



The possibilities just got bigger





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Annual Report online



The possibilities just got bigger

It has not only been a year of change but also a year accompanied by robust growth, that has strengthened our market standing and our future potential. We are ready to enhance profitability while sharing the fruits of growth with our customers. Our customized financial solutions, coupled with greater efficiencies, achieved through new technology infusions, can help our customers reach the goals and aspirations they have set for themselves. We are able to make life better for more people.



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Form of Proxy
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Sustainability Report

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"We assess our performance based on how many lives we uplift and enhance and how many depend on us for their survival"

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

Our Vision

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

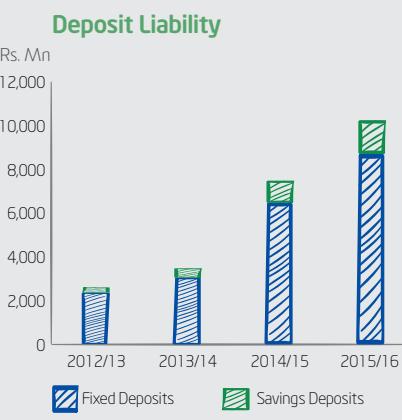
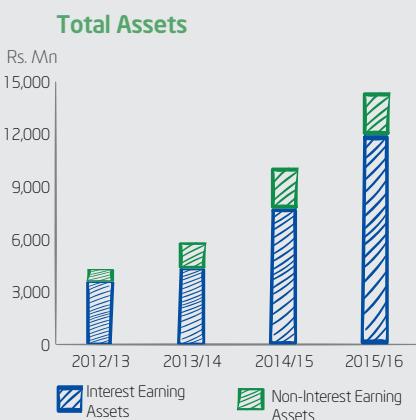
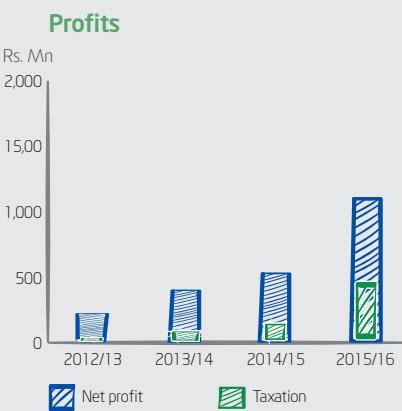
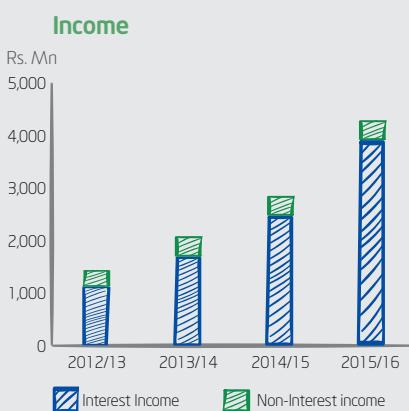
Our Mission

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

The granting of a National Long-Term Rating of 'A(lka)' with a Stable Outlook for HNB Grameen by Fitch Ratings in 2015, boosted customer confidence in the company and strengthened our position in the market.

