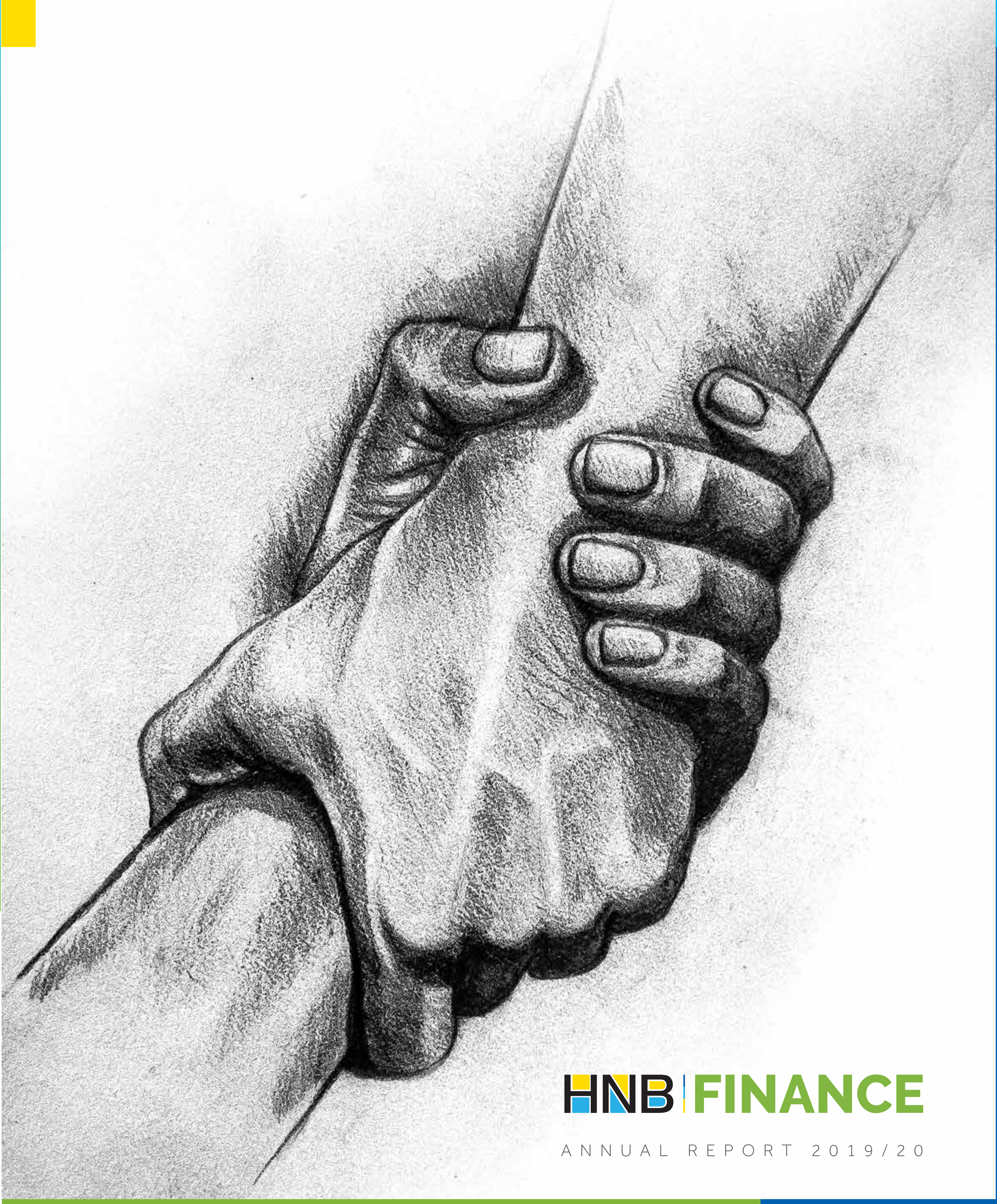
PARTNERSHIPS BUILT ON PURPOSE



HNB FINANCE

ANNUAL REPORT 2019/20

Partnerships built on purpose

The Company ethos has always been about true sustainability – working for the 'greater good of the wider stakeholder community'. With interest of all the stakeholders at heart, HNB Finance believes that true value creation must include the financial empowerment of all the segments of the society, less economically privileged in particular, if it is to play a meaningful role in enhancing the overall financial and social well being of the Nation. We value highly the partnerships we build upon such a purpose, where Company and customer seek a wider financial emancipation for those oft overlooked segments of society, which in the long term contributes positively to the Nation.

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SUPPLEMENTARY INFORMATION

WELCOME TO OUR FOURTH INTEGRATED ANNUAL REPORT

Through this integrated annual report, HNB Finance aims to convey to its stakeholders material information regarding the Company's strategy, governance, performance, and outlook within the context of the operating environment, and how the Company creates value in the short, medium, and long term for its customers, employees, and the broader community.

Report boundary

This integrated annual report provides a comprehensive review of the operations, strategy, business model, risks and opportunities, and governance aspects of HNB Finance Limited (referred to as "HNBF" or the "Company") only, unless otherwise stated.

Through an integrated approach, the 2019/20 Annual Report aims to highlight HNBF's contribution to its various stakeholders by providing both financial and non-financial information.

Reporting period

The 2019/20 Annual Report covers the period from 1 April 2019 to 31 March 2020 and is consistent with HNBF's usual annual reporting cycle for financial and sustainability reporting. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

The most recent integrated annual report for HNBF covered the 12-month period ended 31 March 2019.

Materiality

The materiality analysis provides insight into the choices made in developing the content shown in the Annual Report. This is illustrated in a materiality matrix that identifies the topics that have had a substantial impact on stakeholders and the Company. Information about the process of determining materiality and the boundaries of the topics are provided on page 23 of this report.

Key frameworks, guidelines, policies, and compliance

The information contained within this report is in compliance with all applicable laws, regulations, and standards. The preparation of this report has drawn on concepts, principles, and guidelines established in the International Integrated Reporting Framework <IIRC> and the Smart Integrated Reporting Methodology™.

This integrated annual report has been prepared in accordance with the GRI Standards: Core option. This integrated annual report adheres to the following frameworks and guidelines:

Financial Reporting

- Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs)
- Sri Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011
- Finance Leasing Act No. 56 of 2000
- Directions, rules, determinations, notices, and guidelines issued by the Central Bank of Sri Lanka applicable to licensed finance companies
- Inland Revenue Act No. 24 of 2017 (as amended)

Sustainability Reporting

- Global Reporting Initiative (GRI)
- UNGC Principles and Sustainable Development Goals
- International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework
- "A Preparer's Guide to Integrated Corporate Reporting", published by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

Corporate Governance and Risk Management

- Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange
- Directions, rules, determinations, notices, and guidelines issued by the Central Bank of Sri Lanka applicable to licensed finance companies

Assurance

- Sri Lanka Auditing Standards (SLAuSs)
- Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka

Assurance

The Board is responsible for ensuring the integrity of this Integrated Annual Report. The Board believes that the report addresses all material issues and presents a balanced and fair account of the Company's performance.

A combined assurance model is used to provide assurance regarding information obtained from the management and from other internal and external sources.

HNBF's Audit Committee provides internal assurance to the Board on an annual basis on the execution of the combined assurance plan, based on the assessment of the Company's financial, operating, compliance, and risk management controls, a process that is overseen by the Audit Committee and the Integrated Risk Management Committee.

The Company's external auditors, Ernst & Young, have provided an independent assurance regarding HNBF's financial statements for the year ended 31 March 2020. This report is shown on page 134.

Forward-looking statements

This report contains, where applicable or helpful, plans for the future. These statements reflect HNBF's position and beliefs as at the time of writing. However, since the Company operates in a dynamic environment where uncertainties or new developments could cause actual results or actions to differ from those stated in these forward-looking statements, such statements should not be interpreted as a guarantee of results or of the course of action that will be taken.

Feedback and queries

Any feedback and/or queries regarding this annual report should be directed to:
W S P Arangala
Chief Operating Officer
HNB Finance Limited
No. 168, Nawala Road, Nugegoda
arangala@hnbfinance.lk

OUR 20 YEAR JOURNEY

1999

- Launched as a limited liability company with the objective of offering Micro-financing Facilities

2000

- Opened the first branch (City branch) with 2,500 customers

2008

- Expanded by opening 78 branches in all districts across Sri Lanka with a team of 2,498 employees

2015

- Received international recognition as "Asia's Most Promising Brand 2014"
- "Best Achiever of the Year 2014" awarded by the Credit Information Bureau (CRIB) of Sri Lanka becoming the first LFC to receive this prestigious award
- Launched Leasing Solutions

2016

- The Company crossed a milestone of over LKR 1 Bn. in profits
- Launched Relax and *Saviya* loan schemes for Small and Medium Enterprises

2017

- Developing World Markets (DWM) invested in a 7.93% ownership share of HNB *Grameen* Finance Ltd., which was acquired from Prime Lands' stake of shares
- Launched ATM facilities for Microfinance customers
- HNBG was selected amongst the top "25 Great Places to Work in Sri Lanka". HNBG also won the award for the Best in "Pride and Advocacy" and the Bronze award in the Large Companies category.
- Launch of *Nivahana* product

2018

- Reached an asset base of LKR 25 Bn. as at 31 March 2018
- Re-branded from HNB *Grameen* Finance to HNB Finance Ltd.
- Introduced two new products to the market – Gold Loans and *Divi Saru*
- HNBG was amongst the "25 Great Places to Work in Sri Lanka" for the second consecutive year and was also awarded Silver under the Extra Large category

2009

- Re-branded the Company as *Grameen* Micro Credit Ltd.

2010

- Received license from the Monetary Board of the CBSL, to operate as a Licensed Finance Company

2011

- Prime Lands Group acquired ownership of the Company and paved the way for the revival of the Company by infusing LKR 700 Mn. in equity and LKR 350 Mn. as debt. Following the acquisition, re-branded as Prime *Grameen* Microfinance Ltd.

2012

- Achieved an annual profit for the first time in the Company's history with a growth of 362% compared to the previous year, considered as a great milestone for the Company

2014

- HNB PLC, Sri Lanka's leading and oldest private Commercial Bank, acquired 51% of Prime *Grameen* Microfinance Limited, from Prime Lands Group
- Prime *Grameen* Microfinance Limited was renamed as HNB *Grameen* Finance Ltd.
- Diversified the portfolio with the launch of three new products: *Abilasha*, Easy and *Swashakthi* loans to cater to a new segment of Small-Scale Enterprises

2019

- Savings Deposit reached LKR 3 Bn.
- HNB Finance partnered with mCash and eZ Cash to offer leasing and loan repayments

2020

- **Initial Public Offering (IPO) on the Colombo Stock Exchange oversubscribed**

Established in 1999, HNB Finance Limited was the pioneer of commercial-based microfinance in Sri Lanka, opening new opportunities to Sri Lanka's small-scale entrepreneurs to pave their own path. The Company has received international acclaim for its contributions to the microfinance industry.

Vision

To be the recognised leader in providing innovative, technology-driven financial solutions with a human touch for all.

Mission

We aim to provide customer centric, well diversified products and services, responsibly and sustainably, while creating stakeholder value through our passionate team.

Values that InSPIRRE

- Integrity
- Socially conscious
- Professionalism
- Innovation
- Respect
- Relevance
- Empathy

With a presence across the island through 48 branches and 21 service centres, and parent company HNB's 650 ATM machines, HNB Finance has expanded beyond microfinance to offer a diversified variety of products to its customers. Customers can avail themselves of HNBF's Business Loans, Savings, Gold Loans, Fixed Deposit facilities, and Leasing products that cater to the needs of the diverse segments of the Sri Lankan community.

With the backing of HNB, one of the country's systemically important banks, HNBF is at the forefront of non-banking financial institutes, offering customers with outstanding service and reliability. HNBF is licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011 and holds the National Long-term Rating of "AA- (lka)" as affirmed by Fitch Ratings.

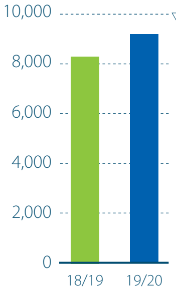
OUR YEAR IN HINDSIGHT

An overview of HNBF's performance and what lies ahead, from our leadership.

KEY PERFORMANCE INDICATORS

	2019/20	2018/19	Change %
Financial performance (LKR Mn.)			
Income	9,170	8,292	11
Net interest income	4,386	4,427	-1
Net fee and commission income	684	625	9
Total operating income	5,291	5,337	-1
Total operating expenses	3,077	2,728	13
Operating profit before tax and financial services	1,128	1,766	-36
Taxes (VAT, DRL, NBT and IT)	707	935	-24
Profit after tax	421	831	-49
Financial position (LKR Mn.)			
Take this line down to be the last line under Financial Position (immediately after Total liabilities)	5,045	4,629	9
Deposits from customers	27,529	22,632	22
• Savings	2,717	2,964	-8
• FD	24,811	19,669	26
Lending portfolio	28,303	25,471	11
• Lease and hire purchases	9,943	8,073	23
• Loans and advances	18,360	17,397	6
Total assets	37,987	32,929	15
Total liabilities	32,942	28,300	16
Ratios			
Return on assets (%)	1.19	2.85	-58
Return on equity (%)	8.69	18.96	-54
Cost to income ratio (%)	58.16	51.12	14
Earnings per share (LKR)	0.24	0.48	-50
Net assets per share (LKR)	2.93	2.69	9
Dividend per share (LKR)	–	–	–
Dividend payout (LKR)	–	–	–
Net interest margin (%)	15.54	17.35	-10
Non-performing accommodations ratio (NPA) (%)	12.25	8.85	38
Core capital to risk weighted assets ratio (Tier I) (%)	9.93	8.34	19
Total risk weighted capital ratio (Tier I and II) (%)	14.00	10.09	39

Income LKR Mn.



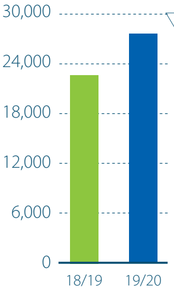
9,170

Mainly due to growth in interest income

in 2018/19: **8,292**

Change: **11.00%**

Deposits from customers LKR Mn.



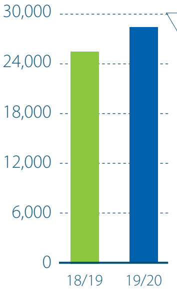
27,529

Reflects the strength of our franchise

in 2018/19: **22,632**

Change: **21.64%**

Lending portfolio LKR Mn.



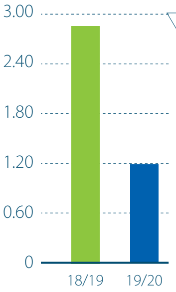
28,303

Growth recorded in both loans and leases

in 2018/19: **25,471**

Change: **11.12%**

Return on assets %



1.19

Effect of growth in assets and drop in profit

in 2018/19: **2.85**

Change: **(58.25%)**

Intellectual capital

LKR 284 Mn.

Investment in IT in 2019/20

LKR 139 Mn. in 2018/19

GIIRS Platinum rating

Retained for the second consecutive year

AA- (lka)

Fitch Rating in 2019/20

'A (lka)' in 2018/19

Manufactured capital

21

Service centres

21 in 2018/19

25

Leasing units

30 in 2018/19

48

Branches

48 in 2018/19

11,000

Meeting centres

10,750 in 2018/19

LKR 1,626 Mn.

Property, plant and equipment

LKR 1,420 Mn. in 2018/19

Human capital

1,965

No. of employees

1,961 in 2018/19

10.74%

Turnover ratio

8.74% in 2018/19

Gender distribution

Male

1,813

1,798

in 2018/19

Female

152

163

in 2018/19

36,660

No. of training hours

42,961 in 2018/19

LKR 13 Mn.

Investment in T&D

LKR 13 Mn. in 2018/19

Social and relationship capital

LKR 0.83 Mn.

Investment in CSR

LKR 2.42 Mn. in 2018/19

Over LKR 28 Bn.

Total loans disbursed

Over LKR 30 Bn. in 2018/19

1.6

Cross sell ratio

1.2 in 2018/19

2,920

Customer-facing training hours

11,170 in 2018/19

Over 221,000

Women empowered

Over 217,000 in 2018/19

Natural capital

1,973,585 kWh

Electricity consumption

1,996,843 kWh in 2018/19

14,560 M^3

Water consumption

17,535 M^3 in 2018/19

CHALLENGING TIMES PUT OUR METTLE TO THE TEST

While we have yet to fully ascertain the global impact of COVID-19, we nevertheless must take a conservative outlook towards the growth of our sector and the economy.

Dear Stakeholders,

I am pleased to present the Annual Report including Financial Statements for the financial year ended 31 March 2020.

Reflecting the strength of our successful franchise, we managed to record above industry average growth in business volumes leading to total assets increasing to LKR 37.99 Bn. Deposit base recorded a substantial growth of 21.6% while lending portfolio grew by 11% despite an increase in impairment charges. Growth in interest expenses offsetting the growth in interest income and the increase in impairment charges and operating expenses caused profit after tax for the year to decline to LKR 420.5 Mn. compared to LKR 830.6 Mn. reported in the previous year. Viewed in the context of the operating environment, I would consider the overall performance for the year to be satisfactory.

Sri Lanka has been challenged by low economic growth for a number of years now, and that challenge persisted in 2019. The events of April 2019 resonated throughout the country and severely affected business confidence across industries, especially SMEs, lowering our economic growth to 2.3%. This undoubtedly affected the Licensed Finance Companies and Specialised Leasing Companies as well, with the sector growing marginally by 0.1% from 2018. Although the affected industries indicated signs of recovery at the beginning of the year 2020, the outbreak of COVID-19 has created unprecedented challenges for the entire world.

Although Sri Lanka has responded to the pandemic swiftly and decisively, the repercussions on the global economy and our local industries, especially tourism, will further hamper our economic growth. While, we have yet to fully ascertain the global impact of COVID-19, we nevertheless must take a conservative outlook towards the growth of our sector and economy. The World Bank anticipates that the country's real GDP would contract by 3.2% in 2020 and the overhanging threat of a second wave may have a significant impact on these expectations.

A call for support for the microfinance segment

These circumstances have a direct impact on our customers and their cashflow generation capability. As a result, the sector is experiencing delays in collecting loan repayments as well as premature withdrawals of deposits. In this backdrop, CBSL has offered support through the COVID-19 relief scheme, and HNBF has proactively provided support to the affected customers.

In a country where there is a substantial informal and unregulated financial services sector, non-banking financial institutions have a significant, important and challenging role to play. Hence, it will be in the best interest of the sector and the overall economy that the sector is provided with further support necessary to sustain themselves and avoid potentially undesirable outcomes.

HNBF has adapted to the changing paradigm and successfully shifted from being a 95% microfinance company to a more balanced portfolio of microfinance and non-microfinance products, such as leasing and other products that are appealing to the SME segment. However, we still recognise that there are opportunities to be seized in the microfinance segment. It is therefore our responsibility, to support customers at the grassroots-level with reliable financial services in order to ensure that customers do not resort to borrowing at exorbitant interest rates from loan sharks which overburdens their lives.

As a responsible corporate, we are firmly committed to ensuring the development of an environment which promotes financial inclusivity. While we welcome the implementation of further regulations on the financial services industry, including the microfinance segment, we observe a concerning trend of negatively characterising all players across various segments based on the actions of a few – particularly among unregulated entities.

While there is a definite need to reverse the proliferation of unregulated leasing and finance companies, responsible companies will require appropriate support from the Government and regulators to sustain the industry through the difficult months ahead.

Given that our industry plays a vital role by operating in segments in which traditional banking and finance institutions are unable to operate effectively, this need for support takes on even greater significance.

Our competitive edge

What places HNBF in such a unique position within this industry and gives it the competitive edge is that, since our acquisition by HNB – one of the four domestic systemically important banks (D-SIBs) in Sri Lanka, our systems, processes, risk management frameworks and governance structures have been upgraded in line with those of commercial banks. All Board subcommittees and Management Committees were set in place and regular meetings are conducted to ensure the highest standards of governance. Backed by

Deposits recorded a substantial growth of 21.6% due to competitive rates offered.

LKR 27.53 Bn.

Funded by growth in deposits, total assets too recorded an impressive growth of 15.4%

LKR 37.99 Bn.

What places HNBF in such a unique position within this industry and gives it the competitive edge is that, since its takeover by HNB – one of the four domestic systemically important banks in Sri Lanka, its operations are being run on a platform of systems, processes, governance, and risk management equivalent to that of a fully-fledged bank.

We have embraced the latest technology and platforms to facilitate streamlined credit applications and mobile banking, bolster our recovery efforts and tracking of our exposures, while reducing paper consumption.

the standing and influence of our prestigious parent, we adopt a zero-compromise approach to governance. The fact that we are backed by one of the largest and most respected banks in the Nation has also helped to further instil a strong sense of confidence in our customers.

Another aspect that gives HNBF its competitive edge in the finance industry is its approach to optimising and re-engineering business processes. As elaborated elsewhere in this report, our Business Process Re-engineering (BPR) has played a critical role in streamlining our processes, increasing efficiency and productivity, and optimising costs for the Company. In a post-COVID-19 world, our BPR initiatives will be instrumental in ensuring our viability and sustainability.

Adapting to the new normal

We have to remain cautious in these unprecedented times. There could be short-term impacts on revenues and thus we have to take a measured approach to our asset growth within the context of the market situation. We are also cognisant of the need to avoid stressing our portfolio and increasing NPAs. Moving forward, our aim is to be the benchmark for governance, digitalisation, and optimised business model, while maintaining exemplary standards in customer service.

Regarding our ongoing digitalisation, HNBF has embraced the latest technology and platforms to facilitate streamlined credit applications and mobile banking, bolster our recovery efforts and tracking of our exposures, while reducing paper consumption. All these efforts have been championed by our Board, thus enabling us to evolve our business at an increasingly rapid pace that is well above the industry norm. The productivity of our staff has been enhanced by our BPR efforts as they can be reallocated to performing value-adding tasks such as microfinance advisory services and literacy programmes for our customers. Moreover, we are able to manage our staff count effectively with the optimisation of our processes, while having more customer-facing staff than strictly process-oriented staff.

Our aspirations

We will continue to relentlessly seek out new growth opportunities. We are continuing to roll out gold loans – one of our newest products, across our branch network. Other areas that we can look at include technology companies, exports, manufacturing, and other industries that prevail during times as turbulent as the one we are currently experiencing.

We are also proud to note that HNBF's IPO launched to tremendous success, being oversubscribed on the first day. This represents a remarkable vote of confidence in our Organisation, and we thank our investors for their trust in us. This will undoubtedly lead to greater opportunities for the Company to move forward and accomplish even greater feats in the future. We would also like to explore opportunities to work with other finance companies to search for synergies and grow our business. We aspire to be one of the top five finance companies in the country over the coming years.

Acknowledgements

I would like to thank the Board for their continued support and commitment to drive HNBF to the forefront of the industry. I also wish to extend my heartfelt gratitude to the management and the staff of HNBF for their untiring efforts especially during challenging times. I also wish to express my sincere appreciation to the officials of the CBSL, Securities and Exchange Commission, and the Colombo Stock Exchange for their support during our IPO and the regulatory guidance on a regular basis. Our shareholders including those who joined the ranks in February with the IPO also deserve a special mention for taking a long-term view of their investments. Finally, I would like to thank all other stakeholders, including our customers, for your patronage and continued trust and confidence in HNBF.

Jonathan Alles
Chairman

29 July 2020

Since its establishment in 1999, HNB Finance has achieved milestone after milestone to come to the forefront of Sri Lankan non-banking financial institutions.

Having pioneered commercial-based microfinance in Sri Lanka and contributing to the growth of small businesses and female entrepreneurs across the country, HNB Finance enters 2020 with its latest and most significant milestone yet: its Initial Public Offering on the Colombo Stock Exchange.

With oversubscription on the opening day, HNB Finance has earned the trust and confidence of investors through two pioneering decades and its future prospects for growth.

SEARCHING FOR GROWTH AREAS IN UNPRECEDENTED TIMES

2020 became a year that will define the future, reminding people and the corporates alike that concern for and acting on sustainability of their operations is no longer a choice, but an imperative.

Dear Stakeholder,

It is a fact that the Financial Year 2019/20 turned out to be a year that was fraught with unprecedented challenges. The COVID-19 pandemic, in particular, has brought life virtually to a standstill and sent the economies around the world reeling. Yet, it also became a year that will define the future, reminding the people and the corporates alike that concern for and acting on sustainability of their operations is no longer a choice, but an imperative. In this respect, it afforded us opportunities to be innovative in upholding the brand promise, delivering up to expectations of our stakeholders. It also proved that we are in the right mindset to take on the challenges that lie ahead of us.

Performance in 2019/20

The Company managed to record a reasonable growth in business volumes during the year, despite the circumstances the country found itself in. Deposits in fact recorded a substantial growth of 21.6% year-on-year, enabling the Company to further reduce its reliance on other high cost borrowings. Growth in the loans and receivables portfolio was however limited to 5.5%. We made a conscious effort to manage our credit risk and improve our asset quality by diversifying our product portfolio, thereby reducing our reliance on microfinance products in the asset mix. Total assets grew by 15.4% to LKR 38 Bn. as at 31 March 2020.

Results of operations however failed to reflect the benefits of growth in business volumes. Both profit before and after income tax decreased by 47.7% and 49.4% respectively to LKR 660 Mn. and LKR 421 Mn. for the year. Had we been able to save the Entrust Provision of LKR 245 Mn., we would have achieved a profit after tax of LKR 565 Mn. The main contributory factors for the drop in profits were the imposition of an interest rate cap on microfinance loans, excess liquidity being invested in low yielding assets, increase in operating expenses by 12.8%, and increase in impairment charge by 28.8% consequent to deterioration in asset quality.

Addressing our pain points through Business Process Re-engineering

In the context of business being no longer as usual due to certain external developments and the changing expectations of stakeholders, as well as changes to our business model internally, we understand that our sustainability demands long term, transformative change. Hence, we embarked on a Business Process Re-engineering (BPR) exercise to address the pain points in our Organisation with a view to realise operational efficiencies and enhance customer experience. In effect, we introduced another strategic objective to our Company this year: to strive for operational excellence.

One of the key things we set about solving was our employees working overtime due to microfinance collections. We also set about reducing application processing times, paper consumption and the need to physically send documents around, and efficiently managing our inventory. With the establishment of the BPR department, we re-engineered our processes through the application of the Lean Six Sigma methodology. We analysed and mapped our existing processes and then sought ways to make them more efficient. What we ended up achieving was significantly streamlined operations through increased digitalisation, reduced redundancies in staff that could then be reassigned to more value adding roles, simpler applications for customers and more convenient repayment options via the eZ Cash and mCash platforms, and a better work-life balance for our employees.

The improvements we have been able to achieve through BPR have also seen a reduction in our staffing requirements. By optimising the assignments of our existing workforce through process rationalisation and transferring staff from areas that were overstaffed to departments that were understaffed, we have been able to freeze new recruitment. As a result of the BPR initiatives we undertook throughout the year, we saved LKR 40 Mn. from process improvements.

This is just the beginning of our BPR journey. We will be constantly evaluating and refining our processes as we pursue operational excellence. We sincerely believe that these efforts will give us a competitive edge in the industry. You can read more about our BPR journey on page 71. We are also revising our business model, which has been in operation for nearly two decades, to better fit in with our current operating environment and adapt to the needs of the new generation of Sri Lankan youth. We expect to have our new business model implemented and operational in 2020/21.

Continuing business during unprecedented times

Ensuring the safety of our staff is our foremost priority during the COVID-19 pandemic. We encouraged our staff to work from home and took steps to ensure the security of our data, while also ensuring that our services to customers continued uninterrupted. Together with the heads of departments across the Company, we analysed our Profit and Loss line items and worked to develop a comprehensive cost management plan.

Primarily contributed by the increase in interest income, total income grew by 10.6%.

LKR 9.17 Bn.

Total lending portfolio recorded a growth of 11% compared to the industry growth of negative 3.0%.

LKR 28.30 Bn.

We embarked on a Business Process Re-engineering (BPR) exercise to address the pain points in our organisation with a view to realise operational efficiencies and enhance customer experience.

This resulted in the development of over 75 tactical strategies that will be implemented over the course of the year to improve our financial stability and performance.

Embracing integrated thinking will be essential to ensuring our preparedness to tackle these unusual circumstances. Innovation through technology will also be crucial, and we have made major efforts in this respect, such as enabling payments through digital cash platforms and digitalising our internal processes. Data analytics and insights will enable further innovations and realisation of operational excellence for the Company. This journey of digitalisation that we have embarked upon has resulted in several innovations already, such as the implementation of the iTAB banking solution for field operations, enabling us to take our banking and finance services directly to our customer, in addition to providing Internet banking to improve the customer experience. We have also introduced eZ Cash and mCash digital payment platforms as payment methods to further increase convenience for our customers. HNBF has also been leveraging technology to make internal processes more efficient through the introduction of a Document Management System (DMS) and a Customer Relationship Management (CRM) system, which improve our compliance with regulatory requirements.

As the demographics and aspirations of the new generation of Sri Lankan youth change, human resources will pose a challenge to the business and we account for this in our recruitment strategies. As previously mentioned, our BPR initiative has streamlined our processes and eliminated redundant staffing by shifting excess and underutilised staff into areas that add value to the Company. This way, we ensure that we are prudent in our staffing requirements by hiring people for roles critical to the business. When hiring, we look to school leavers to fill out our sales force and groom them to take on higher positions within the Company. We look to undergraduates to take on internships and management trainee positions. With this holistic approach to human resources, we are ensuring that the Company is adequately staffed and that our employees have a clear career path ahead of them.

While we are excited about the prospects of sustained growth for the Company, we cannot deny that we are exposed to a high degree of vulnerability, given the context of our operating environment. Therefore, we have to look to new areas for growth; we anticipate that loans for agriculture and domestic production and manufacturing will be a growth area for us, and we will continue to explore and identify new areas of potential growth.

Acknowledgements

I wish to thank the Chairman and other members of the Board for their leadership, guidance, and support. I would also like to give my thanks to the officials of the Central Bank of Sri Lanka and the Department of Supervision of Non-Bank Financial Institutions for their guidance and support. I thank our employees for their spirit and resourcefulness during these trying times, especially in the face of ongoing change. Last but not least, I thank our shareholders, stakeholders, and customers for their loyalty and continued patronage of HNBF, and I hope that we can continue to count on your support going forward as our Company transforms itself to suit your needs in the times to come.

B M D Chaminda Prabhath
Managing Director/Chief Executive Officer

29 July 2020

HNBF'S PERFORMANCE IN CONTEXT

Establishing the relationship between HNBF and its stakeholders and the environment that shaped the Company's performance.

IDENTIFYING AND ENGAGING CRITICAL STAKEHOLDERS

The crafting of a successful business strategy is dependent on many factors, including the identification of parties that are impacted by and have an impact on HNBF, followed by an effective engagement strategy.

In an environment that is subject to constant and sudden changes, engaging with stakeholders is of paramount importance to HNBF. Through effective communication between the Company and its stakeholders, the Company can better understand their expectations and demonstrate how it is responding to their concerns. Continuous engagement with stakeholders can also shape the Company's strategy to accommodate their needs and the changing environment, thus enabling HNBF to stay relevant in the market and to the communities it serves.

HNBF adheres to a three-step process to identify its stakeholders and hold a meaningful dialogue with them.

Stakeholder engagement

Stakeholder Identification

Identification of stakeholders by determining:

- Who is directly linked to the Company
- Who is indirectly linked to the Company
- Who is impacted and how are they affected by the Company's action

Identified stakeholders

- Employees
- Customers
- Community
- Investors
- Suppliers
- Regulators

Stakeholder Prioritisation

- To derive the best possible outcomes from the Company's engagement process, the necessary resources to manage each stakeholder relationship effectively is determined through a mapping process. Mapped to a priority matrix based on their interest in the business and the degree of influence they have over the Company's strategy and direction

Influence High	**Keep satisfied** Government and Regulators	**Manage closely** Customers Employees Investors
	Monitor Suppliers Environment	**Keep informed** Community
	Low	High
	Interest	

Stakeholder Engagement

Once the stakeholder relationships have been prioritised, the engagement approach is crafted by determining the appropriate modes of engagement for each stakeholder group

Mode and frequency of engagement

Employees		**Customers**		**Community**	
User-friendly and comprehensive HR system	Continuous	Call centre, meeting centres, customer visits	Continuous	Microfinance for female customers	Continuous
Grievances Officer	Continuous	Company website, social media	Continuous	Community projects	Continuous
Company newsletter	Monthly	Product development	Continuous	Conscious discussions about the environment	Continuous
Mehewara magazine	Quarterly	Anti-discrimination policy for all cultures	Continuous	Information published on Company website and social media	Continuous
Company emails, memos, training	Continuous	TV, Radio, Press	Quarterly	Press releases	Continuous
Open-door culture	Continuous				
Performance reviews	Bi-annual				

Stakeholder concerns and expectations

Employees	**Customers**	**Community**
Attractive remuneration packages	Details on loans, payments, interest rates, new product developments	Obtaining loans to develop their businesses
Regular updates on Company performance	Access to Company information	Support in carrying out day-to-day activities
Recognition and appreciation	Ensure customers are treated fairly	Ensure that the Company is not causing harm to the environment
Development of skills and experience in respective fields	Products that meet their needs	
Communication with the Management	Acceptance and no discrimination	
Career development and growth	Satisfaction with services provided and quality of service	
Work life balance	Financial literacy	

HNBF response

Employees	**Customers**	**Community**
Ensure safety of employees and provide them with job security and social events.	Provide customer-centric and well-diversified products and services to customers.	Microfinance is one of HNBF's main services to female customers in the community, empowering women across the island and enhancing their living standards.
Provide competitive salaries on par with industry.	HNBF Loan Executives conduct weekly meetings at 11,000 meeting centres across the island to better serve customers.	HNBF works in the best interests of its customers. Through the *Mehewara* Fund, the Company improves the well-being of community members who are also customers.
Provide a monthly summary on Company performance, HR details, and other important aspects regarding monthly review meetings.	Maintain a continuous relationship with customers and improve services.	HNBF does not provide loans to projects that harm the environment.
Quarterly update of Company events, appreciating employee performance, and showcasing achievements of staff's children.	Conduct surveys to obtain feedback and improve the Company's strategies to meet the needs of customers.	The Company has initiatives in place to reduce paper, water, and energy consumption.
Training and development programmes for all staff, diploma programmes for managers, outbound training to build close relationships.	Respect customers and show compassion towards them while being professional.	Continuous engagement and being close to them.
An open organisational culture where employees are free to communicate with all senior level Management.	Financial inclusion	Creating job opportunities.
BPR exercise to improve work life balance.		Making them part of the supply chain wherever possible.
Communication with employees about their current performance and internal career opportunities.		

	Investors		Suppliers		Regulators	
Mode and frequency of engagement	Annual reports	Annual	Regular meetings	Ad-hoc	Audits and other reviews by CBSL and other regulatory bodies	Annual
	Annual General Meeting	Annual	Telephone calls, letters, and emails	Continuous	Report submission	Ad-hoc
	Interim Financial Statements	Quarterly			Press releases	Ad-hoc
	Company website	Continuous			Discussions and meetings by senior management	Ad-hoc
	Press and media releases	Ad-hoc			Directives and circulars	Continuous
Stakeholder concerns and expectations	Sustainability of business operations		Support given to local small-scale suppliers		Compliance with regulations	
	Sound risk management methodologies		On time payments		Responsible and sustainable business practices	
	Ensure that proper governance mechanisms are upheld				Timely responses	
	Timely dividend payments					
HNBF response	HNBF complies with all regulations and ensures the highest ROI for investors.		HNBF primarily sources from local suppliers to support the upliftment of local industries.		HNBF ensures that sound internal controls are in place and undertakes regular reviews to ensure compliance at all levels of the organisation.	
	HNBF undertakes continuous risk assessment exercises to identify risks faced by the Company and the necessary actions to address them.		HNBF ensures that ethical procurement practices are upheld within the Company.		Immediate responses to queries raised.	
	HNBF ensures that all corporate governance requirements are adhered to.					
	Continuous monitoring of capital and liquidity requirements to ensure viability and sustainability of the operations					
	A culture of compliance in the spirit of rules and regulations					

ASSESSING THE ISSUES THAT CAN AFFECT HNBF

Another factor in the crafting of a successful business strategy is understanding the impact of issues on the Company and its stakeholders, and determining the significance of these issues.

HNBF conducts a materiality analysis to gain insights into trends and business risks and opportunities that can impact the Company's ability to create value. Therefore, the materiality analysis constitutes a critical part of HNBF's strategic planning and reporting processes. Material issues are reviewed and prioritised on an annual basis. These issues are identified through stakeholder engagement activities and the Company's annual risk assessment programmes which take into consideration the risks posed by the current operating environment.

A multi-step process is used to identify the topics that have the most significant impact on HNBF's value creation process. The first step is a PESTEL analysis of potential material issues categorised by the stakeholder groups which they impact.

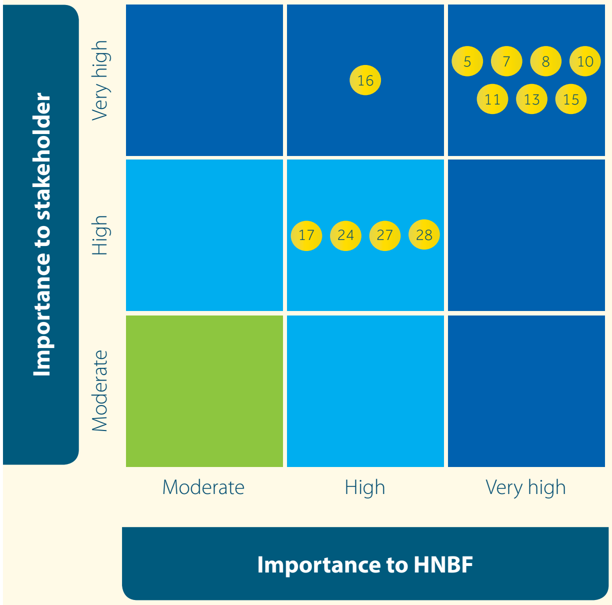
Stakeholders	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
Employees		① Employee productivity	② Staff recruitment and retention	③ Technology driving change in job skills		④ Human and labour rights
			⑤ Employee satisfaction and engagement	⑥ Operational efficiency		
			⑦ Training and development			
			⑧ Equal opportunity and anti-discrimination			
Customers		⑨ Increase in non-performing loans	⑩ Changing customer expectations	⑪ Technological developments, including digitalisation and automation		
		⑫ Import restrictions	⑬ Customer satisfaction	⑭ Data security and privacy		
			⑮ Customer engagement			

Stakeholders	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
Community and the environment			16 Community investment and engagement		17 Reduction of environmental impact of operations	18 Compliance with regulations
			19 Need to commit to Sustainable Development Goals (SDGs)		20 Natural disasters and poor disaster preparedness	
			21 Impact of COVID-19			
Investors	22 Political instability	23 Economic slowdown	24 Demand for increased transparency and accountability			25 BASEL III compliance requirements
						26 Pending BASEL IV compliance requirements
Suppliers			27 Sustainable procurement			
			28 Strengthening relationship			
Regulators						29 Prevention of financial crime

The next step in the process is to map the topics by the impact they have on HNBF and its stakeholders. Topics are categorised as either risks or opportunities or both.

The materiality analysis plays a role in the formulation of HNBF's strategies and strategic imperatives. The materiality of a topic is assessed by its relevance to the Company or the stakeholder and its significance, as determined by the likelihood of its occurrence and the magnitude of its impact. The importance of material risks and opportunities is then assessed on a scale of high, moderate, and low importance to the Company and its stakeholders.

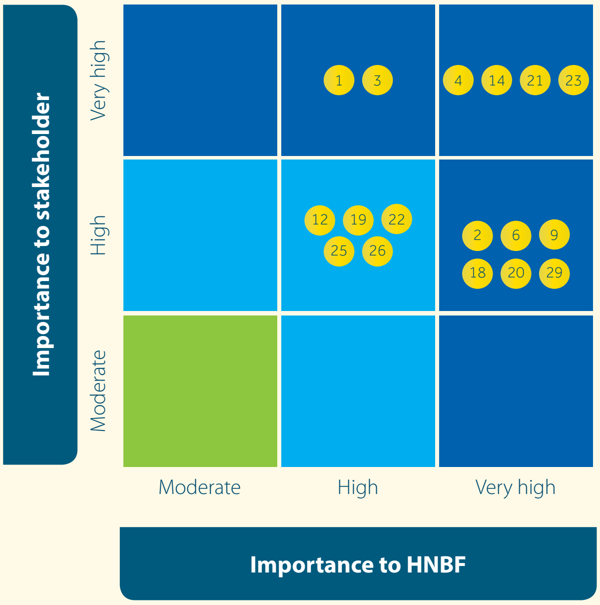
Opportunities to be seized



Importance to stakeholder	Moderate	High	Very high
Very high		16	5 7 8 10 11 13 15
High		17 24 27 28	
Moderate			

Importance to HNBF

Risks to be mitigated



Importance to stakeholder	Moderate	High	Very high
Very high		1 3	4 14 21 23
High		12 19 22 25 26	2 6 9 18 20 29
Moderate			

Importance to HNBF

DEFINING HNBF'S STRATEGY

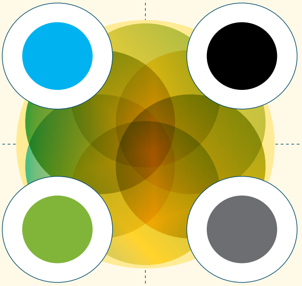
HNBF's strategy is defined by six strategic objectives that encompass the needs of its stakeholders, the materiality of relevant issues, the operating environment, and the Company's objectives.

Upon determining the materiality of topics by their relevance to HNBF and its stakeholders, the material topics are managed in line with the Company's strategic plan. Accordingly, responsibilities are assigned to the appropriate functional unit heads. Resources are allocated based on the degree of materiality of a risk or opportunity.

As the Company transitions from a Grameen-based operation to a fully-fledged financial services institution, it has undertaken several initiatives as part of its strategic plan that aims to position the Company as the preferred financial services provider for the mainstream finance services market. Furthermore, a SWOT analysis of the Company and a detailed competitor analysis were used in the drafting of the "HNBF 2020 Agenda", a three-year strategic plan that laid out five core strategic objectives that serve as the pillars of HNBF's transformation into a fully-fledged financial services institution by the end of 2020/21.

The Company embarked on a Business Process Re-engineering journey, wherein the Company has ascertained where improvements are necessary and determined what aspects require further investment. Accordingly, a sixth strategic objective was realised for the Company: striving for operational excellence.

SWOT analysis



Strengths

- Pioneer in the Microfinance segment in Sri Lanka
- Experienced staff
- Island-wide branch network
- Backing of HNB, one of the four domestic systemically important banks in the country
- Relatively large customer base
- Diversified product portfolio
- Strong corporate governance practices
- Customer-centric services
- Strong brand perception among the community

Weaknesses

- Lack of unique/customised savings propositions
- Drawbacks in technology infrastructure such as legacy systems

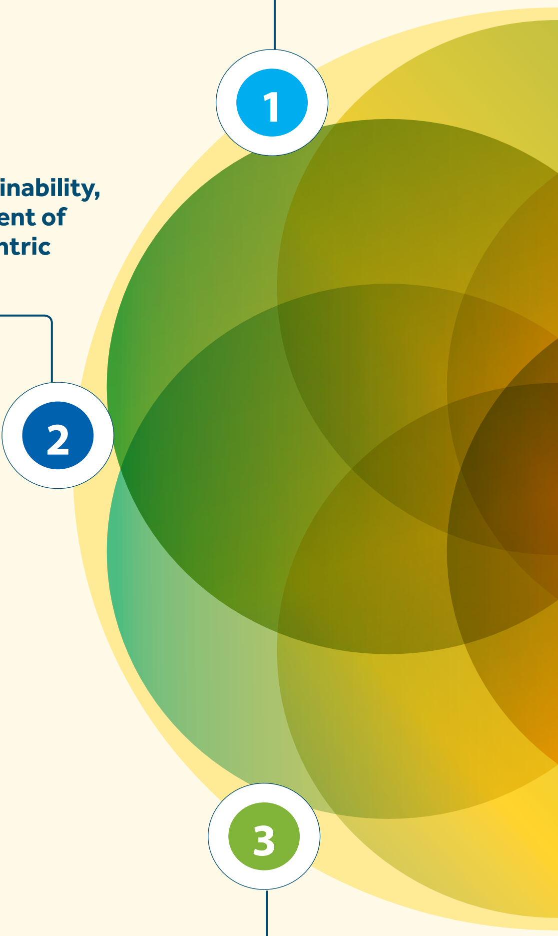
Opportunities

- Expansion through cross selling to the existing customer base
- Leverage on the parent HNB brand to unlock potential synergies
- Expand outreach through new technology solutions and large sales force
- Ability to expand outreach through diversification
- Appealing to an expanded audience through the new corporate identity and branding

Threats

- Stiff competition from banks, peers in the NBFI sector, and the informal sector
- Strict regulatory controls
- Political and economic instability
- Unethical practices/tactics of certain players having damaging consequences on the entire industry
- Uncertainty and instability caused by COVID-19

Our Strategic Objectives



1 Develop and retain high quality human resources

- **Performance-based incentive scheme**
- **Organisation restructure**
- **Performance Management System**

- Engage an external HR consultant to develop a comprehensive HR strategy, including a recruitment plan for middle and senior-level employees
- Develop and communicate career progression plans
- Implementation of 9-box appraisal system and gap analysis. Appraisals to be done annually. Further improvements to be made once HR consultant is finalised, based on their suggestions

2 Growth, sustainability, and development of customer – centric products

- **Strict monitoring of non-performing assets and strengthened evaluation of customers' creditworthiness**
- **Strengthened the recovery function**
- **Due diligence exercises conducted on certain finance companies resulted in unsatisfactory outcomes; Company continues to monitor market for any potential opportunities**
- **Easy and *Abilasha* products merged (SSE segment)**
- **Utility bill payments incentive scheme upgraded**
- **Centralised Credit department**

- Consumption loans
- Fee-based income on remittances (MoneyGram)
- eZ Cash online integration and introduction of QR codes in progress
- Research in progress to determine ways to improve the Gold loans product
- Cost benefit calculation on each product

3 Develop and leverage multi-channel environment to support delivery of products and services

- **Explored partnerships with third-party mobile financial services solutions (Dialog eZ Cash, Mobitel mCash)**
- **Provide customers option to pay loan or lease instalments via mCash and eZ Cash**
- **Existing POS machines and field operations were optimised; utility bill payment collection function was deployed**

🟦 Actions completed in 2019/20 ⬜ Actions to be completed

Strive for operational excellence

HNBF completed a Business Process Re-engineering exercise in all branches across the island to achieve operational excellence

Superior branding and marketing strategy

Branch rebranding completed

Sustainability projects and CSR activities are ongoing in microfinance communities

Ground-level promotions are ongoing for Marketing plan for identifying new SSE/SME/Leasing/Gold loan customers. Tie-up with the Information and Communication Technology Agency of Sri Lanka (ICTA) to access new customer groups is ongoing

Digital marketing strategy implementation and lead generation are ongoing. Social media engagement has increased through social media platforms

Company website was revamped and is now presented as a trilingual website and is used as a lead generation tool

Continuing with YouLead initiative to conduct a series of specialised workshops and seminars for women entrepreneurs and MSME customers to educate them on financial literacy

Tie-up with ICTA for financial literacy knowledge sharing with their customer base and exposing HNBF's customer base for social media/digital driven business knowledge sharing is ongoing

Leverage technology to drive growth

In the process of implementing Internet and Mobile Banking Solution with Mobile Wallet

Customer Relationship Management System

Document Management System implemented for Leasing Department

Delinquency Management Solution implemented to support Recovery and Legal process

BPR initiatives

Initiating cost savings

by limiting the stationary usage, reducing printing costs and re-modifying loans and deposits applications.

Improve business efficiency

by streamlining Leasing/SSE/SME areas of business. Establishing a separate credit department and credit admin department to improve the business efficiency. In addition, centralised bank accounts were opened to deposit collection daily by field officers by themselves.

Minimise wastage

by reducing stationary wastage, printing wastage and restructuring the branch and Head office layout for efficient staff mobility.

Minimise process variation

by mapping all the processes in branches and conducting work studies to identify areas to reduce the cycle time and improve customer satisfaction.

Minimise stress on human resources

by streamlining staff requirements, centralising back office functions, load balancing of tellers, empowering cashier, and implementing the re-engineering exercise to adhere to standard operating hours minimising variations on wastage.

Improve the process quality

by implementing processes in line with technology such as the Document Management System and Stock Management System.

Transferring manual work to digital platform

by migrating hard copies to soft copies and reducing the need to maintain physical filing systems.

More details about the BPR exercise can be found on page 71.

Product strategies

The Company has also established strategies around each of its products.

Gold loan

- Implementation of new schemes
- Launching gold loan facility to branches
- Offer customers the option to pay instalments in cash without having to visit a branch

Microfinance

- New staff for loan evaluation at Head Office
- Introducing new Corporate Social Responsibility projects
- Daily collection at the Centre
- Reducing unnecessary variation in Non-Performing Loans in terms of arrears in days
- Achieving 99% recovery rate
- Improving the loan arrears to zero days
- Introducing a collection mechanism through the Centre leaders via digital payment system

Business loans

- Enhance the business in Colombo and suburbs
- Productivity enhancement
- Improvement of portfolio quality
- Marketing activities for business development
- Diversification of business

Leasing

- Strategic alliances
- Increase direct business
- Support from HNB network
- Developing business relationship with dealers of two-wheeler and three-wheeler vehicles

Savings

- Enhance expected growth by improving staff contributions to the target
- Implement effective promotional activities to enhance customer base

THE GLOBAL AND DOMESTIC ECONOMY IN PERSPECTIVE

As trade issues and uncertainty take a toll on the global economy, the domestic economy is also subject to its own set of challenges and turmoil. Ultimately, the impact on the NBFI sector will set the scene for HNBF's overall performance during the year.

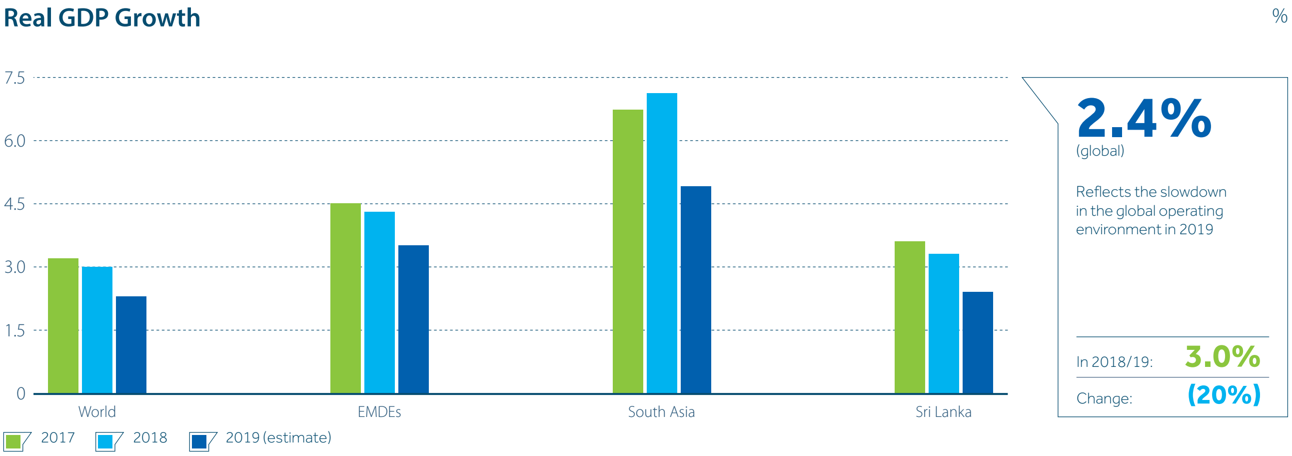
A turbulent global operating environment

Global GDP growth experienced a decline from 3.0% in 2018 to an estimated 2.4% in 2019 as per the World Bank, the weakest growth since the global financial crisis. Trade, social, and geopolitical tensions took a toll on global economic activity for most of the year, with meteorological disasters towards the end of the year – drought and bushfires in Australia, hurricanes in the Caribbean, floods in eastern Africa, and drought in southern Africa – inflicting more economic turbulence in those areas. Approximately 90% of advanced economies and 60% of emerging market and developing economies (EMDEs) experienced a deceleration in growth. Trade tensions slowed down global trade growth to 1.4% in 2019 from 4% in 2018, the lowest rate since the global financial crisis. Manufacturing activity significantly weakened, and services activity also experienced a moderate decline. Uncertainty around growth prospects led to major central banks easing monetary policies and the lower risk appetite impacted capital inflows in EMDEs. However, gold prices benefited from the trade tensions between USA and China, ending the year at USD 48.70 per gram, up 18.17% from USD 41.21 per gram at the start of the year.

