	2,500,000	10000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	350,000	4000	73,000	-	-
No. 677, William Gopallawa Mw, Kandy.	Cost approach	2,300,000	10000	300,000	-	-
No. 168, Nawala Rd, Nugegoda.	Income approach	4,750,000	12000	2,000,000	20%	-
Investment Properties						
No.67/1, Mahinda Place, Kirulapone, Colombo-05.	Income Approach			450,000	20%	
No.249, Stanly Thilakarathna Mw, Nugegoda.	Income Approach			1,700,000	20%	
No.465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	Income Approach			450,000	20%	
No.64, Abaya Place, Anuradapura.	Market Comparable method					1,850,000
No. 37, Vihara Mw, Matale.	Market Comparable method					600,000
No. 340, Galle Road, Katubedda, Moratuwa.	Market Comparable method					1,600,000
No.56, Sewa Mw, Puttalam.	Market Comparable method					600,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market Comparable method					22,500

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44. SEGMENT REPORTING

An operating segment is a component of the company that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the company's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

HNB Grameen has three main segments, namely finance, leasing and others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the company as well as to make decisions about resource allocation.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the financial statements.

There are no inter-segment transactions occurred during the year.

Income taxes are allocated to specific segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidated adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2015/16 and 2016/17 financial years.

44. SEGMENT REPORTING (Contd.)

	Financial		Leasing		Others		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Interest Income	3,685,455,325	2,757,899,776	72,949,776	1,244,385	102,994,750	151,398,200	3,861,399,851	2,910,542,361
Net Fee and Commission Income	577,254,372	409,498,264	(5,430,358)	794,238			571,824,014	410,292,502
Net Gain/(Loss) from Trading					81,840	(24,791,650)	81,840	(24,791,650)
Net Gain/(Loss) from Financial Investments						(1,787,152)	-	(1,787,152)
Other operating income	617,312,124	18,454,352		86,090	175,065,249	74,522,146	236,796,463	93,062,588
Total Operating Income	4,324,440,910	3,185,852,392	67,519,418	2,124,713	278,141,839	199,341,544	4,670,102,167	3,387,318,649
Impairment charges for Loan & Other Losses	(241,204,462)	(110,452,151)	(324,926)		(465,978,912)		(707,508,300)	(110,452,151)
Net Operating Income	4,083,236,448	3,075,400,241	67,194,492	2,124,713	(187,837,073)	199,341,544	3,962,593,868	3,276,866,498
Operating Profit/(Loss)	1,802,971,491	1,347,112,837	11,246,456	(1,612,243)	(187,837,073)	199,341,544	1,626,380,875	1,544,842,138
Income Tax Expenses	(563,753,094)	(378,654,222)	(3,793,595)		-	(56,094,711)	(567,546,689)	(434,748,933)
Profit/(Loss) for the Year	1,239,218,397	968,458,615	7,452,862	(1,612,243)	(187,837,073)	143,246,833	1,058,834,186	1,110,093,205
Total Assets	15,743,297,427	11,537,130,808	1,744,081,723	118,322,268	2,065,413,674	2,720,377,138	19,552,792,824	14,375,830,213
Total Liabilities	13,066,746,966	10,784,016,556	1,734,412,729	119,934,511	1,361,428,892	1,079,856,522	16,162,588,587	11,983,807,587

Share Information

Ten Largest Shareholders - Voting

No	Shareholders Name	31st March 2017		31st March 2016	
		No of Shares	%	No of Shares	%
1	Hatton National Bank PLC	724,904,118	51.00	724,904,118	51.00
2	Prime Lands (Private) Limited	562,391,533	39.57	675,091,533	47.50
3	DWM Funds S.C.A, SICAV - SIF	112,700,000	7.93	-	-
4	B. M. D. C. Prabhath	1,000,000	0.07	1,000,000	0.07
5	H. M. U. Senevirathna	150,000	0.01	150,000	0.01
6	W. S. P. Arangala	110,000	0.01	110,000	0.01
7	S. L. Y. Liyanawatte	102,500	0.01	102,500	0.01
8	S. T. D. Peris	101,000	0.01	101,000	0.01
9	J. S. B. Galagoda	101,000	0.01	101,000	0.01
10	W. B. A. Fernando	100,500	0.01	100,500	0.01
	Sub Total	1,401,660,651	98.61	1,401,660,651	98.61
	Others	19,719,973	1.39	19,719,973	1.39
	Total	1,421,380,624	100.00	1,421,380,624	100.00