Financial Highlights

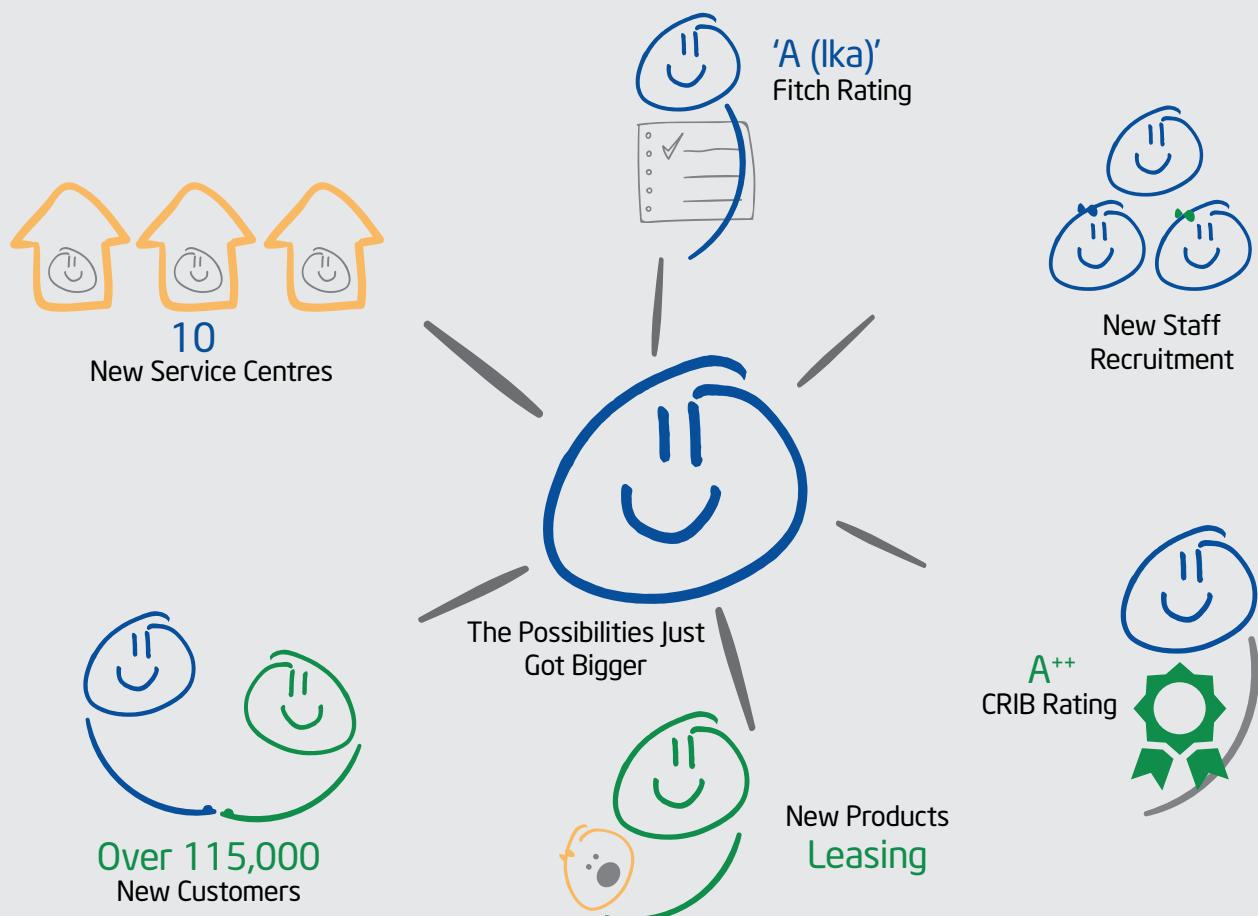
Operating results		2015/16	2014/15	Growth
Income	Rs. Mn	4,485	2,839	57%
Interest Income	Rs. Mn	3,906	2,468	58%
Net Interest Income	Rs. Mn	2,912	1,752	66%
Profit Before Tax (PBT)	Rs. Mn	1,822	819	122%
Taxation Expenses	Rs. Mn	711	284	150%
Profit After Tax (PAT)	Rs. Mn	1,110	535	108%
Financial Position				
Total Assets	Rs. Mn	14,376	10,086	43%
Lending portfolio	Rs. Mn	9,138	5,725	60%
Deposits	Rs. Mn	10,420	7,558	38%
Shareholders' funds	Rs. Mn	2,392	1,273	88%
Compliance ratios				
Core capital to risk-weighted assets ratio (Tier - I)	> 5% %	19	9	111%
Total risk weighted capital ratio (Tier - II)	> 10% %	20	11	82%
Other ratios				
Cost to income	%	43	56	23%
Return on Assets (ROA)	%	9	7	29%
Return on Equity (ROE)	%	61	53	15%
Non-performing loans ratio (NPL)	%	0.79	0.88	10%