Increased pressure on the regional and domestic economy

GDP growth in South Asia decelerated from 7.1% in 2018 to an estimated 4.9% in 2019. Following the slowdown in global trade and manufacturing activity, the region saw a reduction in export and import growth. Bangladesh benefited from a boost in its exports, a side effect of the tariffs resulting from the US-China trade war. Weakened domestic demand, significant currency depreciation, and monetary policy tightening slowed the growth of Pakistan's economy, while liquidity issues in India's financial sector and reduced activity in the manufacturing and agriculture sectors slowed down the country's growth. The heightened uncertainty that resulted from the tragic events of April 2019 adversely impacted business confidence and tourism in Sri Lanka, causing the economy to shrink from 3.3% growth in 2018 to 2.3% in 2019. The country's exchange rate came under pressure after the events and foreign investment was withdrawn from the government securities market.

Real GDP Growth



2.4%
(global)

Reflects the slowdown in the global operating environment in 2019

In 2018/19:	**3.0%**
Change:	**(20%)**

Sources: World Bank, CBSL

Non-Banking Financial Institutions come under stress

The prevailing situation in the country had an impact on the performance of its Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector, which suffered from negative credit growth, increasing non-performing loans (NPLs) and declining profitability. The sector, comprised of 42 LFCs and 4 SLCs, represented 7.6% of Sri Lanka's financial system with total assets of LKR 1,433 Bn. at the end of 2019, a growth of 0.1% over 2018. 77.0% of the asset base consisted of loans and advances. The sector remained stable during the year with capital and liquidity buffers maintained above regulatory minimum levels. The funding mix in the sector was largely made up of deposits, which funded increased assets. Borrowings reduced in 2019 from the previous year. The lowered business confidence and political uncertainty leading up to the presidential election during the year led to various measures being taken to safeguard the economy, such as the import of motor vehicles and lending towards vehicles being restrained. As a result, lending activities in the sector slowed down in 2019 by 3.0% to LKR 1,103 Bn., whereas it had grown 7.6% in 2018. Customer deposits accounted for 52.8% of the sector's total liabilities. Deposit growth accelerated by 5.6% to LKR 757 Bn. and borrowings decreased by 12.6% to LKR 406 Bn. during the year.

The events of the year exposed the sector to heightened credit risk. Non-performing advances (NPAs) gradually increased throughout the year due to the deterioration in economic activities following the Easter Sunday bomb attacks in April 2019 and the COVID-19 related locked down since mid March 2020. Equity risk was low as exposure to the equity market from investment in listed shares held for trading only constituted 1.0% of the sector's total assets. However, interest rate risk was high as the cost of funds and lending rates declined due to the maximum interest rates on deposits and debt instruments being imposed on LFCs. Liquidity ratio increased to 11.3% at the year end from 9.6% at the end of 2018, minimising the sector's exposure to liquidity risk as adequate liquidity buffers were maintained with a surplus of LKR 41.6 Bn., well above the regulatory minimum level of LKR 89.8 Bn.

Ultimately, the profitability of the sector declined 31.9% compared to the previous year, posting a profit after tax of LKR 14.5 Bn. due to increased non-interest expenses and higher loan provisions. Return on assets (ROA) decreased 56 basis points to 2.2% and return on equity (ROE) decreased 463 basis points to 7.5%, indicating stress in the profitability of the sector. Enhanced regulatory capital requirements saw LFCs meeting the LKR 2.0 Bn. minimum core capital mandate by 1 January 2020, thus helping to improve the sector's capital position and increasing equity capital by 10.6% to LKR 203 Bn. by the end of 2019. However, some LFCs failed to meet the minimum core capital requirement and/or minimum capital adequacy ratios. The CBSL implemented several regulatory actions to prevent further deterioration of the financial position and to maintain the stability of these institutions, thereby protecting depositors.

An outlook without precedent

The COVID-19 pandemic has gripped the world, leading to a global economic crisis that has severely compromised service sectors as tourism, retail, restaurants, and transport services have come to a sudden halt to control the spread of the virus. This is particularly detrimental to South Asian economies which rely heavily on the hospitality and transport sectors. At the time of printing, the true impact and outcomes of the measures taken in response to the pandemic have yet to be determined due to economic data not being available and the fluidity of the situation. The International Monetary Fund (IMF) anticipates that the global economy will be impacted more severely than the global financial crisis, shrinking to -3.0% in 2020. Advanced economies are expected to shrink by 6.1% and EMDEs by 1.0%, subject to the containment measures that are deployed if the virus continues to spread.

Although Sri Lanka was proactive in its response to containing the situation, the measures taken, which include curfew being imposed during key public holidays to restrict human movement and the shutdown of airports and seaports, have had a negative impact on the domestic economy. With approximately 60% of workers employed in the informal sector and an estimated 1.9 million people earning a daily wage, a large segment of society has suffered from the loss of income and livelihoods. The domestic impact combined with the fallout from the global economic recession will take a significant toll on Sri Lanka's economy in 2020. The tourism sector, which had been recovering from the attacks in April 2019, will likely stall due to global tourism coming to a standstill and the need to maintain social distancing to prevent more outbreaks of COVID-19. International remittances are also likely to weaken, severely impacting Sri Lanka's external sector. The potential positive effects of weak oil prices, accommodative monetary policies being adopted by various countries, and low global interest rates on the costs of refinancing debt repayments have been negated by capital flow reversals affecting EMDEs, including Sri Lanka. With foreign direct investments (FDIs) expected to also be setback by the ongoing events, the country will have difficulty in attracting non-debt creating capital flows in the short term.

The CBSL expects that real GDP growth will decelerate to 1.5% in 2020. The CBSL took several actions to address the impact of COVID-19, including reducing the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 100 basis points, reducing the Statutory Reserve Ratio (SRR) on all rupee deposit liabilities of licensed commercial banks by 1.00 percentage point, and reducing the Bank Rate from 15% to 10%. Furthermore, the financial sector has taken steps to ease the burden resulting from containment measures on businesses and individuals. The Government of Sri Lanka also announced relief measures for businesses and individuals, including limiting maximum retail prices for certain essential food and medical items, a cash grant of LKR 5,000 for low income and vulnerable families and individuals and allocation of LKR 50 Bn. (increased by a further LKR 100 Bn. subsequently) to be disbursed through banks and NBFIs by way of loans to the affected businesses at concessionary rates.

The possibility of repeated outbreaks if COVID-19 continues to persist could further dampen the global outlook. The impact on economic activity and financial markets could last longer than anticipated, leading to weaker than expected recovery in the global economy even after the virus has receded. Uncertainty about contagion may continue, business confidence may continue to decline, changes in corporate and household behaviour may lead to supply chain disruptions and lower demand, investments may weaken, and tightening financial conditions could have a lasting impact on several countries. It will take a concerted global effort to prioritise policies to limit the shock to the healthcare and economic systems and establish policies to ensure the recovery of the global economy at the national level and through multilateral cooperation.

BUSINESS MODEL FOR SUSTAINABLE VALUE CREATION

Being a Finance Company, our business model revolves around the two primary activities of financial intermediation and maturity transformation.

Please refer the following pages for the respective Statements of Capital Position.

FINANCIAL CAPITAL	36
INTELLECTUAL CAPITAL	42
MANUFACTURED CAPITAL	47
HUMAN CAPITAL	50
SOCIAL AND RELATIONSHIP CAPITAL	59
NATURAL CAPITAL	69

Inputs

What helps us to create value

Financial capital
- Equity capital
- Debt securities
- Customer deposits
- Cash inflow from operations
- Financial covenants

Intellectual capital
- Institutionalised knowledge
- Document Management System
- Business Process Re-engineering
- Environmental screening
- Data analytics

Manufactured capital
- Property, plant and equipment
- Information and Communication Technology
- Customer touch points
- Public goods
- Investments in BPR

Human capital
- Skills
- Competencies
- Ethical conduct
- Commitment
- Open door culture

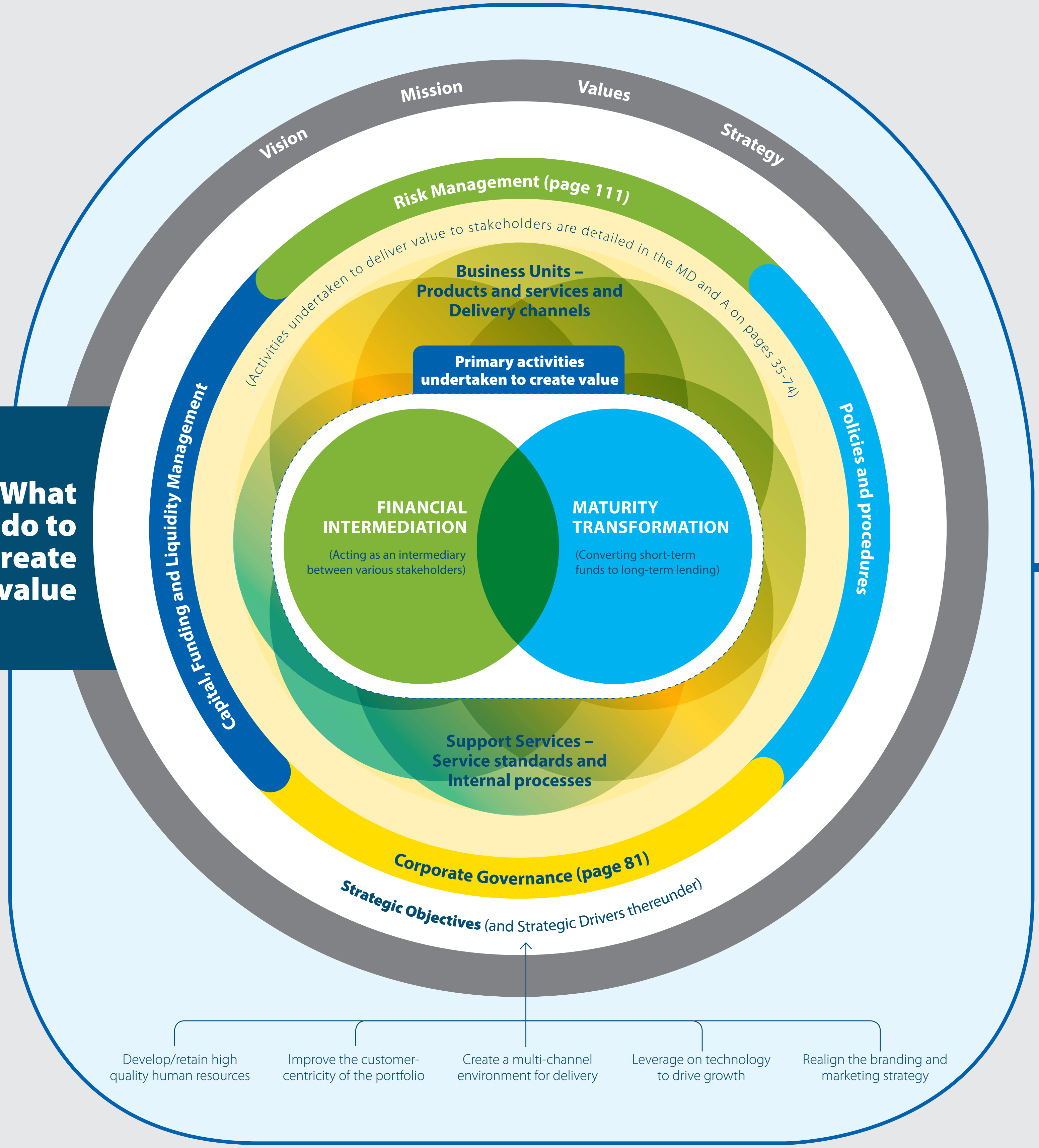
Social and relationship capital
- Customer relationship management
- Services and supplies
- Community relations
- Assurance services
- Collaborations and alliances

Natural capital
- Green branch programme
- Electricity, water and paper
- Waste collection and management

HNB Finance Limited

Activities

What we do to create value



Vision
Mission
Values
Strategy

Risk Management (page 111)

(Activities undertaken to deliver value to stakeholders are detailed in the MD and A on pages 35-74)

Capital, Funding and Liquidity Management

Policies and procedures

Business Units – Products and services and Delivery channels

Primary activities undertaken to create value

FINANCIAL INTERMEDIATION
(Acting as an intermediary between various stakeholders)

MATURITY TRANSFORMATION
(Converting short-term funds to long-term lending)

Support Services – Service standards and Internal processes

Corporate Governance (page 81)

Strategic Objectives (and Strategic Drivers thereunder)

Develop/retain high quality human resources

Improve the customer-centricity of the portfolio

Create a multi-channel environment for delivery

Leverage on technology to drive growth

Realign the branding and marketing strategy

Outputs

A diversified products and services portfolio offered

Lending products

Micro-finance segment
- *Diriya*
- *Sahana*
- *Divisaru*

Gold loans

Business loans
- *Easy*
- *Swashakthi*
- *Saviya*

Consumption loans
- Relax
- *Nivahana*

Leasing

Deposit products
- HNBF Savings account
- *Miyulasi*
- *Yalu*
- *Sureki*
- Term deposits

Services
- Financial advice
- Finding markets

Outcomes

Results of our outputs

Financial capital

Profitable growth
Satisfactory shareholder returns
Well capitalised, funded and liquid
Optimum risk-return trade-off
Well governed and fully compliant

Intellectual capital

Enhanced brand equity
Customer privacy
Integrity
Compliance
Awards and Accolades

Manufactured capital

Digital prowess
Omni-channel presence
Innovation
Enhanced capacity
Productivity improvements

Human capital

Job security and safe working environment
Equal opportunity employer
Training and development and career progression
Work life balance
Cordial industrial relations

Social and relationship capital

Customer experience, convenience and simplicity
Financial literacy
Financial inclusion and women empowerment
Strong supplier relationships and collaborations
"Social license" to operate

Natural capital

Responsible lending
Green processes and facilities
Sustainable consumption
Energy conservation
Environmental consciousness

Operating environment
Please refer page 30 for details.

It is the robustness of our business model (depicted overleaf) that enables us to create value for all the stakeholders in the short, medium and long term which is the essence of sustainability. Leveraging the inputs from our various stakeholders (value derived) as well as those built by ourselves over the years in the form of capitals, a gamut of activities centred around financial intermediation and maturity transformation generates outputs for the benefit of the same stakeholders (value delivered), leading to certain desired outcomes.

ANALYSING HNBF'S CAPITALS AND RESOURCES

As HNBF creates sustainable value for itself and its stakeholders, it forms capital. This section looks at how HNBF creates value and forms capital, both on and off balance sheet.

FINANCIAL PERFORMANCE IN A CHALLENGING ENVIRONMENT

As a capital intensive business, financial performance has a substantial bearing on the viability and sustainability of an organisation in the financial services industry.

Indicator		As at 31 March 2019/ For the year 2018/19	As at 31 March 2020/ For the year 2019/20	Growth %
Shareholders' funds (LKR Mn.)		**4,629**	**5,045**	**9**
Subordinated liabilities (LKR Mn.)		**5,668**	**5,414**	**-4**
Customer deposits (LKR Mn.)		**22,632**	**27,529**	**22**
Net cash flow (LKR Mn.)		**466**	**132**	**-72**
Risk weighted capital ratio (%)	– Tier I	**8.34**	**9.93**	**19**
	– Tier I and II	**10.09**	**14.00**	**39**
Interest earning assets/total assets (%)		**87.97**	**82.81**	**-6**
Debt/Equity (%)		**6.00**	**6.51**	**9**
Earnings per share (LKR)		**0.48**	**0.24**	**-50**
Return on assets (%)		**2.85**	**1.19**	**-58**
Return on equity (%)		**18.96**	**8.69**	**-54**

Activities undertaken to create financial capital

Leveraging equity capital and using funds mobilised from depositors and other sources, lent money to grameen, small scale enterprises and small and medium enterprises sectors of the economy

While there is no denying of the fact that financial capital is closely interconnected and interdependent on all other forms of capitals, it enables growth, organic or otherwise, and value creation by expanding delivering value to and deriving value from the various stakeholders. An acceptable level of financial performance is an imperative to build a loyal base of investors who will take a long-term view of their investments with the Company on one hand and to satisfactorily address the social and environmental aspects associated with the operations on the other hand.

Given the challenging operating environment within which the Company carried out its business activities as elaborated on page 30, HNB Finance Limited recorded a reasonable level of financial performance during the year. Understandably, both profit and profitability declined compared to the previous year. Yet, it is encouraging to note that the Company managed to record growth in its core business volumes, deposits in particular, and strengthen its financial position. Company maintained a comfortable level of liquidity as at the year end, partly aided by the lackluster demand for credit during the year, both in terms of cash and cash equivalents on the balance sheet as well as approved contingency funding available for draw down in the event of any stress situation. The Board of Directors and the Management consider it as a desirable condition to be in, since cash is the lifeblood that will help the Company in the short term to overcome the impact of the unprecedented disruptions to its business activities towards the year end and to date.

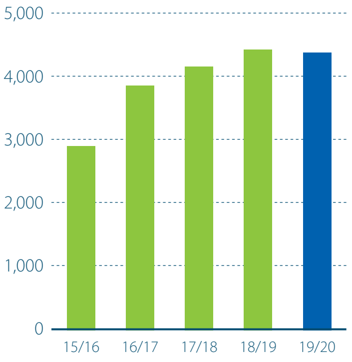
An analysis of financial performance of the Company during the year 2019/20 is given below:

Net Interest Income (NII)

Reflecting the strength of our franchise and the public trust placed on us, NII accounted for 82.9% of the total operating income, almost at the same level recorded in 2018/19. Interest income grew by 12.1% for the year, but the growth was more than off-set by a 32.7% increase in interest expenses, leading to a marginal decline of 0.9% year-on-year in the net interest income (NII) of LKR 4,386 Mn. The main contributory factors for this outcome were the significant growth in the deposit base by 21.6% consequent to the relatively higher rates offered, lower growth in loans and receivables of 5.5%, gradual deterioration in asset quality, concessions granted to customers, excess liquidity being invested in low-yielding assets as a result of the sluggish growth in the lending portfolio, the imposition of a cap on interest rates on microfinance loans, and increasing the exposure to SME and Leasing from microfinancing products. Net interest margin declined from 17.35% in 2018/19 to 15.54% during the year under review.

Net interest income

LKR Mn.



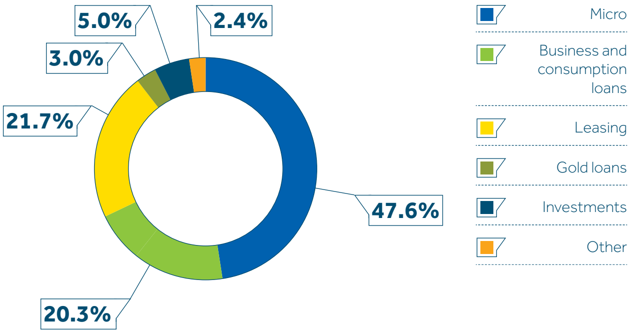
4,386

Growth in interest income was more than offset by increase in interest expenses

in 2018/19: **4,427**

Change: **(0.92%)**

Productwise interest income

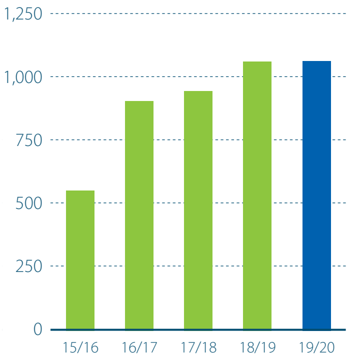


Non-interest income

Net fee and commission income grew by 9.5% during the year under review. This was a result of the fee and commission income growing by 8.6% compared to 5.0% growth in fee and commission expenses. However, other operating income declined by 22.8%. Consequently, total non-interest income recorded a marginal drop of 0.2%. Nevertheless, total non-interest income (net) accounted for 17.1% (17.0% in 2018/19) of the total operating income.

Non-interest income

LKR Mn.



1,065

Growth in net fee and commission was offset by a drop in other operating income

in 2018/19: **1,062**

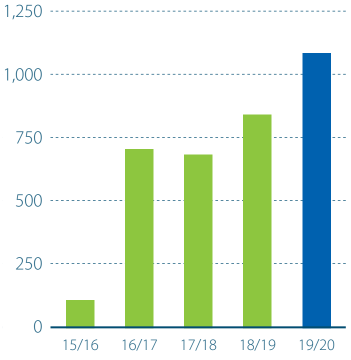
Change: **0.19%**

Impairment charges

Impairment charges on loans and other losses increased by 28.82% year-on-year. This was consequent to the gradual deterioration in the overall asset quality experienced across the industry and the economic factor adjustments taken into account to incorporate the envisaged sub-optimal operating environment when computing expected losses as required by SLFRS 9. Provision on account of the investment in Entrust also contributed to this increase.

Impairment charges

LKR Mn.



1,086

Due to sub-optimal operating environment, asset quality witnessed a gradual deterioration across the industry

in 2018/19: **843**

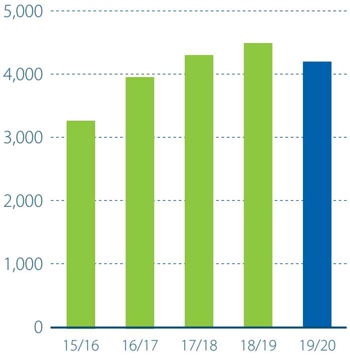
Change: **28.82%**

Net operating income

As a result of the significant increase in impairment charges on loans and other losses as explained above, net operating income decreased by 6.43% compared to the decrease in total operating income of 0.86%.

Net operating income

LKR Mn.



4,205

Significant increase in impairment charges magnified the drop in total operating income

in 2018/19: **4,494**

Change: **(6.43%)**

Operating expenses

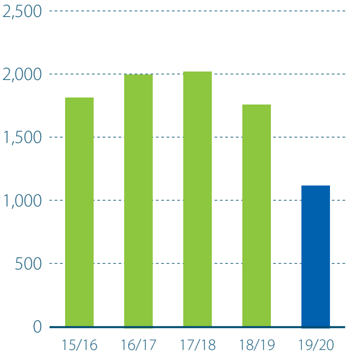
Total operating expenses increased by 12.8% year-on-year. This was due to personnel expenses increasing by 8.2% and other expenses increasing by 16.6%. In appreciation of the immense contribution from the staff across all levels to sustain our performance, despite the unprecedented volatility in the operating environment brought about by the social and economic disruptions of the Easter Sunday attacks and the spread of COVID-19 globally exerting pressure on our industry, the Company granted salary increments and incentive payments to the staff. This, we believe, will motivate our staff to dedicate and align themselves further to accomplish better performance in the forthcoming years, envisaged to be unprecedented times. Other expenses increased due to costs incurred on infrastructure development including expansion of gold loan centres, branch relocation expenses, etc.

Profit before and after taxes

Consequent to the drop in total operating income, and increases in impairment charges and operating expenses as detailed above, Profit Before Taxes declined by 36.1% for the year under review in comparison to the 2018/19 financial year. The decrease in profit before taxes and changes proposed to the Value Added Tax and Nation Building Tax rates on Financial Services in the third quarter of the financial year reduced the VAT and NBT provision to LKR 468.02 Mn. for the year from LKR 504 Mn. in 2018/19. Profit after VAT and NBT for the year declined by 49.4%. The provision for income tax decreased by 44.6% to LKR 239 Mn. (LKR 431 Mn. in 2018/19) corresponding to the decrease in profit before taxes. Profit after tax for the year was LKR 421 Mn. compared to LKR 831 Mn. reported in the previous year.

Operating profit before tax and financial services

LKR Mn.



1,128

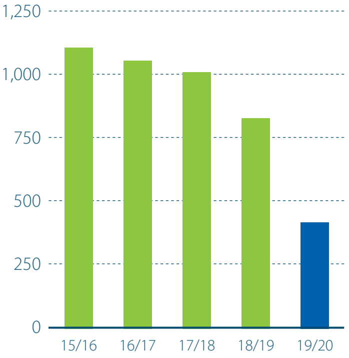
Reflects drop in operating income and increases in impairment charges and operating expenses

in 2018/19: **1,766**

Change: **(36.13%)**

Profit after tax

LKR Mn.



421

Reflects the drop in PBT and the impact of a marginal increase in effective tax rate

in 2018/19: **831**

Change: **(49.40%)**

Profitability

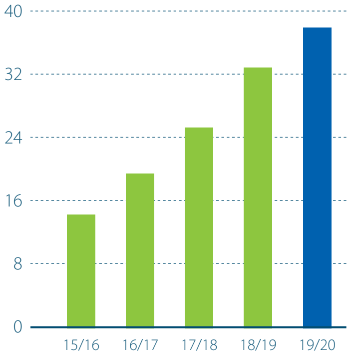
Due to decrease in operating income and increase in operational expenses, cost to income ratio deteriorated from 51.12% in 2018/19 to 58.16% for the year under review. Decrease in profit and increases in total assets and net assets affected profitability as measured in terms of Return on Assets and Return on Equity which declined from 2.85% and 18.96% in 2018/19 to 1.19% and 8.69% in 2019/20 respectively.

Total assets

Reflecting the strength of the franchise, we managed to record above industry average growth in business volumes contributing the total assets to increase to LKR 37.987 Bn. Deposits recorded a substantial growth of 21.6% while loans and advances grew only by 5.5% due to increase in impairment charges.

Total assets

LKR Bn.



38

Growth in investments, loans and receivables, and leasing funded primarily by growth in deposits

in 2018/19: **33**

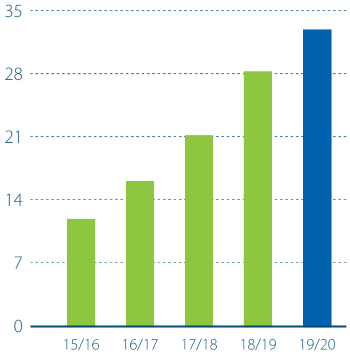
Change: **15.36%**

Total liabilities

Total liabilities of HNBF increased by 16.4% primarily due to the 21.6% growth recorded in deposits from customers to LKR 28 Bn. as at 31 March 2020 compared to LKR 23 Bn. as at 31 March 2019. Fixed deposits grew by a remarkable 26.1% during the year while savings deposits declined by 8.3%. Liability sales were mainly facilitated by the fixed deposits canvassed from corporate customers.

Total liabilities

LKR Bn.



33

Commendable growth in deposits by 21.6% consequent to the relatively higher rates offered

in 2018/19: **28**

Change: **16.41%**

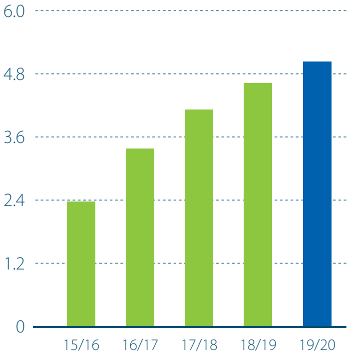
Net assets

Profit for the year contributed to grow the net assets from LKR 4.6 Bn. as at 31 March 2019 to LKR 5.1 Bn. as at 31 March 2020. Consequently, the net assets value per share improved to LKR 2.93 from LKR 2.69 as at 31 March 2019.

During the financial year under review, HNBF listed the Company on the Colombo Stock Exchange (CSE) and was able to successfully issue shares which was oversubscribed by virtue of the undoubted trust that investors have placed on the Company.

Net assets

LKR Bn.



5.04

Due to the profit for the year retained to create leeway for growth in business volumes in future

in 2018/19: **4.63**

Change: **8.23%**

Ratios (%)

	2015/16	2016/17	2017/18	2018/19	2019/20
ROA	9.08	6.24	4.51	2.85	1.19
ROE	60.58	36.62	26.91	18.96	8.69
Tier I	18.82	17.43	15.71	8.34	9.93
Tier I and II	20.35	18.37	15.63	10.09	14.00

Statement of value added

	2015/16	2016/17	2017/18	2018/19	2019/20
Direct economic value generated					
Interest income	3,906	5,327	6,538	7,229	8,106
Fee and commission income	486	670	702	778	845
Other operating income	93	237	242	285	220
Value generated	4,485	6,234	7,483	8,292	9,170
Value distributed	3,222	5,347	6,916	7,378	8,783
Employee wages and benefits					
Salaries and other benefits	712	944	1,108	1,236	1,337
Community investments					
CSR projects	–	1.65	2.01	2.42	0.83
Donations	4.21	3.29	0.13	0.04	0.04
Payments to providers of capital					
Dividends	–	189	327	–	–
Interest to deposit holders	917	1,352	2,223	2,454	3,257
Interest on borrowings	78	114	150	348	463
Payments to government					
Income tax	383	647	687	346	274
VAT and NBT	277	381	445	408	318
Other taxes and levies	11	12	11	104	154
Operating costs					
Depreciation and amortisation	86	134	165	182	214
Impairment for loans and other losses	111	708	685	843	1,086
Other operating costs	641	863	1,114	1,455	1,680
Economic value retained	1,264	887	567	914	388

Capital adequacy/capital management

HNBF is cognisant of the multiple roles capital plays in ensuring the stability, solvency and viability of the organisation. It enables our business expansion, acts as a buffer to absorb any unanticipated losses and provides protection to uninsured depositors while at the same time serves as a regulatory restraint on unjustified asset expansion. Hence, even though rising capital requirements exert pressure on us, leading to inhibit our growth, impact our costs of operations and lower the returns, we accord the highest priority to maintain both the core and the total capital as prescribed by the regulator at levels higher than those prescribed both in terms of quantity as well as quality.

Capital requirements are periodically assessed in order to accurately align it with our growth plans, risk profile and regulatory requirements, during the annual strategic planning and budgeting exercise. In order to prudently manage the available capital, we deploy such tools as balancing risk-weighted assets, monitoring on balance sheet gearing level, timely pricing of products and services, maintaining a dividend policy, continuous engagement with investors and maintaining access to a range of capital instruments.

Objectives of our Capital Management efforts include:

- Compliance with the regulatory requirements
- Maintaining stringent internal capital targets
- Meeting investor expectations
- Supporting future business expansion
- Supporting desired credit rating
- Satisfying Basel capital requirements

During the year under review, HNBF maintained capital at comfortable levels throughout the year, allowing sufficient leeway for future business expansion. Our regulatory capital already exceeds the levels prescribed by the regulator for compliance over the next two years. Capital, risk weighted assets and capital adequacy ratios as at current and previous year end are given below:

As at 31 March	2019	2020
Risk weighted assets (LKR Mn.)	38,166	40,391
Core capital (LKR Mn.)	3,184	4,009
Tier 1 capital ratio	8.34	9.93
Total capital (LKR Mn.)	3,850	5,655
Total capital adequacy ratio (%)	10.09	14.00

As evident from the oversubscription for shares at the time of listing the Company on the Colombo Stock Exchange, Company has a loyal base of shareholders who takes a long-term view of their investment in the Company and is ever willing to supportive in times when additional capital is required for business expansion.

Funding and liquidity management

As recent history has repeatedly demonstrated, liquidity as the lifeblood of the organisation, is as vital, if not more, as capital in ensuring resilience of a financial institution. In fact, liquidity plays an immense role in maintaining public trust in the Company. Accordingly, HNBF accords as much importance to funding and liquidity as it does to capital and maintains sustainable sources of funding and adequate levels of liquidity at all times. Company does not ever compromise on liquidity in order to generate returns to investors.

The Assets and Liabilities Committee (ALCO) of the Company meets on a monthly basis to closely monitor the current funding and liquidity levels and future requirements as well as pricing of products and services. Developments that affect funding and liquidity such as market liquidity, current and perceived interest rates, changes in policy rates, regulatory directions, credit growth and facilities in the pipeline, capital market developments, contingency funding arrangements etc. are extensively deliberated at these meetings.

With deposits and capital funding 72% and 13% respectively of the asset base, Company places less reliance on borrowings and has a relatively stable funding structure to be used for onward lending.

Objectives of our funding and liquidity management efforts include:

- Honouring customer deposit maturities/withdrawals
- Efficient discharge of other cash commitments under both normal as well as stressed conditions
- Compliance with the regulatory requirements
- Maintaining stringent internal funding and liquidity targets
- Optimally balancing liquid assets and profitability in order to meet expectations of investors
- Funding future business expansion at optimum cost
- Supporting desired credit rating

During most part of the year under review, market liquidity remained at higher levels due to the lacklustre economic conditions and lower demand for credit. At the year end, liquid assets ratio remained at 16.66% compared to 39.67% a year ago. Plans for contingency funding and liquidity requirements in the event of any stressed conditions are also in place.

Financial soundness indicators

Financial soundness indicator (%)	2015/16	2016/17	2017/18	2018/19	2019/20
Capital adequacy					
Tier 1 capital ratio	18.82	17.43	15.71	8.34	9.93
Total capital ratio	20.35	18.37	15.63	10.09	14.00
Asset quality:					
Gross NPL ratio	0.79	2.47	3.79	8.85	12.25
Earnings and profitability:					
Net interest income to total operating income	85.92	82.68	83.48	82.96	82.91
Interest margin (Net interest income to average assets)	28.56	26.66	21.42	17.35	15.54
Operating expenses to gross income	32.45	31.37	30.42	32.90	33.56
Impairment charge to total operating income	2.46	15.15	13.74	15.79	20.52
Return on assets	9.08	6.24	4.51	2.85	1.19
Return on equity	60.58	36.62	26.91	18.96	8.69
Cost to income ratio	42.96	41.87	46.76	51.12	58.16
Liquidity:					
CASA ratio	14.90	16.14	14.39	13.08	9.86
Gross Loans to deposits ratio	89.22	100.68	105.56	122.59	114.19
Assets and funding structure:					
Deposits to total assets	72.49	71.81	74.28	68.73	72.47
Borrowings to total assets	6.33	6.82	4.65	12.81	10.06
Equity to total assets	16.64	17.34	16.30	14.06	13.28
Deposits to gross loans	114.03	102.01	98.83	88.86	87.58

HNBF'S INTANGIBLE VALUE

HNBF's intellectual capital encapsulates all knowledge-based assets such as brand identity, institutional ethics and values, culture, policies and procedures, and institutionalised knowledge and competencies that drive innovation and improve processes. Collectively, they define the Company's competitive advantage in the market.

Indicator	As at 31 March 2019/ For the year 2018/19	As at 31 March 2020/ For the year 2019/20	Growth %
Investment in intangible assets (LKR Mn.)	**174**	**198**	**13.8**
Fitch rating (national long-term)	**A (lka)**	**AA- (lka)**	
Rating of subordinate debt	**BBB$^+$**	**A**	
Awards and accolades	**GIIRS Platinum rating**	**GIIRS Platinum rating**	
Savings from BPR exercise (LKR Mn.)	**0**	**40**	

Activities undertaken to create intellectual capital

- **Invested in BPR exercise**
- **Supported knowledge sharing initiatives**
- **Modified existing products**
- **Invested in digitalisation**

Brand identity

Digital and social media presence

Since reinventing itself as a holistic financial institution, the HNBF brand was founded on the Company's vision and core values of "InSPIRRE": Integrity, Social-consciousness, Professionalism, Innovation, Respect, Relevance, and Empathy. These are the values that HNBF employs to fulfil its core mission of responsibly and sustainably providing customer-centric, well-diversified products and services while creating stakeholder value through the Company's passionate team. With the establishment of a direct connection to the HNB brand, HNBF's identity gains greater context that leverages on the strength and stability of the HNB Group. In fact, the relationship with the Bank has a direct influence on HNBF's image, brand reputation and culture. Solidifying the brand's reputation, the Company has received many accolades for marketing and branding inventiveness, specifically on customer mind-recall and on relevance.

HNBF relaunched its website with trilingual features and a design language in line with the HNB Group. The relaunched website is in adherence to all CBSL regulations and guidelines as well. Visitors are able to immediately make use of a calculator on the homepage for loans, leases, and fixed deposits, and request the Company to call them back with more information. The website is being used as the primary contact point of the HNBF digital marketing ecosystem, and is a main lead generation tool for the Company. Additionally, HNBF has boosted its presence across Facebook, Instagram, LinkedIn, Twitter, and YouTube, accumulating many followers across the various social media platforms. The various lead generation campaigns and customer promotions conducted during the year were key in building HNBF's digital footprint.

Efforts on improving brand awareness and recognition during the year included non-digital driven activities as well. They include:

- Island Wide, targeted marketing initiatives (Below the Line (BTL)) to promote gold loans, leasing, business loans.
- Outdoor visibility projects that included branding of shops, vehicles and dealer locations.
- Giving visibility to our customer success stories on various platforms in order to promote entrepreneurship.
- Strategic Above the Line (ATL) presence maintenance.

Ethics and integrity

HNBF conducts all its operations and business to the highest standards of ethics and integrity and abides by all applicable laws and regulations. The Company does not engage in anti-competitive behaviour and adopts a zero-tolerance policy towards bribery and corruption with systems in place to counter bribery. HNBF acts with fairness, transparency, integrity, and professionalism in its dealings with its business partners and suppliers.

HNBF has an Assurance Framework made up of routine internal processes, the annual external audit, and the annual CBSL audit. In addition to these, a dedicated audit team established by a third party conducts routine branch audits, covering the entire branch network at least once a year.

HNBF is the only financial services institution in Sri Lanka to have been awarded the GIIRS (Global Impact Investment Survey) Platinum rating (awarded in 2017), which the Company received for its efforts in promoting socially responsible lending through its Microfinance business. HNBF has also received the highest ranking under the disclosure and transparency of information category by the Credit Information Bureau of Sri Lanka.

For the year under review, HNBF did not directly or indirectly make any political contributions, financially or otherwise. HNBF did not receive any fines or have any sanctions imposed for non-compliance with laws and regulations.

Culture

Culture is a combination of values, beliefs and attitudes manifested by the conduct and behaviour of HNBF's employees in its day-to-day operations and interactions with the stakeholders. The right cultural norms and behaviours define the Company and enable it to live its purpose of long-term value creation. It also includes attitude to risk and mechanisms for addressing integrity and ethics-related issues. It is all about how the Company interacts with its stakeholders based on the core values of "InSPIRRE". HNBF follows a top-down approach in establishing the culture of the Company.

The Board of Directors promotes an ethical and responsible culture through policies and procedures that align with the Company's core values and business principles. The Company's HR policies and processes too are aligned with the values to drive the desired culture. In this regard, HNBF is happy to note that its focus areas of being customer centric, constantly engaging with employees, practicing the highest standards of governance and ethics, and maintaining open communication have created a sense of pride and trust among the Company's employees. This is readily reflected in their professional approach to stakeholder interactions and their commitment and loyalty to the Company. It is also part of the Company's culture to actively seek, encourage, and respect diversity in all aspects concerning all its stakeholders.

Institutionalised knowledge

Over the past 20 years of its existence, HNBF has an accumulated repository of institutionalised knowledge embodied in its 1,965 strong staff, with a total accumulated service period of 10,429 years; systems; procedures; brand reputation; and the culture. This wealth of tacit knowledge of skills, competencies, and experience in employees immensely contribute to the maintenance of high standards in everything that the Company does. Low staff turnover rates have contributed to the retention of such knowledge within the Company. Through facilities such as the e-learning platform and *Mehewara* corporate magazine, employees are also encouraged to share their ideas, experience, and knowledge for the benefit of the existing employees and new recruits.

Policies and procedures

Enabling a formal and structured approach, HNBF has a number of Board approved policies and procedures covering almost all aspects of its operations. These policies and procedures define the framework for employees to conduct themselves by and are supported by a governance and oversight structure headed by the Board of Directors and seven Board-appointed subcommittees and several management-level committees. Policies and procedures at HNBF include:

- The Code of Conduct for all employees
- The Code of Conduct and Governance requirements for the Board of Directors
- Whistle-blower Policy
- Anti-Money Laundering and Terrorism Financing Risk Policy
- Policy on Communication
- Policy on Managing Conflicts of Interest
- Procedures for handling Related Party Transactions

Product development

The Product Development function was initiated in September 2018, for the sole purpose of developing new products and enhancing the features of existing products. This function gathers information through online research conducted locally, regionally and globally. Further information is gathered from staff belonging to different segments in order to identify untapped segments of the market and to determine the reasons for the success/failure of a given product in the market.

Product development also focusses on improving customer experience through digital solutions, and continuously monitors and reviews the performance of existing products in order to enhance the viability of such products. Special consideration is given to how technology can be utilised to enhance various aspects of the customer journey, such as, customer on-boarding and repayment of loans. Enabling repayment through mobile payment gateways is one of the key features of technology enhancements carried out.

Structural changes within business segments are closely examined in order to streamline and enhance customer experience, with all business and support departments assisting in the product development process, to ensure that all challenges are addressed from all aspects of the customer journey.

During the period under review, the organisation focussed primarily on improving the existing products, aiming to capitalise on the existing customer base.

Business Process Reengineering

As one of the functions that fall under the operational excellence pillar, HNBF is pioneering the use of Business Process Reengineering (BPR) amongst finance companies. Under BPR, HNBF analyses and re-engineers its processes for increased efficiency and optimised outputs. Thus, the Company achieves internal operational excellence while improving the external customer experience through enhanced delivery. BPR is discussed in more detail on page 71.

Business continuity planning

HNBF has a Business Continuity Plan (BCP) in place to ensure the Company's operational capability is maintained during times of emergency like the COVID-19 pandemic. The BCP enables the Company to continue operations and deliver critical products and services with minimal downtime. The Risk department and IT department hold overall responsibility for the BCP, while individual department heads are responsible for BCP within their departments.

The BCP is reviewed at least once a year as per globally accepted best practices. The Board is responsible for approving revisions made to the BCP, which are then made available to all employees, stakeholders, and relevant parties.

Legal framework and recoveries

HNBF's Legal department plays a proactive role within the Company, particularly regarding recovery efforts. The department handles all legal proceedings related to recoveries and has been instrumental in recovering a significant sum owed to the Company through litigation. The Legal department also serves in an advisory role to the top management on legal and business matters, ensuring that HNBF's interests are protected.

During the year under review, HNBF divided its efforts between "Over 90 days" recoveries and "Under 90 days" recoveries. The Company has re-engaged 65 staff who were previously overlooking other operational matters as Recoveries Officers to bolster the recoveries effort. These officers are responsible for all "Over 90 days" recoveries. The Officers have been instrumental in helping the Company meet its recovery targets. "Under 90 days" recoveries are handled by the relevant business line staff, who regularly follows up with customers. The collective recovery efforts and mechanisms in place have ensured that HNBF maintains a relatively high recovery rate compared to other finance companies in the Country.

Information Technology systems

HNBF's Information Technology (IT) systems play a critical role in the Company's transition from a Grameen-based operation to a holistic financial services provider and are essential for ensuring its continued future growth.

HNBF's IT department continued to work on the Company's IT infrastructure to increase service availability to ensure business continuity. New technologies and existing solutions were analysed to determine how they could feasibly improve internal efficiencies and reduce costs. This was a critical process as the existing infrastructure was outdated and lacked the capacity to cater to the growing demands of the business.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Digital payments

Digital customer touchpoints were improved and alternate means of conducting transactions with HNBF were implemented. HNBF partnered with Dialog and Mobitel to enable customers to make their repayments via the eZ Cash and mCash platforms, with the goal of converting 30% of customer payments into digital transactions. Given that Microfinance customers make up the majority of the Company's customer base and live in remote areas, travelling to the nearest HNBF branch can be quite inconvenient. With over 60,000 touchpoints across the island, the ability to make repayments through the nearest eZ Cash and mCash agent radically increases convenience for HNBF customers. The digital cash transactions via these channels are increasing month on month and expect to become major medium for payment collection, thus enabling officers to be repurposed with bringing in new business to the Company. HNBF is also looking to integrate gold loan payments via eZ Cash and mCash.

Document Management System

The implementation of a Document Management System (DMS) has greatly increased the reliability and efficiency of the Company's processes. The time taken to process lease facility approvals has improved considerably, as it eliminates the need for documents to be couriered between branches and the Head Office. Branches can upload documents into the DMS and complete the approval process in real-time, and loans can now be released within a day.

Customer Relationship Management

As per regulatory requirements, a Customer Relationship Management (CRM) system was implemented to manage the customer complaints mechanism. The system automates the redirection of customer inquiries to the appropriate business personnel and incorporates a ticket system based on whether the call is a complaint or a product inquiry. An escalation process is in place to ensure that if customers are not responded to within four hours, they are escalated to higher levels of management before finally-being put in touch with the CEO. The system is fully compliant with the customer protection framework.

Legal case management

HNBF implemented a legal case management solution in September 2019, moving the Legal department away from the old system that was based on manually updating Excel sheets, a process that had shortcomings. The old system made it difficult to keep track of the number of ongoing legal cases and case assignments, among other issues. Having completed a comprehensive system requirement analysis, the entire legal case management process was automated. The system has revamped the workflow for the Legal department, and it is now easier to track the status of cases and how much customers owe the Company, the duplication of processes such as sending letters has been eliminated, and costs have been reduced.

Data security

A data leakage prevention solution was implemented in 2019 to increase data security within HNBF. A classification of the Company's data was performed to distinguish data based on its level of confidentiality. Access levels were set for Company employees, with nearly 500 employees given critical data access and 900 field-level employees given limited data access to prevent sensitive information reaching outside the Company. The backend system verifies that communications that are designated as internal and confidential cannot be sent externally.

HNBF has a Cyber Security Framework in place which includes web application firewalls to prevent unauthorised access of internal applications and safeguards against potential breaches. An independent cyber security audit is conducted on a bi-annual basis to ensure that HNBF's security protocols are effective, resilient, and up to date.

IT Steering Committee

HNBF has an IT Steering Committee that has oversight on all IT-related matters at the Company. HNBF's CEO heads the committee, which is comprised of key members from several departments, including the Chief Information Officer, Chief Operating Officer, Head of Finance, Head of Risk, Head of Internal Audit, and Head of BSD.

Preparedness for COVID-19

The COVID-19 lockdown came suddenly and during a busy time of the year. However, HNBF's Business Continuity Plan ensured that operations continued smoothly after the lockdown was initiated. Employees were issued laptops and a secure data dongle to access the Company's systems via a secured VPN connection. These remote access systems had been active in the Company since 2016. Field staff carries tablet computers and POS machines that enable them to continue carrying out their operations and thus did not need access to a branch. The investments HNBF has made in its IT infrastructure have ensured that the Company remains resilient even under extraordinary circumstances, as the COVID-19 lockdown has demonstrated.

Awards and recognition

HNBF's efforts and innovations in enhancing branding and marketing, customer experience, operational efficiencies, and deploying technology continued to be felicitated and recognised at various industry forums during the year.

BestWeb.lk Awards 2019

Overall Silver Award – Best Website

8th ACEF Asian Leaders Forum and Awards, India

Gold Award for Best Rural Activation for Brand Awareness

National Business Excellence Awards

Runner Up at National Business Excellence Award for Non-Banking and Financial Services Category

SLT Zero One Awards

Gold Award for Overall Best Website or Microsite

Gold Award for Best Digital-Integrated Campaign – Finance and Banking sector

Gold Award for Best Website or Microsite – Finance and Banking sector

14th Annual W3 Awards, USA

Silver Award in Banking and Finance sector

CNCI Achiever Awards

Merit Award CNCI Achiever Awards 2019 for Industrial Excellence

BestWeb.lk Awards 2019

Gold Award for Best Website in Banking and Finance Category

International Business Magazine Awards, UAE

Best CSR Finance Company 2019

Priorities for the future

Technology will play a pivotal role at HNBF and the IT department will continue to support and collaborate with the various departments to design and implement innovative yet practical solutions. Technologies such as Robotic Process Automation (RPA) will be analysed to automate mundane tasks such as bank reconciliation and impairment calculations. Data analytics will play an increasingly important role as the Company transforms itself for the future, and the COVID-19 pandemic will compel many businesses to embrace these technologies sooner than later.

Internal processes such as inventory management that are currently performed manually will be automated. Reduction in costs and overstocking are anticipated benefits of the system, which will also see the implementation of a centralised purchasing system, the efficient internal distribution of inventory between branches, and asset tracking and management through tagging and QR codes. The HNBF co-branded debit card that rides on parent company HNB's ATM network has expanded financial inclusion for over 250,000 people who have never had access to ATM cards previously. HNBF will continue on this path of financial inclusion by introducing a co-branded credit card and introducing online and mobile banking. As part of the CBSL's Digital 2025 initiative, HNBF will onboard Lanka QR to facilitate digital payments through accounts held with the Company or third-party bank accounts through an app.

PHYSICAL ASSETS THAT HNBF DERIVES VALUE FROM

HNBF's manufactured capital represents the physical assets that are available to the Company for use in the provision of services in pursuit of its mission.

Indicator	As at 31 March 2019/ For the year 2018/19	As at 31 March 2020/ For the year 2019/20	Growth %
Cumulative investment in PPE (at carrying value) (LKR Mn.)	1,421	1,626	14.4
Branch network (Nos.)	48	48	0
Service centres (Nos.)	21	21	0
Gold loan centres (Nos.)	11	44	300.0
CAPEX incurred during the year (LKR Mn.)	137	97	(29.2)
Investment in brand building (LKR Mn.)	83	97	16.9

Activities undertaken to create manufactured capital

Besides using public infrastructure, invested for acquiring and maintaining physical assets to facilitate the offer of our value proposition to the customer and to enhance operational efficiency

These include assets such as buildings, equipment, technology, etc. that are owned, leased, or controlled by the Company as well as public infrastructure such as roads, ports, bridges, and the like. These have been deployed at or are being used by the Head Office, outlets, and the off-site Disaster Recovery Centre, and help the Company to be nimble and resilient. It is the manufactured capital that facilitates interactions between the Company and its various stakeholders through physical outlets, mobility, communication channels and devices, and other infrastructure. It is integral for the delivery of value to and deriving of value from stakeholders. On one hand, it is these forms of manufactured capital that enable HNBF's presence in the markets and offer the Company's products and services. On the other hand, it also enables HNBF to enhance the efficiency of its internal operations by being innovative and productive.

Further, Manufactured Capital has contributed to enhance the following aspects of HNBF's business in the recent past:

- Business Process Re-engineering exercise
- Adoption of green practices
- New product development
- Augmenting customer experience
- Waste and emissions reduction

The assets underlying manufactured capital play an imperative role in almost all the aspects of the business from business model to risk management and governance to compliance. HNBF's capacity to maintain sustainable growth and generate acceptable returns is dependent on and related to the amount and "quality" of the Company's manufactured capital. All the above benefits combined have vastly contributed in this regard.