Largest Shareholders - Non Voting

No	Shareholders Name	31st March 2017		31st March 2016	
		No of Shares	%	No of Shares	%
1	Seylan Bank PLC	233,200,000	78.20	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67	37,772,148	12.67
3	Prime Grameen Class A Non-Voting Share Trust	27,227,852	9.13	27,227,852	9.13
	Total	298,200,000	100.00	298,200,000	100.00

Distribution of Shareholders - Voting

Shareholding Range	As at 31st March 2017				As at 31st March 2016			
	No. of shareholders	%	No. of Shares	%	No. of shareholders	%	No. of Shares	%
1 - 1,000	99,530	99.156	16,997,804	1.20	99,530	99.157	16,997,804	1.20
1,001 - 10,000	810	0.807	1,573,143	0.11	810	0.807	1,573,143	0.11
10,001 - 100,000	25	0.025	948,426	0.07	25	0.025	948,426	0.07
100,001 - 1,000,000	9	0.009	1,865,600	0.13	9	0.009	1,865,600	0.13
Over 1,000,000	3	0.003	,399,995,651	98.50	2	0.002	,399,995,651	98.50
Total	100,377	100.00	1,421,380,624	100.00	100,376	100.00	1,421,380,624	100.00

Analysis of Shareholding - Voting

Shareholding	As at 31st March 2017			As at 31st March 2016		
	No. of shareholders	Total Holding	%	No. of shareholders	Total Holding	%
Institution	3	1,399,995,651	98.50	2	1,399,995,651	98.50
Individual	100,374	21,384,973	1.50	100,374	21,384,973	1.50
Total	100,377	1,421,380,624	100.00	100,376	1,421,380,624	100.00

Analysis of Shareholding - Non Voting

Shareholding	As at 31st March 2017			As at 31st March 2016		
	No. of shareholders	Total Holding	%	No. of shareholders	Total Holding	%
Institution	2	270,972,148	90.87	2	270,972,148	90.87
Prime Grameen Class A Non-Voting Share Trust	1	27,227,852	9.13	1	27,227,852	9.13
Total	3	298,200,000	100.00	3	298,200,000	100.00

Notes

Annual General Meeting

Notice is hereby given that the 07th Annual General Meeting of the Shareholders of HNB Grameen Finance Limited will be held at the "Auditorium", Level 06, Head Office of HNB Grameen Finance Limited, No.168, Nawala Road, Nugegoda, on this 29th day of September 2017 at 2.00 p.m to conduct the following business:

AGENDA

- (1) Notice of meeting
- (2) To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2017 together with the Report of the Auditors thereon.**
- (3) To re-elect as a Director, Mr. Anushka Sheran Wijesinha who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.
- (4) To re-elect as a Director, Mr. Pathirana Arachchige Hasitha Danushka Wijesundara who was appointed as a Director on 27th September 2016, in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008.
- (5) To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.
- (6) To authorise the Board of Directors to determine contributions to charities and other donations for the year 2017/2018.

By order of the Board of Directors of

HNB Grameen Finance Limited



S S P CORPORATE SERVICES (PRIVATE) LIMITED
Secretaries

07th September 2017

Note:

** Enclosed herewith a summary of the Annual Report for the Financial Year 2016/17 and the completed Annual Report will be provided to you at the forthcoming Annual General Meeting. You may contact the Company to obtain the hardcopy of the Annual Report in due course.

1. A shareholder entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote his/her behalf.
2. A proxy so appointed need not be a member of the company.
3. A form of proxy accompanies this notice.