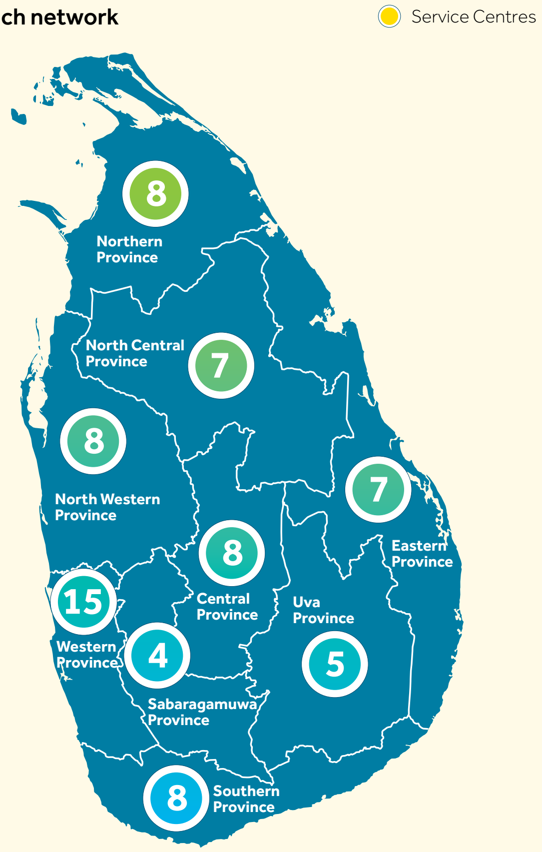
Manufactured capital and financial capital are interrelated in that it is the latter that enabled the acquisition of the former that is owned by the Company and both are shown in the Statement of Financial Position. The cumulative amount so invested over the years in manufactured capital was LKR 1,626 Mn. as at 31 March 2020 at their carrying value. Further details are given in Note 25 to the Financial Statements on page 134. The amount invested during the year was LKR 97 Mn.

Branch network

Since its origins as a Grameen-based organisation, HNBF has transformed into a listed financial services provider with a widespread network of touch points island-wide. Physical presence through branches is important to reach the customer segments in unpenetrated areas in the island.

	2015/16	2016/17	2017/18	2018/19	2019/20
Total branches	48	48	48	48	48
Service centres	21	21	21	21	21
Leasing units	–	15	20	30	25
Gold loans branches/ service centres	–	–	–	11	44

Branch network



Manufactured capital and the lockdown

Having realised the role that technology (a component of Manufactured Capital) could play in enhancing customer experience and achieving operational efficiency, the Company has made significant investments therein over the past several years. HNBF has been proactive in its decisions making to build resilience; through its Business Continuity Plans, the Company has been geared since 2016 for remote working arrangements to carry on its operations uninterrupted in situations such as the

> **The "Niwahana" loan scheme helped us to commence the construction of new buildings required for our business.**
>
> Aruni James and Tony James run the "Omeeka Restaurant" in Malabe. To give their customers a unique experience, the two of them wanted to add features and expand their business. They came to HNB Finance and received a prompt and convenient service, and got started with the construction of the new buildings for their expansion.

Central Province

- Dambulla Branch
- Hatton ●
- Kandy Branch
- Matale Branch
- Nawalapitiya Branch
- Nuwara Eliya Branch
- Rikillagaskada ●
- Walapane ●

Eastern Province

- Ampara Branch
- Batticaloa Branch
- Dehiattakandiya ●
- Kalmunai ●
- Kantale Branch
- Pothuvil ●
- Trincomalee Branch

Northern Province

- Jaffna Branch
- Kilinochchi ●
- Mallavi ●
- Mannar Branch
- Mullaitivu ●
- Nedunkerni ●
- Nelliyady ●
- Vavuniya Branch

North Central Province

- Anuradhapura Branch
- Galenbidunuwewa ●
- Kekirawa ●
- Medawachchiya Branch
- Nochchiyagama ●
- Padaviya Branch
- Polonnaruwa Branch

North Western Province

- Chilaw Branch
- Galgamuwa Branch
- Kuliyapitiya ●
- Kurunegala Branch
- Nikaweratiya Branch
- Norachcholai ●
- Puttalam Branch
- Wennappuwa Branch

Sabaragamuwa Province

- Balangoda ●
- Embilipitiya Branch
- Kegalle Branch
- Ratnapura Branch

Southern Province

- Ambalangoda Branch
- Beliatta Branch
- Galle Branch
- Hambantota Branch
- Matara Branch
- Morawaka ●
- Pitigala ●
- Thissamaharama ●

Uva Province

- Badulla Branch
- Bandarawela ●
- Mahiyanganaya Branch
- Monaragala Branch
- Welimada Branch

Western Province

- Avissawella Branch
- Bandaragama Branch
- City Branch
- Gampaha Branch
- Head Office
- Homagama Branch
- Horana Branch
- Ja-ela Branch
- Kaduwela Branch
- Kalutara Branch
- Mathugama Branch
- Moratuwa Branch
- Negombo Branch
- Nittambuwa Branch
- Wattala Branch

lockdown that was recently imposed in the country. The wisdom of investments made in equipment and technology was obvious when taking into consideration the role it played when Business Continuity Plans were seamlessly executed during the lockdown, minimising disruptions to customer service and operations and upholding the interests of all stakeholders, while respecting the guidelines of the health authorities. We envisage frequency and magnitude of disruptions to increase and hence, the relevance and importance of manufactured capital also to increase further in the years to come regardless of the possible changes to the business model that will gradually move from a brick and mortar branch based one-to-one predominantly based on digital channels. Hence, in preparation for meeting such challenges, the Company will not be hesitant to continue to make further investments as necessary.

Trade-offs

Being aware of the numerous trade-offs in the Company's use of Manufactured Capital such as reduction in the stock of Financial Capital and the impact on Natural Capital, every effort is made to maintain and upgrade HNBF's Manufactured Capital stock in an efficient manner so that it can improve functionality, extend its useful life, and reduce environmental footprint, thereby boosting the Company's business operations and mitigating the negative impacts on other capitals. Sharing of Manufactured Capital such as the branch and ATM network of HNBF's parent and collaborations such as mCash, and eZ Cash for loan repayments too has helped minimise negative impact of our operations on other capitals.

Priorities for the future

HNBF will continue to expand the branch network and develop alternative channels while leveraging other networks currently available to serve its market segments. In the meantime, it has identified each branch in its branch network under the demographic it primarily caters to. This will allow the Company to better serve its customers by specialising in offering products and services that suit the demographics of that location. As an example, products aimed at Small and Medium-sized Enterprises (SMEs) and Small-Scale Enterprises (SSEs) would be more suitable for branches located in urban areas, whereas microfinance products would be more suitable for branches located in rural areas.

HNBF'S MOST VALUABLE CAPITAL

HNBF's human capital is comprised of the knowledge, skills, experience, training, and talent that its employees possess individually and collectively.

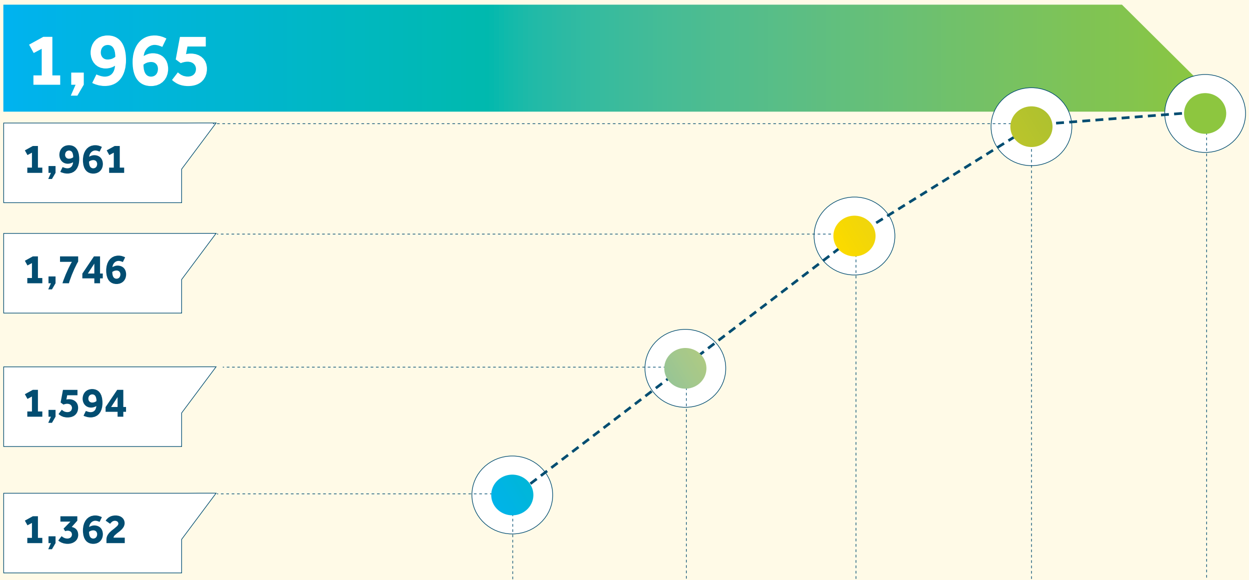
Indicator	As at 31 March 2019/ For the year 2018/19	As at 31 March 2020/ For the year 2019/20	Growth %
Number of employees	**1,961**	**1,965**	**0.2**
Number of new recruits	**694**	**547**	**(21.2)**
Staff turnover ratio (%)	**8.7**	**10.7**	**23.0**
Investment in T&D (LKR Mn.)	**13.0**	**10.4**	**(20.0)**
Training hours per employee	**11.1**	**9.1**	**(18.0)**
Profit per employee (LKR)	**423,557**	**214,002**	**(49.5)**
Employee diversity (Male:Female)	**11:01**	**12:01**	
Average service period per employee (Years)		**5.3**	
Accumulated service period of employees (Years)		**10,429**	

Activities undertaken to create human capital

Treated and looked after the well-being of the staff while creating an environment for employees to grow professionally and have a fulfilling career.

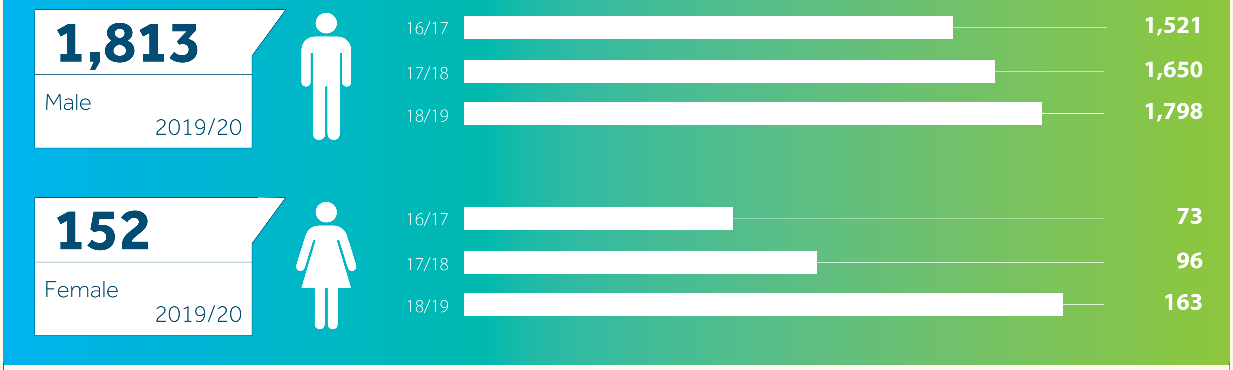
HNB Finance's human capital is one of the Company's most valuable assets. This was evident once again in letter and spirit in the way the Company treated and looked after the well-being of its 1,965 employees during the recent lockdown. As a service organisation, the diverse workforce represents the Company and delivers its value proposition to the market. HNBF can only be as good as its people, hence the Company strives to create an environment wherein employees can grow professionally and have a fulfilling career.

Growth in total workforce

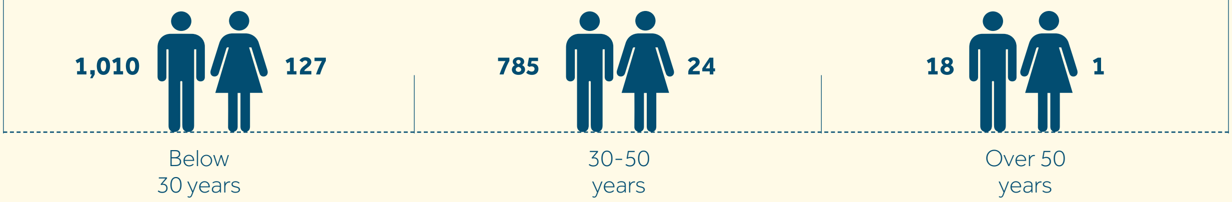


	2015/16	2016/17	2017/18	2018/19	2019/20
Senior Corporate Management	7	7	7	7	6
Corporate Management	5	6	7	7	7
Head of Department/Chief Manager	5	5	9	10	16
Senior Managerial	33	35	36	39	44
Managerial	96	111	134	140	145
Assistant Managerial	88	97	93	98	100
Supervisor	174	206	216	242	269
Officer	949	1,121	1,239	1,413	1,374
Assistant	5	6	5	5	4
Total	**1,362**	**1,594**	**1,746**	**1,961**	**1,965**

Gender distribution



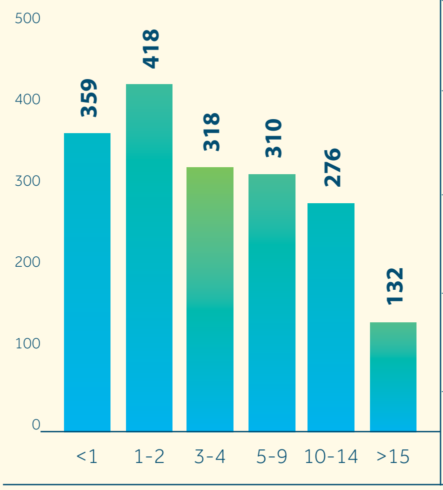
Age analysis



Service analysis of employees 2019/20

1,813

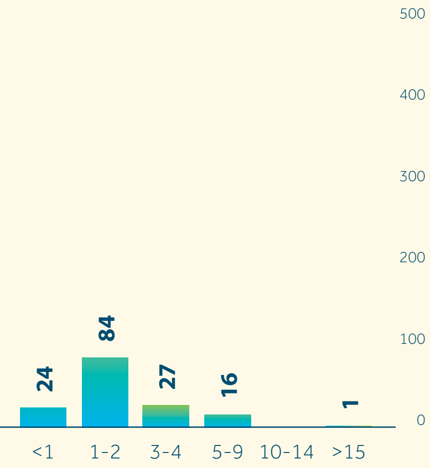
Male



Total
Below 1 year **383**
1-2 years **502**
3-4 years **345**
5-9 years **326**
10-14 years **276**
15 years and above **133**

152

Female



Workforce by gender 2019/20

Number of employees	**1,813**	**152**	Number of employees
Permanent	**1,789**	**147**	Permanent
Temporary	**24**	**5**	Temporary

Mercantile Cricket Tournament

Finance Houses Association Sports Day

HNBF secured the championship in the Mercantile Cricket Tournament by 91 runs against SLT in Group C. HNBF had previously won the championship in 2017 and 2018 in Group E and D respectively, and came up to the semi-finals in Group C in 2019.

HNBF also became the champions in the Mercantile softball six-a-side cricket tournament.

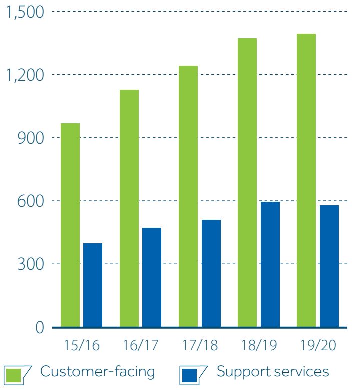
HNBF won the championship in the softball six-a-side cricket tournament organised by The Finance Houses Association of Sri Lanka for finance companies across the island. HNBF also won the 1st place in the Finance Houses Queen competition and 3rd place in the running event.

HR strategy

HNBF has a centralised HR department that has oversight over all functions, activities and strategies related to human capital. The HR function acts in a manner that treats all employees fairly and with dignity, and in compliance with all applicable employment and labour laws, labour agreements, and corporate strategy. The department is responsible for the HR strategy that complements the Company's transition from a microfinance-based organisation to a fully-fledged financial services institution. Therefore, the HR department concentrates on a recruitment and retention policy that will provide the Company with a high-quality workforce that meets its operational requirements and ensures its long-term sustainability.

Composition of staff

LKR



2.4:1

Ratio of Customer-facing to Support service staff

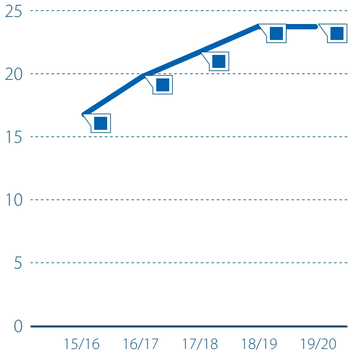
in 2018/19: **2.3:1**

Change: **00%**

The HR department prepares an annual manpower plan, subject to approval from the HNBF Board, based on input from the different departments and branches of the Company. The plan accounts for the Company's strategic objectives and employee movements (promotions, transfers, retirements, maternity leave, etc.), as well as correcting for overstaffing and understaffing in departments.

Operational efficiency – Average staff per branch

Nos.



24

Reflects the positive impact of balancing the portfolio to equal exposure between microfinance and other markets

in 2018/19: **24**

Change: **00%**

Recruitment

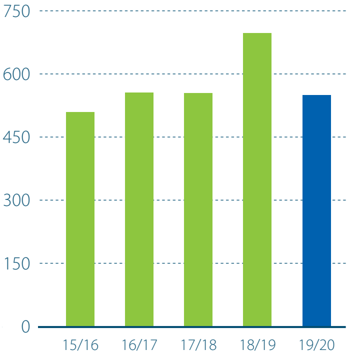
Following the annual manpower plan prepared by the HR department, HNBF sets about recruiting candidates who can fit within the culture of the Company and can potentially add value to the business through their self-development. Current employees are given the first opportunity to take on open positions within the Company before they are made public. The Company looks for potential recruits through a variety of avenues including social media advertising, job fairs, recruitment websites, and campaigns conducted at local schools around the country to attract school leavers.

Job applications received

Year	2015/16	2016/17	2017/18	2018/19	2019/20
Number of applications	2,150	2,455	2,825	3,400	2,650
Number of unsolicited applications	280	310	275	320	345

Total number of new employee hires

Nos.



547

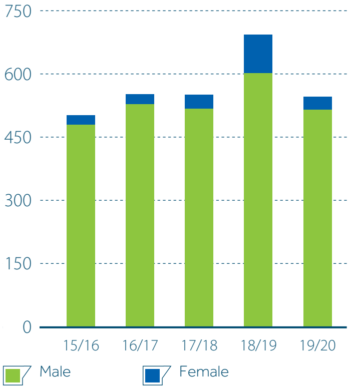
Reflects the positive outcomes of the BPR exercise leading to operational efficiencies

in 2018/19: **694**

Change: **(26.87%)**

New hires by gender

Nos.



17.2:1

More male hires is due to the business model with exposure to microfinance requiring field operations

in 2018/19: **6.63:1**

New hires by age

Year	2015/16	2016/17	2017/18	2018/19	2019/20
Below 30 years	463	492	462	579	429
30-50 years	42	59	88	107	113
Over 50 years	2	2	2	8	5

New hires by gender

HNBF keenly targets school leavers for sales positions as the Company invests heavily in developing them and grooming them to take on bigger roles in the future. School leavers undergo a three-month training programme to gain a better understanding about the industry and their role with HNBF, while the Company also identifies their skills and capabilities to find a good fit for them within Microfinance, SME, or Leasing.

For higher grades, the Company searches for candidates through websites like LinkedIn and TopJobs.lk, recommendations from current employees, and headhunting. As the Company continues to expand and diversify its offerings, it has looked to hiring candidates with relevant experience and qualifications that meet its requirements.

New hires by grade

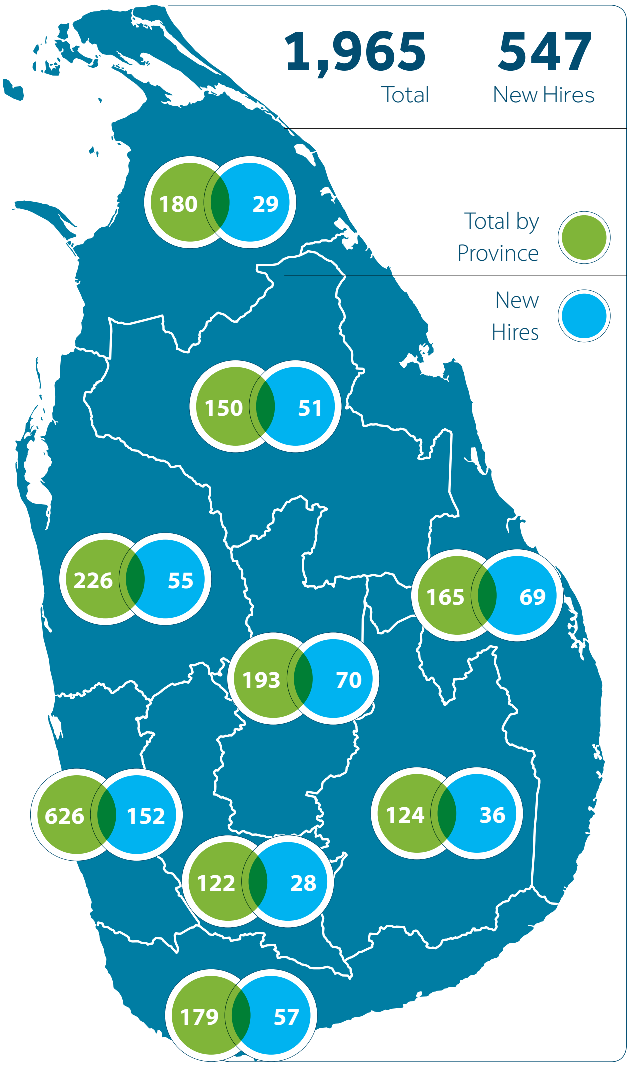
	2015/16	2016/17	2017/18	2018/19	2019/20
Senior Corporate Management	2	0	0	0	0
Corporate Management	1	0	1	0	0
Head of Department/ Chief Manager	0	0	2	2	3
Senior Managerial	0	1	1	5	2
Managerial	1	3	2	11	4
Assistant Managerial	0	9	4	4	7
Supervisor	0	3	13	26	39
Officer	500	537	529	644	492
Assistant	3	0	0	2	0
Total	**507**	**553**	**552**	**694**	**547**

HNBF also has a policy of hiring locally whenever possible. The Company strives to have 90% of branch staff live within a 5 km radius.

Proportion of senior management hired from the local community

Province	Number of senior management hired	Number of senior management from same province	Percentage
Western	59	50	85
Southern	1		
Northern	2	1	50
Eastern	2		
North Western	2	2	100
North Central	2	1	50
Sabaragamuwa	2		
Uva	2		
Central	1		
Overall	**73**	**54**	**74**

Workforce by province



Workforce by employment type 2019/20

Provinces	Contract	Permanent	Probation	Trainee
Northern	3	151	24	2
North Western	5	188	26	7
Western	11	537	70	8
North Central	2	120	21	7
Central	3	157	25	8
Sabaragamuwa	2	101	18	1
Eastern		127	29	9
Uva	1	101	19	3
Southern	2	156	16	5
Total	**29**	**1638**	**248**	**50**

HNBF seeks potential recruits through a variety of avenues such as social media advertising, job fairs, recruitment websites, and campaigns at local schools across the country.

New hires in 2019/20 **547**
(694 in 2018/19)

Equal opportunity employer

HNBF is an equal opportunity employer and does not discriminate on the grounds of gender, age, race, or religion. The Company takes a non-discriminatory approach to the recruitment process and every stage of the employment lifecycle. Equal pay is offered to both men and women in similar roles, and all employees are entitled to equal opportunities for their growth and development. A grievance process is in place should an employee report any case of discrimination with the aim of effective rectification of any such situation. No incidents of discrimination were reported during the year under review.

HNBF complies with all applicable labour laws and regulations and does not engage in child labour. The Company does not recruit anyone under the age of 18 for any of its operations.

5 GENDER EQUALITY

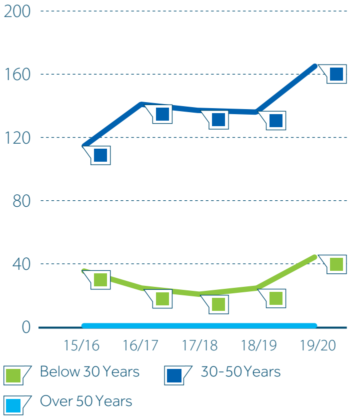
10 REDUCED INEQUALITIES

Turnover

HNBF has a lower turnover than the industry experience, averaging approximately 1% per month. The Company goes to great lengths to train and develop its employees, which can pose a challenge to the business when a position is left vacant. It is therefore in the Company's best interests to build a strong relationship with its employees and compensate them fairly in line with industry standards.

Employee turnover by age group

Years



167

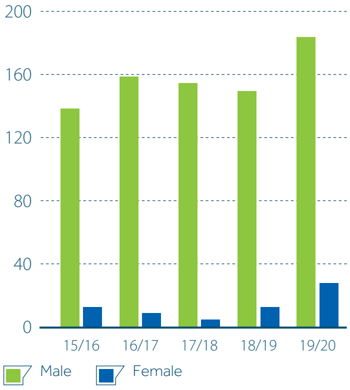
Highest turnover was experienced among employees below 30 years of age

in 2018/19: **138**

Change: **21.01%**

Employee turnover by gender

Nos.



211

Composition of employee turnover corresponds to composition of staff numbers

in 2018/19: **162**

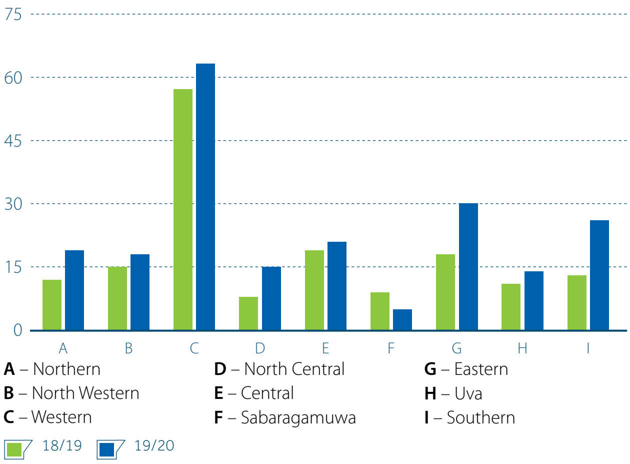
Change: **30.24%**

Employee turnover by grade

	2015/16	2016/17	2017/18	2018/19	2019/20
Senior Corporate Management	0	0	0	0	0
Corporate Management	0	0	0	0	0
Head of Department/ Chief Manager	0	0	1	1	0
Senior Managerial	0	0	0	1	0
Managerial	1	1	1	2	3
Assistant Managerial	3	0	3	4	4
Supervisor	5	5	7	3	13
Officer	142	161	147	151	191
Assistant	0	0	0	0	0
Total	**151**	**167**	**159**	**162**	**211**

Employee turnover by province

Nos.



Employee turnover by region

Region	2015/16	2016/17	2017/18	2018/19	2019/20
Ampara Region	11	8	11	9	22
Anuradhapura Region	12	10	10	7	8
Badulla Region	6	5	3	9	11
Colombo Region	14	13	10	13	8
Dambulla Region	9	11	15	8	14
Galle Region	7	7	9	9	13
Gampaha Region	8	12	6	7	13
Hambantota Region	14	4	13	6	10
Jaffna Region	5	14	12	11	9
Kalutara Region	4	10	9	11	23
Kandy Region	9	8	6	9	10
Kurunegala Region	8	15	5	4	8
Puttalam Region	8	11	10	11	10
Ratnapura Region	14	19	10	8	5
Trincomalee Region	6	6	9	15	15
Vavuniya Region	0	0	0	0	10
Wattala Region	10	11	17	7	5
Head Office	6	3	4	18	17

Training and development

HNBF views the investment in the training and development of its human resources as an asset to both the Company and its employees as it helps to build up the individual capabilities of employees, which in turn contributes to fulfilling the strategic objectives, achievements, and long-term sustainability of the business. An annual training plan and budget is prepared based on the training requirements of all departments and branches and the results of the annual performance evaluation, and lays out the schedule of training activities for the year. HNBF uses an e-learning platform which employees can take training courses about products and the Company. It is mandatory for new recruits to complete a knowledge assessment form on the platform upon their induction. The e-learning platform, along with various other training and development initiatives, has also greatly contributed to improved cost efficiencies, enabling HNBF to lower its annual training budget while addressing the training and development needs of employees.

Investment in training

2017/18 LKR Mn.	2018/19 LKR Mn.	2019/20 LKR Mn.
15	13	10.4

Employees can also request for specific training as part of an employee-requisitioned training initiative. These requests are reviewed on an individual basis by the HR department.

Training partners

- 3i Training Solutions (Pvt) Ltd.
- Development Facilitators (Pvt) Ltd.
- Skill Power Training
- Wisdom Trainer International
- Sri Lanka Business Development Centre
- Sri Lanka Institute of Training and Development
- Institute of Bankers of Sri Lanka
- Central Bank of Sri Lanka
- The Finance Houses Association of Sri Lanka
- Sri Lanka Institute of Credit Management

Training hours by employee gender

36,660

3,924
Number of employees

Total Hours – Male
35,827

1,267
Duration (In hours)

88
Number of employees

Total Hours – Female
833

115
Duration (In hours)

Training by employee grade

Grade	Number of employees	Duration (In hours)	Total hours
Senior Corporate Management	187	85	1,911
Managerial	1,249	466	10,616
Officer	1,620	408	11,839
Trainee	956	423	12,294
Total	**4,012**	**1,382**	**36,660**

Training courses offered during the year and number of attendees

Job-specific training programmes

Programme	Number of employees	Duration	Total hours
Acclivity Institutions	1	3	3
Accounts Division (HNB Finance)	101	4	404
Bar Association of Sri Lanka	3	7	21
CBSL	10	5	50
Dhara Consultant (Pvt) Ltd.	3	7	21
Dr Mikel J Harry Six Sigma Management Institute Asia	435	31	2,888
e-Learning (HNBF Internal)	621		1,276
EY Institution	8	15	59
Gold Loan Division	286	63	2,233
HNB Finance (Internal Resource Person)	75	183	798
HR Department/ Other departments	1,397	623	16,507
ICT Department	20	24	256
Outside Resource Person	465	156	5,988
InnoventSys (Pvt) Ltd.	2	24	48
Institute of Chartered Accountants of Sri Lanka	2	8	16
K Seeds Investment (Pvt) Ltd.	2	6	12
Legal and BSD Division	68	28	476
Recovery Division	210	14	1,470
Saegis Campus	15	32	480
SME Division	42	7	294
Sri Lanka Institute of Credit Management	4	7	28
The Ceylon National Chamber of Industries	2	8	16
The Finance Houses Association of Sri Lanka	10	28	71
W&Y Investment Solutions	30	6	180
YouLead Organisation	184	61	2,809
Foreign Training	16	32	256

Special training programmes

Programme	Number of employees	Duration	Total hours
Health and Safety	97	4	102
Environment related Training	570	1	570

Performance management

The performance of each employee at HNBF is monitored on an annual basis, with certain employees in departments such as Microfinance subject to monthly evaluations. Using the Management by Objective (MBO) methodology, the performance of employees is measured using quantitative and qualitative metrics which determine the progress they have made in five core areas: goals, competencies, key result areas, values, and additional accomplishments. Employees are encouraged to meet performance targets, with incentives provided for meeting monthly objectives where applicable.

The benefits of HNBF's performance management system are twofold: it enables employees to realise their full potential within the Company, and for the Company, it helps to ensure that employees are treated fairly and equally and given every possible opportunity and advantage to perform at their best. If employees are unable to meet their targets, the Company analyses why they may not be able to do so and takes the necessary actions. For instance, an employee may not be able to perform optimally within his/her current working environment so they may be shifted to a different position or branch. Guidance in the form of training programmes may also be provided to help employees to perform better.

Succession planning

While the annual performance evaluation has historically been used to identify potential candidates for promotions, HNBF has shifted to the 9-Box model as a more structured method to encourage career growth for employees. This method sees each employee's performance measured against his/her potential and helps to facilitate succession planning at HNBF. Employees can track their performance on the internal HR system.

8 DECENT WORK AND ECONOMIC GROWTH

Remuneration and benefits

HNBF offers its employees remuneration and benefits that are competitive with industry standards and comply with all applicable statutory labour laws. Some of the benefits that HNBF employees are entitled to include:

- Performance-based incentives
- Reimbursement for travelling, vehicle, and rent expenses
- Medical insurance cover for employees and their immediate family members
- Life and personal accident insurance cover
- Personal, mortgage, educational, festival, and vehicle loans/leasing facilities
- Benefits provided by the Welfare Fund (monetary contributions for childbirth, weddings, funerals, scholarships, etc.)
- Mobile phone allowance (data and voice)
- Maternity leave

In addition to these benefits, the Company regularly organises motivational activities for employees. These may take the form of formal and informal activities designed to encourage teamwork and build team spirit and goodwill between employees.

Return to work and retention rates after maternity leave

Description	2018/19	2019/20
Total number of female employees	163	152
Total number of employees who took maternity leave	6	4
Number of employees who returned to work after maternity leave ended	6	4
Number of employees who returned to work after maternity leave ended and still employed 12 months after their return to work	1	0
Return to work rate	100%	100%
Retention rate	100%	100%

Welfare fund

HNBF maintains a Welfare Fund to benefit all employees, which is funded by monthly voluntary donations from employees. The Fund provides financial assistance to employees who are going through difficult circumstances such as funerals, hospitalisation, and operations. Additionally, the Fund also makes contributions to employees for special occasions such as childbirth and weddings.

The Welfare Fund falls under the stewardship of the CEO and the management of a committee that is appointed every two years. The committee ensures adherence to Company policies and ethical guidelines in the disbursement of funds. The Fund is subject to an annual independent audit.

For the year under review, a total of LKR 6.15 Mn. was disbursed to 261 employees.

Employee engagement

HNBF views its employees as strategic business partners. To this end, the Company is committed to engaging and building a strong relationship with them. An open-door policy helps employees to feel that they are heard and have access to top management at any time. Management teams are encouraged to regularly engage with their staff. A dedicated employee engagement officer is appointed to liaise between employees and management and handle grievances. Employees are kept up to date with corporate information and news through email, SMS, and the *Mehevara* corporate magazine. Circulars and email campaigns are used to relay specific information to employees.

Collective bargaining agreements

There are no collective bargaining agreements in place at HNBF. The Company is committed to building strong relationships with its employees on the grounds of mutual trust and respect and has policies in place to ensure that all employees are heard.

Health and safety

HNBF works to ensure the health, safety, and welfare of its employees. All branches are equipped with mandatory safeguards and comply with national building safety regulations. Field staff who have to use vehicles such as motorcycles to conduct their work are outfitted with the requisite protective clothing and regular maintenance is conducted on vehicles.

3 GOOD HEALTH AND WELL-BEING

Priorities for the future

HNB Finance will be moving the HR functions and processes to a digital platform, delivering employees an enhanced experience and service. Training will be conducted through online sessions via e-learning systems, thus facilitating the development of the Company's employees. The Company will also be focusing on improving employee retention by increasing employee engagement and motivation.

RELATIONSHIPS THAT ENSURE THE SUSTAINABILITY OF THE BUSINESS

As a service organisation, the relationships that HNBF builds with its customers, suppliers, and the communities in which it operates are instrumental to ensuring the sustainability of the business and a key strength.

Indicator	As at 31 March 2019/ For the year 2018/19	As at 31 March 2020/ For the year 2019/20	Growth %
Number of customers	**217,246**	**258,346**	**18.9**
Average size of a customer relationship (LKR)	**92,426**	**98,000**	**6.0**
Cross sell ratio	**1.2**	**1.6**	**33.3**
Number of customer complaints	**22**	**268**	**1,118**
Number of suppliers	**39**	**57**	**46.2**
Total payments to local suppliers (LKR Mn.)	**190**	**421**	**121.6**
Expenditure on CSR activities (LKR Mn.)	**2.4**	**0.8**	**(66.7)**

Activities undertaken to create social and relationship capital

- **Promoted financial inclusion**
- **Improved capacity of SMEs**
- **Supported the community**
- **Collaborated with business partners**
- **Expanded the network of outlets**

HNBF is deeply committed to building relationships based on ethics, integrity, and trust that are collaborative in nature to realise mutual benefits for all parties involved.

Customers

The relationships HNBF builds with its customers are amongst its most important and valuable assets, for they define the long-term growth and sustainability of the business. The products and services that the Company offers are built around the needs of its customers. Through developing a deep understanding of the requirements of customers, HNBF is able to deliver value to them through a diverse and comprehensive product portfolio.

Contact Centre improvements

1. **365 days availability**

   The operations of the HNBF Contact Centre have been expanded from an only weekday operation, to handle customer inquiries 365 days a year, thus providing customers with a high quality, satisfactory service to boost customer engagement.

   Operating hours:

   - **Weekdays : 07:00am – 08:30pm**
   - **Weekends : 08:30am – 05:30pm**

2. **Operating standards for the Contact Centre were implemented and are maintained methodically.**
3. **Contact Centre agents are evaluated on a quarterly basis, with programmes in place to enhance their productivity.**
4. **The CRM system, which is used to handle customer-related functions, has experienced a high degree of employee engagement.**
5. **With the implementation of the CRM system, tracking of customer complaints has been streamlined and made more efficient**

   (as evident in the significant increase in customer complaints YoY)

6. **Response time to customer inquiries has been improved, with inquiries being resolved within a maximum of six working days.**

Product portfolio

HNBF has developed a diverse product portfolio that caters to the needs of its customers in its target markets. The portfolio is split into three lines of business: financing, leasing, and investment. The Company's products comply with all applicable legal and regulatory frameworks relevant to the NBFI sector and are designed with the needs of the market and ongoing market trends in mind. No incidents of non-compliance with regulations and/or voluntary codes related to the health and safety impacts of products and services occurred or were reported during the year under review.

1 NO POVERTY

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

Microfinance segment

With a customer base of over 190,000, the Microfinance segment holds significant importance for HNBF. The target market is primarily low-income customers who reside in rural and suburban areas who are unable to fulfil the requirements of the banks and other financial institutions. HNBF strives to deliver knowledge about the market and other services to its customers with the intent of building long-term relationships with them.

HNB FINANCE Diriya

Diriya

HNBF's flagship product and the most trusted microfinance solution in the market aimed at female entrepreneurs who lack access to conventional financial services. Together with the microfinance solution, HNBF delivers the knowledge on operating a business and finding a suitable market segment to its customers.

HNB FINANCE Sahana

Sahana

A consumption loan facility available to *Diriya* loan customers who require urgent funding.

HNB FINANCE Divi Saru

Divi Saru

Aimed at long-standing *Diriya* customers with stable credit profiles to upgrade to an individual loan. The *Divi Saru* individual loan facility is also offered to private business owners who are unable to operate through the group lending model.

Business Loans – Small Scale Enterprises (SSE) segment

Products aimed at the SSE segment are designed to fund short to medium term capital and is primarily granted to businesses that maintain a current account with a commercial bank. Based on the customer's credit and transaction history, HNBF grants loans based on their savings.

HNB FINANCE Easy Loan

Easy

Small businesses holding a current account at a licensed commercial bank can use the Easy loan facility to take out loans between LKR 100,000 to LKR 5 Mn. to fund their working capital requirements.

HNB FINANCE Swashakthi

Swashakthi

Aimed at HNBF's savings customer base to offer financial assistance.

Business Loans – Small and Medium Enterprises (SME) segment

Products aimed at the SME segment are designed to capture customers who cannot otherwise access conventional financial services or lack adequate legal documentation.

HNB FINANCE Saviya

Saviya

Aimed at SMEs that require financial assistance to develop their businesses.

Consumption loans

HNB FINANCE Relax

Relax

Aimed at salaried employees working for state institutions or private sector businesses.

HNB FINANCE Nivahana

Nivahana

A housing loan aimed at professionals and entrepreneurs with stable income streams and existing long-term HNBF customers.

Leasing

HNB FINANCE Leasing	HNBF's array of leasing products range from micro-leasing to vehicle leasing and are aimed at existing and new customers.

Deposits

HNB FINANCE Savings	HNBF's Deposits products are primarily aimed at existing customers and employees. Uniquely, all HNBF's Deposits products come with the doorstep collection option which allow customers to make regular contributions (however small) towards their savings.

HNBF Savings Account

HNB FINANCE **General Savings**	Mainstream savings product that provides customers with an ATM debit card, enabling them to access their savings via HNB's island-wide ATM network.

Miyulasi

HNB FINANCE **Miyulasi**	Savings product aimed at female entrepreneurs who are utilising the *Diriya* Microfinance scheme.

Yalu

HNB FINANCE **Yalu**	Savings product aimed at children to encourage developing a savings habit by offering rewards.

Sureki

HNB FINANCE **Sureki**	A savings product that rewards depositors for maintaining good savings habits with a minimum deposit of LKR 50 a week. Specialised unique savings product to *Diriya* Microfinance Loan borrowers.

Term deposits

HNB FINANCE Fixed Deposits	Long-term fixed deposits that offer HNBF customers higher interest rates as per the CBSL guidelines and assured guarantee for their funds.

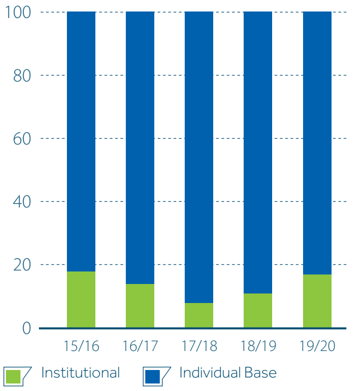
Gold loans

HNB FINANCE Gold Loan	HNBF's newest product launched in late 2018 and the product is gradually being rolled out to more branches. Through HNBF gold loans, customers can avail themselves of the highest gold values and loans provided at concessional interest rates with no service charges. The Company offers concessional instalment basis payments to settle gold items and customers can make partial payments of any amount at any time. Moreover, customers can settle gold items without having to give prior notice and collect gold items partially.

Analysis of customers

Fixed deposits analysis – Institutional vs. retail

%



LKR Bn.

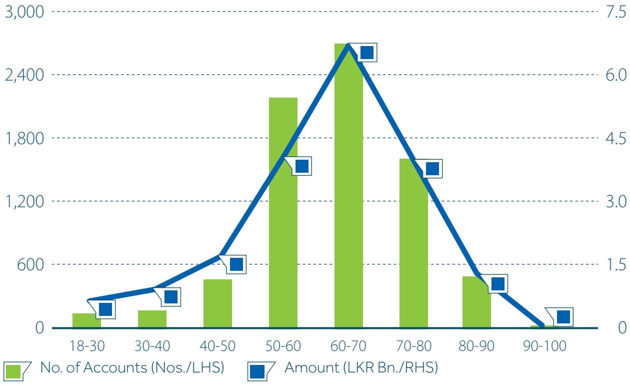
4.37

Institutional customer base grew due to fixed deposits canvassed from corporate customers

in 2018/19:	**2.72**
Change:	**60.66%**

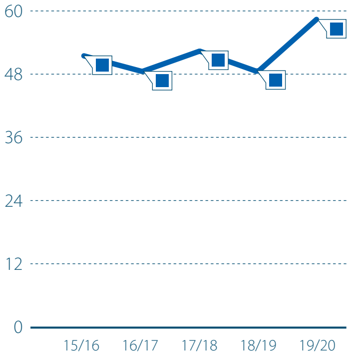
Fixed deposits analysis – Age of customers

Nos./LKR Bn.



Fixed deposits analysis – Average renewal ratio

%



59

Fixed deposits renewal ratio witnessed a significant increase with attractive rates offered

in 2018/19:	**49**
Change:	**20.41%**

Customer engagement

HNBF actively engages with its customers. It is key to the Microfinance business to maintain a close relationship with customers to provide timely advice on fulfilling their financial objectives and build their financial knowledge through accurate and relevant information that can help them to handle their financial issues. HNBF employees are required to adhere to the highest ethical standards and customer communication guidelines when engaging with customers. Marketing and promotional materials contain all the necessary information to help customers make an informed decision, in compliance with regulatory requirements applicable to the NBFI sector.

Customer Contact Centre

With customers being the core of HNBF's business, the Contact Centre is the most effective form of customer engagement that helps to build a loyal customer base for the Company, providing it with the foundation on which the Company grows. The HNBF call centre operates on a highly personalised customer engagement strategy driven by the two key factors of relationship building and complaints handling to provide prompt and accurate resolutions that maintain high customer satisfaction.

Customer privacy

HNBF has strict policies and procedures in place to protect the privacy and security of its customers' personal and financial information. The Company's internal systems are secured with physical, digital, and procedural controls to prevent unauthorised access to customer information, and employees are given designated access on a "need-to-know" basis to limit what kind of information is available to them. The Company has disciplinary measures in place to ensure that employees act responsibly in maintaining confidentiality and respecting the privacy of customers. Training programmes educate employees about the importance of customer privacy and how to comply with the Company's privacy policies.

Customer complaints

HNBF welcomes customer feedback and comments. Customers can reach the Company through the corporate website, official social media channels, and the call centre, which accepts complaints in English, Sinhala, and Tamil. A Customer Relationship Management (CRM) system has also been established to handle customer complaints systematically and ensure timely resolutions, in line with CBSL guidelines.

Suppliers

HNBF works closely with its suppliers to maintain a reliable supply of goods and services that enable the Company to conduct its operations uninterrupted. Policies are in place to ensure the Company interacts with its suppliers in an ethical manner and builds mutually beneficial relationships based on trust and integrity.

Fair and equitable procurement policy

HNBF has a fair and equitable procurement policy in place that requires at least three vendor quotations for all purchases above LKR 100,000 (excluding special requirements, such as furniture). Quotations are evaluated by the Company's procurement management team against benchmarks for cost, quality, and delivery. Further background checks are conducted to verify the authenticity of vendor credentials and financial background. A complete transparent process is followed for the procurement of ICT hardware and software systems or solutions, as expert advice is required in terms of evaluating requirements. The procurement process follows approval by the ICT Steering Committee and Internal Procurement Committee at Management level. In the event special procurements are required, it is referred to the Board ICT Procurement Committee for recommendation, and thereby referred to the Board for final approval.

Supporting local suppliers

HNBF has a decentralised procurement policy for routine items including stationery, building maintenance, and janitorial and tea services. This is to encourage procurement from suppliers local to each branch, thereby supporting local economies.

	2017/18	2018/19	2019/20
Total value distributed to suppliers (LKR Mn.)	250	190	421
Number of suppliers	38	39	57
Percentage of local suppliers (%)	97	100	100
Value distributed to local suppliers (LKR Mn.)	241	190	421

11 SUSTAINABLE CITIES AND COMMUNITIES

Community

HNBF's ties to the communities it operates in are rooted in its Microfinance activities that promote financial inclusion for all. It is integral to HNBF's business model and the Company has used the relationships it has built with communities over the years to spread financial knowledge and awareness. This is key to how the business creates sustainable and long-term value for all parties involved.

Sustainable community projects

HNBF organised a series of community events at the Sri Dharmananda Primary School in Nagollagama, Kurunegala. Among the many events were the unveiling of a drinking water filtration system and a tree planting programme at the school premises. An art workshop was held for the students, followed by an exhibition of paintings by Grades 3 and 4 students. HNBF gifted the young artists a certificate, a Yalu children's savings account, and a valuable gift pack. HNBF had also organised an art workshop on a separate occasion led by veteran artist, Dayawansa Kumarasaru, at the Primary School to teach children about the seven core elements of art: line, colour, shape, form, value, space, and texture. The drinking water filtration system provided relief to the students and staff of the Primary School, who had lacked access to clean drinking water. HNBF also conducted an interactive session on financial literacy and how parents could inculcate saving habits in their children.

Women's financial forum

HNBF hosted the Women's Financial Forum of the International Conference on Women Entrepreneurship under the theme of "Creating and Sustaining Opportunities for Women Entrepreneurs". The conference examined multiple facets of female entrepreneurship with particular focus on its social dimension, along with the key topics of "Women's Entrepreneurship and Finance", "Managing Finances for Growth and Sustainability", "Pathways to Growth beyond Microfinance", and "Credit Literacy and Financial Self-Efficacy".

> **I started my business with HNB Finance's "Diriya" loan scheme.**
>
> Identifying a need for businesses supplying event equipment in the Ja-Ela area, J A N Dedunu Kumari and her husband took a loan from HNB Finance under the "Diriya" loan scheme to start their business. After starting their business and paying back the loan, they obtained bigger loans and immeasurable support from HNB Finance to develop their business.

Seminar for O/L maths students

HNBF sponsored a seminar for over 300 Ordinary Level mathematics students from Colombo. Conducted together with the University of Colombo's Sarasavi Mithuro organisation and the Sasnaka Sansada Foundation, the seminar was aimed at low-scoring students sitting for the upcoming O-Level exam. They received remedial lessons from the experienced tutors of the Sasnaka Sansada Foundation and a special motivational session conducted by HNBF.

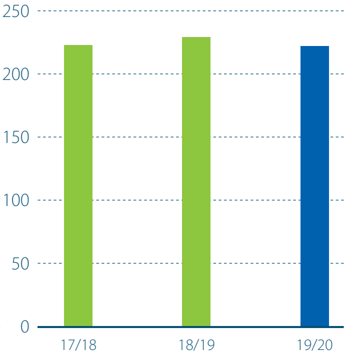
5 GENDER EQUALITY

Group lending

HNBF's Microfinance operation revolves around supporting women's empowerment. The flagship "*Diriya*" product provides financing to female entrepreneurs who may not otherwise have access to financing from conventional financial institutions. *Diriya* is structured according to the Grameen "trust group" concept, which brings together three to five women to support each other and ensure that the loan commitment is fulfilled in a timely manner.

Female entrepreneurs supported

Nos. '000



217

Continued with our unwavering commitment to support female entrepreneurs across the country

in 2018/19: **223**

Change: **(3.03%)**

Female entrepreneurs by region

Region	2018	2019	2020
Ampara	14,279	15,362	16,020
Anuradhapura	10,375	11,931	11,398
Badulla	15,896	16,730	16,928
City	11,375	11,610	9,998
Dambulla	11,400	12,857	13,598
Galle	13,523	13,823	11,902
Gampaha	13,954	13,379	12,149
Hambantota	12,127	12,814	12,811
Jaffna	10,376	9,133	8,938
Kalutara	13,428	13,898	12,823
Kandy	16,094	17,323	16,578
Kurunegala	11,711	12,579	11,715
Puttalam	12,092	11,820	10,891
Ratnapura	9,172	9,605	8,757
Trincomalee	18,001	17,763	19,516
Vavuniya	14,311	12,989	13,344
Wattala	10,366	9,759	9,236
Grand Total	**218,480**	**223,375**	**216,602**

Mehewara Fund

HNBF maintains the *Mehewara* Fund as a means of providing emergency financial aid for eligible customers. Employees voluntarily contribute to the fund, which falls under the stewardship of the CEO and is managed by a committee of corporate management members. Active customers are eligible for support through the *Mehewara* Fund if they meet the eligibility criteria. The committee screens all claims and provides the assistance in line with the Fund's guidelines and policies, which include no direct monetary disbursements being made to customers but rather to the relevant institution.

Mehewara Fund allocations for 2019/20

Purpose	Number of Beneficiaries	Amount Granted (LKR)
Medicine	7	80,000
Operations	10	115,000
Repair of home and workplace	4	55,000
Accident	9	90,000
Cancer	4	40,000
Kidney Problem	2	22,700
Eye and Ear problems	1	10,000
Other Donations	6	60,000
Total	**43**	**472,700**

Corporate Social Responsibility

International Business Magazine names HNBF "Best CSR Finance Company in Sri Lanka"

The recognised international Dubai-based publication, International Business Magazine, awarded HNBF the title of "Best CSR Finance Company in Sri Lanka". The Company was among several leading banking and financial institutions from Asia, Africa, the Americas, Europe, and the Middle East to secure an accolade from the publication, whose award selection process is overseen by a panel of experts who carefully assesses the performance of each nominee.

Yalu Daskam children's initiative

HNBF continued to support and nurture the creative talent of Sri Lanka's next generation with an art workshop organised as part of the ongoing *Yalu Daskam* children's initiative for students of the Sri *Seelalankara* Primary School in Pahala Bomiriya, Kaduwela. Over 140 students from Grades 3 and 4 attended the workshop that was led by renowned artist, Dayawansa Kumarasaru, an art consultant at Paramaya Veena Chitrasana. The participating students were awarded certificates by HNBF for outstanding paintings created under specific themes.

The *Yalu Daskam* initiative is a series of workshops conducted across the island that seeks to assist local artists. The initiative is sponsored by HNBF's *Yalu* Children's Savings Account.

13 CLIMATE ACTION

Colombo South Teaching Hospital sustainable composting system

HNBF introduced a sustainable composting system to the Colombo South Teaching Hospital in Kalubowila. The environmentally friendly solution reduces quantities of refuse, which leads to lower environmental pollution, and recycles nutrients to enhance long-term soil fertility. The project demonstrates the benefits of organic waste conversion solutions and aligns with the country's strategy of promoting clean and sustainable waste management.

15 LIFE ON LAND

Tissamaharama tree planting

HNBF led a series of tree planting programmes to commemorate the fourth anniversary of the Tissamaharama branch. The campaign reaffirmed the deep commitment of HNBF towards environmental protection, with HNBF staff placing over 1,100 valuable seedling plants in different locales of Tissamaharama. Over 500 Arecanut trees were planted alongside the highway leading from the Tissamaharama Viharaya to Tissa Reservoir, 160 Kumbuk and Mee plants were planted along the bank of the Weerawila Reservoir, and over 100 medicinal plants were placed in the premises of Yodhakandiya Central College. The Tissamaharama branch will handle all maintenance related to these seedling plants together with the Yodhakandiya Central College and the Tissa Divisional Council.

15 LIFE ON LAND

Nikaweratiya tree planting

HNBF planted 300 saplings around the Magalla Tank in Nikaweratiya as part of its initiative to create a greener and cleaner Sri Lanka. The initiative also included the establishment of six waste stations at key locations around the tank, placing signs and boards to encourage the public to be environmentally responsible, and a plot of fruit saplings that is managed and operated solely by the staff of the Nikaweratiya branch. The project is conducted in cooperation with the Nikaweratiya Divisional Secretariat, the Police, Pradeshiya Saba and regional engineering office, and the staff of the HNBF Nikaweratiya branch.

Blood donation camp

HNBF successfully concluded its fourth consecutive annual blood donation camp hosted by the City branch at the Serpentine Housing Scheme in Borella. 120 individuals consisting of HNBF staff, residents, and members of the public donated blood and were treated to lunch by the Company.

> **HNB Finance's "Easy Loans" is a very convenient scheme for businesspersons.**

Mohomed Naleem started "K.F. Trading" in 1987 to sell ceramic accessories, and went on to open a showroom in Nawala in 2000. While expanding his business in 2007 with a new showroom, "Ceramic Homes", he came to know of HNB Finance's "Easy Loans" scheme that offers convenient facilities for paying back loans, which he considers instrumental to the success of his business.

Health seminar for expectant mothers

The HNBF Moratuwa branch hosted a health and nutrition seminar for expectant mothers together with the Moratuwa office of the Medical Officer of Health (MOH). Over 50 participants attended the day-long seminar that featured a special blessing ceremony as well. Senior nurses from the MOH held sessions about the importance of nutritious diet and the general health and well-being of an expectant mother.

Donation of road signboards

HNBF is deeply committed to social development. The Company donated a consignment of road signboards to the Nugegoda police precinct to assist in the enforcement of responsible road use. Similar projects are in place to aid the police divisions of Jaffna, Nuwara Eliya, Kandy, Kurunegala, and Kataragama.

Priorities for the future

As a corporate responsible for social well-being, HNBF will continue to serve its customers and thereby the community in each and every way possible. Moreover, HNBF will continue to help customers especially those that are affected through COVID-19 (Micro/SSE and SME customers), get back on their feet and continue their businesses.

TAKING STOCK OF THE NATURAL RESOURCES THAT HNBF DERIVES VALUE FROM

Although HNBF has a limited impact on the environment given the low "material footprint" as a financial services institution, the Company still holds a responsibility to minimise its carbon footprint and environment impact in any way it can.

Indicator	As at 31 March 2019/ For the year 2018/19	As at 31 March 2020/ For the year 2019/20	Growth %
Energy consumption (kWh)	**1,996,843**	**1,973,585**	**(1.2%)**
Water consumption (m^3)	**17,535**	**14,560**	**(17.0%)**
Paper consumption (A4 bundles)	**9,270**	**11,063**	**19.3**

Activities undertaken to create natural capital

- **Environmental screening**
- **Increased usage of renewable energy**
- **Created awareness about sustainable usage of utilities**
- **Promoted paper reduction and recycling**
- **Switched to energy-efficient appliances**

HNBF is proactive towards having a positive impact on the environment and seeks to position itself as a "green company". An Environmental Management Framework aims to reduce the Company's carbon footprint and contribute towards an environmentally conscious society.

The fact that HNBF managed to secure reductions in consumption of paper, energy, and water over the past five years despite growth in business in terms of the network and the total assets which grew from LKR 32,929 Mn. to LKR 37,987 Mn. demonstrates its commitment to protect the environment.

Raising employee awareness

HNBF makes every effort to encourage environmental consciousness within its employees. The Company provides ongoing training to instil a green mindset in its employees and encourages them to submit ideas that can support the Company's efforts to reduce its carbon footprint.

Green branch programme

HNBF is focused on making its branches more environment-friendly through a variety of measures taken under the "Green Branch" programme. The programme aims to reduce energy consumption, conserve water, and adopt sustainable construction practices.

Reduction of energy consumption will be achieved through solar power for branches located in Company-owned buildings, thereby increasing HNBF's renewable energy footprint. Furthermore, regular maintenance of electrical equipment is undertaken to ensure optimal operation and reduce the risk of energy wastage.

Finally, branches constructed on Company-owned premises are constructed according to globally accepted best practices for sustainable construction. Buildings will be designed to reduce reliance on artificial lighting by allowing for more natural lighting. Eco-friendly air conditioning systems and rooftop solar panels will also form an integral part of such "green buildings". The Puttalam and Anuradhapura branches are the first buildings to be built under this programme.

13 CLIMATE ACTION

Energy conservation

As energy consumption has increased with the growth of the branch network, HNBF has sought to conserve energy through policies such as energy efficient LED lighting being installed in all branches and electricity reduction targets as part of monthly KPIs. The Company also encourages employees through campaigns to be mindful of their energy usage patterns and use staircases instead of elevators whenever possible.

Fuel (litres – Company vehicles only)	Water (m^3)	Electricity (kWh)
14,044	**14,560**	**1,973,585**

Paper consumption

The expansion of the branch network and business has also seen an increase in paper consumption. Therefore, HNBF has taken the initiative to shift towards a paperless work environment by increasing its investment in technology and automation that can contribute to a reduction in paper usage in daily operations. Internal communications are handled primarily via email. The paper usage of employees is monitored through the employee ID card system, which is required to use printing facilities within the Organsiation. This approach has encouraged employees to use the print facilities more efficiently and has reduced the overall paper usage across the Organisation. The Document Management System also contributes to the reduction of paper usage by virtually eliminating the need for photocopies and physical storage of documents. With the integration of SLIPS and CEFTS, money transfers can be made directly to customers' accounts without having to rely on printed cheques.

Number of A4 bundles consumed	Printing costs (LKR Mn.)
11,063	**28**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Water consumption

As a financial services institution, HNBF's water consumption is limited to the utility purposes of its staff across the branch network. The Company makes every effort to limit the wastage of water and promote conservative consumption wherever possible.

	2019/20 (m^3)	2018/19 (m^3)	2017/18 (m^3)
Municipal water supplies	**540**	538	385
Water Board	**13,705**	16,997	18,314
Other sources	**315**	–	–
Total water consumption	**14,560**	17,535	18,699

Waste management

Waste across the Company's branch network is segregated and handed to the local Municipal waste disposal unit. The Head Office monitors daily food waste and displays this information in the canteen to encourage employees to be mindful of minimising their food wastage. The Company has also placed a strict ban on polythene. To encourage employees to cooperate with the ban, the Company provided employees with reusable metal lunch containers, thus contributing to the Company's commitment to reduce its usage of non-recyclable materials.

11 SUSTAINABLE CITIES AND COMMUNITIES

Responsible lending

As HNBF expands its portfolio of lending products and activities, the Company has integrated environmental concerns into its daily operations via the adoption of a triple bottom line approach. Environmental screening is included in the SME lending model, which sees customers being evaluated based on the availability of valid permits, licenses, and approvals, thus ensuring that they are eligible to conduct environmentally sensitive businesses.

Priorities for the future

In further managing our environmental footprint, an immediate priorty in the coming years would be to convert a fraction of our branches to solar powered ones. We will also continue our efforts to expand our tree planting programmes to other areas of the Country, and also look at ways to move to a more paperless operation.

RE-ENGINEERING FOR TOMORROW

Business Process Re-engineering, coupled with HNBF's digital transformation, has been critical in addressing issues in delivering value to stakeholders and deriving value from them.

Preparing for change

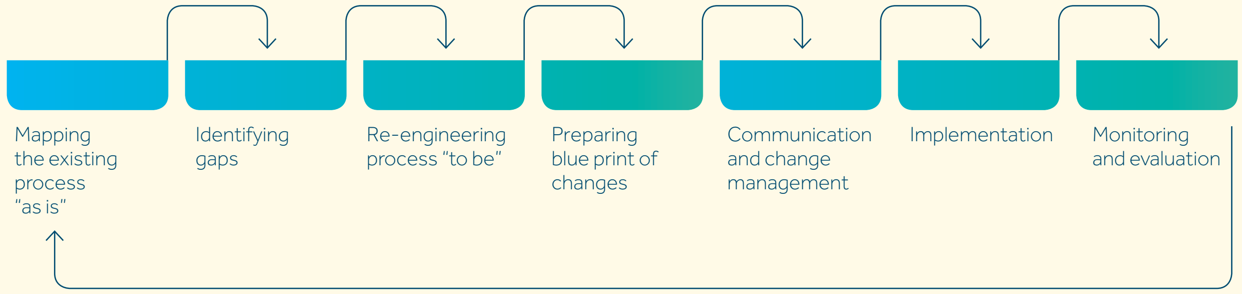
Processes at HNBF at its early stages were designed to help a business model primarily centred on microfinance business with a limited scope and with certain unique requirements. However, consequent to the acquisition of the Company by Hatton National Bank PLC, as a strategy for growth as well as to diversify as a risk management measure, the portfolio of products and services went through a balancing exercise over the past several years, leading to an approximately equal exposure to the microfinance segment and other markets such as SMEs and Leasing today. In the meantime, customer demographics and expectations have undergone vast changes. The competitive landscape has gotten fierce. Technology is rapidly altering the delivery of products and impacting internal operations.

Consequently, it was deemed imperative that the processes be thoroughly reviewed and if necessary, radically redesigned to suit the new realities. It was time for transformation. Accordingly, HNBF set up a formal Business Process Re-engineering (BPR) function in November 2018 with a clearly defined structure, scope of work, and KPIs assigned to it. While it was not uncommon at the time for such exercises to be undertaken in the Banking sector, it was certainly a pioneering effort among the NBFIs.

Business Process Re-engineering was timely in that HNBF could couple it with initiatives relating to digital transformation to improve efficiency while the competition was concentrating purely on the latter.

While cost savings were certainly envisaged as an outcome, HNBF required the BPR process to address certain real issues it faced when delivering value to and deriving value from the stakeholders. Amongst others, these included offering the customer the envisaged level of experience, cutting down process redundancies and making them efficient, eliminating stress on employees and enhancing their engagement leading to increased employee productivity and satisfaction, containing rising costs of operations, the need to innovate, all leading to strengthening the competitive position.

BPR exercise flowchart



All processes in the branches were mapped as-is using the Lean Six Sigma methodology. By studying the processes mapped, turnover time, lead time, cycle time of each process, and job roles were calculated and studied. This also enabled the Company to identify duplication of tasks, unnecessary time consumption in work, as well as waste. In addition, a time motion study was conducted to identify the non-value adding activities and underutilised staff in branch operations. Necessary restructuring to the floor plans in Head Office and branches in a manner that minimised work-related staff movements were identified. Applying lean practices, efforts were made to identify wastage in printing, stationery, and utility bills. A comprehensive plan was devised for branches with a view to complete routine work within the standard operating hours, thus reducing utility costs as well as the stress on staff.

These initiatives were also expected to enable productive redeployment of staff found to be underutilised in new and more productive job roles based on their skills, competencies, and knowledge. Potential new income generation avenues also surfaced through the exercise. HNBF wanted to organise its operations primarily on envisaged outcomes rather than on tasks and functions.

During the ideation process, several rounds of discussions took place with the Management and departmental heads to analyse the business impacts and benefits. The changes were initially implemented at the City branch on a staggered basis in order to reduce the impact and sustain the process changes. The changes implemented at the pilot branch were then analysed and after necessary fine-tuning, they were rolled out in all 69 branches and across most of the Head Office operational functions. Upon implementation of the new processes, they continued to be monitored on a daily basis and the realised benefits, both tangible and qualitative, were evaluated.

All re-engineering initiatives were based on analysis of data and insights gathered therefrom, based on Lean Six Sigma methodology. Assumptions or guestimates played no role.

Communication and change management

As always, managing change was not easy. The BPR team understood the sensitive nature of the exercise and that there is natural resistance to change. In order to ensure that changes will not be overwhelming and give employees time to adjust, the BPR team visited every branch and head office department to address all the staff members, making purposeful presentations for knowledge transfer about the Lean Six Sigma methodology, the need for change, and how it is going to benefit all the stakeholders, employees included. Additionally, Management staff (Assistant Manager grade and above) were given a Lean Six Sigma awareness seminar conducted by Dr Mikel J Harry, Six Sigma Management Institute Asia, with certificates given to project initiators.

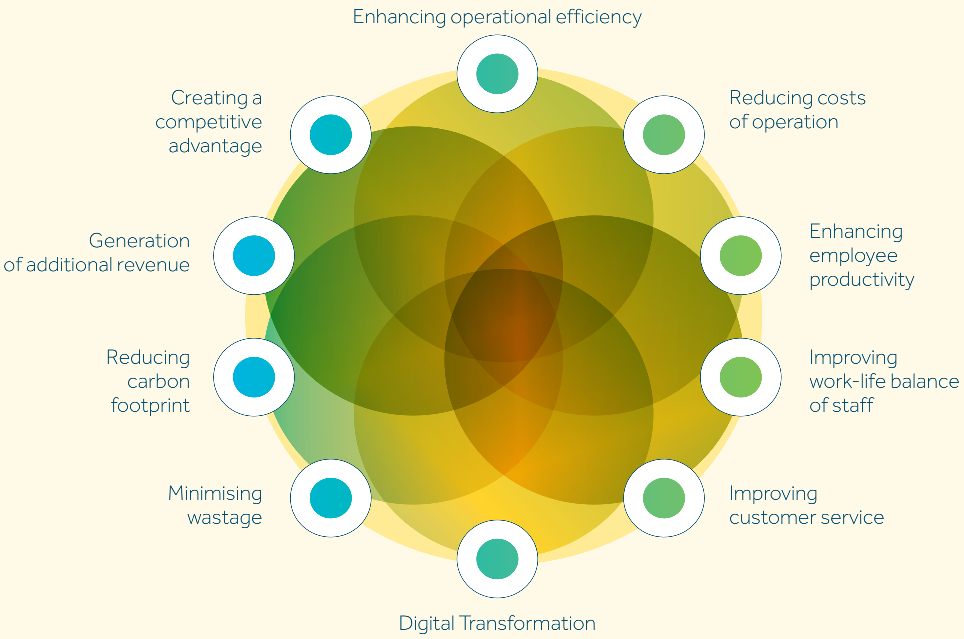
Throughout, by maintaining open and transparent communication and offering guidance where necessary, the team managed to convince the staff and get them engaged in the process. All 1,965 staff were provided with awareness sessions about the Lean Six Sigma methodology. Once the staff was convinced that there was something in it for them and started enjoying benefits of better work life balance, less movements, closing branches at the expected time, less stress, less confusion, etc., there was less resistance.

Benefits realised

It took a long time for some of the processes to be redesigned, yet benefits started accruing seemingly overnight. The BPR team continues to monitor and fine-tune each and every process and job roles are redesigned on an ongoing basis.

As envisaged at the outset, HNBF managed to realise a gamut of benefits on almost all the aspects that were considered in the BPR exercise during the year. Interestingly, these benefits will be ongoing and grow further with the growth of business.

Aspects considered in business process re-engineering



HNB Finance Ltd. has the best interests of all its stakeholders at heart and hence attempts to conduct its business in a way that would benefit everyone. It is no easy task given that the interests of various stakeholder groups are conflicting at times. Yet, it is imperative for the sustainability of the enterprise.

Among the many changes made to the processes at HNBF was the implementation of a Document Management System. This system eliminates the need to physically move documents between branches and the Head Office and speeds up loan approvals and various other processes, while also reducing paper consumption and associated costs.

Significant efforts were made to achieve an optimal work-life balance for the Company's employees. Centralising back office operations contributed to a reduction in staffing requirements through the application of the Lean Six Sigma methodology, while also enhancing the customer experience and resulting satisfaction. Adhering to standard operating hours as a result of re-engineering various internal processes also meant that overtime and stress on employees was reduced.

Given the benefits accruing from the BPR exercise and that the BPR function has an overall view of all the processes and job roles across the organisation, any restructuring, reorganisation, relocation of branches, departments, processes, or job roles hereafter have to be approved by the BPR function. BPR will review such requests from an overall BPR perspective in order to ensure that lead times, movements, ease of access, uniformity of processes, etc. will not be adversely impacted. All memos and circulars originating from any department too are reviewed and evaluated by the BPR function to ensure that no changes are effected that will render processes incoherent.

Streamlining and changes effected through the re-engineering exercise enabled underutilised staff to be reassigned to other functions, reducing redundancies across functions and minimising new recruitments. Consequently, the BPR function has a list of staff found to be in excess of actual requirements or has spare capacity in branches and Head Office departments. All new requirements for staff by branches and Head Office departments are accommodated from this list jointly by the BPR function and the HR department. HNBF has been able to avoid recruiting about 100 new staff members by re-allocating staff from the staff pool or assigning new tasks to those who were hitherto underutilised. In any case, new recruitments are now allowed only after a proper evaluation of potential enhancement to value addition from such staff. Management has decided that no new recruitments will be required during the financial year 2020/21.

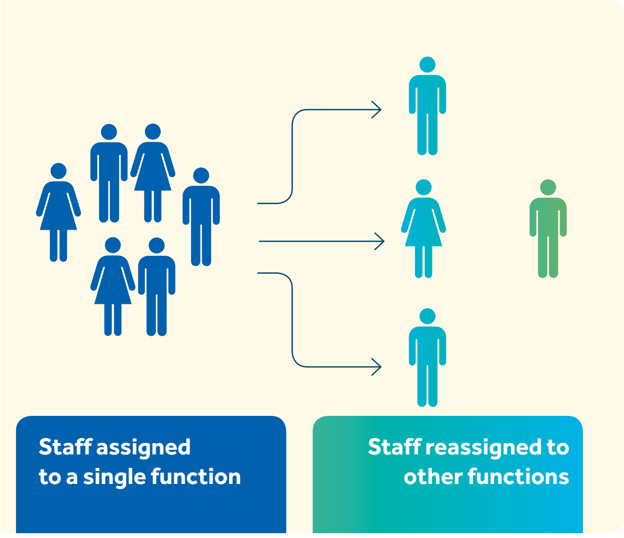
> **When we need financing, we always turn to HNB Finance.**

K T Lakshika Madhavi and her husband started "Roncell Garment" in 2016 with just two employees. As they expanded their business, they found HNB Finance's *"Abhilasha"* loan scheme to perfectly suit their requirements and convenience.

Reduction in printing costs as a result of conservative printing policies and the implementation of the Document Management System

LKR 3 Mn.

from 2018/19



The bottom line

The BPR function has enabled the Company to achieve significant improvements in internal operational excellence while augmenting the external customer experience through enhanced delivery and service. All the staff members have now received Lean Six Sigma awareness training. In terms of quantified benefits realised, it enabled a reduction in operating expenses by approximately LKR 40 Mn. on redundant processes during the year under review.

Plans in the pipeline include implementing a more efficient and comprehensive inventory management system covering both property, plant and equipment, and consumables with a view to minimise wastage and monitor reordering.

Business Process Re-engineering continues to be undertaken at HNBF. Watch this space for bigger and better achievements in 2020/21.

Cost saving of LKR 40 Mn.

HNBF'S STEWARDSHIP

HNB Finance is governed by the intrinsic processes of corporate governance and various frameworks of regulations and practices that define the Company's operations and upholds its duties and responsibilities towards its various stakeholders.

OUR BOARD OF DIRECTORS

HNB Finance's Board of Directors ensures that the Company adheres to the highest standards of corporate governance, thereby assuring its valued stakeholders of solid performance, responsibility, accountability, transparency, impartiality, and integrity across all facets of the organisation.

1. Mr Jonathan Alles

Chairman
Non-Independent Non-Executive Director

Mr Jonathan Alles was appointed as the Chairman of HNB 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 33 years of banking experience having served several international banks including HSBC (Dubai), Saudi British Bank (Riyadh), and National Bank (Abu Dhabi). Mr Alles is also the Chairman of Acuity Partners (Pvt) Ltd. and is the immediate past Chairman/Director of Lanka Financial Services Bureau Ltd., Lanka Ventures PLC and LVL Energy Fund. He is the Vice Chairman of the Banking, Financial and Insurance Services Group of the Employers' Federation of Ceylon and a Member of the Sri Lanka Institute of Directors. Mr Alles has also been appointed as Chairman of Asian Bankers Association for the period 2018-20.

Mr Alles is the immediate past Chairman of Sri Lanka Banks' Association (Guarantee) Ltd. and Financial Ombudsman Sri Lanka (Guarantee) Limited. He is also a former member of the Advisory Committee of Sri Lanka Business and Biodiversity Platform and a former member of the Main Committee of the Ceylon Chamber of Commerce.

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 (AIB SL).

2. Mr Premalal Brahmanage

Deputy Chairman
Non-Independent Non-Executive Director

Mr Premalal Brahmanage, a prominent figure in the Sri Lankan business landscape, is the co-founder and the Group Chairman of Prime Group, a holding company with investments in real estate, property development and financial services through its subsidiaries.

He is an alumnus of Thurstan College, Colombo and a fellow member of the Institute of Chartered Management Accountants (UK), Chartered Business Administrator (Canada) and holds a Postgraduate Diploma in Marketing from the University of Sri Jayewardenepura and an MBA from the Open University of Malaysia.

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. Mr Brahmanage was honoured as being one of the "A-List of Sri Lankan Businesspeople" by the LMD in 2018 and 2019, listing among the top 50 businessmen in Sri Lanka who have driven the nation's engine of growth and are the country's true assets and was also recognised as one of the Asia's Greatest Brand Leaders in 2017. Under his leadership, Prime Group has won the most prestigious award in the industry for "Best Developer" awarded by Property Guru at the Asia Property Awards for two consecutive years in 2018 and 2019.

Mr Brahmanage Premalal, Deputy Chairman and Non-Independent/ Non-Executive Director retired from the Board of Directors of the Company w.e.f. 29 June 2020 in terms of section 4 (2) of the Finance Companies (Corporate Governance) Direction No. 3 of 2018 of the Central Bank of Sri Lanka, upon completion of nine (09) years of service.

3. Mr B M D C Prabhath

Managing Director/CEO
Executive Director

Mr Chaminda Prabhath is qualified in both finance and marketing, and has experience of over 27 years in the private sector. He holds a Master's Degree in Business Administration (Sp. in Finance) from the University of Southern Queensland, Australia and he is a Fellow Member of the Chartered Institute of Management Accountants [FCMA (UK)]. He is a Member of the Chartered Institute of Marketing (MCIM) and is also a Certified Management Accountant of the Institute of Certified Management Accountants of Australia (CMA, AUS). He was awarded the Lean Six Sigma Black Belt (CLSSBB) from Dr Mikel J Harry Six Sigma Management Institute Asia. He also holds a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka. He is an internationally certified microfinance expert from the Frankfurt School in Germany and also a winner of the prestigious award "Game Changer of the Year 2014" from World Consulting & Research Corporation (WCRC), India, awarded in recognition of his contribution to the microfinance industry in Sri Lanka.

4. Mr Anushka Wijesinha

Independent Non-Executive Director

Mr Anushka Wijesinha is an economist with expertise in trade, investment and competitiveness strategy with experience across private sector, government and research. He is currently consultant to international agencies (Deloitte, UNDP and ITC) in Sri Lanka, Myanmar and Maldives. He is widely published in national and international academic publications, focusing on innovation, private sector development and international economics. Formerly he was Advisor to the Minister of Development Strategies and International Trade, was the Chief Economist and Head of the Economic Intelligence Unit of the Ceylon Chamber of Commerce, Research Economist and Unit Head at Institute of Policy Studies of Sri Lanka, Research Officer to the Presidential Commission on Taxation, and Assistant Director of Economic Affairs at the Government Peace Secretariat. He has been a Consultant to the World Bank, ADB, GIZ and UNESCAP. He is an Asia Development Fellow of the Korea Development Institute and member of the World Economic Forum's "Global Future Council on Innovation Ecosystems".

Mr Wijesinha serves on the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. He also serves on the Boards of Fairfirst Insurance Ltd. and Seylan Bank PLC as an Independent Non-Executive Director, and Chairs the Investment Committee of Capital Alliance Investments.

5. Dr Udan Fernando

Independent Non-Executive Director

Dr Udan Fernando is the 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 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.

6. Mr Rajive Dissanayake

Non-Independent Non-Executive Director

Mr Rajive Dissanayake counts nearly two decades of experience covering banking sector and capital markets. He currently serves as the Chief Strategy Officer of Hatton National Bank PLC. In addition to being on the Board of HNB Finance Ltd., Mr Dissanayake is also a Director of Acuity Partners (Pvt) Ltd. He chairs the Board Audit Committee, Board Integrated Risk Management Committee, and is also a member of Strategic and Investment Review Committee of the Company. Mr Dissanayake is a CFA Charter holder, a Fellow Member of the Chartered Institute of Management Accountants (UK) and a Chartered Global Management Accountant. He also holds a Bachelor's degree in Business Administration from the University of Colombo.

7. Mr Hasitha Wijesundara

Independent Non-Executive Director

Mr Hasitha Wijesundara is an Advisor to GIZ SME Sector Development Programme. He is a development expert attached to German Development Cooperation (GIZ) and counts over a decade of experience in SME development, policy, advocacy micro/SME finance, trade facilitation, regulatory issues, social performance management and inclusive finance. He holds a Master's degree in Economics from the University of Colombo, Bachelor's degree in Laws and Bachelor's degree in Science. 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 degree at the University of Colombo. Mr Wijesundara is an accredited trainer of microfinance and SME finance certified by reputed international bodies such as Frankfurt School of Finance and Management, Germany and CGAP based in Washington DC, USA. Mr Wijesundara serves as a senior trainer under the US funded YouLead program and thus far trained over 300 senior level bank officials on SME Finance topics. 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 India, Bangladesh, Myanmar, Cambodia, Malaysia and Pakistan and involved in numerous consultancy assignments.

8. Mr Mahinda Perera

Non-Independent Non-Executive Director

Mr Mahinda Perera is a Commercial Lawyer and a Business Consultant and counts many years of experience in advising on Commercial, Corporate and Employment Law as well as on compliance and regulatory aspects. In addition to providing legal advice, he also provides business consultancy services. He is a qualified Management Accountant [FCMA (UK), CGMA] and has an MBA from the Postgraduate Institute of Management, Sri Jayewardenepura University, and counts over 26 years of professional experience in the commercial sector as a Director/Chief Executive Officer of listed and unlisted companies before he moved into the legal field. At present, Mr Perera is an Independent Director of Prime Finance PLC. He was appointed to the Board in September 2017.

OUR CORPORATE MANAGEMENT TEAM

Mr B M D C Prabhath
MD/CEO

Mr W S P Arangala
Chief Operating Officer

Mr R M P Dayawansa
DGM – Business

Mr Annesley Fernando
DGM – Operations

Mr Ruwan Fernando
DGM – HR & Administration/CHRO

Mr Bimal Seneviratne
DGM – Liability Sales

Mr Kamal Manjula Priyanga
AGM – Branch Network

Mr Mahinda Tissa
AGM – Micro Finance

Mr Prabath Kathriarachchi
AGM – Branch Network

Mr Pathum Sampath Cooray
AGM – Branch Network

Mr Ramesh Fonseka
AGM – Compliance

Mr Pradeepa Dias
AGM – ICT/CIO

Mr Bhanu Wijayaratne
AGM – Risk

Mr Luxman Eraj
Chief Manager/Head of Business Loans

Mr Manjula Kumara Munasingha
Head of BSD

Mr Sameera Chandranath Gunasekara
Chief Accountant/Head of Finance

Mr Anura Udawatte
Head of Training

Mr Harshana Prasad Kulathilaka
Chief Manager/Head of Corporate Planning

Mr Lalanga Senaweera
Head of Internal Audit

Mr Chamara Tharanga
Chief Manager – Legal

Mr Lakshman Ranasinghe
Chief Manager/Head of Gold Loan

Mr Ravindra Abeysekara
Chief Manager/Head of Recoveries

Mr Shanaka Perera
Chief Manager/Head of Product Development

Mr Udara Gunasinghe
Senior Manager/Head of Marketing

Mr Rangana Shamil
Senior Manager – Leasing

Mr Ushan Hapuarachchi
Senior Manager –
Business Process Re-engineering

EFFECTIVE GOVERNANCE

HNBF's corporate culture is defined by sound governance practices that are intertwined with the activities of every employee of the Company.

Statement of compliance

At HNB Finance, we believe that the highest standards of corporate governance are essential to warrant trust of our valued stakeholders which in turn is crucial for maintaining the solid performance of the Company. These standards are captured in our governance charters, policies and documents, highlights of and compliance to which are detailed in this report.

The Board of Directors of the Company wishes to confirm that the Company has complied throughout the year with the provisions of the Finance Companies (Corporate Governance) Directions No. 3 of 2008 and No. 4 of 2008 and Corporate Governance Rules embedded in the Listing Rules of the Colombo Stock Exchange (CSE), to the extent hereinafter disclosed in this report. The Board of Directors also wishes to confirm that, to the best of its knowledge and belief, the Company has complied with all requirements under the Companies Act No. 07 of 2007 and satisfied all its statutory payment obligations to the Government and other statutory/regulatory bodies.

Governance philosophy

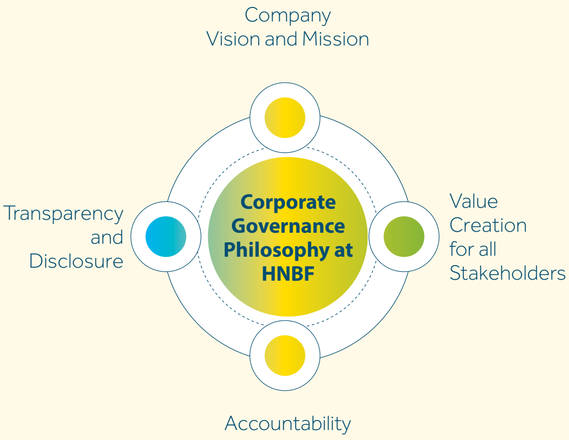
Good governance practices result from the dynamic culture and positive mindset of the organisation and thus, remain integral to the way HNB Finance Limited (HNBF) operates. This is well-demonstrated in the good credit ratings, shareholder returns, governance processes and the entrepreneurial performance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

HNBF firmly believes that the essence of 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 where 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 philosophy



Governance framework

In HNBF, 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 the units and components within the Company that ensures effective monitoring and execution of governance related initiatives, systems and processes thus inculcating a culture of good governance and sustainability of the Company business model.

B. **External governance structure** within which the Company enables conformance to applicable laws, regulations and best practices.

C. **Assurance** which is the supervisory mechanism of the Company's governance framework that ensures integrity of the operations.

Internal governance structure

Internal governance structure of HNBF which allows for effective and efficient decision making with accountabilities, is based on following:

The Board of Directors

The Board is the highest decision making body and is ultimately responsible 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.

The Board of Directors sets the strategic objectives of HNBF, determines its operational policies and performance criteria and delegates to the Management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board also monitors compliance with policies and actual performance against set objectives by holding the Management accountable for its activities through regular dialogue.

Board subcommittees

Some functions of the Board are delegated to Board subcommittees. However, the Board as a whole remains responsible for the areas covered by these Subcommittees.

The Board has delegated certain of its functions to a number of Subcommittees as shown in the Diagram below. These Subcommittees are provided with sufficient resources enabling them to focus on their designated areas of responsibility and ensure independent oversight.

Name of the Subcommittee	Responsibilities of the committee	Members
Audit Committee	Oversight of Internal Control and Financial Reporting	Mr Rajive Dissanayake – Chairman Mr Anushka Wijesinha – Member Mr Hasitha Wijesundera – Member
Integrated Risk Management Committee	Oversight of Risk Management of the Company	Mr Rajive Dissanayake – Chairman Mr Anushka Wijesinha – Member Mr Chaminda Prabhath – Member Mr Mahinda Perera – Member Mr W S P Arangala – COO Mr Bhanu Wijeratne – AGM Risk
Strategic/Investment Committee	To provide oversight in driving the Company towards achieving its strategic objectives	Mr Jonathan Alles – Chairman Mr B Premalal – Member Mr Rajive Dissanayake – Member
Credit Committee	Oversight of Credit Management	Mr Hasitha Wijesundara – Chairman Mr Chaminda Prabhath – Member Mr Anushka Wijesinha – Member
HR/Remuneration Committee	Recommendation of remuneration framework and review of Board succession planning	Mr H Wijesundera – Chairman Mr Jonathan Alles – Member Mr Udan Fernando – Member
Nomination Committee	To fulfil its statutory and fiduciary responsibilities relating to the selection/appointment of new Directors, reappointment of current Directors, selection and appointment of the CEO and KMP	Dr Udan Fernando – Chairman Mr Jonathan Alles – Member Mr B Premalal – Member
Related Party Transactions Review Committee	Oversight of related party transactions and avoidance of conflicts of interest	Mr Anushka Wijesinghe – Chairman Mr Hasitha Wijesundara – Member Mr Chaminda Prabhath – Member

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 HNBF.

Internal charters and policies

The internal policies support a higher growth, best processes 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.

External governance structure

The external governance structure, one of the three main components of the governance framework at HNBF comprises the laws, regulations, and best practices as mentioned below that enable HNBF to operate within a sound corporate governance framework. Internal governance structure at HNBF is modelled to create necessary checks and balances and controls to ensure that it conforms to and complies with the external governance structure.

Applicable major laws/regulations/best practices

- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011
- Directions, Rules, Determinations, Notices and guidelines applicable to Licensed Finance Companies
- Inland Revenue Act No. 24 of 2017 (as amended)
- Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKASs) as promulgated by The Institute of Chartered Accountants of Sri Lanka
- Listing Rules of the Colombo Stock Exchange

A detailed report on HNBF's level of compliance with Finance Companies (Corporate Governance) Directions is set out on pages 89 to 102.

Assurance

Different components within the assurance act as the supervisory module of HNBF'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, HNBF 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 HNBF 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

HNBF's internal audit function which focuses on providing an independent risk-based oversight to the Board Audit Committee on the processes and controls within the Company and level of compliance with laws and regulations plays a vital role in the governance structure of the Company. The Internal Audit is responsible for independent, objective assurance on internal control mechanism, 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 effectiveness of risk management procedures in place at HNBF. To maintain its independence, the Internal Audit Reports to the Board through the Board Audit Committee.

External audit

External Audit Report enables the Board with 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 audit at the financial year-end, HNBF performs an interim audit to obtain assurance that the internal controls that are 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 HNBF. In addition to the normal audit services, the External Auditors also provide certain non-audit services to the Company. All such services have been provided with the approval of the Board Audit Committee and in a manner to ensure 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 Standard on Related Services (SLSRS) issued by The Institute of Chartered Accountants of Sri Lanka, to assess the Company's level of compliance to 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.

HNBF governance structure

Effective governance is, at its core, simply about doing the right things for stakeholders. It is enabled by having the right checks and balances throughout the Organisation to ensure that the right things are always done. It comprises the processes and structures, which affect the way an Organisation is directed, managed, and monitored and its activities are reported, including: the elements of internal control, ethics, various risk functions, policies and procedures, internal audit, external audit, and formal committees that promote greater transparency and facilitate efficient and effective management for the best interests of shareholders/stakeholders.

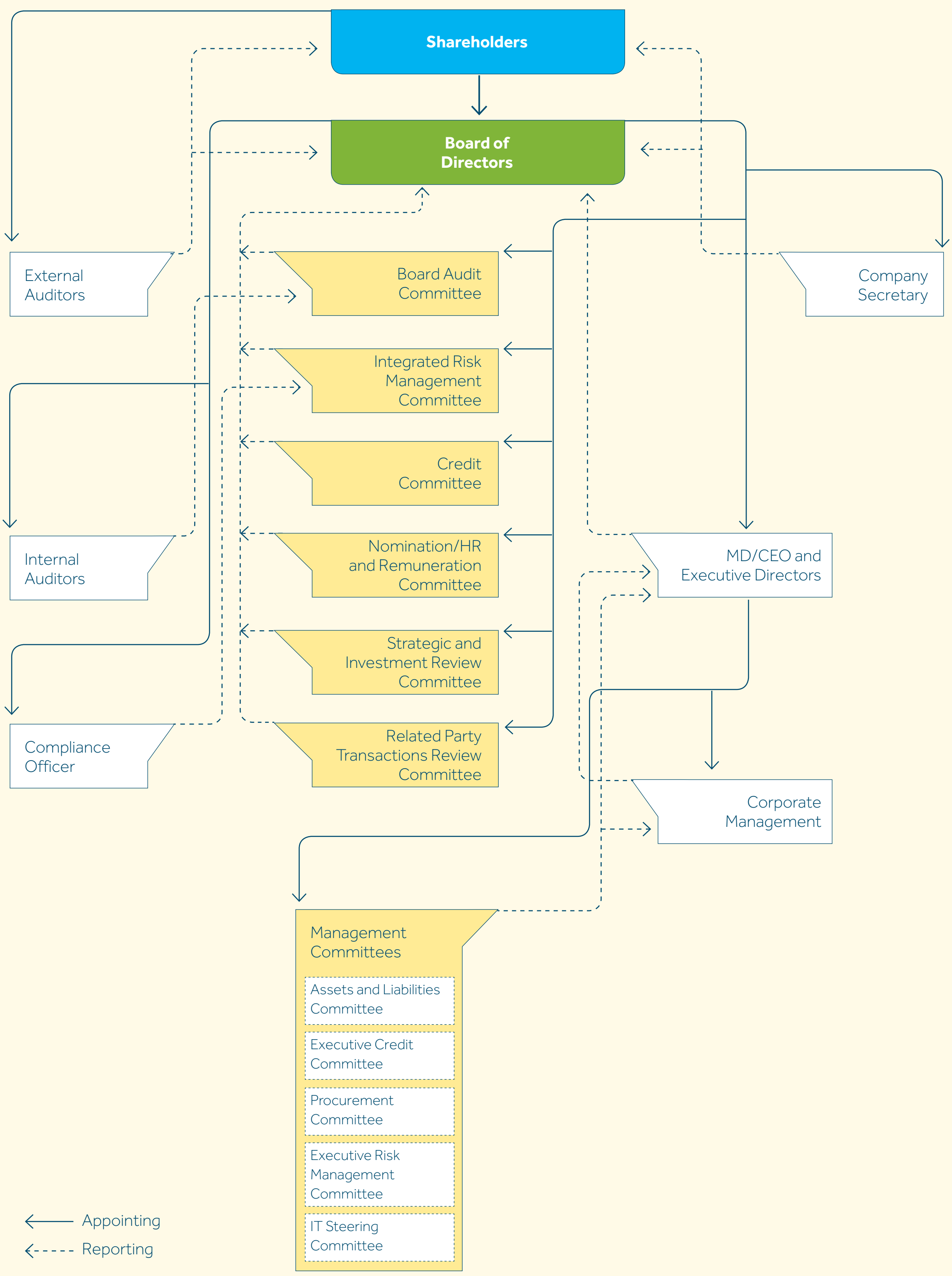
HNBF operates within a clearly defined governance structure. Through this structure, the Board balances its role of providing risk oversight and strategic counsel whilst ensuring adherence to regulatory requirements and risk tolerance. The governance structure provides for delegation of authority whilst enabling the Board to retain effective control. The Board delegates authority to relevant Board Committees and the management with clearly defined mandates and authorities, while preserving its accountability.

Board Committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each Committee has a mandate setting out its role, responsibilities, scope of authority, composition, and procedures. The Committees report to the Board through their respective chairmen and minutes of all committee meetings are submitted to the Board.

The Board of Directors sets strategic objectives of HNBF, determines its operational policies and performance criteria and delegates authority to the Chief Executive Officer (CEO). In turn, the CEO is responsible for detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The responsibilities entrusted to the CEO by the Board of Directors cascades down to the Senior Management and then to the heads of the respective business units and ultimately to individual employees with clearly defined job descriptions, authority levels and responsibilities. The Company Operating Committees comprising the heads of all operational units and the Management Committees assist the CEO in the day-to-day management of affairs, subject to statutory parameters and matters reserved for the Board.

The business plan and the annual budget which are focused on the core value triad of economic viability, environmental responsibility and social accountability are approved annually and achievement of the objectives set out therein is closely monitored by the Board of Directors. Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis. At these meetings, the management is represented by the CEO who apprises the Board on the operations and performance of the Company against set targets.

Governance structure



The Board

The Board is responsible for the overall stewardship of HNB Finance Ltd. The Directors are elected by the shareholders to supervise management of the business and affairs of the Organisation with the goal of enhancing long-term shareholder value. The Board has adopted a diversity policy, which recognises the importance of having an appropriate balance of industry knowledge, skill, experience, professional qualifications, and nationalities to build an effective and cohesive Board. Board members have a broad range of experience and deep industry expertise.

The key Board responsibility

The Board is elected by the shareholders to supervise the management of the business and affairs of the Company. The prime stewardship responsibility of the Board is to ensure the viability of the HNBF and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interest of the other stakeholders. The responsibilities of the Board include the following (summarised):

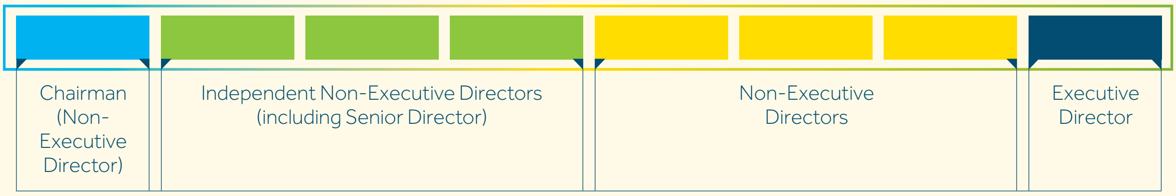
- reviewing and approving overall business strategy as well as Organisation structure, as developed and recommended by management;
- ensuring that decisions and investments are consistent with long-term strategic goals;
- ensuring that the Company operates in such a way as to preserve its financial integrity and in accordance with policies approved by the Board;
- overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures and internal controls;
- overseeing, through the Risk Management Committee, the establishment and operation of risk management system for managing risks on an enterprise-wide basis, the adequacy of the risk management function and the quality of the risk management processes and systems;
- providing oversight in ensuring that the Company's risk appetite and activities are consistent with its strategic intent, the operating environment and effective internal controls as well as regulatory standards;
- ensuring that the necessary human resources are in place for the Company to meet its objectives;
- overseeing the related party transactions through the Related Party Transactions Review Committee;
- reviewing Management performance and ensuring that management formulates policies and processes to promote fair practices and high standards of business conduct by staff;
- overseeing, through the Remuneration Committee, the design and operation of an appropriate remuneration framework, and ensuring that remuneration practices are aligned to and in accord with the remuneration framework;
- establishing corporate values and standards, emphasising integrity, honesty and proper conduct at all times with respect to internal dealings and external transactions;
- ensuring that obligations to shareholders and others are understood and met;
- providing a balanced and understandable assessment of the Company's performance, position and prospects, including interim and other price-sensitive public reports as well as reports to regulators;
- maintaining records of all meetings of the Board and Board Committees, particularly records of discussion on key deliberations and decisions taken; and
- identifying the key stakeholder groups, recognising that perceptions affect the Company's reputation.

Board composition

As at 31 March 2020, the Board comprised eight (08) Directors of whom one (1) was an Executive Director and seven (7) were Non-Executive Directors. Out of the Non-Executive Directors, three (3) were independent with sufficient knowledge of the finance industry's operations among them on a collective basis facilitating their active participation. Directors' profiles are given on pages 76 to 78 in this Annual Report. The MD/CEO is an Executive Director, who is an experienced professional with industry expertise. Non-Executive Directors are eminent professionals in their respective fields. The Board is balanced in age, experience, expertise and tenure and is of appropriate composition and size for the Company. All Directors possess financial acumen and knowledge through experience gained from leading large private and public enterprises coupled with their academic and professional background. Appointment of a Senior Independent Director has been considered as the Chairman is a Non-Independent Non-Executive Director and roles of the Chairman and the Chief Executive Officer are clearly segregated.

Board composition

Independence



Name of the Director	Date of Appointment	Board Composition	Period of service up to 31 March 2020
Mr A J Alles	18 November 2014	Chairman – Non-Independent Non-Executive Director	5 years and 4 months
Mr B Premalal	29 June 2011	Deputy Chairman – Non-Independent Non-Executive Director	8 years and 9 months
Mr B M D C Prabhath	29 June 2011	Executive Director/Chief Executive Officer/Managing Director	8 years and 9 months
Mr A S Wijesinha	18 June 2015	Independent Non-Executive Director (Senior Director)	4 years and 9 months
Dr S U H Fernando	25 June 2015	Independent Non-Executive Director	4 years and 9 months
Mr P A H D Wijesundara	27 September 2016	Independent Non-Executive Director	3 years and 6 months
Mr A G R Dissanayake	29 August 2017	Non-Independent Non-Executive Director	2 years and 7 months
Mr M Perera	29 September 2017	Non-Independent Non-Executive Director	2 years and 6 months

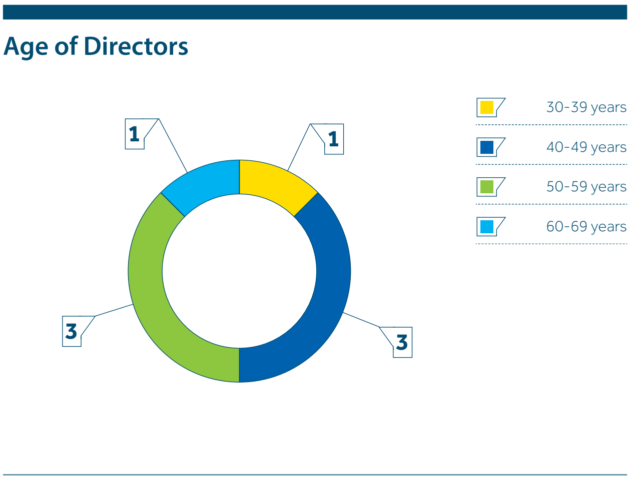
Skills, expertise and experience

The Board having the optimal mix of skills, expertise and experience, is of paramount importance to ensure that the Board as a collective body is equipped to guide the business and strategy of the Company.


Skills, expertise, and experience

Age of Directors

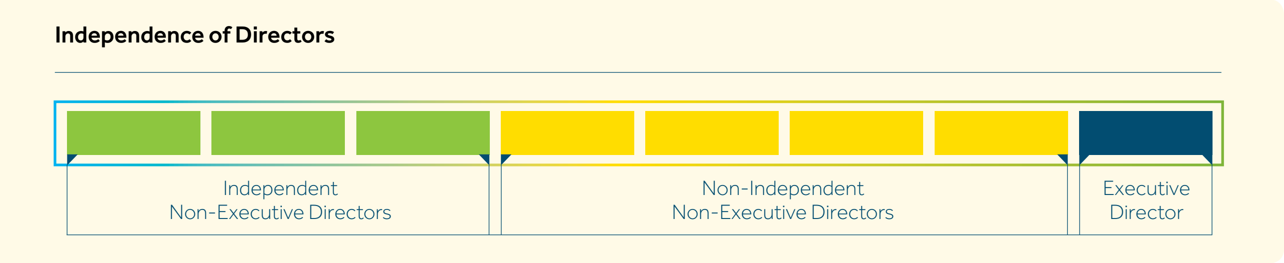
These elements are some of the most emphasised forms of diversity in the Boardroom. The HNBF Board and shareholders have recognised the benefits of having age diversity.

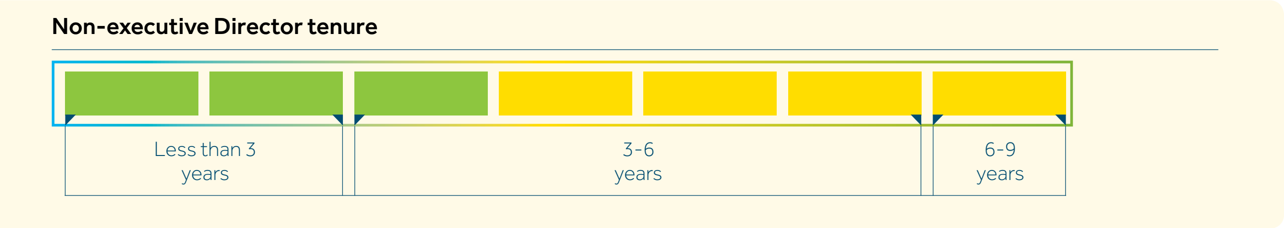

Age of Directors

Independence

Directors are required to carry out an annual assessment of their independence, in compliance with the criteria set out in the Finance Companies (Corporate Governance) Directions, by completing a self-declaration. This assessment takes into account the members' business relationship with the Group, relationships with the members of the Management, relationships with the Company's substantial shareholders and members' length of service.

The Board is satisfied that each Non-Executive Director who served on the Board during 2018/19 has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to fulfil role as an Independent Director.


Independence of Directors


Non-executive Director tenure

Board meetings

The Board calendar with tentative dates for Board and Subcommittee Meetings for the following year is sent to all Members approximately one month before the end of the current year. The agenda and Board Papers for Meetings are generally sent seven (7) days before the Meeting, allowing Members sufficient time to review the same. Urgent Board Papers are included on an exceptional basis. The Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO. The agenda is prioritised and timed to ensure sufficient time for discussion. During the year, the Board held eleven (11) Meetings.