Form of Proxy

I/We*..... (please indicate full name) bearing

NIC No.....of being a member/*members

of HNB Grameen Finance Limited hereby appoint:

Mr/Ms (please indicate full name) bearing

NIC No.of or failing him/her

Mr. B. M. D. C. Prabhath	of Colombo or failing him
Mr. B. Premalal	of Colombo or failing him
Ms. L. L. C. C. Thambiah	of Colombo or failing her
Mr. A. J. Alles	of Colombo or failing him
Ms. M. A. R. C. Cooray	of Colombo or failing her
Mr. A. S. Wijesinha	of Colombo or failing him
Mr. S. U. H. Fernando	of Colombo or failing him
Mr. P. A. H. D. Wijesundara	of Colombo or failing him
Mr. A. G. R. Dissanayake	of Colombo

as my/*our Proxy to represent me/*us and to vote as indicated below on my/*our behalf at the Annual General Meeting of the Company to be held on the 29th September 2017 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

		FOR	AGAINST
(1)	To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2017 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2)	To re-elect as a Director, Mr. Anushka Sheran Wijesinha who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(3)	To re-elect as a Director, Mr. Pathirana Arachchige Hasitha Danushka Wijesundara who was appointed as a Director on 27th September 2016, in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008.	<input type="checkbox"/>	<input type="checkbox"/>
(4)	To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
(5)	To authorise the Board of Directors to determine contributions to charities and other donations for the year 2017/2018.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand set hereto this day of Two Thousand and Seventeen.

.....
Signature

Note:

Instructions as to completion appear on the reverse hereto. Please delete the inappropriate words, and mark 'X' in the appropriate cages to indicate your instructions as to voting.

A proxy need not be a member of the Company.

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, your instructions as to voting, by signing in the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company, No.168, Nawala Road, Nugegoda, not less than 48 hours before the time appointed for holding the meeting.
4. If the form of proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration. If such power of attorney has not already been registered with the Company.

Corporate Information

Name

HNB Grameen Finance Limited
(Subsidiary of Hatton National Bank PLC)

Nature of Business

Acceptance of fixed deposits, maintenance of savings accounts, providing of Micro Finance Loans Finance Leasing, Business Loans and value added services.

Legal Status

A public limited liability company incorporated in Sri Lanka under the Companies Act No.17 of 1982 and re-registered under the Companies Act No. 7 of 2007.

The company is registered under the Finance Companies Act No. 78 of 1988 & re-registered under the Finance Business Act No. 42 of 2011.

The Company is registered under the Finance Leasing Act No. 56 of 2000.

Date of Incorporation

20 December 1999

Business Registration No.

PB 965

Central Bank Registration No.

RFC/036

Accounting Year-End

31st March

Tax Payer Identification No.

134008555

VAT Registrations No.

134008555-7000

SVAT Registrations No.

SVAT007287

Memberships

Lanka Micro Finance Practitioners' Association

The Finance House Association of Sri Lanka

Registered Office & Principle Place of Business

HNB Grameen Finance Limited
No.168, Nawala Road,
Nugegoda,
Sri Lanka.

Tel : +94 11 2176262

Fax: +94 11 2176263

E-mail: info@hnbgrameen.lk

Website: www.hnbgrameen.lk

Outlets

Branches - 48

Service Centers - 21

Company Secretaries

SSP Corporate Services (Pvt) Ltd,
101, Inner Flower Road,
Colombo 03.

Sri Lanka.

Tel : +94 11 2573894

Fax : +94 11 2573609

Email : sspsec@sltnet.lk

External Auditors

Ernst & Young

Chartered Accountants

201, De Saram Place,
Colombo 10.

Sri Lanka.

Tel : +94 112 463500

Internal Auditors

KPMG Sri Lanka

No: 32A,

Sir Mohamed Macan Markar Mawatha,
Colombo.

Sri Lanka.

Tel : +94115 426426

Credit Rating Agency

'A (lka)' outlook stable

Fitch Ratings Lanka Ltd.

No. 15-04, East Tower,

World Trade Centre

Colombo 01,

Sri Lanka.

Tel: +94 112 541900

Fax: +94 112 541903

Bankers

Hatton National Bank PLC, Seylan Bank PLC, DFCC Vardhana Bank PLC, Bank of Ceylon, Sampath Bank PLC & People's Bank