Attendance at meetings

Name of the Director	Board	Board Audit Committee	Board Integrated Risk Management Committee	Nomination Committee	HR and Remuneration Committee	Board Credit Committee	Related Party Transactions Review Committee	Strategy and Investment Review Committee
Number of meeting held	**11***	**4**	**10**	**5**	**2**	**2**	**1**	**4**
Mr A J Alles	9/11	–	–	5/5	2/2	–	–	4/4
Mr B Premalal	8/11	–	–	4/5	–	–	–	1/4
Mr B M D C Prabhath	11/11	–	9/10	–	–	1/2	1/1	–
Mr A S Wijesinha	8/11	2/4	7/10	–	–	2/2	1/1	–
Dr S U H Fernando	10/11	–	–	5/5	2/2	–	–	–
Mr P A H D Wijesundara	8/11	3/4	–	–	2/2	2/2	1/1	–
Mr A G R Dissanayake	10/11	4/4	8/10	–	–	–	–	4/4
Mr M Perera	11/11	–	10/10	–	–	–	–	–

* Though 11 meetings were held during the financial year, the meeting scheduled for March 2020 was held in April 2020 due to the COVID-19 outbreak. With said meeting, 12 meetings in total have been held.

Directors Training and development

The Nomination Committee oversees Director education, providing Directors with an ongoing programme to assist them in understanding their responsibilities, as well as keeping current their knowledge and understanding of the industry within which the Company operates. Directors identify their continuing education needs through Annual Board and Board subcommittee performance assessments and regular feedback to the Board Chairperson and subcommittee Chairs. Members of the Board participated in Seminars and Conferences held throughout the financial year.

Supply of and access to information

The Board pack generally circulated seven (7) days in advance, provides comprehensive qualitative and quantitative information on issues to be raised at the Board Meeting. Further, Executive Management and external experts make regular presentations regarding the business environment and in relation to operations of the Company. Directors also have unrestricted access to Bank Management, organisation information, and resources to facilitate discharge of their duties. They may seek independent professional advice, coordinated through the Company Secretary, at the Company's expense and copies of such advice obtained are circulated to other Directors who request for it.

Board evaluation

Goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year by the members. Further, each member of the Board carries out a self-assessment of his/her own effectiveness as an individual as well as effectiveness of the Board as a team. The outcome of the assessment carried out in 2019/20 was tabled at the Board meeting.

Appraisal of MD/CEO

The Board assesses the performance of the MD/CEO annually. Assessment criteria aligned to the short, medium and long-term objectives of the Company, is agreed with the MD/CEO at the beginning of the year. Performance is reviewed at the end of the financial year against the backdrop of the operating environment. The evaluation is discussed by the Chairman with the MD/CEO and responses documented prior to approval by the Board as a whole. The HRRC assists the Board in the above evaluation process.

The related party transactions

Company has established policies and procedures on related party transactions. These include definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring the transactions. The Related Party Transactions Review Committee reviews non-recurrent related party and interested person transactions and keeps the Board informed of such transactions, if any. Measures are taken to ensure that terms and conditions for related party lending are not more favourable than those granted to non-related obligors under similar circumstances.

Whistle-blower protection

The Company places great importance on fostering a culture that encourages its people to speak up about issues and conduct that cause them concern. The Whistle-blower Policy is designed to encourage and support individuals in reporting such matters, knowing that it is safe to do so, they will receive support and they will not be subject to retaliation or victimisation in response. Further, the Company is in the process of developing the "Speak-Up Hotline" offering a trusted avenue for its people and external partners to report issues and concerns.

Communication with shareholders

The Board welcomes engagement with shareholders and encourages them to express their views. To allow shareholders to provide timely and meaningful feedback, the Board has developed practices appropriate for the Company's investor base to facilitate constructive engagement. Examples of these practices include methods of hearing from shareholders and responding to their inquiries on an ongoing basis. The Board continues to proactively consider and adapt, as suitable to the circumstances of HNBF, emerging practices of Board engagement with shareholders. Procedures are in place to provide timely information to current and potential investors. The Board reviews and approves the contents of major disclosure documents, including the Management's Discussion and Analysis of the Annual Report.

Conduct of shareholder meetings

The Annual General Meeting (AGM) provides shareholders with the opportunity to share their views and to meet the Board, including the Chairpersons of the Board committees and members of Key Management Personnel. Our External Auditor is available to answer shareholders' queries. At the AGM, HNBF's financial performance for the preceding year is presented to shareholders. At general meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, Board members and the Management. HNBF encourages and values shareholder participation at its general meetings. In accordance with the recommendations contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the Company's general meetings unless they are closely related and are more appropriately tabled together.

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. 06 of 2013 issued by the Central Bank of Sri Lanka ("Corporate Governance Directions").

The Monetary Board of the Central Bank of Sri Lanka has issued the above Directions which shall apply to every finance company licensed in terms of Section 02 of the Finance Business Act No. 42 of 2011 and came into operation with effect from 1 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	HNBF's Level of Compliance
2. Responsibilities of the Board of Directors		
2 (1)	Strengthening the safety and soundness of the Company	
	(a) Approve, oversee and communicate strategic objectives and corporate values.	Company's strategic objectives and corporate values are determined by the Board 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 2020 to 2022. Risk Management Policy was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and was approved by the Board.
	(c) Identifying and managing risk	The Board appointed Board Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying, overseeing and managing the overall risk of the Company. The Risk Management Report in this Annual Report provides further details in this regard.
	(d) Communication policy with all stakeholders	The Board approved communication policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
	(e) Adequacy and integrity of the internal control system and management information system	The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control and management information system and for reviewing their effectiveness. The Board Audit Committee, on behalf of the Board undertakes 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.
	(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 they include members of the Board of Directors including the Chief Executive Officer/Managing Director, Chief Operating Officer, DGM – Operations, DGM – HR and Administration and DGM – Liability Sales.
	(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 is in place. The areas of authority and key responsibilities of key management personnel are included in there job descriptions.
	(h) Oversight of affairs of the Company by Key Management Personnel	Oversight of the affairs of the Company by its Key Management Personnel takes place at the regular Board meetings and Subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their purview. According to the Company's Articles, Board has delegated functions of selection and nomination of Directors and Key Management Personnel to the Board Nomination Committee.
	(i) Assess the effectiveness of own governance practice	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.
	(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 Management Personnel regularly make presentations and participate in discussions on their areas of responsibility at respective subcommittee meetings where progress towards corporate objectives is also reviewed, and where necessary make representations to the Board as well.
	(l) Regulatory environment	The Board of Directors of the Company monitors closely, regulatory compliance at monthly Board meetings and reviews new Directions issued from time to time by the regulator. All Board members attend the Directors' and CEOs' 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. 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.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
2 (2)	Appointment of the Chairman and the Chief Executive Officer and defining and approving functions and responsibilities	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. The Chairman is a Non-Independent Non-Executive Director. The Chief Executive Officer is in charge of the overall management of the Company.
2 (3)	Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense	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	Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and implied) between their duty to HNBF 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 does not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings. We confirm that such a situation has not arisen during the financial year under review.
2 (5)	Availability of a formal schedule of matters specifically reserved to the Board for a 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 period.
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.
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. Meetings of the Board		
3 (1)	Convening Board meetings at least twelve times a financial year at monthly intervals and obtaining board consent through the circulation.	The Board met 11 times during the financial year under review and ensured that the performance of the Company for the financial year has been duly assessed at those meetings. Obtaining the board consent through the circulation of written or electronic resolution has minimised as far as possible.
3 (2)	Inclusion of proposals by all Directors in the agenda	The Board has put in place a process that enables 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, at least 7 days of notice for regular Board meetings. For all other meetings a time period as set out in the respective TOR 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 period from 1 April 2019 to 31 March 2020.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	SSP Corporate Services (Private) Limited, a Company registered with the Registrar General of Companies as a qualified Secretary, handles secretarial services for the Board and shareholder meetings and carry out 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 is approved by the Chairman.
3 (7)	Directors access to advice and services of the Company Secretary.	All Directors have access to Company Secretary and records of Board meetings. Board has introduced a procedure to comply with the direction.
3 (8)	Maintenance of minutes of Board meetings and inspection thereof by the Directors	The Company Secretary maintains meeting minutes and circulates them to all Board Members which is open for inspection at any reasonable time to any Director. Additionally, Directors have access to past Board papers and minutes through a secured 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 details and retained by the Company Secretary under the supervision of the Chairman.
4. Composition of the Board		
4 (1)	Number of Directors	As at 31 March 2020, Board comprised of eight Directors with four of them being Non-Independent Non-Executive, three Independent Non-Executive, and one Executive Directors.
4 (2)	Subject to transitional provisions contained herein and subject to para 5 (1) of this Direction, the total period of service of a Director other than a Director who holds the position of CEO or Executive Director shall not exceed nine years.	The total period of service of any of the Non-Executive Directors does not exceed the nine years as at 31 March 2020.
4 (3)	Appointment, Election or Nomination of an employee as a Director of the Company. The number of Executive Directors shall not exceed one half of the number of Directors in the Board.	As at 31 March 2020, there was one Executive Director who is the Chief Executive Officer out of eight Directors which is within the requirement of the CBSL. The number of Executive Directors has not exceeded one half of the number of Directors of the Board.
4 (4)	Independent Non-Executive Directors	As at 31 March 2020, three out of eight Directors were Independent Non-Executive Directors. The Board evaluates Independence of the Directors annually based on the Directors' self-declaration.
4 (5)	Appointment of Alternative Director	Such a requirement has not arisen during the financial period from 1 April 2019 to 31 March 2020.
4 (6)	Skills and experience of Non-Executive Directors	Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgement and their detailed profiles are provided in this Annual Report.
4 (7)	More than half of the quorum to be Non-Executive Directors in Board Meetings	One half of the quorum consisted of Non-Executive Directors at all Board meetings held.
4 (8)	Expressly identify the Independent Non-Executive Directors in all corporate communications that contain the names of Directors of the Company and disclose the details of Directors	Details of Directors are included in this Annual Report.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
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 are based on the recommendations made by the Board Nomination Committee and there is a procedure in place for the appointments to the Board. After complying with this procedure, names are referred to the CBSL for approval prior to appointment.
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.
4 (11)	Disclosure of resignations/removal of Directors by 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 of Supervision of Non-Bank Financial Institutions including reasons for such resignation. Following Director resigned from the Board during the year: Mrs Crysanthi Thambiah (Executive Director) with effect from 30 May 2019.
5. Criteria to assess the fitness and propriety of Directors		
5 (1)	The age of a Director shall not exceed 70 years (Amended by FBA direction No. 5 of 2020)	There are no Directors who are over 70 years of age as at 31 March 2020. Mrs Rose Cooray (Non-Independent, Non-Executive Director) retired on 23 May 2019 on completion of 70 years of her age.
5 (2)	Holding 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 the Chief Executive Officer		
7 (1)	Division of Responsibilities of the Chairman and the Chief Executive Officer	The role of Chairman and the Chief Executive Officer is separated and held by two individuals appointed by the Board.
7 (2)	Chairman preferably to be an Independent Non-Executive Director and if not, appoint a Senior Director	Chairman is a Non-Executive Director. The Board designated Mr A S Wijesinhe (Independent Non-Executive Director) as the Senior Director in accordance with the CBSL directive.
7 (3)	Disclosure of the identity of the Chairman and the CEO and any relationship with the Board members.	No material relationship including financial, business or family exists between the Chairman Mr A J Alles and the Managing Director/Chief Executive Officer, Mr B M D C Prabhath.
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	The Chairman provides leadership to the Board as required. All key and appropriate issues are discussed by the Board on a timely basis.
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.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
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 meetings.
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 and act in the best interest of the Company.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Non-Executive and Executive Directors work together in the best interest of the Company. Non-Executive Directors participate in Board Subcommittees, providing further opportunities for their 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)	MD/Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses	As per the Company's organisation structure, the CEO/MD functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.
8. Board Appointed Committees		
8 (1)	Establishing Board committees, their functions and reporting	The following Board Subcommittees have been appointed by the Board and each such Committee is required to report to the Board: 1. Credit Committee 2. Board Integrated Risk Management Committee 3. Nomination Committee 4. Human Resource and Remuneration Committee. 5. Audit Committee 6. Related Party Transactions Review Committee 7. Strategic and Investment Committee. Recommendations of these Committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.
8 (2)	**Audit Committee**	
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	The Chairman of the Audit Committee, Mr A G R Dissanayake is a Non-Executive Director, a Chartered Financial Analyst and a Certified Global Management Accountant. He is also a fellow member of the Chartered Institute of Management Accountants of UK. Qualifications and experience are disclosed on pages 77 to 78 of this Annual Report.
	(b) All members of the Committee to be Non-Executive Directors	All members of the Audit Committee are Non-Executive Directors.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
	(c) Responsibilities of the Audit Committee to recommend:	The Board Audit Committee (BAC) has, at its meetings,
	i. The appointment of the External Auditor;	recommended that M/s Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial period from 1 April 2019 to 31 March 2020;
	ii. The implementation of the Central Bank guidelines;	reviewed and implemented the Central Bank guidelines issued to auditors from time to time;
	iii. The application of the relevant accounting standards; and	ensured the application of International Financial Reporting Standards; (IFRS's) is compiled;
	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 period 1 April 2019 to 31 March 2020. 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 period 1 April 2019 to 31 March 2020.
	(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 the Board Audit Committee.
	(e) Develop and implement a Policy on the engagement of an External Auditor to provide non-audit services	The Board approved policy is in place. When such services are obtained from the External Auditor, prior approval is obtained from the Audit Committee as per the above policy.
	(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: i. major judgemental 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.	Quarterly, bi-annual Financial Statements as well as year-end Financial Statements are submitted to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements take place and obtain required clarifications in respect of all areas, before the Committee makes its recommendations for Board's approval.

Rule Reference	Corporate Governance Principle	HNBF'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 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 2018/19 and the Management's responses thereto.
	(j) Review of the internal audit function: • the adequacy of the scope, functions and resources of the Internal Audit Department;	The committee reviewed the scope, functions and the resources of the Internal Auditors.
	• internal audit programme and results of the internal audit process;	Committee has reviewed and approved the Internal Audit Plan for the Financial period 1 April 2019 to 31 March 2020 presented by the Internal Auditors prepared on overall risk assessment and the significant observations made during the previous year.
	• review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	The Company commenced its in-house internal audit function from May 2019.
	• recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	BAC recommended new appointment of the Head of Internal Audit to HNBF with the commencement of in-house internal audit function in terms of the new Direction No. 07 of 2018 – Outsourcing of Business Operations. He assumed his duties from May 2019.
	• 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 service providers;	No such situation has arisen during the period from 1 April 2019 to 31 March 2020.
	• ensure that the internal audit function is independent of the activities it audits.	Internal Audit function is independent as the Internal Audit Department reports directly to the Board Audit Committee.
	(k) consideration about the major findings of internal investigations and management's responses thereto	Based on reports submitted by the Internal Auditor, 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 period from 1 April 2019 to 31 March 2020.
	(l) Participants at the Audit Committee meetings and the need to meet with the External Auditors without the presence of the Executive Directors	The Committee met two times with the External Auditors without the presence of Executive Directors. The Managing Director, Chief Operating Officer, AGM – Risk, Head of Internal Audit, Head of Compliance, and other corporate management members attend the meetings by invitation. The Internal Auditors normally attend all meetings. Where it is deemed necessary, other members of the corporate management also attend meetings by invitation, when required.
	(m) Terms of reference of the Audit committee will ensure that there is: i. explicit authority to investigate into any matter within its terms of reference; ii. the resources which it needs to do so; iii. full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;	Approved Terms of Reference of the committee evidence that it contains the matters stipulated.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
	(n) Regular meetings of the Audit Committee	The Board Audit Committee met 04 times during the financial year under review.
	(0) 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 103 to 104 and includes the detailed activities, meetings held during the year and Directors' attendance at the Audit Committee meetings.
	(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 any malpractices of the Company
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	The Integrated Risk Management Committee comprises three (03) Non-Executive Directors including the Chairperson to the Committee, Chief Executive Officer (MD/CEO), Chief Operating Officer (COO), and AGM Risk and supervises broad risk categories such as credit, market, liquidity, operational and strategic risk. DGM – Risk (HNB PLC), Head of Compliance and Manager – Risk 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 of the Company on a regular basis through appropriate risk indicators. The Company will continue 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 and investment policies and reports submitted to the Board Integrated Risk Management Committee. It also carries out a maturity gap analysis of any mismatch of assets and liabilities. Further, the Company has identified risks and monitors them through relevant risk indicators such as NPL and increase in NPA ratio, risks arising out of internal and external frauds through BIRMC. Committee reviews the adequacy and effectiveness of all management level committees benchmarking 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 benchmarks and corrective actions are taken to mitigate the effects of such risks that are at levels 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 10 times during the financial year 2019/20.

Rule Reference	Corporate Governance Principle	HNBF'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 risks 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 was monitored by the Compliance Officer (Head of Compliance). 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 Transactions Policy is in place which describes the related parties, types of related party transactions and the favourable treatment granted to the said parties and stipulates that the Board members should avoid any conflicts of interest that may arise from any transactions with the Company. Transactions carried out with Related Parties in the normal course of business are disclosed in the Financial Statements on "Related Party Disclosures" under Note 42 of Financial Statements.
9 (3)	Nature of transactions with related parties to which the Corporate Governance Directions apply	Board approved process is in place to identify the related party transactions.
9 (4)	Monitoring of Related party transactions defined as more favourable treatment.	The Board approved Related Party Transactions Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties "more favourable treatment" as defined in this rule.
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 period from 1 April 2019 to 31 March 2020 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 newspaper in an abridged form, in Sinhala, Tamil and English	Such statements are published in the newspapers in compliance with CBSL regulations.

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
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 line 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 130.
	(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 129.
	(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 and transactions with the Company are included in the Annual Report.
	(e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	Refer Note 10 to the Financial Statements on fees/remuneration paid by the 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 31 March 2020, HNBF has not granted any accommodation to related parties.
	(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, is disclosed under Note 42.2 to Financial Statements on page 172.
	(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 non-compliance (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.
	(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.

Report on Compliance with the Rules on the Content of the Annual Report According to Section 7.6 of the Listing Rules of the Colombo Stock Exchange (Listing Rules)

Colombo Stock Exchange (CSE) Listing Rules aim to boost the confidence of investors of the companies by requiring the companies to publish accurate information on a timely basis to evaluate companies and helping investors to make wise decisions on investing. These rules also depict governance rules which should be adhered to by all listed companies. Level of compliance by HNBF with such rules is highlighted in the following table:

Rule Number	Disclosure requirement	Section reference	Page Reference
7.6 (1)	Name of persons who held the positions of Directors during the financial year	Annual Report of the Board of Directors	122
7.6 (ii)	Principal activities of the Entity and its Subsidiaries during the year and any changes therein	Annual Report of the Board of Directors	122
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentages of such shares held	Share Information	195
7.6 (iv)	The public holding percentage	Share Information	195
7.6 (v)	A statement of each Director's and Chief Executive Officer's holding in shares and the percentage of such shares held	Share Information	195
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk Management	111
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	N/A	–
7.6 (viii)	Extent, locations, valuations, and the number of buildings of the Entity's land holdings and investment properties	Refer Financial Statements	134-191
7.6 (ix)	Number of shares representing the Entity's stated capital	Share Information	195
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings	Share Information	195
7.6 (xi)	Ratios and market price information: Equity Debt Any changes in credit rating	Share Information	195
7.6 (xii)	Significant changes in the Entity's or its subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value	Refer Financial Statements	134-191
7.6 (xiii)	Details of funds raised through Public Issues, Rights and Private Placements during the year	Share Information	195
7.6 (xiv)	Information in respect of Employee Share Option Schemes and Employee Share Purchase Schemes	N/A	–
7.6 (xv)	Disclosure pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Rules	Corporate Governance	81
7.6 (xvi)	Disclosure on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets whichever is lower, of the entity as per the latest Audited Financial Statements	Related Party Transactions Review Committee Report	109

Compliance Requirements on Corporate Governance Rule 7.10 of the Listing Rules

The Continuing Listing Rule Section 7.10 of the Colombo Stock Exchange (CSE) mandates companies listed on the Colombo Stock Exchange to publish a table in the Annual Report, confirming that as at the date of the Annual Report they comply with the Corporate Governance rules. The rule addresses the following areas:

Rule Number	Disclosure requirement	HNBF Level of Compliance
7.10.1	**Non-Executive Directors**	
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	As at 31 March 2020, the Board comprised seven Non-Executive Directors out of total of eight Directors which is more than the requirement of the rule.
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting	The Board comprised of 8 Directors as at the conclusion of the immediately preceding AGM.
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change	N/A
7.10.2	**Independent Directors**	
7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent	As at 31 March 2020, the Board has determined that three Directors out of seven Non-Executive Directors are Independent
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	All Directors have submitted annual declarations in respect of the year under review
7.10.3	**Disclosures Relating to Directors**	
7.10.3 (a)	The Board shall make determination of Independence/ Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Please refer page 87 of the Annual Report
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	Not applicable
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise	Please refer pages 76 to 78 of the Annual Report
7.10.3 (d)	Brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public.	No new appointments was done to the Board during the FY 2019/20.
7.10.4	**Criteria for Determination of Independence of Directors**	
7.10.4 (a – h)	Requirements for meeting criteria to be independent	All Independent Directors of the Company met the criteria for independency specified in this Rule
7.10.5	**Remuneration Committee**	
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Board appointed Remuneration Committee is in place. Please refer page 105 of the Annual Report. All the Directors in the Remuneration Committee comprised of independent Non-Executive Directors. Mr P A H D Wijesundara who is an Independent Non-Executive Director is the Chairman of the Committee
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors	Please refer the Report of the Remuneration Committee on page 105 to the Annual Report
7.10.5 (c)	The Annual Report shall set out: i. The names of the Directors that comprise the Remuneration Committee; ii. A statement of remuneration policy; iii. Aggregate remuneration paid to Executive and Non-Executive Directors	Please refer the page 105 of Remuneration Committee Report

Rule Number	Disclosure requirement	HNBF Level of Compliance
7.10.6	**Audit Committee**	
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board The Chief Executive Officer and the Chief Financial Officer shall attend Audit Committee Meetings The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Board appointed Audit Committee is in place. All Directors of the Committee are Non-Executive Directors. Majority of the Directors in the Audit Committee comprised of Independent Non-Executive Directors Both the Chief Executive Officer and the Chief Operating Officer attended the Audit Committee meetings by invitation. The Chairman of the Audit Committee is a Non-Executive Director, a Chartered Financial Analyst and a Certified Global Management Accountant. He is also a fellow member of the Chartered Institute of Management Accountants of UK
7.10.6 (b)	The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules	Please refer Audit Committee Report on pages 103 to 104 of the Annual Report.
7.10.6 (c)	Annual Report shall set out: i. The names of the Directors who comprise the Audit Committee. ii. The Audit Committee shall make a Determination of the independence of the Auditors and disclose the basis for such determination. iii. A report by the Audit Committee setting out the manner of compliance of the functions set out in Section 7.10 of the Listing Rules.	Please refer the Audit Committee Report on pages 103 to 104 for the required disclosure

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee is a subcommittee of the Board of Directors and comprising exclusively of Non-Executive Directors. During the year Committee has continued to review and report to the Board on the Company's financial reporting, internal control and risk management processes and the performance, independence and effectiveness of External Auditors.

Composition of the committee

The Audit Committee ("the Committee"), appointed by the Board of Directors comprises of Three Non-Executive Directors in accordance with the Finance Companies (Corporate Governance) Direction, No. 3 of 2008.

Committee

Name of the member	Directorship status	Membership status
Mr A G R Dissanayake	Non-Independent Non-Executive Director	Chairman
Mr A S Wijesinha	Independent Non-Executive Director	Member
Mr P A H D Wijesundera	Independent Non-Executive Director	Member

Invitees

- Mr Chaminda Prabhath – MD/CEO
- Mr W S P Arangala – COO
- Mr J M R Fonseka – AGM – Compliance
- Mr C B Wijayaratne – AGM – Risk
- Mr L N Senaweera – Head of Internal Audit
- Mr S C Gunasekara – Chief Accountant

The Board Secretary functions as Secretary to the Audit Committee.

Terms of Reference

The scope and responsibilities of the Board Audit Committee emanates from its Terms of Reference. Committee assists the Board of Directors of the Company in fulfilling its oversight responsibilities for the financial reporting process, internal control, the audit process and the monitoring process for compliance with laws and regulations.

The Board periodically reviews the Terms of Reference of the Committee.

Authority

Committee is empowered to:

- Investigate into any matter within its terms of reference.
- Seek any information it requires from the management and staff (all of whom are directed to co-operate with the committee's requests) or external parties.
- Meet with the management and staff, external and internal auditors, regulators or outside counsel as necessary.
- Obtain external professional advice and to invite outsiders with relevant experience to attend if necessary.

Meetings

For the purpose of discharging its duties the Audit Committee met 04 times during the period. The attendance of the members at Audit Committee Meetings was as follows:

Member	No. of meetings
Mr A G R Dissanayake	04/04
Mr A S Wijesinha	02/04
Mr P A H D Wijesundera	03/04

Financial reporting

The Committee, as part of its responsibility, oversee the Company's financial reporting process on behalf of the Board of Directors. Accordingly, committee reviewed and discussed Financial Statements with the management 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 any other regulations relating to financial reporting.

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 CEO, COO, AGM – Risk, AGM – Compliance and Chief Accountant were also brought up for discussion.

Risk and internal control

The Committee assessed the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards. The Committee discussed internal and External Auditors' review of risk management and internal control systems and made appropriate recommendations. 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.

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. 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.

Internal audit

The Committee is responsible for reviewing the role and effectiveness of the internal audit function by monitoring the results of its work and the responses of Management to its recommendations. During the year, Internal Audit Department was set up as per CBSL Direction No. 07 of 2018 and Charter of the Internal Audit Department was approved by the Committee. The Audit Committee reviewed and approved the annual internal audit plan after considering its depth and coverage in the Company. The reports submitted by the internal audit Department with management responses were reviewed and discussed at Committee meetings.

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 steps are being taken continuously to improve the controllable environment in which the Company operates.

A G R Dissanayake
Chairman
Audit Committee

29 July 2020
Colombo, Sri Lanka

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Committee

The Human Resource and Remuneration Committee is appointed by the Board of Directors of the Company. As at 31 March 2020, the Committee comprised of the following Directors.

Committee

Name of the Member	Directorship Status	Membership Status
Mr P A H D Wijesundera	Independent Non-Executive Director	Chairman
Mr A J Alles	Non-Independent Non-Executive Director	Member
Dr Udan Fernando	Independent Non-Executive Director	Member

The Policy

The Company's remuneration policy aims to attract, inspire and retain the skilled employees in a competitive environment with the appropriate expertise on managerial, operational and professional fields necessary to achieve the objectives of the Company.

The focus of the Committee is to ensure that the total remuneration packages of the Company are competitive to attract the best available talent to the Company.

It also aims to remunerate all its employees rightly that will commensurate with their achievements by Key Performance Indicators (KPI).

Committee Responsibilities

Human Resources and 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 Personnel (KMP) 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 including KMPs and all employees, based on corporate and individual performance against set targets and goals.
- Make recommendations from time to time to the Board of Directors, on the additional/new expertise required by the company.
- Interview applicants and support the selection process 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 and 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/provide directions on disciplinary matters, concerning key management personnel which have caused a significant financial and integrity loss to the Company and otherwise.

Meetings of the Committee

The Committee met 02 times during the year in reference. The attendance of the members at these meetings are given in page 126.

Fees

All Non-Executive Directors receive a monthly attendance fee for participation in the deliberations at the Board as per the Director's Remuneration Policy approved by the Board. They may also receive an attendance fee for attending and deliberations at subcommittee 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, as the members deem required and relevant with the circumstances.

Hasitha Wijesundara
Chairman
Human Resources and Remuneration Committee

29 July 2020
Colombo, Sri Lanka

NOMINATION COMMITTEE REPORT

Composition of the Committee

The Nomination Committee is appointed by the Board of Directors of the Company. As at 31 March 2020, the Committee comprised the following Directors.

Committee

Name of the Member	Directorship Status	Membership Status
Dr S U H Fernando	Independent Non-Executive Director	Chairman
Mr A Alles	Non-Independent Non-Executive Director	Member
Mr B Premalal	Non-Independent Non-Executive Director	Member

The Policy

The Company aims to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new Directors, re-appointment of current Directors, selection and appointment of the CEO and the Key Management Personnel and to recommend the remuneration (cash and non-cash benefits) payable to the Chairman, Board members, The Managing Director/Chief Executive Officer (MD/CEO), the Non-Executive Directors and other executive management officers, to the Board.

It also aims to remunerate all its employees rightly that will commensurate with their achievements by key performance indicators.

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 calibre 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.

Meetings of the Committee

The Committee met five (5) times during the year in reference. The attendance of the members at these meetings are given in page 126.

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. They may also receive an attendance fee for attending subcommittee 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.

Dr Udan Fernando
Chairperson
Nomination Committee

29 July 2020
Colombo, Sri Lanka

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition

Board Integrated Risk Management Committee (BIRMC) of HNB Finance Limited (HNBF) is a Board Subcommittee formed in terms of Section 7.2 of Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by Monetary Board of Sri Lanka.

The Committee was comprised of three Non-Executive Directors, Chief Executive Officer, Chief Operating Officer and AGM Risk. The Chief Operating Officer represent the relevant Key Management Personnel (KMPs) supervising broad risk categories such as credit, operational, liquidity and strategic risks at the BIRMC meetings. DGM Business, AGM Compliance and Senior Manager Risk of the company and CRO of HNB attended the meetings as regular invitees during the period under review.

Committee

Name of the Member	Directorship Status	Membership Status
Mr Rajive Dissanayake	Non-Independent Non-Executive Director	Chairman
Mr Chaminda Prabhath	Managing Director/CEO	Member
Mr Anushka Wijesinha	Independent/Non-Executive Director	Member
Mr Mahinda Perera	Non Independent/Non-Executive Director	Member
Mr Priyalal Arangala	Chief Operating Officer	Member
Mr Bhanu Wijayaratne	AGM – Risk	Secretary to BIRMC

Regular Invitees

- Mr Damith Pallewatte – DGM Risk (HNB PLC) – Up to 31 December 2019
- Mr Ramesh Fonseka – AGM Compliance
- Mr Lalanga Senaweera – Head of Internal Audit
- Mr Shamira Kothalawala – Senior Manager Risk

Terms of Reference

The Terms of Reference of BIRMC as set out by the Board of Directors of HNBF, includes the followings:

- The Committee shall ensure that the Risk Management Division assesses on a monthly basis, all relevant risks such as, Credit, Operational, Liquidity, Strategic etc., faced by the Company, through appropriate risk indicators and management information.
- The Committee shall review the adequacy and effectiveness of relevant management level Committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- The Committee shall recommend and review prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels determined by the Committee, on the basis of the Company's policies and regulatory and supervisory requirements, which need to be promptly implemented by the management headed by MD/CEO.
- The Committee shall direct management to take appropriate action against the officers responsible for breaches, violations of regulations and laid down procedures including risk mitigating controls. Prompt corrective action shall be initiated by the management 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.
- The Committee shall establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel, shall carry out the Compliance Function and report to the Committee periodically.
- The Committee shall update the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and/or any other specific directives. Further, the approved minutes of the BIRMC shall be submitted to the BOD at the next immediate Board Meeting, held after the adoption of such minutes by BIRMC.

Mandate and Authority

- The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties, covering all aspects and entire operations of the Company. Such authority of the Committee may be delegated to the Head of Risk or any other officer as appropriate, to facilitate sourcing of relevant information and also for perusal of any document for the purposes of identifying, reviewing, assessing and monitoring of subject risks that may stem from the operations of the company.
- The Committee may, with the approval of the Board of Directors, obtain outside legal or other professional advice and/or consultancy services at the expense of the company on matters falling within the scope of the Committee.

Risk Assessment

The Committee assess, review and monitor the risks that may arise when transacting business of the company as stated below:

Credit Risk

- Ensure appropriate credit risk strategies are developed, implemented and monitored.
- Ensure risk policies and framework are developed, implemented and monitored.
- Ensure corrective action taken to mitigate identified risks and avoid repetition.

Operational Risk

- Review the Operational Risks faced by the company.
- Review Operational Losses and near losses incurred by the company.
- Review adequacy of Business Continuity Planning framework subject to on-going reviews towards due implementation.
- Ensure corrective action taken to mitigate such risks and avoid repetition.

Market Risk

- Review the gold loan operations and the risk involved and ensure timely action taken to avoid/mitigate relevant risks.

Compliance Risk

- Review regular compliance briefings on adherence to regulations/directions/guidelines issued by the regulator from time to time, including any other reports or correspondence exchanged, if any.
- Ensure adequacy and the effectiveness of the compliance function on corporate governance.
- Ensure submission of periodic reports covering any concerns raised by the regulator.
- Review periodic progress updates on CBSL supervisory concerns and ML Points towards corrective action.

Technology and Systems Risk

- Review and follow up on implementation, Business Continuity Planning and Disaster Recovery preparedness of technology and systems that are identified as critical to the company's business success and for compliance with regulation, with a view to minimise instances of system/service non availability.

Meetings

The BIRMC met ten times during the subject period under review, for the purpose of discharging the duties assigned to the Committee. During the subject period, the BIRMC reviewed the Integrated Risk Management policy, Operation Risk policy, Key Risk Indicators(KRIs), Loan Review Mechanism (LRM) Findings and quarterly Heat Maps presented by the Risk Management Division. Also the BIRMC assessed, reviewed and monitored the risks faced by the company, using the risk assessment reports and dashboards presented by the Risk Management Division. The attendance of the Directors at the BIRMC meetings are indicated elsewhere in this report under Annual Report of the Board of Directors.

Board reporting

At the Board Meetings, the Chairman kept the Directors appraised of the key findings and issues highlighted in the risk reports, which merited the attention of the Board of Directors, supported by other members. In addition, the minutes and the dashboard of the BIRMC Meetings were regularly presented to the Board, for its information and action as appropriate.

Rajive Dissanayake
Chairman
Board Integrated Risk Management Committee

29 July 2020
Colombo, Sri Lanka

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee was established by the HNBF Board on 18 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 31 March 2020 comprised the following members:

Committee

Name of the Member	Directorship Status	Membership Status
Mr A S Wijesinha	Independent Non-Executive Director	Chairman
Mr P A H D Wijesundera	Independent Non-Executive Director	Member
Mr B M D C Prabhath	Managing Director/CEO	Member

Invitees

- Mr Sameera Gunasekera – Chief Accountant/Head of Finance Secretary to the RPT Committee
- Mr J M R Fonseka – AGM (Compliance)
- Mr Chamara Tharanga Chief Manager – Legal

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 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

The Committee met once during the twelve months' period ended 31 March 2020. The Committee resolved to meet at more regularly in the following year – at least once a quarter.

Review of Transactions for the Financial Period ended 31 March 2020

During the twelve-month period ended 31 March 2020, the Committee reviewed and confirmed that 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 134 to 191 for RPTs published in the Note 42 to the Financial Statements. During the year under review, the Committee guided the development of new systems and measures to govern related party transactions, including the strengthening of internal IT systems to better track and trace related party transactions. The Committee also oversaw the development and introduction of a conflict of interest policy, according to the requirement of the CBSL, and guided its deployment and dissemination across the organisation.

Anushka Wijesinha
Chairman
Board Related Party Transactions Review Committee

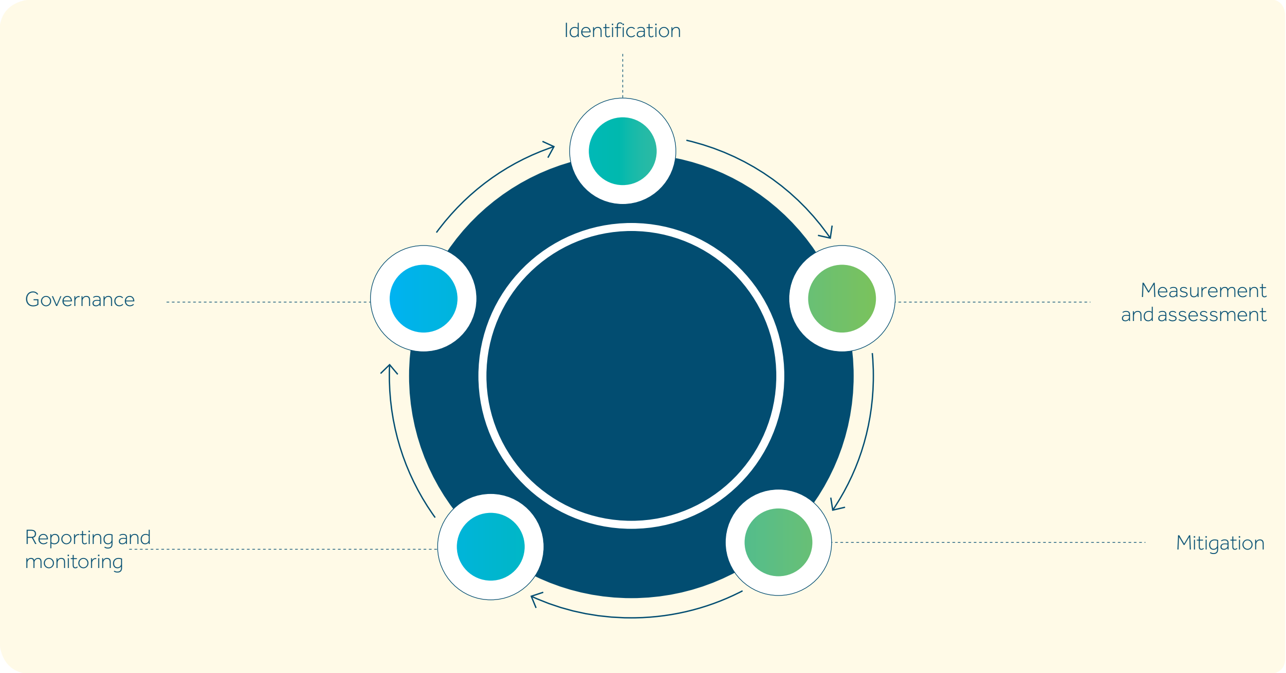
29 July 2020
Colombo, Sri Lanka

MANAGING RISKS AND EXPLOITING OPPORTUNITIES

HNB Finance adopts a comprehensive risk management mechanism to determine its exposure to risks that are material and relevant to its operations. This enables the Company to conduct its business in a stable and sustainable manner.

Risk management framework of HNBF

HNBF has established an Integrated Risk Management Framework to identify, assess, review, monitor, control and mitigate all types of broad risk categories that could create an impact towards the Company.



The Board is supported by the Board Integrated Risk Management Committee (BIRMC), to ensure that the Company's risk framework is effectively managed, covering broad risk categories such as Credit Risk, Operational Risk, Liquidity Risk and Financial Risk, in order to avoid possible surprises and sudden shocks.

The Executive Risk Management Committee (ERMC) peruse the Risk Assessments and Analytics presented by the Risk Management Division and to monitor and review such risk exposures including risk-related policies/procedures affecting credit, operation, market, financial, liquidity, and any other category of risk that may arise when transacting business operations of the Company, keeping in line with the directives issued by BIRMC and other regulators as appropriate.

The Risk Management Division of the company assists the Corporate Management and BIRMC in driving the above initiatives. The Corporate Management of the company, with the functioning of the Executive Risk Management Committee (ERMC) supports such initiatives by conducting the business of the company keeping in line with the Board approved Risk Management Policy of the Company.

Key Initiatives taken

1

Establishment of an Integrated Risk Management (IRM) Framework in order to facilitate effective risk governance.

2

Commencement of Loan Review Mechanism Function (LRM) and driving initiatives towards Credit Risk mitigation.

3

Involving in driving the Business Continuity Management Process (BCM) towards successful implementation.

4

Driving initiatives towards mitigating IT related risks which include Establishment of the IT Steering Committee (ITSC), Network Security Vulnerability Assessment and Introduction of Change Management Procedure.

5

Commenced effective driving of the risk function in terms of the specifications of TOR for BIRMC.

6

Intensified actions as per the Risk Management Policy, Systems and Procedures and driving initiatives to develop a risk culture within the organisation.

7

Development of a comprehensive Risk Dashboard/Update and presenting same to ERMC and BIRMC.

8

Development of a risk appetite statement (RAS).

9

Intensified the Operational Risk Management function which include.

- Capturing of Operational Losses and Near Misses on a periodic basis.
- Implementation of Risk and Control Self-Assessment (RCSA) process and refinement of Key Risk Indicators (KRI).

10

Development of a Risk Heat Map and driving appropriate action towards risk mitigation.

11

Independent Credit Risk Monitoring and Management.

12

Assessment of all credit facilities above LKR 5 Mn. and providing recommendations for risk mitigation and/or clearance.

13

Assessment of all rescheduled/restructured credit facilities except for Micro loans and providing recommendations for risk mitigation and/or clearance.

14

Carrying out appropriate Stress Testing and a Scenario Analysis.

15

Carrying out Risk assessment for new products/modification of existing products and contributing towards appropriate value additions.

16

Conducting training programs to improve the awareness, knowledge, skills and expertise in credit evaluation and risk management.

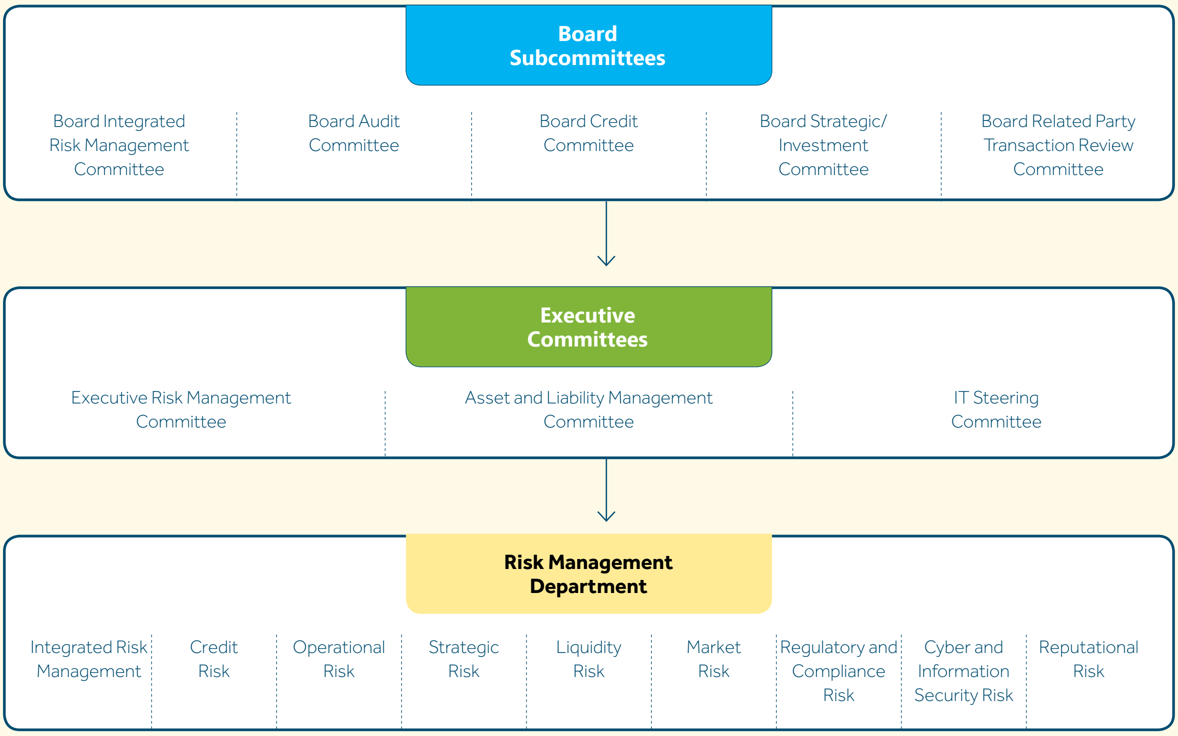
Priorities for the year

1. Formulate Credit Policy as appropriate with requisite independence and timely review of same, together with obtaining required approval from relevant authorities.
2. Formulate Operational Risk Policy and Operational Risk Reviews across the Branch Network and Head Office Departments.
3. Improve risk related MIS for Risk Performance across business segments
4. Drive Portfolio Risk Management techniques to improve Asset Quality
5. Drive new initiatives to improve and upgrade Risk Management/ Governance Framework of the Company
6. Ensure the Business Continuity Management (BCM) framework is effectively executed across the Company, in liaison with IT Division.

2020/21

7. Key Operational Risk Controls (KORCs) are to be documented, complied and revised in a timely manner.
8. Developing a robust KRI library where the management can have a helicopter view of the risk associated with Company's day-to-day operational functions.
9. Revamp the RCSA format and conduct a brainstorming session covering all business/process verticals of the organisation, which will enable 1st line of defence to identify the risks involved in their day-to-day functions and to record same.
10. Pandemic BCP/Work from home (WFH) initiatives have been prioritised
11. Initiatives have been taken to mitigate cyber risk liaising with IT Department

Risk management framework



Board Subcommittees

- Board Integrated Risk Management Committee
- Board Audit Committee
- Board Credit Committee
- Board Strategic/ Investment Committee
- Board Related Party Transaction Review Committee

Executive Committees

- Executive Risk Management Committee
- Asset and Liability Management Committee
- IT Steering Committee

Risk Management Department

- Integrated Risk Management
- Credit Risk
- Operational Risk
- Strategic Risk
- Liquidity Risk
- Market Risk
- Regulatory and Compliance Risk
- Cyber and Information Security Risk
- Reputational Risk

Board Integrated Risk Management Committee (BIRMC)

The Objectives of the Board Integrated Risk Management Committee (BIRMC) is to assess, review and monitor risks that may arise when transacting business of the Company.

The Committee has closely worked with Key Management Personnel and made decisions on behalf of the Board of Directors (BOD) in the above process, within the scope of the authority and responsibility assigned to the Committee by BOD.

The Committee consist of three Non-Executive Directors, Chief Executive Officer, Chief Operating Officer and AGM Risk. The Chief Operating Officer represent the relevant Key Management Personnel (KMP) supervising broad risk categories such as credit, operational, liquidity and strategic risks at the BIRMC meetings. DGM Business, AGM Compliance and Senior Manager Risk of the Company and CRO of HNB shall attend the meetings as regular invitees.

However, the Committee may summon any other officers of the Company as deemed necessary, should circumstances warrant same.

The AGM Risk will function as the Secretary to the Committee.

Duties and Responsibilities of BIRMC

- The Committee shall ensure that the Risk Management Division assesses on a monthly basis, all relevant risks such as, Credit, Operational, Liquidity, Strategic etc., faced by the Company, through appropriate risk indicators and management information.
- The Committee shall review the adequacy and effectiveness of relevant management level Committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- The Committee shall take prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels determined by the Committee, on the basis of the Company's policies and regulatory and supervisory requirements.
- The Committee shall direct management to take appropriate action against the officers responsible for breaches, violations of regulations and laid down procedures including risk mitigating controls. Prompt corrective action shall be initiated by the management 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.
- The Committee shall establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel, shall carry out the Compliance Function and report to the Committee periodically.
- The Committee shall update the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and/or any other specific directives. Further, the approved minutes of the BIRMC shall be submitted to the BOD at the next immediate Board Meeting, held after the adoption of such minutes by BIRMC.

Executive Risk Management Committee (ERMC)

The Executive Risk Management Committee (ERMC) is responsible for reviewing the risks associated with the Company's business model and its operations, ascertaining the Company's appropriate risk tolerance for such risks whilst ensuring necessary mitigation strategies and corrective actions are in place, as appropriate. Also the ERMC would ensure that such measures are duly integrated with existing initiatives to enhance growth objectives of the Company and other operations in general.

The Committee shall take prompt corrective action to mitigate the effects of identified risks in the event such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies and regulatory and supervisory requirements.

Duties and responsibilities of ERMC

- Develop and recommend the Company's Risk Appetite to the Board via BIRMC
- Oversee identification, assessment and mitigation of Company-wide material risks including Credit, Market and Operational Risks.
- Assess the risk implications of the Company's business strategies
- Consider the impact of changes in market, economic and competitive environments on the Company's risk profile
- Recommend to the Board relevant risk management policies
- Review exceptions, if any, from approved risk guidelines/policies
- Monitor and review the Company's progress towards implementation of the Risk Management Framework
- Monitor compliance with legal and regulatory requirements
- Report to the Board on all material matters arising from its review and monitoring functions
- Develop risk awareness at all management and staff levels and Initiate/oversee formal training programmes on Risk Management to entire Company staff
- Ensure sound risk management policies and practices are implemented
- Ensure adequate procedures are in place to manage identified risks

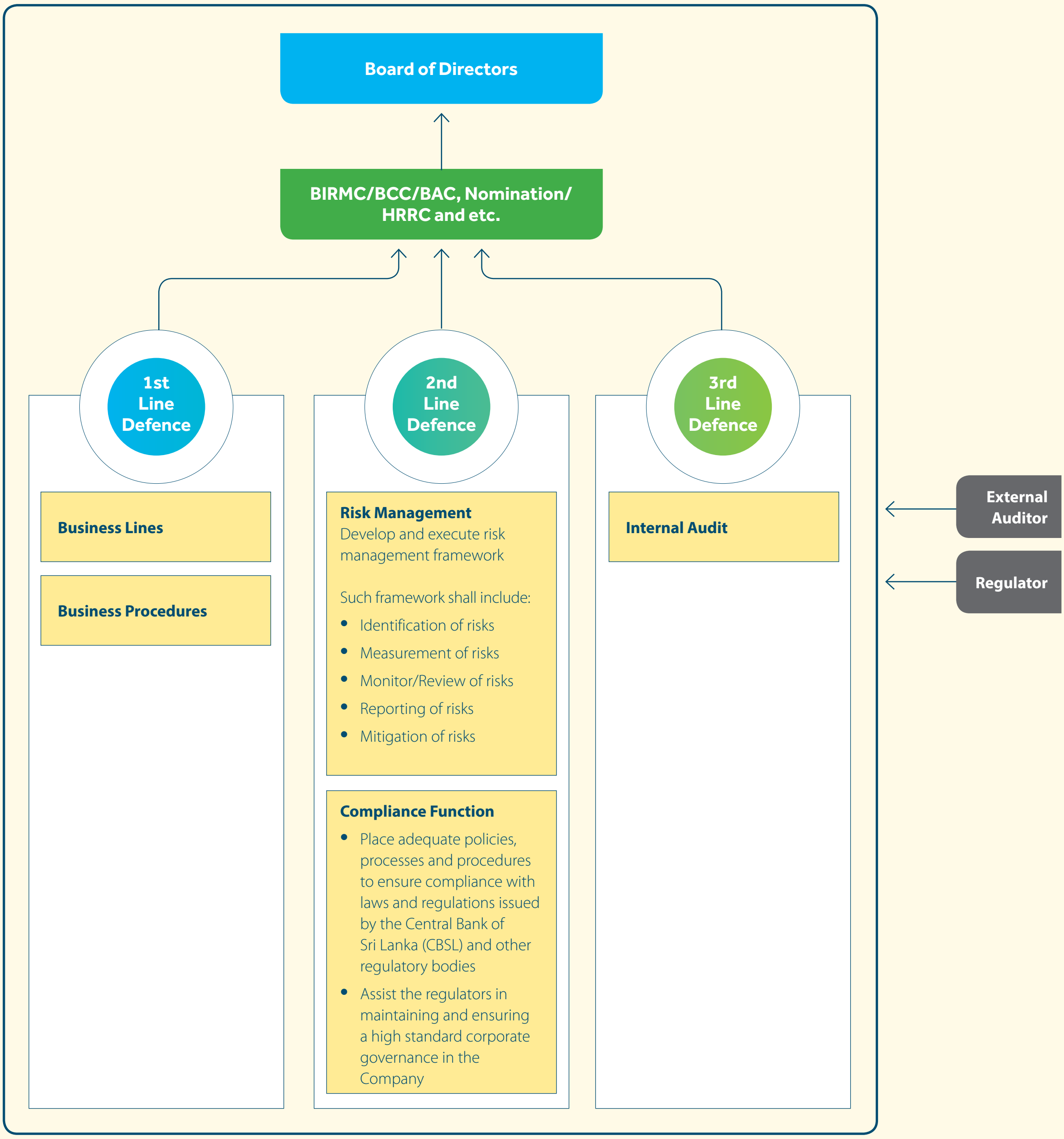
Risk Management Division (RMD)

The key role of the Risk Management Division is to ensure that the Governance, Risk, Compliance and Control Frameworks of the Company are operating effectively within the defined risk levels.

Duties and Responsibilities of the Risk Management Division

- Establishment of a Risk Governance Framework for the Company.
- Driving Best in Class Risk Management systems in line with Regulatory Norms
- Developing a Risk Appetite Statement (RAS)
- Risk Identification, Assessment and Measurement including identification of emerging trends that may present new regulatory, fraud or money laundering risks, which also include the risks associated with products and services, customer types, geographies and delivery channels.
- Establishing risk tolerance, formulating risk related strategies and policies, overseeing adherence to policy requirements and the effectiveness of the risk framework.
- Designing and implementing policies, systems and procedures with a view to develop an effective preventative Risk Management Culture and to ensure that the Company adheres to Board defined risk mandate for Credit, Operations, Market, Legal, Liquidity and other relevant risks.

Three lines of defence



Business Lines

Business Procedures

Risk Management
Develop and execute risk management framework

Such framework shall include:

- Identification of risks
- Measurement of risks
- Monitor/Review of risks
- Reporting of risks
- Mitigation of risks

Compliance Function

- Place adequate policies, processes and procedures to ensure compliance with laws and regulations issued by the Central Bank of Sri Lanka (CBSL) and other regulatory bodies
- Assist the regulators in maintaining and ensuring a high standard corporate governance in the Company

Internal Audit

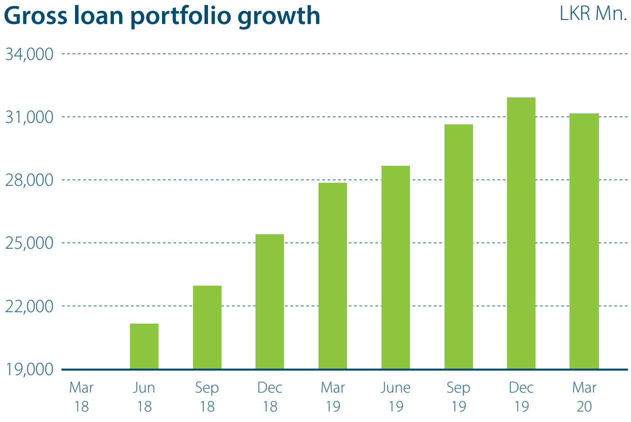
Credit Risk

Credit risk can be defined as the risk of a potential loss to the Company when a borrower or counterparty is either unable or unwilling to meet its financial obligations in time. Granting loans and advances is the core business of HNBF and as such credit risk is its most material risk. Given the scale and materiality of the HNBF's loan book, managing the credit quality of the lending portfolio is a key focus area with the objective of minimising probable credit losses and maintaining credit risk exposure within acceptable parameters. The HNBF's credit portfolio remains well diversified in terms of customers, product types, business segments, geographical spread and sectors, etc.

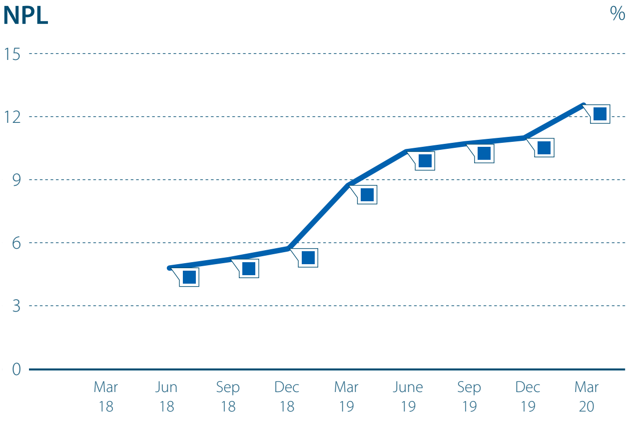
Key initiatives taken to mitigate credit risk

- Drive a robust Loan Review Mechanism and Timely delivery of established targets under the LRM function.
- Evaluating new credit proposals submitted for risk clearance and also to provide recommendations on risk mitigation.
- Evaluating Restructuring/ Rescheduling proposals submitted for risk clearance and also to provide recommendations on risk mitigation.
- Drive Watch-listing Initiatives
- Conducting comprehensive training programmes to improve awareness and knowledge with regard to credit Risk management activities of HNBF.
- Timely preparation of Credit Risk Dashboard for ERMC/ BIRMC
- Carry out Independent Credit Reviews which include Concentration risk on Industry, Products, Geographies and any other factors that could adversely affect the credit quality of the portfolio of the Company.
- Drive Portfolio Risk Management Techniques to Improve Asset Quality
- Carry out stress testing and scenario analysis and periodic review results of such actions at ERMC and BIRMC meeting.
- Continues assessment of the NPL movement and submit periodical reports to the BIRMC with appropriate action plans

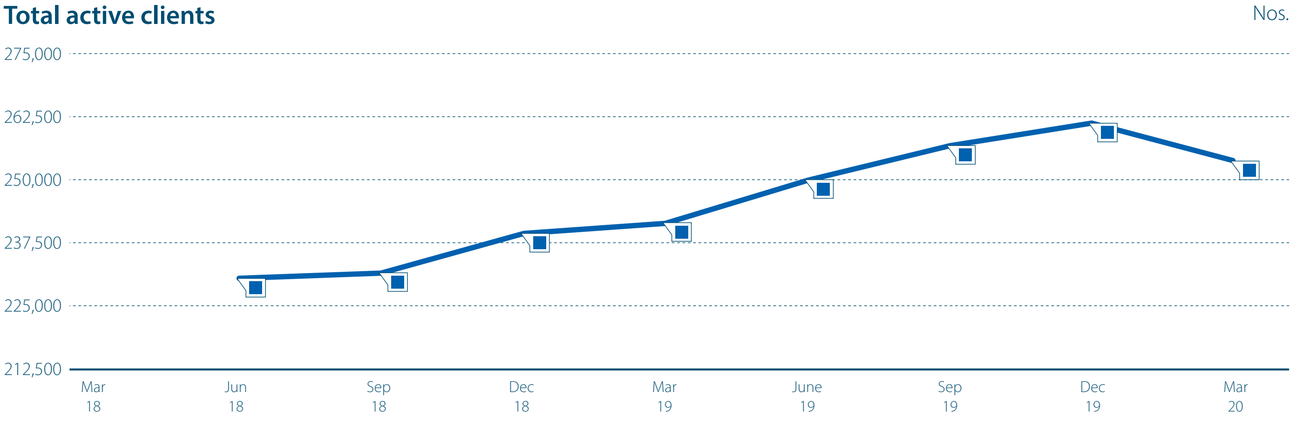
Gross loan portfolio growth



NPL



Total active clients



Loan Review Mechanism (LRM)

Risk Management Division shall carryout the LRM function in order to continuously evaluate the quality of the loan book and bring about qualitative improvements in credit function in general.

LRM shall include following attributes:

- Loan reviews will focus on the approval process, accuracy and timeliness of credit ratings assigned by loan officers, adherence to internal policies and procedures, and applicable laws/regulations, compliance with loan covenants, post-sanction follow-up action, sufficiency of documentation, portfolio quality, timeliness in delivery and maintenance of required standards etc., based on which, recommendations for improving portfolio quality shall be made.
- When selecting sample for LRM, consideration will be given to high value facilities, covering all products except micro products, facilities which indicate a potential for deterioration in the credit quality and facilities that has already turned NPL, etc.
- All in all, the LRM function shall provide reasonable assurance that all major credit risks embedded in the Balance Sheet are tracked, as a postmortem, using a sample check method.
- Substantial quantum of the loan portfolio are subject to LRM each year to provide reasonable assurance, that all major credit risks are effectively monitored.

Risk Clearance at Approval Level

All facilities granted in excess of LKR 5 Mn., shall be subject to Risk Clearance prior to being granted. If any such facility is not cleared by the Risk Management Division or has been cleared subject to fulfilment of certain conditions, such facilities shall be submitted to CEO for approval, who in-turn should critically evaluate the risks involved and possible impacts of such risks to the Company, if such credit is to be approved.

Operational Risk

Operational Risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, which includes legal risk. This definition excludes Strategic and Reputation Risks. Therefore, in line with the leading practices, operational risk in the Company comprises of the following risk types: operations risk, legal risk, regulatory and compliance risk, financial crime risk, people risk, property risk, technology risk, vendor risk etc. While the overall Operational Risk Management responsibility is vested with RMD, different Departments such as Legal, Compliance, IT and Branch Network manage risks that stem in their respective purviews and command areas which can be classified as operational risk.

Operational Risk exposure is managed through a comprehensive set of internal controls and management processes that include risk assessment (identification, description and estimation), risk evaluation, reporting, mitigation, residual risk reporting and monitoring and control associated with the Company's business operations as an on-going activity. Operational Risk is recognised as a distinct risk category, which the Company strives to manage within acceptable levels through sound operational risk management practices. The Company's approach to managing Operational Risk is to adopt practices that are fit and prudent to suit the organisational maturity and relevant business environments.

Key initiatives taken to mitigate operational risk

- Carryout Operational Risk Reviews across the network of branches and Head Office Departments
- Timely preparation of Ops Risk Dashboard for ERMC/BIRMC
- Implementation of Risk and Control Self-Assessment (RCSA) process and develop Key Risk Indicators (KRI) library.
- Ensure Key Operational Risk Controls (KORCs) are documented, complied and revised in a timely manner.
- Initiating and coordinating of implementation of fire drill and the Business Continuity Planning (BCP) initiatives in general.

Managing Operational Risk forms part of the day-to-day responsibilities of management at all levels. The objectives in managing Operational Risk are to increase the efficiency and effectiveness of the Company's resources, minimise losses and optimise opportunities. The Company's operational risk framework defines the minimum requirements for Operational Risk Management and is supported by specific policies and procedures.

Key initiatives taken to mitigate compliance risk

- Review regular compliance briefings on adherence to regulations/directions/guidelines issued by the regulator from time to time including any other reports or correspondence exchanged, if any; with special focus on AML/CFT regulatory requirements.
- Ensure adequacy and the effectiveness of the compliance function on corporate governance.
- Ensure submission of periodic reports covering any concerns raised by the regulator.
- Review periodic progress updates on CBSL supervisory concerns and ML Points towards corrective action.

Key initiatives taken to mitigate strategic/reputational risk

- All strategic initiatives including new products introduced, changes done to existing products including withdrawal of products if any, to be reviewed.
- To ensure to developments in regulatory and/or competitive environment that has strategic implications.
- Ensure effective disclosures and external communication.

Key initiatives taken to mitigate technology and systems risk

- Review and follow up on implementation, business continuity planning and disaster recovery preparedness of technology and systems that are identified as critical to the company's business success and for compliance with regulation, with a view to minimise instances of system/service non-availability.

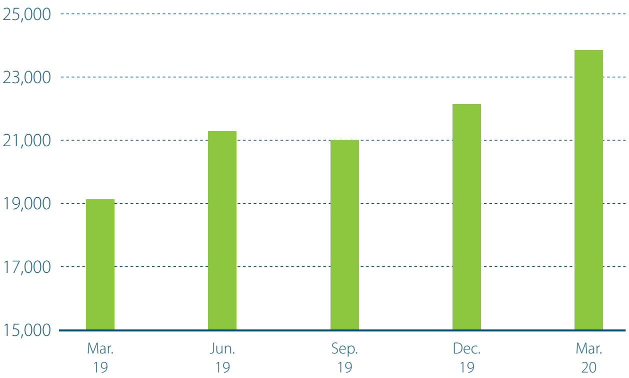
Liquidity Management

Liquid Assets Ratio is maintained within the Statutory Level as prescribed by CBSL and the Government Security Requirement Ratio is also being maintained at not less than 7.5% of rupee deposit liabilities at all times or as prescribed by CBSL.

The liquidity risk is being tested periodically in order to ascertain the ability of the Company to fund its operations at all times, specially in times of market distress. The Company has a contingency plan and trigger events that could cause a liquidity crisis.

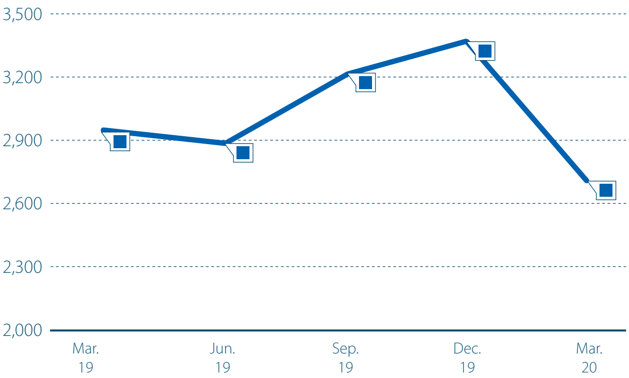
Fixed deposits

LKR Mn.



Savings

LKR Mn.



Capital management

The level of the Company's capital is aligned to the Risk Appetite and Risk Profile. It is the Responsibility of the Chief Operating Officer (COO) to manage the Company's capital at appropriate levels. The key objectives for capital management is to ensure ability to support its envisioned growth and compliance with the CBSL minimum capital adequacy ratios as detailed below:

Capital Adequacy Ratio is being maintained within the Statutory Level as prescribed by CBSL and the Company has complied with CBSL regulatory requirements relating to capital adequacy and adheres to regulatory standards and guidelines.

Capital requirement	Minimum capital adequacy requirements	Actual ratio as at 31 March 2019	Actual ratio as at 31 March 2020
Tier – I Capital %	6.50	9.26	9.93
Total Capital %	10.50	10.54	14.00

Stress testing

The Company periodically carries out stress testing to ascertain its resilience in case of any adverse developments. The stress tests are based on economic scenarios and specific portfolio movements developed and agreed with Executive Risk Management Committee and the Board Integrated Risk Management Committee.

There are no directions/guidelines/circulars issued by Department of Supervision of NBFI with regard to this. Nevertheless, Company has, as a matter of prudence, proactively carried out stress testing on a monthly basis with the objectives of identifying and estimating the likely losses that the Company may suffer under exceptional, but plausible scenarios covering the areas of profitability, credit quality, impairment and efficiency ratios such as ROA, ROE, etc. The outcome of the stress testing carried out by the Risk Management Division is discussed and reviewed on a monthly basis at both ERMC and BIRMC meetings and action taken as appropriate towards remedying concerns if there are any.

Senior management may review the results of the various stress tests which are reported to the Board Integrated Risk Management Committee. Test results are documented together with any of the sensitivity tests and scenario analysis undertaken as part of the details of those tests and analysis.

FINANCIAL REPORTS

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Annual report of the Board of Directors on the affairs of the Company

Directors of H N B Finance Limited (H N B F) have pleasure in presenting to shareholders this report together with Audited Financial Statements of the Company for the period ended 31 March 2020 together with the Auditor's Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Leasing Act No. 56 of 2000 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 and subsequent amendments thereto and recommended best practices on Corporate Governance and Finance Companies – (Corporate Governance) Direction No. 03 of 2008 and the Listing Rules of the Colombo Stock Exchange. This Report was approved by the Board of Directors on 28 July 2020.

General

The H N B Finance Limited (H N B F) is a licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and was incorporated as a public limited liability Company on 20 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.

The Company's shares are now listed on the Colombo Stock Exchange under the *Diri-Savi* Board. The first finance company which was oversubscribed in over two years, HNB FINANCE's Initial Public Offering (IPO) via an Offer for Sale on the Colombo Stock Exchange, was oversubscribed by a significant 32% on its opening day on 17 February 2020.

Fitch Ratings Lanka Limited has assigned "AA- (lka)"; Outlook Stable rating to the Company.

The registered office of the Company is at "HNB Finance Building", No. 168, Nawala Road, Nugegoda, at which the Company's Head Office is also situated.

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review.

Information required to be disclosed as per the companies Act No. 7 of 2007	Reference to the Companies Act	Level of compliance by the company
The nature of the business of the Company	Section 168 (1) (a)	Complied – page 204
Signed Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Complied – page 136
Auditor's Report on Financial Statements of the Company	Section 168 (1) (c)	Complied – pages 131-133
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Complied – page 141
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Complied – page 125
Remuneration and other benefits paid to the directors during the accounting period	Section 168 (1) (f)	Complied – page 153
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Complied – pages 153
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Complied – page 124-126
Amounts payable to the Auditor as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Section 168 (1) (i)	Complied – page 153
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Complied – page 131-133
Annual Report of the Board of Directors on the affairs of the company to be signed on behalf of the board by two Directors and the Company secretary	Section 168 (1) (k)	Complied – page 122-128

Vision, Mission and corporate conduct

The Company's Vision, Mission are given on page 8 of this Annual Report. In achieving its set goals and objectives all directors, management and employees conduct their activities to highest level of ethical standards and integrity as set out in the Code of Ethics.

Principal activities

The Company's principal activities during the period were providing micro finance facilities, finance leases, vehicle loan facilities, mortgage loans, gold 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 period under review.

Review of operations

A review of Company's business and its performance during the twelve-month period with comments on financial results and future developments contained in the Chairman's Review on pages 12-14 the Managing Director's Review on pages 16-18 the Management Discussion on pages 20-74 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 developments

An overview of the future development of the Company is given in the Chairman's review on pages 12-14, Managing Director's Review on pages 16-18 and the Management Discussion and analysis on pages 20-74.

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 requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Finance Leasing Act No. 56 of 2000 as amended.

Consequent to the Audit Committee's recommendations, financial statements were reviewed and approved by the Board of Directors on pages 103-104.

The financial statements of the Company duly signed by the Chief Operating Officer and two Directors on behalf of the Board are given on pages 134-191, 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 130 and forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

Directors' statement of internal controls

As per Section 10 of the Direction No. 03 of 2008 of Central Bank of Sri Lanka 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 129 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 on pages 131-133 of the 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.

Auditor's Report

The Company's Auditor, Messrs. Ernst & Young (Chartered Accountants) performed the audit on the Financial Statements for the period ended 31 March 2020 and the Auditor's Report issued thereon is given on page 131 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 period ended 31 March 2020 are 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 is given on pages 140-150.

Review of the Financial Performance During the twelve-month period

Income

The Income of the Company for the period from 1 April 2019 to 31 March 2020 was LKR 9,170,137,702 (From 1 April 2018 to 31 March 2019 it was LKR 8,291,663,723). An analysis of the Income is given in Note No. 04 to the financial statements.

Financial results and appropriations

The net profit of the Company from 1 April 2019 to 31 March 2020 was LKR 420.5 Mn. (LKR 830.5 Mn. from 1 April 2018 to 31 March 2019). Details regarding the profit and appropriations of the Company are given below:

	Company	
	2019/20 LKR	2018/19 LKR
Profit before tax	659,647,314	1,261,931,494
Income tax expense	239,132,739	431,335,672
Net profit	420,514,575	830,595,822
Retained earnings brought forward	2,724,314,273	2,553,710,332
Impact of adopting SLFRS 9 – "Financial Instruments" (Transition date)	–	500,939,901
Profit available for appropriation	3,134,019,398	2,883,366,253
Appropriation		
Statutory reserve fund	84,102,915	166,119,164
Re measurement of define benefit liability	5,404,725	7,067,184
Dividend paid	–	–
Balance carried forward	3,055,321,208	2,724,314,273

Reserves

The reserves of the Company with the movements during the period are given in note to the financial statements on page 137.

Taxation

The income tax rate applicable to the Company's operations at present is 28% (28% in 2018/19). 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% (2018/19: 15%) and Nation Building Tax (NBT) on Financial Services at 2% (2018/19: 2%). NBT application was abolished from 1 December 2020.

The Board of Directors

The Board of Directors of the Company as at 31 March 2020, comprised of 08 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 76-78 of this Annual Report.

Names of the persons holding office as Directors of the Company as at 31 March 2020 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	18 November 2014	Chairman – Non-Independent Non-Executive Director
Mr B Premalal*	29 June 2011	Deputy Chairman – Non-Independent Non-Executive Director
Mr B M D C Prabhath	29 June 2011	Executive Director/Chief Executive Officer/Managing Director
Mr A S Wijesinha	18 June 2015	Independent Non-Executive Director
Dr S U H Fernando	25 June 2015	Independent Non-Executive Director
Mr P A H D Wijesundara	27 September 2016	Independent Non-Executive Director
Mr A G R Dissanayake	29 August 2017	Non-Independent Non-Executive Director
Mr M Perera	29 September 2017	Non-Independent Non-Executive Director

* Mr Brahmanage Premalal, Deputy Chairman and Non-Independent/Non-Executive Director retired from the Board of Directors of the Company w.e.f. 29 June 2020 in terms of section 4 (2) of the Finance Companies (Corporate Governance) Direction No. 3 of 2018 of the Central Bank of Sri Lanka, upon completion of nine (09) years of service.

New appointments during the year and up to the date of this report

There were no new appointments during the year and up to the date of this report.

Resignations/retirements during the year

The undermentioned Directors resigned from the Board of Directors of the Company during the year.

- Mrs L L C C Thambiah who served as an Executive director of the Company resigned with the effect from 31 May 2019.
- Mrs M A R C Cooray who served as a Non-Independent Non-Executive Director of the Company retired with effect from 23 May 2019.

Cessations during the year

There were no cessations during the financial year.

Directors of the subsidiary

There are no subsidiaries.

Retirement by rotation and re-election of directors

The undernoted Directors will retire by rotation at the Annual General Meeting in terms of Article 27 of the Articles of Association of the Company and offer themselves for re- election under the said Article.

- Dr S U H Fernando
- Mr A S Wijesinha

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

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 function) 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.

Director's interests register and Directors' interests in contracts or proposed contracts

The Company maintains Directors' Interests Register in terms of the Companies Act No. 07 of 2007. Directors 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 as at date. These interests are entered in the Interests Register which is deemed to form part and parcel 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 170 and form an integral part of this Annual Report.

The remuneration paid to the Directors during the period under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under "Directors' Remuneration" on page 153.

The relevant interests of Directors in the shares of the Company as at 31 March 2020 as recorded in the Interest's 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 with the Company

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 42 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 10 to the Financial Statements on page 153.

Relevant interests of Directors' in shares

In compliance with Section 200 of the Companies Act, the Board of Directors of H N B Finance Limited 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 period under review, the shareholdings of the Board of Directors were listed as follows:

- Mr B M D C Prabhath – MD/CEO holds 0.07% ordinary voting shares of the Company which is equivalent to 1 Million shares, as at 31 March 2020. The shareholding at the beginning of the financial year was 0.07% equivalent to 1 Million shares.
- Mr Mahinda Perera – Non-Independent Non-Executive Director – holds 0.002. % of the ordinary voting shares of the Company which is equivalent to 25,000 shares, as at 31 March 2020. Mr Perera did not hold shares of the Company as at the beginning of the financial year.

Directors' interest in debentures

There were no debentures registered in the name of any Director as at 31 March 2020.

Board sub-committees

The Board of Directors while assuming the overall responsibility and accountability for the management of the Company has also appointed Board Subcommittees 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.

Directors' meetings

The number of Directors' meetings, which comprise Board Meeting, Audit Committee meeting, Integrated Risk Management Committee meeting, Credit Committee meeting, Human Resources & Remuneration Committee meeting, Nominations Committee meeting, Related Party Transactions Review Committee meeting and Strategic/Investment Committee meeting together with the attendance of each Director at these meetings during the twelve-month period is tabulated below:

	Board	Board Audit Committee	Board Integrated Risk Management Committee	Nomination Committee	HR & Remuneration Committee	Board Credit Committee	Related Party Transactions review Committee	Strategy & Investment Review Committee
Number of meetings held	11*	4	10	5	2	2	1	4
Mr A J Alles	9/11			5/5	2/2			4/4
Mr B Premalal	8/11			4/5				1/4
Mr B M D C Prabhath	11/11		9/10			1/2	1/1	
Mr A S Wijesinha	8/11	2/4	7/10			2/2	1/1	
Dr S U H Fernando	10/11			5/5	2/2			
Mr P A H D Wijesundara	8/11	3/4			2/2	2/2	1/1	
Mr A G R Dissanayake	10/11	4/4	8/10					4/4
Mr M Perera	11/11		10/10					
Mrs L L C C Thambiah (Resigned w.e.f. 31 May 2019)	1/11							
MRS M A R C Cooray (Retired w.e.f. 23 May 2019)	1/11		1/10					

*Though 11 meetings were held during the financial year, the meeting scheduled for March 2020 was held in April 2020 due to the COVID-19 outbreak. With said meeting, 12 meetings in total have been held.

Committee	Members/Directors
Audit Committee	Mr A G R Dissanayake – Non-Independent Non-Executive Director (Chairman) Mr A S Wijesinha – Independent Non-Executive Director Mr P A H D Wijesundara – Independent Non-Executive Director
Integrated Risk Management Committee	Mr A G R Dissanayake – Non-Independent Non-Executive Director (Chairman) Mr B M D C Prabhath – Executive Director – Managing Director/CEO Mr A S Wijesinha – Independent Non-Executive Director Mr M Perera – Non-Independent Non-Executive Director
Credit Committee	Mr P A H D Wijesundara – Independent Non- Executive Director (Chairman) Mr B M D C Prabhath – Executive Director – Managing Director/CEO Mr A S Wijesinha – Independent Non-Executive Director
Human Resources and Remuneration Committee	Mr P A H D Wijesundara – Independent Non- Executive Director (Chairman) Mr A J Alles – Non-Independent Non-Executive Director Mr Udan Fernando – Independent Non-Executive Director
Nomination Committee	Mr Udan Fernando – Independent Non-Executive Director (Chairman) Mr A J Alles – Non-Independent Non-Executive Director Mr B Premalal – Non-Independent Non-Executive Director
Related Party Transactions Review Committee	Mr A S Wijesinha – Independent Non-Executive Director (Chairman) Mr B M D C Prabhath – Executive Director – Managing Director/CEO Mr P A H D Wijesundara – Independent Non-Executive Director
Strategic/Investment Committee	Mr A J Alles – Non-Independent Non-Executive Director (Chairman) Mr B Premalal- Non-Independent Non-Executive Director Mr A G R Dissanayake – Non-Independent Non-Executive Director

Stated capital and debentures

The stated capital of the Company as at 31 March 2020 was LKR 223,545,481/- consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000 (2018/19 – LKR 223,545,481/- consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000).

The redeemable debentures of the Company as at 31 March 2020 was LKR 665 Mn. consisting of 665 debentures at LKR 1 Mn. (2018/19 – LKR 665 Mn.). Subordinated, Listed, Rated, Unsecured, Redeemable Debenture of the Company as at 31 March 2020 was 1,158,820,000 consisting of 11,588,200 debentures at LKR 100.

Share information and substantial shareholdings

Share Holding

The shareholding distribution is reflected on page 195 and 198 as at 31 March 2020. 20 voting registered shareholders and 3 non-voting registered shareholders were recorded.

Distribution schedule of shareholders, major shareholders, public holding and ratios and market price information

Information as required by the Listing Rules on distribution of shareholding with the respective percentages, 20 largest shareholders, public holding and ratios and market price information are set out on pages 195 and 198 under share information.

Shares were listed on CSE on 20 May 2020.

Major shareholders

Page 195 indicates the shareholding analysis of the top 20 voting (volume wise) and non-voting (volume wise) shareholders of the company, as at 31 March 2020.

Ratios and market prices of debentures

Debentures were not traded as at 31 of March 2020.

Dividends on ordinary shares

There were no dividends declared to the holders of the ordinary shares (both voting and non-voting) for the financial period from 1 April 2019 to 31 March 2020.

Property, plant and equipment and significant changes in the company’s and its subsidiary’s fixed assets/market value of land

Capital expenditure

The total capital expenditure on acquisition of property, plant and equipment and intangible assets during the period of the Company amounted to LKR 97 Mn. (2018/19 Company – LKR 137 Mn. Details are given in Note 26 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 31 March 2020 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 26 to the Financial Statements.

Human resources

The employment strategies of the Company are framed to recruit, train, develop and retain the best talent 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 period under review.

Material issues pertaining to employees and industrial relations pertaining to the company

There are no material issues pertaining to employees or industrial relations of the Company which occurred during the year under review which required disclosure under Rule 7.6 (vii) of the Listing Rules.

Employee share option schemes/employee share purchase schemes

The Company has not implemented any Share Option/Share Purchase Schemes for its employees.

Donations

During the year under review, the Company has not made any donations.

Corporate social responsibility

The Company carries out CSR activities, annually, details of which are set out in the section on Social and Relationship Capital on pages 59-68.

Auditors

The Financial Statements for the period ended 31 March 2020, have been audited by Messrs Ernst & Young. The Auditors have been paid a fee of LKR 6 Mn. as audit fee for the period ended 31 March 2020, which has been approved by the Board.

The Board recommends to appoint M/S KPMG, Sri Lanka (Chartered Accountants) who 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, as auditors for the ensuing year and a resolution to appoint M/s KPMG as Auditors and authorising the Directors to fix their remuneration as recommended by the Board, will be proposed at the forthcoming Annual General Meeting.

Risk management and internal control

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Audit Committee and the Integrated Risk Management Committee. Specific steps taken by the Company to manage the Risks are detailed in the section on Risk Management on pages 111-120 Directors' statement on Internal Controls over Financial Reporting is on page 130.

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 from pages from 81-89 of the Annual Report.

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.

Statutory payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of, and in respect of employees of the Company and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

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.

Outstanding litigation

In the opinion of the Directors and Company's lawyers, pending litigation by and against the Company will not have a material impact on the financial position of the Company or its future operations.

Contingent liabilities

Except as disclosed in Note 41 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

Events occurring after the reporting date

Except for the matters disclosed in Note 40 to the Financial Statements on page 170 there are no material events as at the date of the Auditor's Report which require adjustment to or disclosure in the Financial Statements.

Going concern

The Board of Directors has reviewed the Company's corporate/business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

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.

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.

Annual General Meeting

Notice is hereby given that the 10th Annual General Meeting of the shareholders of HNB Finance Limited (the Company) will be held as a Hybrid Meeting at the "Auditorium", Level 06, Head Office of HNB Finance Limited, No. 168, Nawala Road, Nugegoda, on the 29 September 2020 at 10.00am.

Acknowledgement 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. 7 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/Chief Executive Officer

SSP Corporate Services (Pvt) Ltd.
Company Secretaries

29 July 2020
Colombo, Sri Lanka

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 Finance Limited.

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 Finance Limited 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 were recommended wherever necessary.

The Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure. Financial reporting and management information processes will be further strengthened by constant monitoring and adaptation to market realities. Also Company adopted Sri Lanka Accounting Standards SLFRS – "Leases" which became effective for financial reporting periods beginning on or after 1 April 2019.

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 for twelve month ended 31 March 2020.

By order of the Board,

A G R Dissanayake
Chairman – Audit Committee

B M D C Prabhath
Managing Director/CEO

W S P Arangala
Chief Operating Officer

29 July 2020
Colombo, Sri Lanka

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The following statement sets out responsibility of 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 Financial Statements is set out in the Report of the Auditors given on page 132 of the Annual Report.

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

In preparing Financial Statements, 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.

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, 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 Annual Report have been based on Sri Lanka Accounting Standards (SLFRS/LKAS) which came to effect from 1 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 period.

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

29 July 2020
Colombo, Sri Lanka

INDEPENDENT AUDITOR'S REPORT

Building a better
working world

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To the shareholders of HNB Finance Limited

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of HNB Finance Limited ("the Company") which comprise the Statement of Financial Position as at 31 March 2020, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a Summary of Significant Accounting Policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for loans and advances to customers and lease rentals receivable and stock out on hire. We considered the impairment allowance for loans & advances to customers and lease rentals receivable & stock out on hire as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Probable impacts of COVID-19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Company's financial statements, underpinned our basis for considering it as a Key Audit Matter.	We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; these included the following procedures: • We evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9, focusing on the oversight, review and approval of impairment policies by the board audit committee and management. • We evaluated the model used to calculate impairment allowance to assess its appropriateness. • We assessed the completeness and relevance of the underlying information used in the impairment calculations by agreeing details to source documents and information in IT systems; underlying calculations were also rechecked.

Key audit matter	How our audit addressed the key audit matter
Loans and advances to customers and lease rentals receivable and stock out on hire amounted to LKR 17.78 Bn. and LKR 9.94 Bn. after deducting an impairment allowance of LKR 2.66 Bn. and LKR 0.46 Bn. respectively. These collectively contributed 73% to the Company's total assets. The Note 2.3.2.4 of the Financial Statements describes the basis of impairment allowance and assumptions used by the management in its calculation.	• We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios. • We assessed the adequacy of the related financial statement disclosures as set out in Note(s), 17 and 18 of the Financial Statements
Management's assessment of possible effects of the COVID-19 outbreak on the nature and extent of risks arising from financial instruments and related disclosures. Management has assessed the possible impacts of the COVID-19 outbreak on, nature and extent of risks arising from financial instruments and related financial statement disclosures are made considering the best available information up to the date of assessment, as more fully described in Note 44 of the Financial Statements. We considered such management's assessment and related disclosures as a key audit matter, considering nature of business and use of significant management judgments and estimates considering future events and circumstances.	Our audit procedures included the following: • We gained an understanding of management's assessment of the possible impacts of the COVID-19 outbreak on the nature and extent of risks arising from financial instruments and developing related disclosures of the Company. • We assessed the adequacy of qualitative disclosures made, in Note(s) 44.3, 44.4, 44.5 and 44.6 to the Financial Statements focusing on credit risk and liquidity risk in the light of the objective of SLFRS 7. • In relation to significant judgments and estimates underpinning such disclosures, we assessed the reasonableness of those key assumptions considering related market information and internal decisions made by the Company.

Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.

29 July 2020
Colombo, Sri Lanka

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March	Note	2020 LKR	2019 LKR
Gross income	4	9,170,137,702	8,291,663,723
Interest income		8,105,612,179	7,229,168,801
Interest expenses		(3,719,330,983)	(2,802,086,025)
Net interest income	5	4,386,281,196	4,427,082,776
Fee and commission income		844,610,197	777,756,571
Fee and commission expenses		(160,405,037)	(152,804,593)
Net fee and commission income	6	684,205,160	624,951,978
Net interest, fee and commission income		5,070,486,356	5,052,034,754
Other operating income	7	219,915,326	284,738,350
Net mark to market valuation gain	7	178,128	(113,600)
Total operating income		5,290,579,810	5,336,659,505
Impairment charges for loans and other losses	8	(1,085,863,153)	(842,911,063)
Net operating income		4,204,716,658	4,493,748,442
Personnel expenses	9	(1,336,693,187)	(1,235,850,374)
Other expenses	10	(1,740,353,618)	(1,492,214,080)
Total operating expenses		(3,077,046,805)	(2,728,064,454)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt recovery levy (DRL) on financial services		1,127,669,852	1,765,683,988
Value added tax (VAT) and debt recovery levy (DRL) on financial services	11	(442,188,218)	(455,741,371)
Nation building tax (NBT) on financial services	12	(25,834,321)	(48,011,123)
Operating profit after value added tax (VAT), nation building tax (NBT) and debt recovery levy (DRL) on financial services		659,647,314	1,261,931,494
Income tax expenses	13	(239,132,739)	(431,335,672)
Profit for the year		**420,514,575**	**830,595,822**
Basic earnings per share	14	0.24	0.48

The Accounting Policies and Notes on pages 140 through 191 form an integral part of the Financial Statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March	Note	2020 LKR	2019 LKR
Profit for the year		420,514,575	830,595,822
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	33.1	(7,506,562)	9,815,534
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	27	2,101,837	(2,748,350)
Revaluation reserve of freehold lands and buildings	25	–	225,621,952
Deferred tax effect on revaluation on lands and buildings	25	–	(63,174,146)
Other comprehensive income for the year, net of tax		(5,404,725)	169,514,990
Total comprehensive income for the year		415,109,850	1,000,110,812

The Accounting Policies and Notes on pages 140 through 191 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2020 LKR	2019 LKR
Assets			
Cash and cash equivalents	15	1,502,773,059	1,371,096,372
Financial assets measured at Fair value through profit or loss	16	16,192,528	16,014,400
Financial assets at amortised cost – Loans and advances to customers	17	17,775,565,585	16,755,608,663
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	18	9,942,881,802	8,073,389,558
Financial assets at amortised cost – Loans and advances to others	19	584,123,014	641,712,440
Financial assets measured at fair value through other comprehensive income	20	12,430,283	12,430,283
Financial assets at amortised cost – Debt and other instruments	21	4,231,143,039	2,487,353,578
Other assets	22	421,096,825	492,794,672
Investment properties	23	1,105,000,000	1,295,000,001
Intangible assets	24	298,713,377	173,541,897
Property, plant and equipment	25	1,625,569,181	1,420,476,897
Right-of-use asset	26	286,728,068	–
Deferred tax assets	27	184,776,230	189,768,514
Total assets		**37,986,992,991**	**32,929,187,275**
Liabilities			
Financial liabilities at amortised cost – Due to customers	28	27,528,789,668	22,632,141,889
Financial liabilities at amortised cost – Debt issued and other borrowed funds	29	3,822,043,053	4,217,579,835
Income tax payable	30	133,467,472	80,353,556
Value added tax payable	31	59,079,643	49,704,847
Other liabilities	32	1,138,517,580	1,112,137,121
Retiring benefit obligation	33	260,518,521	207,802,822
Total liabilities		**32,942,415,936**	**28,299,720,070**
Shareholders' fund			
Stated capital	34	223,545,481	223,545,481
General reserve	35	82,897,989	82,897,989
Statutory reserve fund	36	1,091,098,381	1,006,995,465
Revaluation reserve fund	37	591,713,996	591,713,996
Retained earnings	38	3,055,321,207	2,724,314,273
Total equity		**5,044,577,055**	**4,629,467,205**
Total equity and liabilities		**37,986,992,991**	**32,929,187,275**

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

Chief Operating Officer

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by;

Chairman

Managing Director/CEO

The Accounting Policies and Notes on pages 140 through 191 form an integral part of the Financial Statements.

29 July 2020
Colombo, Sri Lanka

STATEMENT OF CHANGES IN EQUITY

	Note	Stated capital LKR	General reserves LKR	Statutory reserve LKR	Revaluation reserve LKR	Retained earnings LKR	Total LKR
Balance as at 1 April 2018		223,545,481	82,897,989	840,876,301	429,266,191	2,553,710,332	4,130,296,294
Impact of application of SLFRS 9 – Net of deferred tax						(500,939,901)	(500,939,901)
Restated Balance as at 31 March 2018 under SLFRS 9		**223,545,481**	**82,897,989**	**840,876,301**	**429,266,191**	**2,052,770,431**	**3,629,356,393**
Profit for the year		–	–	–	–	830,595,822	830,595,822
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						9,815,534	9,815,534
Deferred tax effect on actuarial gain on defined benefit plans		–	–	–	–	(2,748,350)	(2,748,350)
Revaluation reserve of freehold lands and buildings – Net of deferred tax	37	–	–	–	162,447,806	–	162,447,806
Total comprehensive income for the year		**–**	**–**	**–**	**162,447,806**	**837,663,006**	**1,000,110,812**
Transactions recorded directly in equity							
Transfer to statutory reserve fund		–	–	166,119,164	–	(166,119,164)	–
Balance as at 31 March 2019		**223,545,481**	**82,897,989**	**1,006,995,465**	**591,713,996**	**2,724,314,273**	**4,629,467,205**
Profit for the year		–	–	–	–	420,514,575	420,514,575
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						(7,506,562)	(7,506,562)
Deferred tax effect on actuarial gain on defined benefit plans		–	–	–		2,101,837	2,101,837
		223,545,481	**82,897,989**	**1,006,995,465**	**591,713,996**	**3,139,424,123**	**5,044,577,055**
Transactions recorded directly in equity							
Transferred to statutory reserve fund		–	–	84,102,915	–	(84,102,915)	–
Balance as at 31 March 2020		**223,545,481**	**82,897,989**	**1,091,098,381**	**591,713,996**	**3,055,321,207**	**5,044,577,055**

The Accounting Policies and Notes on pages 140 through 191 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March	Note	2020 LKR	2019 LKR
Cash flows from operating activities			
Profit before tax		659,647,314	1,261,931,494
Adjustments			
Interest expenses on borrowings	5.2	366,529,507	276,280,016
Interest expenses on debentures	5.2	96,222,013	71,480,904
Interest income from financial assets at amortised cost – debt and other instrument	5.1	(276,484,158)	(167,411,299)
Interest income on financial assets measured at fair value through profit or loss	5.1	(1,440,000)	(1,440,000)
Dividend income	7.1	(280,000)	(240,000)
Profit/(loss) on disposal of property, plant and equipment	7.1	378,232	(657,287)
Fair value gain on investment property	7.1	–	(114,850,000)
Impairment charge/(reversal) for loans and other assets	8	1,085,863,153	842,911,063
Provision for value added tax	31	292,320,954	360,083,419
Provision for debt recovery levy		149,867,264	96,275,024
Crop insurance levy	10	4,550,000	8,370,000
Provision for nation building tax	12	25,834,321	48,011,123
Amortisation on intangible assets	24	67,155,195	49,539,886
Depreciation – on property, plant and equipment	25	146,598,191	132,321,898
Gratuity provision	9	52,208,063	42,355,344
(Gain)/loss on mark to market valuation of financial assets measured at fair value thorough profit or loss	7	(178,128)	113,600
Provision for amount payable under *sip saviya* scheme		1,200,000	1,200,000
Operating profit/(loss) before changes in operating assets and liabilities		**2,669,991,919**	**2,906,275,184**
(Increase)/decrease in operating assets			
Financial assets at amortised cost – Loans and advances to customers	17	(3,715,341,850)	(7,890,947,316)
Financial assets at amortised cost – Loans and advances to others	19	57,589,426	(51,165,604)
Other assets	22	(419,542,554)	(250,190,761)
Financial liabilities at amortised cost – Due to customers	28	4,879,496,558	3,762,708,507
Other liabilities	32	33,060,006	217,067,143
Cash flows from operating activities		**3,505,253,506**	**(1,306,252,847)**
Gratuity paid	33	(6,998,925)	(5,753,625)
VAT paid	31	(282,946,158)	(284,999,282)
Income tax paid	30	(118,347,646)	(443,187,546)
WHT paid	30	(9,643,725)	(7,167,948)
NBT paid		(32,836,725)	(33,941,759)
Crop insurance levy paid		(5,672,207)	(8,620,147)
ESC paid	30	(11,939,193)	(18,646,296)
Debt recovery levy paid		(177,779,009)	(67,830,030)
Net cash flows from operating activities		**2,859,089,918**	**(2,176,399,479)**

Year ended 31 March	Note	2020 LKR	2019 LKR
Cash flows from investing activities			
Purchase of property, plant and equipment	25	(97,200,044)	(136,968,171)
Purchase of intangible asset	24	(91,326,923)	(91,548,030)
Proceeds from sale of property, plant and equipment		378,232	577,286
Net of investment in financial assets at amortised cost – Government securities	21.1	(350,225,697)	(490,082,349)
Net investment in financial assets at amortised cost – Fixed deposits	21	(1,638,451,247)	462,933,835
Financial assets at amortised cost – Fixed deposit interest received		59,159,149	36,432,055
Financial assets at amortised cost – Treasury bill interest received	21.1	155,893,820	137,847,227
Financial assets measured at fair value thorough profit or loss interest received		1,440,000	1,440,000
Dividend income	7.1	280,000	240,000
Financial assets at amortised cost – debentures interest received		16,875,000	16,875,000
Net cash flows from investing activities		**(1,943,177,710)**	**(62,253,146)**
Cash flows from financing activities			
Interest payments on debentures	5.2	(54,980,724)	(65,793,423)
Interest payments on borrowings	5.2	(334,792,011)	(276,280,016)
Debenture during the year		1,200,541,206	(100,000,000)
Borrowings during the year	29.2	1,900,000,000	5,300,000,000
Loans repayments during the year	29.2	(3,495,003,992)	(2,153,337,318)
Net cash flows from financing activities		**(784,235,521)**	**2,704,589,242**
Net increase/(decrease) in cash and cash equivalents		131,676,687	465,936,617
Cash and cash equivalents at the beginning of the year	15	1,371,096,372	905,159,755
Cash and cash equivalents at the end of the year	15	**1,502,773,059**	**1,371,096,372**

The Accounting Policies and Notes on pages 140 through 191 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

1.1 Corporate information

HNB 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 HNB Grameen Finance Limited to HNB Finance Limited on 2 October 2018.

1.2 Principal activities and nature of operations

The principal activities of the Company are the provision of microfinance 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 and 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 7 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 29 July 2020.

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/LKASs"), promulgated by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) 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
Financial assets – Fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	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 less subsequent depreciation of Buildings
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 45 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 and disclosures

2.1.6.1 SLFRS 16 – Leases

Sri Lanka Accounting Standard SLFRS 16 - "Leases" (SLFRS 16) became effective for annual periods beginning on or after 1 January 2019. SLFRS 16 supersedes LKAS 17 "Leases", IFRIC Interpretation 4 – "Determining whether an Arrangement contains a Lease, SIC - 15 "Operating Leases - Incentives" and SIC – 27 "Evaluating the Substance of Transactions involve in the legal form of a Lease" This standard replaced Sri Lanka Accounting Standard LKAS 17 – "Leases" (LKAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position. Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17 whereby lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application as 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application. The Company elected to use the transitional practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

The Company recognised right-of-use of assets and lease liabilities for those leases previously classified as operating leases. The right-of-use of assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate on the date of initial application.

Reconciliation between the operating lease commitments to the lease liability balance reported under SLFRS 16 as at 1 April 2019.

Operating lease commitments as at 31 March 2019 (LKR)	392,623,496
Undiscounted lease liabilities as at 1 April 2019 (LKR)	392,623,496
Incremental borrowing rate as at 1 April 2019 (%)	13
Lease liabilities due to initial application of SLFRS 16, recognised as at 1 April 2019 (LKR)	206,748,077

Impact on the Company's summarised Statement of Financial Position as at 31 March 2019

	31 March 2019	SLFRS 16 Transition adjustments as at 31 March 2019	1 April 2019
Assets			
Right-of-use assets	–	266,541,342	266,541,342
Other financial and non-financial assets	370,484,083	(59,793,265)	310,690,818
Total assets	**32,929,187,275**	**206,748,077**	**33,135,935,352**
Liabilities and equity			
Liabilities	28,299,720,070	206,748,077	28,506,468,147
Equity	4,629,467,206	–	4,629,467,206
Total liabilities and equity	**32,929,187,275**	**206,748,077**	**33,135,935,353**

2.1.6.2 IFRIC Interpretation 23 – "Uncertainty over Income Tax Treatment"

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard LKAS 12 - "Income Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company applies significant judgement in identifying uncertainties over income tax treatments. The Company determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Company.

2.1.6.3 Application of accounting policies

Apart from the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in the Financial Statements. The Company has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

2.2 Significant accounting judgements, 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 46 to the Financial Statements.

2.2.3 Impairment losses on loans and advances

Collective impairment assessment

Loans and advances are assessed collectively, by categorising those into groups of assets with similar credit risk characteristics, to determine whether a provision should be made due to expected loss events.

The measurement of impairment losses under SLFRS 9 requires judgement across all categories of financial assets, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of impairment allowances.

The Company's policy is to regularly review its models in the context of actual loss experienced and adjust when necessary.

The impairment loss on financial assets at amortised cost – loans and advances to customers and financial assets at amortised cost – lease rentals receivables and stock out on hire are disclosed in Notes 17 and 18 to the Financial Statements.

2.2.4 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. This requires cash-generating units. 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.

2.2.5 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 they are disclosed.

2.2.6 Useful lifetime 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.

2.2.7 Classification of investment property

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

2.2.8 Taxation

The Company is subject to income tax and judgement 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.

2.2.9 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.

2.2.10 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 33 to the Financial Statements.

2.2.11 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgements 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 judgements 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 41.

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 retranslated 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 retranslated 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 retranslation 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, classification and subsequent measurement

2.3.2.1 Measurement categories of financial assets and liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair value through other comprehensive income (FVOCI),
- Fair value through profit or loss

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL or the fair value designation is applied.

2.3.2.2 Financial assets and liabilities

2.3.2.2.1 Loans and advances to customers, lease rental receivables and loans and advances to others, financial assets measured at amortised cost

The Company only measures lease, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets; rather they are measured at amortised cost or fair value through profit or loss.

The details of conditions of business model assessment and the SPPI test are outlined below:

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's Key Management Personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

(b) The SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the

Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

2.3.2.3 Derecognition of financial instruments

2.3.2.3.1 Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

2.3.2.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.3.2.4 Impairment of financial assets

Overview of the expected credit loss (ECL) principles

As described in Note 2.2.3 the adoption of SLFRS 9 approaches the Company's loan loss impairment method with a forward-looking expected credit loss (ECL) approach. The Company records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset. The 12 months ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetime ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, and Stage 3.

Stage 1
When loans are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

Stage 2
When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3
Loans considered credit-impaired. The Company records an allowance for the lifetime ECLs.

2.3.2.4.1 The calculation of expected credit loss (ECL)

The Company calculates ECLs under three staging approaches to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)
The probability of default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.

Exposure at default (EAD)
The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Loss Given Default (LGD)
The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

2.3.2.4.2 The mechanics of the ECL method are summarised below:

Stage 1
The 12 months ECL is calculated as the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.

These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2
When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3

For loans considered credit-impaired, the Company recognises the LTECL for these loans. The method is similar to that of Stage 2 assets, with the PD set at 100%. The Company recognises the interest income on loans classified under Stage 3 at the effective interest rate on amortised cost.

Forward-looking information

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

Quantitative	Qualitative
GDP Growth	Government policies
Inflation	Status of the industry business
Unemployment	Regulatory impact
Interest rates	

The inputs and models used for calculating ECLs may not always capture all the characteristics of the market at the date of the financial statements.

2.3.2.5 Significant accounting judgements, estimates and assumptions on impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Number of days past due and the Guidelines issued by the Central Bank of Sri Lanka
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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 SLFRS 16 – Leases

Basis of recognition

The Company applies Sri Lanka Accounting Standard SLFRS 16 – "Leases" in accounting for all leasehold rights except for short-term leases, which are held for use in the provision for services.

Basis of measurement

The Company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are amortised on the straight-line basis over the lease term.

Lease liability

At the commencement date of the lease, the Company recognises lease liabilities, measured at present value of lease payments to be made over the lease term.

The present value of lease commitments as at 1 April 2019 has been calculated using weighted average incremental borrowing rate of 13%.

The Company applied modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and operating lease liabilities.

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 of buildings 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 Company 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:

Buildings	40 years
Motor vehicles	5 years
Furniture and fittings	5 years
Computer and accessories	5 years
Machinery and equipment	5 years
Fixtures and fittings	5 years

2.3.5.5 Derecognition

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 derecognition 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.

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 or 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 recognised 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. 24 of 2017 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

Management has used its judgement 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 recognise to the extent that 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 15% 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 which was abolished from 1 January 2020.

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 1 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 1 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 which was abolished from 1 December 2019.

2.3.11.7 Debt Repayment Levy (DRL)

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services from every financial institution commencing from 1 October 2018 and same has been abolished from 1 January 2020.

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 reporting date

3.1 Amendments to Sri Lanka Accounting Standard – LKAS 1 – "Presentation to Financial Statements" and Sri Lanka Accounting Standard – LKAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors"

The amendments LKAS 1 – "Presentation of Financial Statements" and LKAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors" align the definition of "material" across the standard and clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

3.2 Amendments to references to the conceptual framework in SLFRS

Revisions to the Conceptual Framework were made because some important issues were not covered, and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application is permitted. The Company will apply these amendments when they become effective.

4. Gross income

Year ended 31 March	2020 LKR	2019 LKR
Interest income	8,105,612,179	7,229,168,801
Fee and commission income	844,610,197	777,756,571
Other income	219,915,326	284,738,350
Total income	**9,170,137,702**	**8,291,663,723**

5. Net interest income

Year ended 31 March	Note	2020 LKR	2019 LKR
Interest income	5.1	8,105,612,179	7,229,168,801
Interest expense	5.2	(3,719,330,983)	(2,802,086,025)
Net interest income		**4,386,281,196**	**4,427,082,776**

5.1 Interest income

Year ended 31 March	2020 LKR	2019 LKR
Financial assets at amortised cost – Loans and advances to customers	5,872,907,529	5,736,304,837
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	1,833,094,839	1,194,125,092
Financial assets at amortised cost – Loans and advances to others	68,578,536	81,349,328
Financial assets at amortised cost – Debt and other instruments	276,484,158	167,411,299
Financial assets measured at fair value through profit or loss	1,440,000	1,440,000
Savings deposits	53,107,117	48,538,246
Net interest income	**8,105,612,179**	**7,229,168,801**

5.2 Interest expense

Year ended 31 March	2020 LKR	2019 LKR
Deposits from customers	3,256,579,463	2,454,325,105
Debentures	96,222,013	71,480,904
Other borrowings	366,529,507	276,280,016
	3,719,330,983	**2,802,086,025**

6. Net fee and commission income

Year ended 31 March	2020 LKR	2019 LKR
Fee and commission income	844,610,197	777,756,571
Fee and commission expenses	(160,405,037)	(152,804,593)
	684,205,160	**624,951,978**

7. Other income

Year ended 31 March	Note	2020 LKR	2019 LKR
Other operating income	7.1	219,915,326	284,738,350
Net mark to market valuation gain		178,128	(113,600)
		220,093,454	**284,624,750**

7.1 Other operating income

Year ended 31 March	2020 LKR	2019 LKR
Rent income	49,142,947	37,674,941
Recovery of loan balance written-off	10,991,957	14,927,743
Fair valuation of investment properties	–	114,850,000
Sundry income	159,878,654	116,388,380
Profit from disposal of property, plant and equipment	(378,232)	657,287
Dividend income	280,000	240,000
	219,915,326	**284,738,350**

8. Impairment charges for loans and other losses

Year ended 31 March	Note	2020 LKR	2019 LKR
Financial assets at amortised cost – Loans and advances to customers	8.1	734,705,658	580,479,526
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	8.1	91,187,026	212,003,725
Financial assets at amortised cost – Loans and advances to others		–	(10,953,726)
Financial assets at amortised cost – debt and other Instruments	8.2	245,731,234	61,381,537
Other impairment	8.3	14,239,235	–
		1,085,863,153	**842,911,063**

8.1 Impairment charges for loans and other losses

Year ended 31 March	2020 LKR	2019 LKR
Charge/(write-back) to the statement of comprehensive income		
– Impairment on collective loan portfolio	825,892,684	781,529,525
Total impairment charge	**825,892,684**	**781,529,525**

Year ended 31 March	2020 LKR	2019 LKR
Loans and advances to customers		
Stage 1	139,375,124	(173,400,189)
Stage 2	124,057,387	(34,512,203)
Stage 3	471,273,147	788,391,918
	734,705,658	**580,479,526**
Lease rentals receivable and stock out on hire		
Stage 1	(65,535,217)	31,028,675
Stage 2	(29,565,172)	33,935,273
Stage 3	186,287,415	147,039,777
	91,187,026	**212,003,725**

8.2 Financial assets at amortised cost – Debt and other instruments

Year ended 31 March	2020 LKR	2019 LKR
Financial assets at amortised cost – Debt and other Instruments	245,731,234	61,381,537
	245,731,234	**61,381,537**

8.3 Other Impairment

Year ended 31 March	2020 LKR	2019 LKR
Impairment charges for debt relief loan receivable	14,239,235	–
	14,239,235	**–**

9. Personnel cost

Year ended 31 March	2020 LKR	2019 LKR
Salaries and bonus	1,080,763,741	999,062,827
Other personnel cost	54,660,311	68,076,289
Employer's contribution to Employees' Provident Fund	119,248,860	101,084,731
Employer's contribution to Employees' Trust Fund	29,812,212	25,271,183
Retirement benefit cost	52,208,063	42,355,344
Total	**1,336,693,187**	**1,235,850,374**

10. Other expenses

Year ended 31 March	2020 LKR	2019 LKR
Other operating expenses, among others include the following:		
Depreciation on property, plant and equipment	146,598,193	132,321,903
Advertising and publications	97,319,326	83,335,407
Repairs and maintenance	242,391,778	166,791,675
Crop insurance levy	4,550,000	8,370,000
Amortisation of intangible assets	67,155,195	49,539,886
Directors remuneration	25,062,600	24,154,000
Auditors' remuneration	5,997,701	4,483,000
Legal charges	22,624,352	17,029,774
Donation	42,470	40,850

11. Value added tax (VAT) and debt recovery levy (DRL)

Year ended 31 March	2020 LKR	2019 LKR
Value added tax on financial services	292,320,954	360,083,419
Debt recovery levy	149,867,264	95,657,952
	442,188,218	**455,741,371**

Value added tax (VAT)

Company's total value addition is subjected to Value added tax at 15% as per section 25A of the value added tax Act No. 14 of 2002 and amendments thereto.

Debt recovery levy (DRL)

In accordance with section 36 of finance Act No. 35 of 2018, debt Recovery Levy is charged and levied from Every Financial institution at the rate of 7% on profit or loss prior to deducting the tax payable under the said section, the value added tax payable under section 25 (A) of the Value Added Tax Act No. 14 of 2002 for every month commencing from October 2018 and same has been abolished from 1 January 2020.

12. Nation building tax

Year ended 31 March	2020 LKR	2019 LKR
Nation building tax on financial services	25,834,321	48,011,123
	25,834,321	**48,011,123**

The business of banking and finance will be liable for NBT at 2% of the liable turnover from 1 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 which was abolished from 1 December 2019.

13. Income tax

Year ended 31 March	2020 LKR	2019 LKR
Current income tax		
Current income tax charge	273,445,294	345,859,248
Over/Under provision during previous year	(44,155,025)	–
Deferred income tax		
Deferred taxation charge/(reversal)	9,842,470	85,476,424
Income tax expense reported in the Statement of Profit or Loss	**239,132,739**	**431,335,672**

13.1 Reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate

Year ended 31 March	2020 LKR	2019 LKR
Accounting profit before tax	659,647,314	1,261,931,494
At the statutory income tax rate of 28% (2016 – 28%)	184,701,248	353,340,818
Tax effect on;		
Non deductible expenses	696,967,040	696,515,124
Deductible expenses	(608,222,994)	(703,996,694)
Current tax on profits for the year	273,445,294	345,859,248
Current income tax charge	273,445,294	345,859,248
Over/Under provision during previous year	(44,155,025)	–
Deferred taxation charge	9,842,470	85,476,424
Income tax expense at the effective income tax rate of 36.25% (2019 – 34.18%)	**239,132,739**	**431,335,672**
Tax losses brought forward and utilised during the year		
Balance at the beginning of the year	–	415,440,051
Tax losses utilised during the year	–	(415,440,051)
Tax losses not utilised and carried forward	**–**	**–**

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:

Year ended 31 March	2020 LKR	2019 LKR
Net profit for the period	420,514,575	830,595,822
Profit attributable to ordinary shareholders	420,514,575	830,595,822

Year ended 31 March	2020 Number	2019 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	0.24	0.48

15. Cash and cash equivalents

Year ended 31 March	2020 LKR	2019 LKR
Cash in hand	78,734,396	133,128,858
Balances with banks	1,424,038,663	1,237,967,514
Total	**1,502,773,059**	**1,371,096,372**

16. Financial assets – Fair value through profit or loss

Year ended 31 March	2020 LKR	2019 LKR
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	(537,744)	(715,872)
	16,192,528	**16,014,400**

Year ended 31 March 2019	Year of maturity	Cost of investment LKR	Face value LKR	Carrying value LKR
Treasury bond	1 May 2021	16,250,272	16,000,000	16,192,528
		16,250,272	**16,000,000**	**16,192,528**

17. Financial assets at amortised cost – Loans and advances to customers

Year ended 31 March	2020 LKR	2019 LKR
At amortised cost:		
Loans and advances to customers	20,437,288,199	18,682,625,619
Less: Allowance for Impairment losses	(2,661,722,614)	(1,927,016,956)
	17,775,565,585	**16,755,608,663**

17.1 Financial assets at amortised cost – Loans and advances to customers product wise

Year ended 31 March	2020		2019	
	Amortised cost LKR	Impairment LKR	Amortised cost LKR	Impairment LKR
Loans and advances	18,917,172,981	2,650,498,124	18,092,749,095	1,924,739,756
Gold loans advance	1,122,448,993	11,224,490	79,204,149	2,277,200
Loans against fixed deposits	397,666,226	–	510,672,375	–
	20,437,288,199	**2,661,722,614**	**18,682,625,619**	**1,927,016,956**

17.1.1 Net loans and advances to customers

Year ended 31 March	Gross loans and advances to customers	Allowance for impairment losses	Net loans and advances to customers
Stage 1	13,585,656,356	607,364,738	12,978,291,618
Stage 2	1,585,181,392	205,839,026	1,379,342,366
Stage 3	3,746,335,233	1,837,294,360	1,909,040,873
	18,917,172,981	**2,650,498,124**	**16,266,674,857**

17.1.2 Allowance for impairment losses

(a) Movement in impairment allowance during the year

Year ended 31 March	Collective			Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 April 2019	474,616,798	83,274,407	1,366,848,551	1,924,739,756
Charges/(Reversals) for the year	132,747,940	122,564,619	470,445,809	725,758,368
Balance as at 31 March 2020	**607,364,738**	**205,839,026**	**1,837,294,360**	**2,650,498,124**

(b) Movement in impairment allowance

Year ended 31 March	2020 LKR	2019 LKR
As at 1 April	1,924,739,756	883,007,105
Transition impact on adoption of SLFRS 9	–	519,078,406
Charges/(Reversals) for the year	725,758,368	578,202,325
Amounts written off	–	(55,548,080)
As at 31 March	2,650,498,124	1,924,739,756
Collective impairment	2,650,498,124	1,924,739,756
Total	**2,650,498,124**	**1,924,739,756**

17.1.3 Sensitivity analysis of accumulated impairment for loan rentals receivable as at 31 March 2020

Changed criteria	Changed factor	Sensitivity effect on impairment allowance increase
Loss given default (LGD)	Increase 1%	62,616,350
Probability of default (PD)	Increase 1%	34,946,436
Economic factor adjustment (EFA)	Increase 1%	18,941,439

17.2 Net rentals receivable on gold loans

Year ended 31 March	Net rentals receivables	Allowance for impairment losses	Total net rentals receivable
Stage 1	883,520,502	8,835,205	874,685,297
Stage 2	156,194,700	1,561,947	154,632,753
Stage 3	82,733,791	827,338	81,906,453
	1,122,448,993	**11,224,490**	**1,111,224,503**

17.2.1 Allowance for impairment losses

(a) Movement in impairment allowance during the year

Year ended 31 March	Collective			Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 April 2019	2,208,021	69,179	–	2,277,200
Charges/(Reversals) for the year	6,627,184	1,492,768	827,338	8,947,290
Balance as at 31 March 2020	**8,835,205**	**1,561,947**	**827,338**	**11,224,490**

(b) Movement in impairment allowance

Year ended 31 March	2020 LKR	2019 LKR
As at 1 April	2,277,200	–
Charges/(Reversals) for the year	8,947,290	2,277,200
As at 31 March	11,224,490	2,277,200
Collective impairment	11,224,490	2,277,200
Total	**11,224,490**	**2,277,200**

17.3 Loan against deposits

Year ended 31 March	2020 LKR	2019 LKR
Loan against deposits	388,139,984	501,467,033
Interest receivable on loan against deposits	9,526,242	9,205,342
	397,666,226	**510,672,375**

18. Lease rentals receivable and stock out on hire

Year ended 31 March	2020 LKR	2019 LKR
Loan rental receivable	14,275,368,681	11,681,571,403
Less: Unearned interest income	(3,869,699,951)	(3,236,581,943)
Net receivable	10,405,668,730	8,444,989,460
Less: Rental received in advance	–	–
Net rentals receivables before charging allowance for impairment losses	10,405,668,730	8,444,989,460
Less: Allowance for impairment losses	(462,786,928)	(371,599,902)
Total net rentals receivable	**9,942,881,802**	**8,073,389,558**

18.1 Lease rentals receivable and stock out on hire

Year ended 31 March	Gross rentals receivables	Allowance for impairment losses	Net rentals receivable
Stage 1	9,014,593,986	109,955,978	8,904,638,008
Stage 2	957,399,943	61,998,588	895,401,355
Stage 3	433,674,801	290,832,362	142,842,439
	10,405,668,730	**462,786,928**	**9,942,881,802**

18.2 Allowance for impairment losses

(a) Movement in impairment allowance during the year

Year ended 31 March	Collective			Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 April 2019	175,491,195	91,563,760	104,544,947	371,599,902
Charges/(Reversals) for the year	(65,535,217)	(29,565,172)	186,287,415	91,187,026
Balance as at 31 March 2020	**109,955,978**	**61,998,588**	**290,832,362**	**462,786,928**

(b) Movement in impairment allowance

Year ended 31 March	2020 LKR	2019 LKR
As at 1 April	371,599,902	86,136,026
Transition impact on adoption of SLFRS 9	–	176,671,457
Charges/(Reversals) for the year	91,187,026	212,003,725
Amounts written off	–	(103,211,306)
As at 31 March	462,786,928	371,599,902
Collective impairment	462,786,928	371,599,902
Total	**462,786,928**	**371,599,902**

18.3 Sensitivity analysis of accumulated impairment for lease rentals receivable and stock out on hire as at 31 March 2020

Changed criteria	Changed factor	Sensitivity effect on impairment allowance increase
Loss given default (LGD)	Increase 1%	8,811,735
Probability of default (PD)	Increase 1%	24,142,484
Economic factor adjustment (EFA)	Increase 1%	2,138,545

18.4 Contractual Maturity Analysis of Lease Rentals Receivable and Stock out on Hire

As at 31 March 2020	Within one year LKR	1 To 5 years LKR	Over 5 years LKR	Total LKR
Gross rentals receivables	5,478,543,536	8,793,392,742	3,432,404	14,275,368,681
Less: Unearned income	(1,779,642,678)	(2,089,844,039)	(213,234)	(3,869,699,951)
	3,698,900,858	6,703,548,703	3,219,170	10,405,668,730
Less: rentals received in advance				–
Less: allowance for impairment losses				(462,786,928)
Net rentals receivable before charging allowance for impairment losses				9,942,881,802

As at 31 March 2019	Within one year LKR	1 To 5 years LKR	Over 5 years LKR	Total LKR
Gross rentals receivables	4,002,226,472	7,658,768,845	20,576,086	11,681,571,403
Less: Unearned income	(1,350,980,242)	(1,884,575,206)	(1,026,495)	(3,236,581,943)
	2,651,246,230	5,774,193,639	19,549,591	8,444,989,460
Less: rentals received in advance				–
Less: allowance for impairment losses				(371,599,902)
Net rentals receivable before charging allowance for impairment losses				8,073,389,558

18.5 Allowance for impairment losses

Year ended 31 March	Note	Impairment LKR	Total LKR
Balance as at 1 April 2018		969,143,131	969,143,131
Charge for the year – Loans and advances to customers		1,202,769,238	1,202,769,238
Charge for the year – Lease rentals receivable and stock out on hire		285,463,876	285,463,876
Written off during the year		(158,759,386)	(158,759,386)
Balance as at 31 March 2019		2,298,616,859	2,298,616,859
Charge for the year – Loans and advances to customers	8.1	734,705,658	734,705,658
Charge for the year – Lease rentals receivable and stock out on hire	8.2	91,187,026	91,187,026
Balance as at 31 March 2020		**3,124,509,542**	**3,124,509,542**

19. Financial assets at amortised cost – Loans and advances to others

Year ended 31 March	Note	2020 LKR	2019 LKR
Staff loans	19.1	269,933,350	344,338,944
Mortgage loans		314,216,633	297,400,466
		584,149,983	641,739,409
Less: Allowance for impairment losses	19.2	(26,969)	(26,969)
		584,123,014	**641,712,440**

19.1 Staff loans

Year ended 31 March	2020 LKR	2019 LKR
At the beginning of the year	344,338,944	357,473,118
Loan granted during the year	69,062,000	145,014,000
Recovered during the year	(143,467,594)	(158,148,174)
	269,933,350	**344,338,944**

19.2 Allowance for impairment losses

Year ended 31 March	Balance as at 1 April 2018 LKR	Provision made during the year LKR	Written off during the year LKR	Balance as at 31 March 2019 LKR
Staff loans	7,418,029	(7,391,060)	–	26,969
Mortgage loans	3,562,666	(3,562,666)	–	–
	10,980,695	**(10,953,726)**	**–**	**26,969**

Year ended 31 March	Balance as at 1 April 2019 LKR	Provision made during the year LKR	Written off during the year LKR	Balance as at 31 March 2020 LKR
Staff loans	26,969	–	–	26,969
	26,969	**–**	**–**	**26,969**

20. Financial assets measured at fair value through other comprehensive income

Year ended 31 March	Note	2020 LKR	2019 LKR
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.

20.1 Investments in non-quoted shares

Year ended 31 March	2020		2019	
	Number of shares	Cost LKR	Number of shares	Cost LKR
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**

21. Financial assets at amortised cost – Debt and other instruments

Year ended 31 March	Note	2020 LKR	2019 LKR
Fixed deposits		1,948,642,754	310,191,507
Debentures		166,875,000	166,031,250
Sri Lanka government securities	21.1	2,115,625,285	1,765,399,588
Reverse repurchase agreements	21.2	–	245,731,234
		4,231,143,039	**2,487,353,578**

21.1 Sri Lanka Government Securities

Year ended 31 March	2020 LKR	2019 LKR
Treasury bills	2,085,472,749	1,719,565,417
	2,085,472,749	1,719,565,417
Interest receivable	30,152,536	45,834,171
	2,115,625,285	**1,765,399,588**

21.2 Reverse repurchase agreements

Year ended 31 March	2020 LKR	2019 LKR
Other loan and receivable	773,091,683	773,091,683
Impairment losses financial investments – loans and receivables	(773,091,683)	(527,360,449)
	–	**245,731,234**

22. Other assets

Year ended 31 March	2020 LKR	2019 LKR
Other financial assets	163,504,046	267,253,609
Other non-financial assets	257,592,779	225,541,063
	421,096,825	**492,794,672**

23. Investments properties

Year ended 31 March	2020 LKR	2019 LKR
Land		
Balance at the beginning of the year	562,969,417	466,810,637
Fair value adjustment for the period	–	96,158,780
Transfer to property, plant and equipment	(86,777,318)	
Balance at the end of the year	476,192,099	562,969,417
Building		
Balance at the beginning of the year	732,030,584	713,339,363
Fair value adjustment for the period	–	18,691,221
Transfer to property, plant and equipment	(103,222,682)	
Balance at the end of the year	628,807,902	732,030,584
Net book value	**1,105,000,000**	**1,295,000,001**

The Company carries investment properties at fair value. Valuations of the above investment properties were carried out as at 31 March 2020 by R S Wijesuriya, Professional independent valuer. Company earned LKR 48.54 Mn. as rental income for the financial year.

24. Intangible assets

Year ended 31 March	2020 LKR	2019 LKR
Cost		
Balance at the beginning of the year	309,324,298	217,776,268
Additions during the year	91,326,923	91,548,030
Advance for software	100,999,753	–
Balance at the end of the year	501,650,974	309,324,298
Amortisation and impairment		
Balance at the beginning of the year	135,782,401	86,242,151
Charge for the year	67,155,195	49,539,886
Balance at the end of the year	202,937,597	135,782,401
Net book value	**298,713,377**	**173,541,897**

24.1 Intangible assets by class

Year ended 31 March	Cost	Accumulated Amortisation	Net book value
Balance as at 31 March 2019			
Software	186,768,880	88,973,651	97,795,228
License	122,555,418	46,808,750	75,746,669
	309,324,298	135,782,401	173,541,897
Balance as at 31 March 2020			
Software	278,095,803	128,143,919	149,951,884
License	122,555,418	74,793,678	47,761,740
	400,651,221	202,937,597	197,713,625

25. Property, plant and equipment

25.1 Carried at cost/Valuation

25.1.1 Cost/Fair value

	As at 31 March 2018	Transfers during the year	Additions during the year
Land	203,097,553	–	–
Building	659,902,449	–	–
Furniture and fittings	72,229,367	–	18,499,480
Office equipment	205,257,723	(2,761,192)	43,886,744
Computer	175,120,866	2,189,485	31,039,307
Motor vehicles	19,300,000	–	–
Machinery and equipment	2,638,601	–	–
Fixtures and fittings	87,157,755	–	26,985,564
Network accessories	114,035,465	571,707	16,557,076
	1,538,739,779	**–**	**136,968,171**

25.1.2 Accumulated depreciation and impairment

	As at 31 March 2018	Transfers during the year	Additions during the year
Building	4,124,390	–	16,497,562
Furniture & fittings	42,300,619	–	10,723,520
Office equipment	104,206,047	(2,523,475)	38,272,858
Computer	93,402,388	1,951,769	27,943,793
Motor vehicles	15,606,666	–	2,526,665
Machinery and equipment	2,638,601	–	–
Fixtures and fittings	49,656,952	–	14,766,517
Network accessories	67,968,957	571,706	21,590,983
	379,904,621	**–**	**132,321,898**

Transfer to revaluation reserve	Disposals during the year	As at 31 March 2019	Transfers during the year	Additions during the year	Transfer from investment property	Disposals during the year	As at 31 March 2020
50,846,485	–	253,944,038	–	–	86,777,318	–	340,721,356
154,153,515	–	814,055,964	–	–	103,222,682	–	917,278,646
–	(2,915,292)	87,813,555	–	19,638,483	–	(999,921)	106,452,117
–	(1,841,976)	244,541,298	–	36,175,503	–	–	280,716,801
–	(5,666,724)	202,682,934	–	22,493,375	–	(32,700)	225,143,609
–	–	19,300,000	–	–	–	–	19,300,000
–	(2,638,601)	–	–	–	–	–	–
–	(5,407,129)	108,736,190	–	17,609,357	–	(2,575,591)	123,769,955
–	(907,290)	130,256,958	–	1,283,326	–	–	131,540,284
205,000,000	**(19,377,012)**	**1,861,330,937**	**–**	**97,200,044**	**190,000,000**	**(3,608,212)**	**2,144,922,768**

Transfer to revaluation reserve	Disposals during the year	As at 31 March 2019	Transfers during the year	Additions during the year	Transfer from investment property	Disposals during the year	As at 31 March 2020
(20,621,952)	–	–	–	22,358,332	–	–	22,358,332
–	(2,736,219)	50,287,920	–	13,507,736	–	(928,401)	62,867,255
–	(1,788,879)	138,166,551	–	41,388,996	–	–	179,555,547
–	(5,465,823)	117,832,127	–	31,485,008	–	(30,958)	149,286,177
–	–	18,133,331	–	1,166,669	–	–	19,300,000
–	(2,638,601)	–	–	–	–	–	–
–	(5,193,134)	59,230,335	–	16,957,603	–	(2,091,699)	74,096,239
–	(898,764)	89,232,882	–	19,733,847	–	–	108,966,729
(20,621,952)	**(18,721,420)**	**472,883,147**	**–**	**146,598,191**	**–**	**(3,051,058)**	**616,430,279**

25.1.3 Written down value

As at year ended 31 March	2020 LKR	2019 LKR
Land	340,721,356	253,944,038
Building	894,920,315	814,055,964
Furniture and fittings	43,584,862	37,525,635
Office equipment	101,161,254	106,374,747
Computer	75,857,432	84,850,807
Motor vehicles	–	1,166,669
Fixtures and fittings	49,673,716	49,505,854
Network accessories	22,573,555	41,024,076
Building work-in-progress	97,076,691	32,029,107
	1,625,569,181	**1,420,476,897**

26. Right-of-use assets

26.1 Movement of right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year.

	LKR
Effect of adoption of SLFRS 16 as at 1 April 2019	206,748,077
Advance rentals as of 31 March 2020	59,607,277
Restated balance as at 1 April 2019	**266,355,354**
Additions during the period	75,107,515
Advances paid during the period	37,404,122
Terminations during the period	(11,409,061)
Cost as at 31 March 2020	**367,457,930**
Accumulated amortisation	
Balance as at 1 April 2019	–
Effect of adoption of SLFRS 16 as at 1 April 2019	–
Restated balance as at 1 April 2019	**–**
Charge for the year	80,729,862
Accumulated amortisation as at 31 March 2020	**80,729,862**
Net book value as at 31 March 2020	**286,728,068**

26.2 Movement of lease liabilities

Set out below are the carrying amounts of lease liabilities (included under "Other liabilities" in Note 32) and the movements during the year.

	LKR
Balance as at 1 April 2019	–
Effect of adoption of SLFRS 16 as at 1 April 2019	206,748,077
Restated balance as at 1 April 2019	**206,748,077**
Additions during the period	75,107,515
Terminations during the period	(11,409,061)
Lease interest	31,737,496
Payments	(60,582,983)
Balance as at 31 March 2020	**241,601,044**

26.3 Sensitivity of right-of-use asset/Lease liability to key assumption

Sensitivity to incremental borrowing rate

Increase/(decrease) in the incremental borrowing rate as at 31 March 2020 by 1% would have (decreased)/increased the lease liability by approximately LKR 13.7 Mn. and LKR 1.4 Mn. respectively. Had the company increased/(decreased) the discount rate by 1% the company's profit before tax for the year would have (decreased)/increased by approximately LKR 1.6 Mn. and LKR 1.6 Mn. respectively.

The maturity analysis of the lease liability based on undiscounted gross inflow and outflow is reflected below:

	Carrying amount LKR	Gross Nominal Outflow/Inflow LKR	Less than 1 Year LKR	More than 1 Year LKR
Lease Liability as at 31 March 2020	241,601,044	455,779,531	56,613,179	399,166,352

27. Deferred tax liability/(Asset)

Year ended 31 March	2020 LKR	2019 LKR
Balance at the beginning of the period	(189,768,514)	(124,848,966)
Transfer from/(to) income statement	9,842,470	85,476,424
Transfer from/(to) other comprehensive income	(4,850,187)	44,522,308
Deferred tax effect on day 1 impact from the application of SLFRS 9	–	(194,918,280)
Balance at the end of the year	(184,776,230)	(189,768,514)
Deferred tax assets, liabilities relates to the following		
Deferred tax liabilities		
Accelerated depreciation for tax purposes	194,907,966	199,889,874
Revaluation gain on buildings investment property	110,516,000	110,516,000
Finance leases	71,728,976	87,381,593
Other Comprehensive Income		
Revaluation surplus on buildings	63,174,146	63,174,146
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	(2,101,837)	2,748,350
Deferred tax assets		
Retirement benefit obligation	(72,945,186)	(58,184,790)
Right-of-use assets	(12,635,567)	–
Impairment losses for loans and other losses	(537,420,728)	(595,293,687)
Net deferred tax liabilities	**(184,776,230)**	**(189,768,514)**

28. Financial liabilities at amortised cost – Due to customers

Year ended 31 March	2020 LKR	2019 LKR
Fixed deposits	23,962,117,718	19,215,806,618
Deferred transaction cost	(21,412,530)	(38,563,751)
Interest payable on fixed deposits	870,759,547	491,381,681
	24,811,464,735	19,668,624,548
Savings deposits	2,717,324,933	2,963,517,340
	27,528,789,668	**22,632,141,889**

29. Financial liabilities at amortised cost – Debt issued and other borrowed funds

Year ended 31 March	Note	2020 LKR	2019 LKR
Redeemable debentures	29.1	1,871,228,687	670,687,481
Borrowings	29.2	1,950,814,366	3,545,818,358
Finance leases		–	1,073,996
		3,822,043,053	**4,217,579,835**

29.1 Redeemable debentures

Year ended 31 March	2020 LKR	2019 LKR
Balance at the beginning of the year	665,000,000	665,000,000
Interest payable to debenture holders	9,335,507	5,687,481
	674,335,507	**670,687,481**

Subordinated, listed, rated, unsecured, redeemable debenture

Year ended 31 March	2020 LKR	2019 LKR
Balance at the beginning of the year	1,158,820,000	–
Interest payable to debenture holders	38,073,180	–
	1,196,893,180	**–**
Total redeemable debentures	**1,871,228,687**	**670,687,481**

29.1.1 Redeemable debentures

Year of issue	Description	Certificate number	Type of debenture	Outstanding as at 31 March 2020	Outstanding as at 31 March 2019
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
				665,000,000	**665,000,000**

The outstanding debentures amounting to LKR 665,000,000 issued to Seylan bank is redeemable from 2020 to 2040 and with interest payments at monthly average Treasury bill rate as per the rescheduling terms agreed with Seylan bank.

29.2

Year ended 31 March	2020 LKR	2019 LKR
As at 1st April	3,545,818,358	399,155,676
Loan obtained	1,900,000,000	5,300,000,000
Interest recognised	319,805,157	266,962,110
Repayment: Capital	(3,495,003,992)	(2,153,337,318)
Interest	(319,805,157)	(266,962,110)
As at 31 March	**1,950,814,366**	**3,545,818,358**

30. Income tax payable

Year ended 31 March	2020 LKR	2019 LKR
Balance at the beginning of the year	80,353,556	203,496,098
Provision for the year	237,199,505	345,859,248
Over/under provision during previous year	(44,155,025)	–
	273,398,036	549,355,346
Payment made during the year	(118,347,646)	(443,187,546)
WHT paid	(9,643,725)	(7,167,948)
ESC receivables	(11,939,193)	(18,646,296)
Balance at the end of the year	**133,467,472**	**80,353,556**

31. Value added tax payable

Year ended 31 March	2020 LKR	2019 LKR
Balance at the beginning of the year	49,704,847	(25,379,290)
Provision made		
VAT on financial services	292,320,954	360,083,419
	342,025,801	334,704,129
Payment made during the year	(282,946,158)	(284,999,282)
	59,079,643	**49,704,847**

32. Other liabilities

Year ended 31 March	Note	2020 LKR	2019 LKR
Other financial liabilities	32.1	1,060,010,345	1,026,950,339
Other non-financial liabilities	32.2	78,507,235	85,186,782
		1,138,517,580	**1,112,137,121**

32.1 Other financial liabilities

Year ended 31 March	2020 LKR	2019 LKR
Other payables	818,409,301	1,026,950,339
Lease Liabilities	241,601,044	–
	1,060,010,345	**1,026,950,339**

32.2 Other non-financial liabilities

Year ended 31 March	2020 LKR	2019 LKR
NBT payable	8,917,420	15,646,807
WHT payable	(1,925,776)	11,763,440
Other payables	71,515,591	57,776,535
	78,507,235	**85,186,782**

33. Retiring benefit obligation

Movements in present value of the retirement benefit obligation are as follows:

Year ended 31 March	Note	2020 LKR	2019 LKR
Balance at the beginning of the year		207,802,822	181,016,637
Add: Retiring gratuity expenses	33.1	59,714,624	32,539,810
		267,517,446	**213,556,447**
Less: Benefits paid during the year		(6,998,925)	(5,753,625)
Balance at the end of the year		**260,518,521**	**207,802,822**

33.1 Retiring gratuity expense

	2020 LKR	2019 LKR
Current service cost	29,349,752	23,982,155
Interest cost	22,858,310	18,373,189
	52,208,062	**42,355,344**
Actuarial (gain)/Loss	7,506,562	(9,815,534)
	59,714,624	**32,539,810**

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31 March 2020 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:

	2020	2019
Long term interest rate	10.00%	11.00%
Retirement age	55 years	55 years
Future salary increase rate	8.0%	9.0%

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:

Year ended 31 March	2020 LKR	2019 LKR
Present value of defined benefit obligation		
Discount rate		
1% Less	278,748,659	221,562,710
1% More	244,335,647	195,543,090
Salary escalation rate		
1% Less	242,868,820	195,716,884
1% More	280,109,567	221,139,460

33.2 The expected benefit payout in the future years for retirement gratuity

	2020 LKR	2019 LKR
Future expected working life		
Within the next 12 months	7,146,375	3,448,137
Between 1-2 years	–	2,687,970
Between 2-5 years	14,641,708	4,904,278
Between 5-10 years	238,730,439	196,762,438

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the company at the end of the financial year and include benefits attributable to estimated future employee service.

34. Stated capital

	Issued and fully paid voting ordinary shares Number	Issued and fully paid non-voting ordinary shares Number	Total Number
Balance on 1 April 2018	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	–	–	–
Balance on 31 March 2019	**1,421,380,624**	**298,200,000**	**1,719,580,624**
Share issued during the year	–	–	–
Balance on 31 March 2020	**1,421,380,624**	**298,200,000**	**1,719,580,624**
	LKR	LKR	LKR
Balance on 1 April 2018	184,779,481	38,766,000	223,545,481
Share issued during the year	–	–	–
Balance on 31 March 2019	**184,779,481**	**38,766,000**	**223,545,481**
Share issued during the year	–	–	–
Balance on 31 March 2020	**184,779,481**	**38,766,000**	**223,545,481**

35. General reserve

	2020 LKR	2019 LKR
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**

36. Other statutory reserves

	Statutory reserve fund LKR
Balance on 1 April 2018	840,876,301
Transferred during the year	166,119,164
Balance on 31 March 2019	**1,006,995,465**
Transferred during the year	84,102,915
Balance on 31 March 2020	**1,091,098,381**

36.1 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.

37. Revaluation reserve fund

	Revaluation reserve fund LKR
Balance on 1 April 2018	429,266,191
Revaluation during the year	162,447,805
Balance on 31 March 2019	**591,713,996**
Revaluation during the year	–
Balance on 31 March 2020	**591,713,996**

38. Retained earnings

	2020 LKR	2019 LKR
Balance on 1 April	2,724,314,273	2,553,710,332
Day 1 impact from the application of SLFRS 9	–	(500,939,901)
Profit for the year	420,514,575	830,595,822
Other comprehensive income for the year	(5,404,725)	7,067,184
Transfer to other reserves	(84,102,915)	(166,119,164)
Balance on 31 March	**3,055,321,207**	**2,724,314,273**

39. Capital commitments

39.1 At the year end, no capital expenditure approved by the board and contracted for which no provision has been made in these Financial Statements.

40. 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. Except the below,

Company's shares has been listed on 20 May 2020 on the Divi Savi Board of the Colombo Stock Exchange.

41. Contingent liabilities

There are no contingent liabilities as at 31 March 2020.

42. 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 42.1 and 42.2.

42.1 Transactions with parent company and related companies

During the year ended 31 March 2020 and March 2019, the Company has carried out transactions with it's 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.

42.1.1 Transactions with the parent company

Hatton National Bank PLC is the parent and the ultimate controlling party of the company.

Year ended 31 March	2020 LKR	2019 LKR
Statement of Profit or Loss		
Interest income – Financial assets at amortised cost – Debt and other instruments Debentures	16,875,000	16,875,000
Interest income – Savings deposits	32,736,016	34,223,369
Interest income – Financial assets at amortised cost – Debt and other instruments Fixed deposits	15,348,822	4,068,493
Interest expense – Financial liabilities at amortised cost – Debt issued and other borrowed funds - Borrowings	208,886,053	241,303,576
Interest expense – Bank overdraft	14,986,679	9,317,906
Other expenses – Bank charges	835,466	1,223,890
Statement of Financial Position		
Cash and cash equivalents – Balances with banks	1,096,680,379	264,973,747
Financial assets at amortised cost – Debt and other instruments Debentures	166,875,000	150,000,000
Financial liabilities at amortised cost – Debt issued and other borrowed funds – Borrowings	1,192,481,052	2,587,485,028
Other liabilities	27,379,976	346,701,578

42.1.2 Transactions with related companies

Transactions with Prime Lands (Pvt) Ltd.

Year ended 31 March	2020 LKR	2019 LKR
Statement of profit or loss		
Other operating income – Rent income	607,500	577,500
Interest expense – Financial liabilities at amortised cost – Debt issued and other borrowed funds – Borrowings	–	4,284,932
Interest expenses – Financial liabilities at amortised cost – Due to customers – Fixed deposits	61,695	354,607
Other expenses – Vehicle rent	–	175,000
Statement of financial position		
Financial liabilities at amortised cost – Due to customers - Fixed deposits	–	3,383,316

42.1.3 Transactions with HNB Assurance

Year ended 31 March	2020 LKR	2019 LKR
Statement of profit or loss		
Interest expense – Financials liabilities at amortised cost – Due to customers – Fixed deposits	7,500,000	7,500,000
General insurance expense	25,411,101	3,605,501
Statement of financial position		
Financial liabilities at amortised cost – Due to customers – Fixed deposits	50,000,000	50,613,014

42.1.4 Transactions with Government of Sri Lanka

Year ended 31 March	2020 LKR	2019 LKR
Transaction with Government of Sri Lanka	163,545,063	138,478,079
Statement of profit or loss		
Interest Income – Financial assets at amortised cost – Debt and other instruments	162,105,063	137,038,079
Interest Income – Financial assets measured at fair value through profit or loss	1,440,000	1,440,000
Tax expenses	697,312,809	849,611,742
Statement of financial position		
Interest Income - Financial assets at amortised cost – Debt and other instruments	2,115,625,285	1,765,879,588
Interest Income - Financial assets measured at fair value through profit or loss	16,192,528	15,770,272
Reverse repurchase agreements	–	401,627,212
Tax payable	192,547,115	130,058,404
Taxes Paid	639,164,663	864,393,008

Transactions which are not individually significant

Apart from the transactions listed above the Company has carried out transactions with the Government of Sri Lanka and other government related entities in the form of Electricity, Water, Postage, telephone charges, deposit insurance payments, crib charges etc. The total of such payments made during the year ended 31 March 2020 was LKR 131.09 Mn (2019 – LKR 98.77 Mn).

42.2 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.

42.2.1 Compensation paid to Key Management Personnel of the Company

The following represents the compensation paid to Key Management Personnel of the Company.

Year ended 31 March	2020 LKR	2019 LKR
Short-term benefits	24,262,600	24,154,000
	24,262,600	**24,154,000**

42.2.2 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.

Year ended 31 March	2020 LKR	2019 LKR
Statement of profit or loss		
Interest expense – Deposits from customers	23,040,328	26,207,369
Statement of financial position		
Due to customers – Saving and fixed deposits	153,866,646	217,018,478
Due to customers – Interest payable	–	5,936,318

43. Pledged assets

Nature of assets	Nature of liability	Included under	Carrying amount pledged 2020 LKR	Carrying amount pledged 2019 LKR
Freehold land and building	Redeemable Debentures (Note 29.1)	Property, plant and Equipment	1,235,641,671	1,068,000,000
Freehold land and building	Redeemable Debentures (Note 29.1)	Investment Properties	1,087,000,000	1,277,000,000

44. Financial risk management

44.1 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.

44.2 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.

44.3 The impact of COVID-19 pandemic on business

With emergence of the COVID-19 crisis from March 2020 and the island-wide curfew being imposed by the Government on 20 March 2020, the Company took immediate measures to manage the business impacts including day to day operations. Steps were taken to facilitate work from home measures for all employees ensuring their safety and well-being in the period of uncertainty.

Soon after curfew was lifted on 11 May 2020, the Company gradually started normal business operations but strictly adhered to social distancing guidance and established other precautionary measures to safeguard workplace health and safety.

The Central Bank of Sri Lanka (CBSL) issued directions and guidance for financial institutions to offer concessions on financial obligations to individual customers and private business operations as a result of the adverse short-term impact on their sources of income. Accordingly the company is in the process of evaluating and finalizing moratorium relief submissions made by borrowers.

The Company maintained a sufficient liquid position to meet any urgent needs of customers throughout the year which enabled the Company to meet liabilities falling due during the COVID-19 period. Necessary measures were taken by treasury division to maintain a strong liquidity position going forward, to meet any further future needs, capitalizing on banking partnerships and strategic funding to further bolster the already solid liquidity foundation sustained over the years.

The Board took measures to control costs, to focus over the essentials during the COVID-19 peak period. Through digitalization and other technology based enhancements coupled with ongoing business process reengineering initiatives, the Company expects to further propel business efficiencies and productivity in the immediate future.

The Board is confident of the Company's resilience, having possessed a skilled work force and resources to withstand the impacts arising from this crisis as currently foreseen. However, the exact impact on the business in the foreseeable future is still to be realized given the volatility and unexpected developments caused by COVID-19 pandemic globally. Through effective risk management practices, the Company will continue to monitor the impact to business operations and stakeholders. Proactive measures will be adopted as appropriate in times of volatility to ensure business continuity and keep losses minimal.

Impairment provision as per ECL methodology for financial assets at amortised cost

ECL measurement needs to incorporate forward looking reasonable and supportive information available without undue cost or effort at the reporting date. SLFRS 9 requires the application of judgement and both require and allows entities to adjust their approach to determine ECL in different circumstances. In assessing the forecast condition consideration needs to be given both to effect of COVID-19 and significant government support being undertaken. Due to insufficient relevant information and accurate information, uncertainty relating to customers payment ability, resource constraint and various government relief measures as a result of outbreak, the company decided to apply certain temporary practical expedients issued by CA Sri Lanka.

44.4 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 expected credit 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.

The Company considered the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at 29 February 2020, in order to estimate the Expected Credit Loss (ECL) as at 31 March 2020, due to uncertainty and lack of sufficient information to make any adjustments to capture the potential impact of COVID-19 based on the "COVID-19 Pandemic: Guidance Notes on the Implications on Financial Reporting" issued by the Institute of Chartered Accountants of Sri Lanka has provided reporting guidelines. On EFA, weightage assigned to worst case scenario has increased by transferring the weightage from best case scenario to worst case scenario in the 31 March 2020 by Using December 2019 Macro economic factors, since march 2020 data not available as at 31 March 2020.

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 instalments 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 2020 (2019: 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.

44.4.1 Credit quality by class of financial assets

As at 31 March 2020	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,502,773,059	–	–	1,502,773,059
Financial assets measured at Fair value through profit or loss	16,192,528	–	–	16,192,528
Financial assets at amortised cost – Loans and advances to customers	13,534,845,987	6,902,442,211	(2,661,722,614)	17,775,565,585
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	4,402,315,539	6,003,353,191	(462,786,928)	9,942,881,802
Financial assets at amortised cost – Loans and advances to others	546,364,609	37,785,374	(26,969)	584,123,014
Financial assets measured at fair value through other comprehensive income	12,430,283	–	–	12,430,283
Financial assets at amortised cost – Debt and other instruments	5,004,234,722		(773,091,683)	4,231,143,039
Other financial assets	163,504,046	–	–	163,504,046
Total financial assets	**25,182,660,773**	**12,943,580,777**	**(3,897,628,194)**	**34,228,613,356**

As at 31 March 2020	Overdue				Total
	Less than 30 Days LKR	30 to 60 Days LKR	60 to 90 Days LKR	More than 90 Days LKR	LKR
Financial assets at amortised cost – Loans and advances to customers	1,625,007,729	673,788,336	885,298,244	3,718,347,901	6,902,442,211
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	2,009,091,248	1,429,431,584	1,134,178,878	1,430,651,481	6,003,353,191
Financial assets at amortised cost – Loans and advances to others	33,278,180	1,494,417	2,533,133	479,645	37,785,374
	3,667,377,157	**2,104,714,337**	**2,022,010,255**	**5,149,479,028**	**12,943,580,777**

As at 31 March 2019	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,371,096,372	–	–	1,371,096,372
Financial assets measured at Fair value through profit or loss	16,014,400	–	–	16,014,400
Financial assets at amortised cost – Loans and advances to customers	13,227,249,630	5,455,375,988	(1,927,016,956)	16,755,608,662
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	3,604,450,883	4,840,538,578	(371,599,903)	8,073,389,558
Financial assets at amortised cost – Loans and advances to others	613,302,280	28,437,129	(26,969)	641,712,440
Financial assets measured at fair value through other comprehensive income	12,430,283	–	–	12,430,283
Financial assets at amortised cost – Debt and other instruments	3,014,714,027	–	(527,360,449)	2,487,353,578
Other financial assets	267,253,609	–	–	267,253,609
Total financial assets	**22,126,511,484**	**10,324,351,695**	**(2,826,004,277)**	**29,624,858,902**

As at 31 March 2019	Overdue				Total
	Less than 30 Days LKR	30 to 60 Days LKR	60 to 90 Days LKR	More than 90 Days LKR	LKR
Financial assets at amortised cost – Loans and advances to customers	1,099,964,538	416,980,707	426,968,004	3,511,462,740	5,455,375,989
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	2,031,278,640	1,292,857,513	695,718,206	820,684,218	4,840,538,577
Financial assets at amortised cost – Loans and advances to others	17,716,205	1,137,860	2,590,195	6,992,869	28,437,129
	3,148,959,383	**1,710,976,080**	**1,125,276,405**	**4,339,139,827**	**10,324,351,695**

44.4.2 Maximum exposure disclosure of financial assets

As at 31 March 2020	Gross carrying amount (Net of provision) LKR	Net exposure LKR
Cash and cash equivalents	1,502,773,059	1,502,773,059
Financial assets measured at fair value through profit or loss	16,192,528	–
Financial assets at amortised cost – Loans and advances to customers	20,437,288,199	17,989,416,005
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	10,405,668,730	273,730,653
Financial assets at amortised cost – Loans and advances to others	584,149,983	269,933,350
Financial assets measured at fair value through other comprehensive income	12,430,283	–
Financial assets at amortised cost – Debt and other instruments	4,231,143,039	–
Other financial assets	163,504,046	163,504,046
Total financial assets	**37,353,149,867**	**20,199,357,113**

As at 31 March 2019	Gross carrying amount (Net of provision) LKR	Net exposure LKR
Cash and cash equivalents	1,371,096,372	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	–
Financial assets at amortised cost – Loans and advances to customers	16,755,608,663	14,869,248,324
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	8,073,389,558	–
Financial assets at amortised cost – Loans and advances to others	641,712,440	344,311,975
Financial assets measured at fair value through other comprehensive income	12,430,283	–
Financial assets at amortised cost – Debt and other instruments	2,487,353,578	245,731,234
Other financial assets	267,253,609	267,253,609
Total financial assets	**29,624,858,902**	**17,097,641,513**

44.4.3 Concentration of credit risk

The company monitors concentration of credit risk by sector and by geographic location

Concentration by location

Concentration of loans and advances by location is given below.

As at 31 March	2020		2019	
	LKR	%	LKR	%
Western	6,461,836,394	21	9,198,502,927	33
Southern	5,780,702,194	18	2,296,016,223	8
Uva	2,288,402,628	7	1,583,317,152	6
North Central	2,116,083,617	7	2,237,663,717	8
North Western	3,636,934,823	12	4,121,733,162	15
Eastern	3,406,040,640	11	2,169,985,510	8
Northern	2,375,724,501	8	2,005,907,550	7
Sabaragamuwa	2,154,890,843	7	1,616,543,545	6
Central	3,206,491,272	10	2,539,684,709	9
	31,427,106,912	**100**	**27,769,354,495**	**100**

Concentration by Sector

As at 31 March 2020	Agriculture LKR	Commercial LKR
Financial assets		
Cash and cash equivalents	–	–
Financial assets measured at fair value through profit or loss	–	–
Financial assets at amortised cost – Loans and advances to customers	5,735,506,433	9,100,433,670
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	1,135,444,020	2,156,153,150
Financial assets at amortised cost – Loans and advances to others		36,024,842
Financial assets measured at fair value through other comprehensive income	–	–
Financial assets at amortised cost	–	–
Other assets	–	–
	6,870,950,453	**11,292,611,662**

As at 31 March 2019	Agriculture LKR	Commercial LKR
Financial assets		
Cash and cash equivalents	–	–
Financial assets measured at fair value through profit or loss	–	–
Financial assets at amortised cost – Loans and advances to customers	5,664,555,577	8,000,029,152
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	1,376,764,886	1,247,738,721
Financial assets at amortised cost – Loans and advances to others		80,752,349
Financial assets measured at fair value through other comprehensive income	–	–
Financial assets at amortised cost	–	–
Other assets	–	–
	7,041,320,462	**9,328,520,223**

44.5 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.

Consumers LKR	Financial LKR	Housing and property development LKR	Industrial LKR	Services LKR	Tourism LKR	Others LKR	Total LKR
–	1,502,773,059	–	–	–	–	–	1,502,773,059
–	16,192,528	–	–	–	–	–	16,192,528
57,616,857	38,290,659	591,697,880	2,503,614,196	1,901,757,052	76,184,004	432,187,447	20,437,288,198
32,980,057	346,617,740	110,093,190	328,553,303	2,271,595,090	822,855,140	3,201,377,040	10,405,668,730
72,500,933	215,600,579	258,730,508		1,443,537			584,300,399
–	12,430,283	–	–	–	–	–	12,430,283
–	4,231,143,039	–	–	–	–	–	4,231,143,039
–	163,504,046	–	–	–	–	–	163,504,046
163,097,847	**6,526,551,933**	**960,521,578**	**2,832,167,499**	**4,174,795,679**	**899,039,144**	**3,633,564,487**	**37,353,300,282**

Consumers LKR	Financial LKR	Housing and property development LKR	Industrial LKR	Services LKR	Tourism LKR	Others LKR	Total LKR
–	1,371,096,372	–	–	–	1,371,096,372	–	2,742,192,744
–	16,014,400	–	–	–	16,014,400	–	32,028,800
50,759,358	26,347,768	499,744,351	2,634,770,842	1,697,495,933	65,888,537	43,034,100	18,682,625,619
45,165,211	265,750,841	152,294,456	289,394,844	1,278,141,787	1,138,445,272	2,651,293,449	8,444,989,467
63,303,378	309,076,717	186,598,398	–	1,928,801	–	–	641,659,644
–	12,430,283	–	–	–	12,430,283	–	24,860,566
–	2,487,353,578	–	–	–	2,487,353,578	–	4,974,707,157
–	370,484,083	–	–	–	370,484,083	–	740,968,167
159,227,946	**4,858,554,043**	**838,637,206**	**2,924,165,687**	**2,977,566,521**	**5,461,712,526**	**2,694,327,549**	**36,284,032,162**

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 adaptation.

Management of the Company maintaining a stable liquidity position even during this challenging period due to COVID-19 outbreak and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigour to the processes already in place to manage its liquid assets including cost saving measures These actions taken will help to maintain suitable liquidity position while ensuring the interest of company's stakeholders despite of disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

Management considered different possible outcomes to assess the possible impact from COVID-19 to the company's operations and forecast cash flows in order to absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement. I.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure.

44.5.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below:

As at 31 March 2020	Carrying amounts LKR	Gross nominal outflow/(inflow) LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Cash and cash equivalents	1,502,773,059	1,502,773,059	1,502,773,059	–	–
Financial assets measured at fair value through profit or loss	16,192,528	16,192,528	–	–	16,192,528
Financial assets at amortised cost – Loans and advances to customers	17,775,565,585	23,543,954,112	10,774,569,608	8,156,039,355	4,613,345,149
Financial Assets at amortised cost – Lease rentals receivables and stock out on hire	9,942,881,802	14,293,492,639	1,794,162,802	3,429,766,416	9,069,563,421
Financial assets at amortised cost – Loans and advances to others	584,123,014	749,824,222	42,102,932	123,607,130	584,114,160
Financial assets measured at fair value through other comprehensive income	12,430,283	12,430,283	–	–	12,430,283
Financial assets at amortised cost – Debt and other instruments	4,231,143,039	4,376,842,831	1,927,367,308	2,449,153,185	322,337
Other financial assets	163,504,046	163,504,046	36,589,047	26,088,610	100,826,389
	34,228,613,356	44,659,013,720	16,077,564,757	14,184,654,695	14,396,794,267
Financial liabilities at amortised cost – Due to customers	27,528,789,668	30,989,589,251	5,594,872,040	15,252,853,767	10,141,863,443
Financial liabilities at amortised cost – Debt issued and other borrowed funds	3,822,043,053	6,017,305,295	755,050,001	729,582,479	4,532,672,814
Other financial liabilities	1,060,010,345	1,274,188,827	682,162,581	186,777,251	405,248,996
	32,410,843,065	38,281,083,372	7,032,084,623	16,169,213,497	15,079,785,254
Liquidity gap related period	–	6,377,930,347	9,045,480,134	(1,984,558,802)	(682,990,986)
Liquidity gap cumulative	–	–	9,045,480,134	7,060,921,332	6,377,930,346

As at 31 March 2019	Carrying amounts LKR	Gross nominal outflow/(inflow) LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Cash and cash equivalents	905,159,755	905,159,755	905,159,755	–	–
Financial assets measured at fair value through profit or loss	16,128,000	16,128,000	–	–	16,128,000
Financial assets at amortised cost – Loans and advances to customers	18,465,081,484	23,007,700,137	7,651,261,364	9,327,319,219	6,029,119,554
Financial Assets at amortised cost – Lease rentals receivables and stock out on hire	579,593,110	737,848,137	32,338,615	126,607,670	578,901,852
Financial Assets at amortised cost – Loans and advances to others	307,112,770	401,627,212		66,937,869	334,689,343
Financial assets measured at fair value through other comprehensive income	12,430,283	12,430,283	–	–	12,430,283
Financial assets at amortised cost – Debt and other instruments	2,215,317,581	2,413,725,701	934,681,991	1,244,668,710	234,375,000
Other financial assets	90,934,126	90,934,126	31,429,381	29,429,059	30,075,686
	22,591,757,109	27,585,553,351	9,554,871,105	10,794,962,527	7,235,719,718
Financial liabilities at amortised cost – Due to customers	18,821,363,686	23,023,876,846	3,570,572,140	7,520,606,160	11,932,698,547
Financial liabilities at amortised cost – Debt issued and other borrowed funds	1,178,231,116	2,864,398,390	169,422,897	142,404,718	2,552,570,776
Other financial liabilities	809,883,195	809,883,195	776,527,489	13,827,103	19,528,603
	20,809,477,997	26,698,158,431	4,516,522,526	7,676,837,980	14,504,797,926
Liquidity gap related period	–	887,394,919	5,038,348,580	3,118,124,546	(7,269,078,207)
Liquidity gap cumulative	–	–	5,038,348,580	8,156,473,126	887,394,919

44.6 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.

ALCO closely scrutinizing the probable impact on Net interest impact resulting from interest rate related relief measures announced by CBSL to the COVID-19 affected the Company.

44.6.1 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 LKR	4 to 12 Months LKR	1 to 5 Years LKR	More than 5 Years LKR	Total as at 31 March 2020 LKR
Interest earning assets					
Cash and cash equivalents	1,502,773,059	–	–	–	1,502,773,059
Financial assets measured at fair value through profit or loss	16,192,528	–	–	–	16,192,528
Financial assets at amortised cost – Debt and other instruments	1,899,720,228	2,331,422,811	–	–	4,231,143,039
Financial assets at amortised cost – Loans and advances to customers	9,796,394,895	6,977,042,233	3,604,577,778	59,273,293	20,437,288,199
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	1,282,524,970	2,142,645,235	6,703,548,703	276,949,822	10,405,668,731
Financial assets at amortised cost – Loans and advances to others	28,108,132	87,051,203	354,512,686	114,477,961	584,149,983
Total interest earning assets	**14,525,713,813**	**11,538,161,482**	**10,662,639,167**	**450,701,077**	**37,177,215,539**
Interest bearing liabilities					
Financial liabilities at amortised cost – Due to customers	5,546,363,467	14,088,912,724	7,577,380,120	316,133,356	27,528,789,668
Financial liabilities at amortised cost – Debt issued and other borrowed funds	696,139,687	400,000,000	2,060,903,366	665,000,000	3,822,043,053
Total interest bearing liabilities	**6,242,503,154**	**14,488,912,724**	**9,638,283,486**	**981,133,356**	**31,350,832,721**
Gap in interest earning assets and interest bearing liabilities – Net assets/(liabilities)	8,283,210,659	(2,950,751,242)	1,024,355,680	(530,432,279)	5,826,382,819
Effect on profitability by 1% increase in interest rates – increase/(decrease) in profits – Annualised effect	82,832,107	(29,507,512)	10,243,557	(5,304,323)	–
Effect on profitability by 1% decrease in interest rates – increase/(decrease) in profits – Annualised effect	(82,832,107)	29,507,512	(10,243,557)	5,304,323	–

	Up to 3 Months LKR	4 to 12 Months LKR	1 to 5 Years LKR	More than 5 Years LKR	Total as at 31 March 2019 LKR
Interest earning assets					
Cash and cash equivalents	1,371,096,372	–	–	–	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	–	–	–	16,014,400
Financial assets at amortised cost – Debt and other instruments	435,133,001	1,640,458,093	166,031,250	245,731,234	2,487,353,578
Financial assets at amortised cost – Loans and advances to customers	7,427,313,441	8,475,568,301	2,717,137,858	62,606,018	18,682,625,619
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	881,752,130	1,769,494,100	5,793,743,230	–	8,444,989,460
Financial assets at amortised cost – Loans and advances to others	29,371,274	98,173,531	436,564,077	77,630,527	641,739,409
Total interest earning assets	**10,160,680,619**	**11,983,694,025**	**9,113,476,416**	**385,967,780**	**31,643,818,840**
Interest bearing liabilities					
Financial liabilities at amortised cost – Due to customers	4,092,228,623	6,465,279,570	11,784,735,362	289,898,334	22,632,141,889
Financial liabilities at amortised cost – Debt issued and other borrowed funds	1,154,953,993	946,807,484	1,450,818,361	665,000,000	4,217,579,838
Total interest bearing liabilities	**5,247,182,616**	**7,412,087,054**	**13,235,553,723**	**954,898,334**	**26,849,721,727**
Gap in interest earning assets and interest bearing liabilities – Net assets/(liabilities)	4,913,498,003	4,571,606,972	(4,122,077,308)	(568,930,553)	4,794,097,114
Effect on profitability by 1% increase in interest rates – increase/(decrease) in profits – Annualised effect	49,134,980	45,716,070	(41,220,773)	(5,689,306)	–
Effect on profitability by 1% decrease in interest rates – increase/(decrease) in profits – Annualised effect	(49,134,980)	(45,716,070)	41,220,773	5,689,306	–

45. Maturity analysis of assets and liabilities

As at 31 March 2020	Less than 1 Year LKR	More than 1 Year LKR	Total LKR
Assets			
Cash and cash equivalents	1,502,773,059	–	1,502,773,059
Financial assets measured at fair value through profit or loss	16,192,528	–	16,192,528
Financial assets at amortised cost – Loans and advances to customers	14,111,714,514	3,663,851,071	17,775,565,585
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	2,962,383,277	6,980,498,526	9,942,881,802
Financial assets at amortised cost – Loans and advances to others	115,132,366	468,990,647	584,123,014
Financial assets measured at fair value through other comprehensive income	–	12,430,283	12,430,283
Financial assets at amortised cost – Debt and other instruments	4,231,143,039	–	4,231,143,039
Other assets	319,990,196	101,106,629	421,096,825
Investment properties	–	1,105,000,000	1,105,000,000
Intangible assets	–	298,713,377	298,713,377
Property, plant and equipment	–	1,625,569,183	1,625,569,183
Right of use the asset	–	286,728,067	286,728,067
Deferred tax assets	–	184,776,230	184,776,230
	23,259,328,979	**14,727,664,013**	**37,986,992,992**
Liabilities			
Financial liabilities at amortised cost – Due to customers	19,635,276,191	7,893,513,477	27,528,789,668
Financial liabilities at amortised cost – Debt issued and other borrowed funds	1,096,139,687	2,725,903,366	3,822,043,053
Income tax payable	133,467,472	–	133,467,472
Value added tax payable	59,079,643	–	59,079,643
Other liabilities	905,081,499	233,436,080	1,138,517,580
Retiring benefit obligation	–	260,518,521	260,518,521
Shareholder's fund	–	5,044,577,055	5,044,577,055
	21,829,044,492	**16,157,948,500**	**37,986,992,992**

As at 31 March 2019	Less than 1 Year LKR	More than 1 Year LKR	Total LKR
Assets			
Cash and cash equivalents	1,371,096,372	–	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	–	16,014,400
Financial assets at amortised cost – Loans and advances to customers	13,975,864,786	2,779,743,877	16,755,608,663
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	2,279,646,328	5,793,743,230	8,073,389,558
Financial assets at amortised cost – Loans and advances to others	127,517,836	514,194,604	641,712,440
Financial assets measured at fair value through other comprehensive income	–	12,430,283	12,430,283
Financial assets at amortised cost – Debt and other instruments	2,075,591,094	411,762,484	2,487,353,578
Other assets	431,214,228	61,580,444	492,794,672
Investment properties	–	1,295,000,001	1,295,000,001
Intangible assets	–	173,541,897	173,541,897
Property, plant and equipment	–	1,420,476,897	1,420,476,897
Deferred tax assets	–	189,768,514	189,768,514
	20,276,945,044	**12,652,242,231**	**32,929,187,275**
Liabilities			
Financial liabilities at amortised cost – Due to customers	10,463,170,513	12,168,971,375	22,632,141,888
Financial liabilities at amortised cost – Debt issued and other borrowed funds	2,101,761,475	2,115,818,361	4,217,579,836
Income tax payable	80,353,556	–	80,353,556
Value added tax payable	49,704,847	–	49,704,847
Other liabilities	1,081,323,006	30,814,114	1,112,137,120
Retiring benefit obligation	–	207,802,822	207,802,822
Shareholder's fund	–	4,629,467,205	4,629,467,205
	13,776,313,398	**19,152,873,877**	**32,929,187,275**

46. Fair value of assets and liabilities

46.1 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.

46.1.1 Financial assets measured at fair value through other comprehensive income

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

46.1.2 Financial assets – Fair value through profit or loss

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.

46.1.3 Property, plant and equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 46.3.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

46.1.4 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 46.4.1 and 46.4.2.

46.2 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.

46.2.1 Financial assets at amortised cost – Loans and advances 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.

46.2.2 Financial assets at amortised cost – Debt and other instruments

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.

46.2.3 Financial Liabilities at Amortised cost – 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.

46.2.4 Financial liabilities at amortised cost – 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.

46.3 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 2020	Financial assets/ Liabilities – Fair value through profit or loss LKR	Financial assets/ Liabilities measured at fair value through other comprehensive income LKR
Cash and Cash Equivalents	–	–
Financial assets measured at fair value through profit or loss	16,192,528	–
Financial assets at amortised cost – Debt and other instruments		
– Investments in Treasury bills	–	–
– Investments in fixed deposits	–	–
– Investments in debentures		
Financial assets measured at fair value through other comprehensive income	–	12,430,283
Financial assets at amortised cost – Loans and advances to customers	–	–
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	–	–
Financial assets at amortised cost – Loans and advances to others		
Other financial assets	–	–
Financial liabilities at amortised cost – Due to customers	–	–
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	–
Other financial liabilities	–	–

As at 31 March 2019	Financial assets/ Liabilities – Fair value through profit or loss LKR	Financial assets/ Liabilities measured at fair value through other comprehensive income LKR
Cash and Cash Equivalents	–	–
Financial assets – Fair value through profit or loss	16,014,400	–
Financial assets at amortised cost – Debt and other instruments		
– Investments in Treasury bills	–	–
– Investments in fixed deposits	–	–
– Investments in reverse repurchase agreements	–	–
– Investments in debentures		
Financial assets measured at fair value through other comprehensive income	–	12,430,283
Financial assets at amortised cost – Loans and advances to customers	–	–
Financial assets at amortised cost – Lease rentals receivables and stock out on hire	–	–
Financial assets at amortised cost – Loans and advances to others		
Other financial assets	–	–
Financial liabilities at amortised cost – Due to customers	–	–
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	–
Other financial liabilities	–	–

Financial assets/ Liabilities at amortised cost – Debt and other instruments LKR	Financial assets/ Liabilities at amortised cost LKR	Total carrying amount LKR	Fair value LKR	Increase/(Decrease) In fair value LKR	Fair value hierarchy
	1,502,773,059	1,502,773,059	1,502,773,059	–	–
	–	16,192,528	16,192,528	–	–
2,115,625,285	–	2,115,625,285	2,115,625,285	–	–
1,948,642,754	–	1,948,642,754	1,948,642,754	–	–
166,875,000		166,875,000	166,875,000		
	–	12,430,283	12,430,283	–	–
	20,437,288,199	20,437,288,199	20,719,964,962	282,676,763	Level II
	10,405,668,730	10,405,668,730	10,591,017,922	185,349,192	Level II
	584,149,983	584,149,983	502,688,684	(81,461,299)	Level II
	223,111,323	**223,111,323**	**223,111,323**	**–**	**–**
–	24,811,464,735	24,811,464,735	25,609,772,794	798,308,059	Level II
–	3,822,043,053	3,822,043,053	3,841,917,524	19,874,471	Level II
–	**826,298,365**	**826,298,365**	**826,298,365**	**–**	**–**

Financial assets/ Liabilities at amortised cost – Debt and other instruments LKR	Financial assets/ Liabilities at amortised cost LKR	Total carrying amount LKR	Fair value LKR	Increase/(Decrease) In fair value LKR	Fair value hierarchy
	1,371,096,372	1,371,096,372	1,371,096,372	–	–
	–	16,014,400	16,014,400	–	–
1,765,399,588	–	1,765,399,588	1,765,399,588	–	–
310,191,507	–	310,191,507	310,191,507	–	–
255,620,989	–	255,620,989	255,620,989	–	–
	–	12,430,283	12,430,283	–	–
	18,682,625,619	18,682,625,619	18,954,232,337	271,606,718	Level II
	8,444,989,462	8,444,989,462	8,483,764,505	38,775,043	Level II
	641,739,409	641,739,409	553,116,463	(88,622,946)	Level II
	267,253,609	**267,253,609**	**267,253,609**	**–**	**–**
–	22,632,141,889	22,632,141,889	22,595,423,353	(36,718,536)	Level II
–	4,217,579,835	4,217,579,835	4,203,490,341	(14,089,494)	Level II
–	**1,026,950,339**	**1,026,950,339**	**1,026,950,339**	**–**	**–**

46.4 Valuation of non-financial assets

46.4.1 Fair value measurement of assets classified as Level 3

As at 31 March 2020	Building Sq.ft	Extent Perches
Property, plant and equipment		
No. 94 96/1, Kandy Road, Kurunegala	5,755	7.05
No. 46/A, Tangalle Road, Hambantota	2,113	9.26
No. 677, William Gopallawa Mawatha, Kandy	5,400	9.26
No. 168, Nawala Road, Nugegoda	30,887	25.9
No. 67/1, Mahinda Place, Kirulapone, Colombo 5	5,786	8
No. 10/11, Galle Road Katubedda, Moratuwa	Land	23
Investment properties		
No. 249, Stanley Thilakaratne Mawatha, Pagoda, Nugegoda	24,952	39.6
Vihara Road, Rankewatte, Matale	Land	15
No. 44/1, Service Road, Puttalam	Land	25.6
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita	20,494	182.59
No. 06, Abaya Place, 7th Lane, Anuradapura	Land	13.52
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Land	724

As at 31 March 2019	Building Sq.ft	Extent Perches
Property, plant and equipment		
No. 94 96/1, Kandy Road, Kurunegala	5,755	7.05
No. 46/A, Tangalle Road, Hambantota	2,113	9.26
No. 677, William Gopallawa Mawatha, Kandy	5,400	9.26
No. 168, Nawala Road, Nugegoda	30,887	25.9
Investment properties		
No. 249, Stanley Thilakaratne Mawatha, Pagoda, Nugegoda	24,952	39.6
Vihara Road, Rankewatte, Matale	Land	15
No. 44/1, Service Road, Puttalam	Land	25.6
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita	20,494	182.59
No. 67/1, Mahinda Place, Kirulapone, Colombo 5	5,786	8
No. 06, Abaya Place, 7th Lane, Anuradapura	Land	13.52
No. 10/11, Galle Road Katubedda, Moratuwa	Land	23
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Land	724

Unobservable inputs used in measuring fair value

Depreciated replacement cost basis/market comparable method

Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.

Investment method

Significant increase/(decrease) in rent per sq.ft, outgoing expenses and no of years since purchase would result in a significantly higher/(lower) fair value.

Cost/Carrying Amount			Fair Value			
Land LKR	Building LKR	Total LKR	Land LKR	Building LKR	Total LKR	Fair value hierarchy
21,100,765	68,899,235	90,000,000	24,186,785	65,813,215	90,000,000	Level III
6,605,752	11,394,248	18,000,000	11,666,667	13,333,333	25,000,000	Level III
22,147,114	56,152,886	78,300,000	24,305,250	56,694,750	81,000,000	Level III
153,243,921	523,456,079	676,700,000	193,785,335	678,214,665	872,000,000	Level III
33,785,567	96,214,433	130,000,000	40,777,318	103,222,682	144,000,000	Level III
41,400,000	–	41,400,000	46,000,000	–	46,000,000	Level III
278,283,119	**756,116,881**	**1,034,400,000**	**340,721,354**	**917,278,646**	**1,258,000,000**	
271,522,624	547,477,376	819,000,000	296,503,261	543,496,739	840,000,000	Level III
9,750,000	–	9,750,000	10,500,000	–	10,500,000	Level III
16,000,000	–	16,000,000	31,500,000	–	31,500,000	Level III
52,152,445	69,647,555	121,800,000	69,688,838	85,311,162	155,000,000	Level III
25,700,000	–	25,700,000	50,000,000	–	50,000,000	Level III
16,500,000	–	16,500,000	18,000,000	–	18,000,000	Level III
391,625,070	**617,124,930**	**1,008,750,000**	**476,192,098**	**628,807,902**	**1,105,000,000**	

Cost/Carrying Amount			Fair Value			
Land LKR	Building LKR	Total LKR	Land LKR	Building LKR	Total LKR	Fair value hierarchy
21,100,765	68,899,235	90,000,000	24,186,785	65,813,215	90,000,000	Level III
6,605,752	11,394,248	18,000,000	11,666,667	13,333,333	25,000,000	Level III
22,147,114	56,152,886	78,300,000	24,305,250	56,694,750	81,000,000	Level III
153,243,921	523,456,079	676,700,000	193,785,335	678,214,665	872,000,000	Level III
203,097,552	**659,902,448**	**863,000,000**	**253,944,037**	**814,055,963**	**1,068,000,000**	
271,522,624	547,477,376	819,000,000	296,503,261	543,496,739	840,000,000	Level III
9,750,000	–	9,750,000	10,500,000	–	10,500,000	Level III
16,000,000	–	16,000,000	31,500,000	–	31,500,000	Level III
52,152,445	69,647,555	121,800,000	69,688,838	85,311,162	155,000,000	Level III
33,785,567	96,214,433	130,000,000	40,777,318	103,222,682	144,000,000	Level III
25,700,000	–	25,700,000	50,000,000	–	50,000,000	Level III
41,400,000	–	41,400,000	46,000,000	–	46,000,000	Level III
16,500,000	–	16,500,000	18,000,000	–	18,000,000	Level III
466,810,637	**713,339,363**	**1,180,150,000**	**562,969,416**	**732,030,584**	**1,295,000,000**	

46.4.2 Valuation details of non-financial assets

	Valuation Method
Property, plant and equipment	
No. 94 96/1, Kandy Road, Kurunegala	Cost approach
No. 46/A, Tangalle Road, Hambantota	Cost approach
No. 677, William Gopallawa Mawatha, Kandy	Cost approach
No. 168, Nawala Road, Nugegoda	Income approach
No. 67/1, Mahinda Place, Kirulapone, Colombo 5	Income approach
No. 340, Galle Road, Katubedda, Moratuwa	Market comparable method
Investment properties	
No. 249, Stanly Thilakarathna Mawatha, Nugegogda	Income approach
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasovita	Income approach
No. 64, Abaya Place, Anuradapura	Market comparable method
No. 37, Vihara Mawatha, Matale	Market comparable method
No. 56, Sewa Mawatha, Puttalam	Market comparable method
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market comparable method

47. 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 other 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 Finance 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 Finance Limited's total revenue in 2018/19 and 2019/20 financial years.

	Financial	
	2020 LKR	2019 LKR
Net interest income	3,323,892,582	3,602,112,144
Net fee and commission income	654,823,638	597,495,328
Net gain/(Loss) from trading	–	–
Net gain/(Loss) from financial investments	–	–
Other operating income	69,370,482	20,288,894
Total operating income	**4,048,086,701**	**4,219,896,366**
Impairment charges for loan and other losses	(739,997,603)	(672,737,106)
Net operating income	**3,308,089,098**	**3,547,159,260**
Operating profit/(Loss)	509,974,213	609,089,167
Income tax expenses	(201,757,935)	(227,389,732)
Profit/(Loss) for the year	308,216,278	381,699,435
Total assets	**21,743,237,586**	**22,085,950,792**
Total liabilities	**20,285,984,310**	**19,419,049,872**

	Range of estimates for unobservable inputs				
	Value per perch (Land) LKR	Value per sq. ft. (Building)	Estimated rent per month LKR	Discount rate	Rate per perch for land LKR
	3,000,000	10,000	335,000	–	–
	500,000	4,000	100,000	–	–
	2,500,000	10,000	300,000	–	–
	5,500,000	12,500	3,244,125	20%	–
			500,000	20%	
					2,000,000
			2,922,250	20%	
			576,875	20%	
					2,500,000
					700,000
					800,000
					25,000

	Leasing		Gold Loan		Others		Consolidated	
	2020 LKR	2019 LKR	2020 LKR	2019 LKR	2020 LKR	2019 LKR	2020 LKR	2020 LKR
	929,250,527	607,581,087	66,016,695	–	67,121,393	217,389,545	4,386,281,196	4,427,082,776
	23,363,451	27,456,650	6,018,071	–	–	–	684,205,160	624,951,978
	–	–	–		178,128	(113,600)	178,128	(113,600)
	–	–	–	–	–	–	–	–
	149,445,571	111,684,516	1,099,274	–	–	152,764,941	219,915,326	284,738,350
	1,102,059,549	**746,722,253**	**73,134,039**	**–**	**67,299,521**	**370,040,886**	**5,290,579,811**	**5,336,659,505**
	(91,187,026)	(108,792,420)	(8,947,290)	–	(245,731,234)	(61,381,537)	(1,085,863,153)	(842,911,063)
	1,010,872,523	**637,929,833**	**64,186,749**	**–**	**(178,431,712)**	**308,659,349**	**4,204,716,658**	**4,493,748,442**
	374,277,801	343,828,137	(45,079,721)	–	(179,524,979)	309,014,190	659,647,314	1,261,931,494
	(36,757,169)	(117,348,543)	(617,635)	–	–	(86,597,397)	(239,132,739)	(431,335,672)
	337,520,632	226,479,594	(45,697,356)	–	(179,524,979)	222,416,793	420,514,575	830,595,822
	9,670,654,171	**8,327,438,222**	**1,123,427,976**	**–**	**5,449,673,260**	**2,515,798,261**	**37,986,992,991**	**32,929,187,275**
	10,601,867,890	**8,209,982,717**	**183,335,049**	**–**	**1,871,228,687**	**670,687,481**	**32,942,415,936**	**28,299,720,070**

SUPPLEMENTARY INFORMATION

SEVEN YEAR STATISTICAL SUMMARY

Year ended 31 March	2020	2019	2018	2017	2016	2015	2014
Operating results							
Income	9,170,137,702	8,291,663,723	7,482,548,192	6,234,033,583	4,485,107,633	2,838,662,640	1,976,092,911
Interest Income	8,105,612,179	7,229,168,801	6,537,663,310	5,327,018,057	3,906,231,603	2,467,538,240	1,689,119,884
Interest Expense	3,719,330,983	2,802,086,025	2,373,460,579	1,465,618,208	995,689,242	713,714,381	542,348,293
Non interest income	1,064,703,651	1,062,494,921	945,987,922	907,097,366	552,297,228	379,415,418	392,443,251
Non interest expense	1,246,268,189	995,829,256	795,655,675	805,903,349	185,973,091	180,958,701	116,426,773
Operating expense (Incl VAT, NBT & DRL)	3,545,069,344	3,231,816,948	2,731,867,199	2,336,212,991	1,732,024,360	1,294,940,905	946,041,047
Profit Before Income Tax	659,647,314	1,261,931,494	1,582,667,779	1,626,380,875	1,544,842,138	657,339,671	549,776,609
Income tax on profit	239,132,739	431,335,672	570,884,458	567,546,689	434,748,933	122,793,299	71,282,393
Profit after taxation	420,514,575	830,595,822	1,011,783,321	1,058,834,186	1,110,093,205	534,546,372	405,464,629
Liabilities and shareholders' funds							
Customer Deposits	27,528,789,668	22,632,141,889	18,821,363,686	14,040,245,231	10,420,418,906	7,557,913,372	3,547,151,734
Borrowings	3,822,043,053	4,217,579,835	1,178,231,116	1,333,380,268	909,572,460	780,301,120	1,015,562,057
Other Liabilities	1,591,583,216	1,449,998,346	1,208,903,672	772,847,350	604,790,040	475,027,607	494,993,503
Deferred tax liabilities	–	–	–	16,115,738	49,026,181	–	27,714,187
Shareholders' Funds	5,044,577,056	4,629,467,205	4,130,296,294	3,390,204,237	2,392,022,626	1,272,625,812	740,152,093
Total	37,986,992,992	32,929,187,275	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,911	5,825,573,574
Assets							
Loans and receivables to customers (Net)	28,302,570,401	25,470,710,661	19,044,674,591	13,763,766,163	9,138,489,796	5,724,678,523	3,591,478,617
Cash, Short term deposits and Balances with Central Bank of Sri Lanka	5,750,108,626	3,874,464,350	3,136,605,336	2,962,784,849	3,105,494,885	2,421,352,222	374,622,155
Property, plant and equipment	1,625,569,183	1,420,476,897	1,158,835,158	1,119,409,029	950,441,553	880,474,986	820,863,343
Deferred tax assets	184,776,230	189,768,514	124,848,966	–	–	5,978,982	–
Other Assets	2,123,968,553	1,973,766,852	1,873,830,717	1,706,832,783	1,181,403,979	1,053,383,200	1,038,609,459
Total	37,986,992,992	32,929,187,274	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,913	5,825,573,574
Ratios							
Return on average shareholders' funds (%)	8.69	18.96	26.91	36.62	60.58	53.12	
Income growth (%)	10.59	10.81	20.03	38.99	58.00	43.65	
Return on average assets (%)	1.19	2.85	4.51	6.24	9.08	6.72	
Dividend Cover (Times)	–	–	2.57	4.66	–	–	
Property Plant and equipment to shareholders' funds (%)	32.22	30.68	28.06	33.02	39.73	69.19	110.90
Total assets to shareholders' funds (Times)	7.53	7.11	6.13	5.77	6.01	7.93	7.87
Liquid assets to liabilities (%)	16.66	39.67	23.60	34.23	41.81	43.88	
Share information							
Earnings per share (LKR)	0.24	0.48	0.59	0.62	0.65	0.31	
Dividend per share (LKR)	–	–	0.23	0.13	–	–	
Gross Dividends (LKR)	–	–	326,720,318	189,153,868	–	–	
Other information							
Number of employees	1,965	1,961	1,746	1,594	1,362	1,126	1,035
Number of branches	48	48	48	48	48	48	48
Number of service centres	21	21	21	21	21	21	5

SHARE INFORMATION

List of 20 major shareholders – Voting

Name	As at 31 March 2020	
	Number of shares	%
Hatton National Bank PLC	724,904,118	51.00
Prime Lands (Private) Limited	552,391,533	38.86
DWM Funds S.C.A, SICAV – SIF	112,700,000	7.93
B M D C Prabhath	1,000,000	0.07
Mrs L L C C Thambiah	433,600	0.03
Mr N A S Brahmanage	433,600	0.03
Dr H S D Soysa	231,700	0.02
Mr S Selvaraj	231,700	0.02
Mr M Sundaresan	231,700	0.02
Dr N I Gamaathige	150,900	0.01
H M U Senevirathna	150,000	0.01
Mr C P Atukorala	114,600	0.01
Shalsri Investments (Private) Ltd.	110,600	0.01
Mrs G Soysa	110,600	0.01
Dr C Alwishewa	110,600	0.01
W S P Arangala	110,000	0.01
S L Y Liyanawatte	102,500	0.01
Mrs M V Fernando	102,500	0.01
S T D Peris	101,000	0.01
J S B Galagoda	101,000	0.01
	1,393,822,251	**98.09**
Others	27,558,373	1.91
Total	**1,421,380,624**	**100.00**

Analysis of shareholders according to the number of shares – Voting

As at 31 March 2020

Shareholdings	Resident			Non-Resident			Total		
	Number of share-holders	Number of shares	%	Number of share-holders	Number of shares	%	Number of share-holders	Number of shares	%
1 to 1000	99,984	17,451,804	1.23	–	–	–	99,984	17,451,804	1.23
1001 to 10,000	1,711	4,820,243	0.34	–	–	–	1,711	4,820,243	0.34
10,001 to 100,000	160	4,985,226	0.35	–	–	–	160	4,985,226	0.35
100,001 to 1000,000	20	4,127,700	0.29	–	–	–	20	4,127,700	0.29
Over 1,000,000 Shares	2	1,277,295,651	89.86	1	112,700,000	7.93	3	1,389,995,651	97.79
	101,877	**1,308,680,624**	**92.07**	**1**	**112,700,000**	**7.93**	**101,878**	**1,421,380,624**	**100.00**

Categories of shareholders	Number of shareholders	Number of shares
Individual	101,869	31,073,973
Institutional	9	1,390,306,651
	101,878	**1,421,380,624**

List of major shareholders – Non-voting

Name	As at 31 March 2020	
	Number of shares	%
Seylan Bank PLC	233,200,000	78.20
Prime Lands (Private) Limited	37,772,148	12.67
Wealth Guard Private Ltd.	27,227,852	9.13
Total	**298,200,000**	**100.00**

Analysis of shareholders according to the number of shares – Non-voting

As at 31 March 2020

Shareholdings			Resident			Non-Resident			Total		
			Number of share-holders	Number of shares	%	Number of share-holders	Number of shares	%	Number of share-holders	Number of shares	%
1	to	1000	0	0	0.00	0	0	0.00	0	0	0.00
1001	to	10,000	0	0	0.00	0	0	0.00	0	0	0.00
10,001	to	100,000	0	0	0.00	0	0	0.00	0	0	0.00
100,001	to	1000,000	0	0	0.00	0	0	0.00	0	0	0.00
Over 1,000,000 Shares			3	298,200,000	100.00	0	0	0.00	3	298,200,000	100.00
			3	**298,200,000**	**92.07**	**0**	**0**	**0.00**	**3**	**298,200,000**	**100.00**

Categories of shareholders	Number of shareholders	Number of shares
Individual	0	0
Institutional	3	298,200,000
	3	**298,200,000**

Percentage of public shareholding

The Initial Public Offer through an offer for sale of Ten Million Ordinary Shares at LKR 5.70 per share of HNB Finance Ltd has been oversubscribed on 17 February 2020 which was same date of opening of the subscription. The basis of allotment has been notified accordingly.

The shares of HNB Finance Ltd were listed on 20 May 2020.

However the public shareholding as a percentage of issued share capital is 10.35% as at 31 March 2020.

Directors and Chief Executive Officer's shareholding

Ordinary voting shares	As at 31 March 2020 No. of shares
B M D C Prabhath	1,000,000
B Premalal	–
A J Alles	–
A S Wijesinha	–
S U H Fernando	–
P A H D Wijesundara	–
A G R Dissanayake	–
M Perera	25,000
Total	**1,025,000**

Information on shares

Market prices for period ended 31 March 2020

	Ordinary voting shares		Ordinary non-voting shares	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Highest price	N/A	N/A	N/A	N/A
Lowest price	N/A	N/A	N/A	N/A
Last price	N/A	N/A	N/A	N/A

Market capitalisation as at 31st March 2020

	31 March 2020	31 March 2019
Ordinary voting shares	N/A	N/A
Ordinary voting shares	N/A	N/A

N/A – Not applicable

Information on listed debentures

Subordinated, unsecured, listed, redeemable, rated debentures December 2019 – December 2024

Market price

Period ended 31 March 2020	Highest price LKR	Lowest price LKR	Last traded LKR
Debenture type			
Type A	Not traded	Not traded	Not traded
Type B	Not traded	Not traded	Not traded

Interest Rates

Period ended 31 March 2020	Interest payment Frequency	Coupon rate %	Annual effective rate %
Debenture type			
Type A	Annually	13.20	13.20
Type B	Semi-annually	12.79	13.20
Interest Rate of Comparable Government Securities			
5 Year Treasury Bond	9.27%		

Current Yield & Yield to Maturity

Period ended 31 March 2020	Current yield	Yield to maturity
Debenture type		
Type A	Not traded	Not traded
Type B	Not traded	Not traded

Utilisation of funds raised via capital market

Debenture issue December 2019

Objective number	Objective as per prospectus	Amount allocated as per prospectus in LKR	Proposed date of utilisation as per prospectus	Amount allocated from proceed in LKR (A)	% of total proceeds	Amounts utilised in LKR (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s,etc)
1	Improving the capital Adequacy of the Companies Balance Sheet, by strengthening its Tier 11 Capital	1,158,820,000	With effect from the closure of issue	1,158,820,000	100%	1,158,820,000	100%	N/A
2	Supporting the general business growth opportunities of the Company		within 12 months from date of cash receipts					

Debentures were listed on 8 January 2020.

Selected performance indicators

	As at 31 March 2020	As at 31 March 2019
Debt equity ratio (times)	6.51	6
Quick asset ratio	0.30: 1	0.30: 1
Interest cover	1.31	1.63

BRANCH AND SERVICE CENTRE INFORMATION

Province	Branch Name	Branch Address	Telephone
Central Province	Dambulla Branch	No. 818, Dambulugama Junction, Dambulla	+94 66 211 7760
	Hatton S.C.	No. 187/D, Dimbula Road, Hatton	+94 51 211 7750
	Kandy Branch	No. 677, Viliyam Gopallawa Mawatha, Kandy	+94 81 211 7750
	Matale Branch	No. 19, Kandy Road, Matale	+94 66 211 7750
	Nawalapitiya Branch	No. 30/2, Ambagamuwa Road, Nawalapitiya	+94 54 211 7750
	Nuwara Eliya Branch	No. 05, Srimath Jayathilaka Mawatha, Nuwara Eliya	+94 52 211 7750
	Rikillagaskada S.C.	No. 06, Athula Agro Service, Dibulkumbura Road, Rikillagaskada	+94 81 211 7760
	Walapane S.C.	No. 98 (98/01), Gammanpila Niwasa, Kandy Road, Walapane	+94 52 211 7760
Eastern Province	Ampara Branch	No. 27, Nidahas Mawatha, Ampara & No. 28, Nidahas Mawatha, Ampara	+94 63 211 7750
	Batticaloa Branch	No. 39/2, Central Road, Batticaloa	+94 65 211 7750
	Dehiattakandiya S.C	No. 08, New Town, Dehiattakandiya	+94 27 211 7760
	Kalmunai S.C	No.1119 (formerly 117/A), Main Road, Periyaneelawanai-2, Kalmunai	+94 67 211 7750
	Kantale Branch	No. 58/G, Agrabhodhi Mawatha, Kantale	+94 26 211 7760
	Pothuvil S.C	Bus Stand, Main Street, Pothuvil	+94 63 211 7760
	Trincomalee Branch	No. 124/02, Main street, Trincomalee	+94 26 211 7750
North Central Province	Anuradhapura Branch	No. 255, 1st Floor, Maithreepala Senanayaka Mawatha, Anuradhapura	+94 25 211 7750
	Galenbidunuwewa S.C.	No. 87/62, Opposite People's Bank, Galenbidunuwewa	+94 25 211 7780
	Kekirawa S.C.	No. 36 A, Yakalla Road, Kakirawa	+94 25 211 7740
	Medawachchiya Branch	No. 36, Kandy Road, Medawachchiya	+94 25 211 7760
	Nochchiyagama S.C.	Buddhist Center Junction, Galadivulweva, Nochchiyagama	+94 25 211 7770
	Padaviya Branch	Bandaranayake Mawata, Parakramapura, Padaviya	+94 25 211 7790
	Polonnaruwa Branch	No. 57/4, Batticola Road, Polonnaruwa	+94 27 211 7750
Nothern Province	Jaffna Branch	No. 149/A, K.K.S. Road, Jaffna	+94 21 211 7750
	Kilinochchi S.C.	No. 08, Kanakapuran Road, Uthayanager – North, Kilinochchi	+94 21 211 7780
	Mallavi S.C.	Thunukkai Road, Mallavi	+94 21 211 7760
	Mannar Branch	No. TV-5/1, Ward No. 04, Aalamara Veethy, Mannar	+94 23 211 7750
	Mullaitivu S.C.	No. 94, PWD Road, Mullaitivu	+94 21 211 7790
	Nedunkerni S.C.	Oddusudan Junction, Mullaitivu Road, Nedunkerni	+94 24 211 7750
	Nelliyady S.C.	Jaffna-Point Pedro Road, Nelliady, Karaveddy	+94 21 211 7770
	Vavuniya Branch	No. 65A/1, 1st Cross Street, Vavuniya	+94 24 211 7760
North Western Province	Chilaw Branch	No. G1/F1, New Shopping Complex, Court Road, Chilaw	+94 32 211 7750
	Galgamuwa Branch	No. 349, 349A, Anuradapura Road, Galgamuwa	+94 37 211 7760
	Kuliyapitiya S.C.	No. 355, Madampe Road, Kuliyapitiya	+94 37 211 7780
	Kurunegala Branch	No. 94, Kandy Road, Kurunegala	+94 37 211 7750
	Nikaweratiya Branch	No. 189, Puttalam Road, Nikaweratiya	+94 37 211 7770
	Norachcholai S.C.	Kalpitiya Road, Norachcholai	+94 32 211 7760
	Puttalam Branch	No. 171/1, Kurunegala Road, Puttalam	+94 32 211 7780
	Wennappuwa Branch	No. 153/C, Chilaw Road, Dummaladaniya Mada, Wennappuwa	+94 31 212 7470

Province	Branch Name	Branch Address	Telephone
Sabaragamuwa Province	Balangoda S.C.	No. 71/C, Old Road, Balangoda	+94 45 211 7760
	Embilipitiya Branch	No. 59, Main Street, Embilipitiya	+94 47 211 7780
	Kegalle Branch	No. 290/28, Main street, Kegalle	+94 35 211 7750
	Ratnapura Branch	No. 298, Kudugalwatta, Main Street, Ratnapura	+94 45 211 7750
Southern Province	Ambalangoda Branch	No. 273, Main Street, Ambalangoda	+94 91 211 7760
	Beliatta Branch	No. 51/1, Matara Road, Beliatta	+94 47 211 7770
	Galle Branch	No. 48, Olcott Mawatha, Galle	+94 91 211 7750
	Hambantota Branch	No. 21A, Jail Street, Hambantota	+94 47 211 7750
	Matara Branch	No. 386/1/1, Anagarika Darmapala Mawatha, Matara	+94 41 211 7750
	Morawaka S.C.	No. 07, Nilwala Building, Morawaka	+94 41 211 7760
	Pitigala S.C.	No. 290/1A, Elpitiya Road, Pitigala	+94 91 211 7770
	Thissamaharama S.C	No. 29, Palliyawatta Road, Thissamaharama	+94 47 211 7760
Uva Province	Badulla Branch	No. 24/1/1, Anagarika Dharmapala Mawatha, Badulla	+94 55 211 7750
	Bandarawela S.C.	No. 496, Badulla Road, Bandarawela	+94 57 211 7750
	Mahiyanganaya Branch	No. 207, Padiyathala Road, Mahiyanganaya	+94 55 211 7760
	Monaragala Branch	No. 306, Wallawaya Road, Monaragala	+94 55 211 7770
	Welimada Branch	No. 01/33, Boralandha Road, Welimada	+94 57 211 7760
Western Province	Avissawella Branch	No. 117, Ratnapura Road, Avissawella	+94 36 211 7750
	Bandaragama Branch	No. 12, Panadura Road, Bandaragama	+94 38 211 7750
	City Branch	No. 67/1, Mahinda Place, High-level Road, Kirulapone, Colombo 5	+94 11 212 7600
	Gampaha Branch	No. 103, Bauddhaloka Mawatha, Gampaha	+94 33 211 7750
	Head office	No. 168, Nawala Road, Nugegoda	+94 11 217 6262
	Homagama Branch	No. 62/A, High Level Road, Homagama	+94 11 212 7650
	Horana Branch	No. 161, Rathnapura Road, Horana	+94 34 211 7770
	Ja ela Branch	No. 59/A, Negombo Road, Ja-Ela	+94 11 212 7680
	Kaduwela Branch	No. 155/2A, Avissawella Road, Hewagama, Kaduwela	+94 11 212 7670
	Kalutara Branch	No. 427, Galle Road, Kalutara	+94 34 211 7750
	Mathugama Branch	No. 141/2, Agalawatta Road, Mathugama	+94 34 211 7760
	Moratuwa Branch	No. 597, Galle Road, Rawathawatta, Moratuwa	+94 11 212 7630
	Negombo Branch	No. 58, St. Joseph Street, Negombo	+94 31 211 7750
	Nittambuwa Branch	No. 09, Colombo Kandy road, Nittambuwa	+94 33 211 7760
	Wattala Branch	No. 34/1/1, Negambo Road, Wattala	+94 11 212 7660

GRI CONTENT INDEX

GRI Standard	Disclosure	Page Number	Remarks
GRI General Disclosures			
GRI 102: General Disclosures	102-1 Name of the organisation	4, 209	
	102-2 Activities, brands, products, and services	61-62	
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	102-5 Ownership and legal form	209	
	102-6 Markets served	48	
	102-7 Scale of the organisation	10-11	
	102-8 Information on employees and other workers	50-58	
	102-9 Supply Chain	63-64	
	102-10 Significant changes to the organisation and its supply chain		None
	102-11 Precautionary principle or approach	4-5, 111-120	
	102-12 External initiatives	4-5, 45, 55, 57, 58, 61, 64, 65, 67, 70	
	102-13 Membership of associations	209	
	102-14 Statement from senior decision maker	12-14	
	102-15 Key impacts, risks, and opportunities	111-120	
	102-16 Values, principles, standards, and norms of behaviour	8, 43-44, 89-102	
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	102-40 List of stakeholder groups	23-24	
	102-41 Collective bargaining agreements	58	
	102-42 Identifying and selecting stakeholders	20-22	
	102-43 Approach to stakeholder engagement	20-24	
	102-44 Key topics and concerns raised	20-24	
	102-45 Entities included in the consolidated financial statements		No subsidiaries or associates
	102-46 Defining report content and topic boundaries	4-5, 23-24	
	102-47 List of material topics	23-24	
	102-48 Restatements of information		None
	102-49 Changes in reporting		None
	102-50 Reporting period	4	
	102-51 Date of most recent report	4	
	102-52 Reporting cycle	4	
	102-53 Contact point for questions regarding the report	5	
	102-54 Claims of reporting in accordance with the GRI Standards	5	
	102-55 GRI content index	206-208	
	102-56 External assurance		Voluntary reporting under GRI guidelines

GRI Standard	Disclosure	Page Number	Remarks
Management Approach			
GRI 103: Management Approach	103-1 Explanation of the material topics and its boundaries	23-24	
	103-2 The management approach and its components	23-24	
	103-3 Evaluation of the management approach	23-24	
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	39	
	201-2 Financial implications and other risks and opportunities due to climate change		Not applicable
	201-3 Defined benefit plan obligations and other retirement plans	143	
GRI 202: Market Presence	202-1 Ratios of standard entry level wage by gender compared to local	55	
	202-2 Proportion of senior management hired from the local community	54	
GRI 203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported	59-68	
	203-2 Significant indirect economic impacts	59-68	
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	63-64	
GRI 205: Anti- Corruption	205-1 Operations assessed for risks related to corruption		None
	205-2 Communication and training about anti-corruption policies and procedures		None
	205-3 Confirmed incidents of corruption and actions taken		None
GRI 302: Energy	302-1 Energy consumption within the organisation	69-70	
	302-4 Reduction of energy consumption	69-70	
GRI 303: Water and Effluents	303-1 Water withdrawal by source	69-70	
	303-2 Water sources significantly affected by withdrawal of water	69-70	
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations		None
GRI 401: Employment	401-1 New employee hires and employee turnover	11, 50-51, 53-56	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	57-58	
	401-3 Parental leave	58	
GRI 402: Labor/ Management Relations	402-1 Minimum notice periods regarding operational changes		Adequate notice given as required

GRI Standard	Disclosure	Page Number	Remarks
GRI 403: Occupational Health and Safety	403-1 Workers representation in formal joint management–worker health and safety committees		Not applicable
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		None
	403-3 Workers with high incidence or high risk of diseases related to their occupation		Not applicable
	403-4 Health and safety topics covered in formal agreements with trade unions		Not applicable
	403-4 Worker participation, consultation, and communication on occupational health and safety	58	
	403-5 Worker training on occupational health and safety	58	
	403-6 Promotion of worker health	58	
	403-9 Work-related injuries		None
	403-10 Work-related ill health		None
GRI 404: Training and Education	404-1 Average hours of training per year per employee	50, 56-57	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	56-57	
	404-3 Percentage of employees receiving regular performance and career development reviews	57	
GRI 405: Diversity and Inclusion	405-1 Diversity of governance bodies and employees	51-54, 86-87	
GRI 406: Non-discrimination	406-1 Incidents of discrimination and corrective actions taken		None
GRI 407: Freedom of Association and Collective Bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		No restrictions for the formation of associations and collective bargaining
GRI 408: Child Labour	408-1 Operations and suppliers at significant risk for incidents of child labour	55	
GRI 409: Forced or Compulsory Labour	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	55	
GRI 413: Local Communities	413-1 Operations with local community engagement, impact assessments, and development programmes	64-68	
GRI 416: Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service		Not applicable
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services		Not applicable
GRI 417: Marketing and Labelling	417-2 Incidents of non-compliance concerning product and service information and labelling		None
GRI 418: Customer Privacy	417-3 Incidents of non-compliance concerning marketing communications		None

CORPORATE INFORMATION

Name

HNB Finance Limited (Subsidiary of Hatton National Bank PLC)

Nature of business

Acceptance of Fixed Deposits and Savings Accounts; provision of Microfinance Loans; Finance Leasing, Business Loans, Housing Loans, Gold Loans and other value added services

Legal status

A public limited liability company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and reregistered under the Companies Act No. 07 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 number

PB 965

Central Bank registration number

RFC/036

Accounting year-end

31 March

Tax payer identification number

134008555

VAT registration number

134008555-7000

SVAR registration number

SVAT007287

Memberships

Lanka Microfinance Practitioners' Association, The Finance House Association of Sri Lanka.

Registered office and principal place of business

HNB Finance Limited
No. 168, Nawala Road, Nugegoda, Sri Lanka
Telephone: +94 11 217 6262
Fax: +94 11 217 6263
Email: info@hnbfinance.lk
Website: www.hnbfinance.lk

Outlets

Branches – 48
Service Centres – 21

Company secretaries

SSP Corporate Services (Pvt) Ltd.
101, Inner Flower Road, Colombo 03, Sri Lanka
Telephone: +94 11 257 3894
Fax: +94 11 257 3609
Email: sspsec@sltnet.lk

External auditors

Ernst & Young Chartered Accountants
201, De Saram Place, Colombo 10, Sri Lanka.
Tel: +94 11 246 3500

Internal auditors

KPMG Sri Lanka
No. 32A,
Sir Mohamed Macan Markar Mawatha,
Colombo, Sri Lanka
Telephone: +94 11 542 6426

Credit rating agency

"AA-" Outlook Stable Fitch Ratings Lanka Ltd.
No. 15-04, East Tower, World Trade Centre,
Colombo 01, Sri Lanka
Telephone: +94 11 254 1900
Fax: +94 11 254 1903

Bankers

- Hatton National Bank PLC
- Seylan Bank PLC
- DFCC Vardhana Bank PLC
- Bank of Ceylon
- Sampath Bank PLC
- People's Bank
- Nations Trust Bank

NOTICE OF MEETING

Notice is hereby given that the 10th Annual General Meeting of the shareholders of HNB Finance Limited (the Company) will be held as a Hybrid Meeting at the "Auditorium", Level 06, Head Office of HNB Finance Limited, No. 168, Nawala Road, Nugegoda, on the 29 September 2020 at 10.00am to conduct the following business:

Agenda

1. Notice of Meeting.
2. To receive and consider the Report of the Board of Directors and the Statements of Accounts for the year ended 31 March 2020 together with the Report of the Auditors thereon.
3. To re-elect as a Director, Dr Sampathawaduge Udan Hithesi Fernando, 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 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.
5. To appoint Messrs KPMG, Sri Lanka, Chartered Accountants, as the Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
6. To authorise the Board of Directors to determine contributions to charities and other donations for the financial year 2020/21:

By order of the Board of Directors of
HNB Finance Limited

SSP Corporate Services (Private) Limited
Secretaries

Colombo, Sri Lanka
21 August 2020

Notes:

1. A shareholder entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote on 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) holder of

NIC No. .... of ....

being a member/*members of HNB Finance Limited hereby appoint: Mr/Ms ....

.... (please indicate full name) holder of NIC No. .... of ..

.... or failing him/her,

Mr B M D C Prabhath	of Colombo or failing him
Mr A J Alles	of Colombo or failing him
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 or failing him
Mr M Perera	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 29 September 2020 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 31 March 2020 together with the Report of the Auditors thereon.	☐	☐
(2)	To re-elect as a Director, Dr Sampathawaduge Udan Hithesi Fernando, who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.	☐	☐
(3)	To re-elect 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 appoint Messrs KPMG, Chartered Accountants, as the Auditors of the Company for the year 2020/21 and to authorise the Directors to determine their remuneration.	☐	☐
(5)	To authorise the Board of Directors to determine contributions to charities and other donations for the year 2020/21.	☐	☐

As witness my/our hand set hereto this .... day of .... Two Thousand and Twenty.

....

Signature

Notes:

Instructions as to completion are given below. Please delete the words which are not applicable 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, NIC No., address, instructions as to voting and by signing and filling in the date of signature in the space provided.
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. To be valid, 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 Shareholder is a Company or a body corporate, a form of Corporate Representation executed under the Common Seal in accordance with the Articles of Association or the Constitution should be submitted.
5. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
6. Any shareholder/proxy attending the Annual General Meeting is kindly requested to bring with him/her the National Identity Card or any other form of valid identification and produce same at the time of Registration.

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HNB Finance @