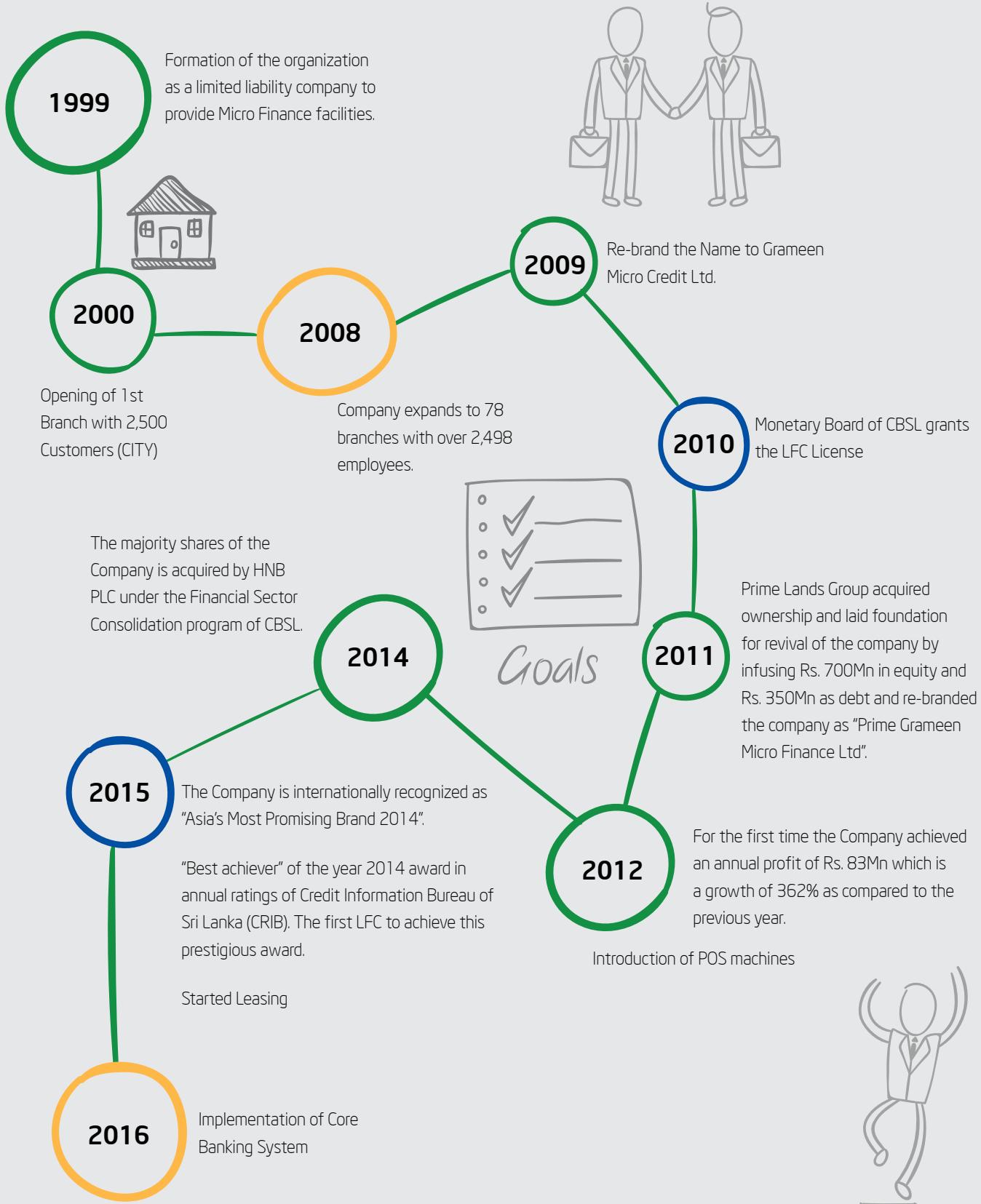
Non-Financial Highlights

HNB Grameen Finance Limited
Annual Report 2015/16

Indicator	2015/16	2014/15
Number of branches	48	48
Number of service centres	21	11
Meeting centres	7,400	5,950
Number of customers	266,000	238,000
Employees		
Number of employees	1,362	1,126
Profit per employee	Rs.Mn	0.82
Total assets per employee	Rs.Mn	10.55
Number of employees completed 10 years of service		277
Number of training programmes carried out		69
Number of participants for training		2,330
Total number of training hours	Hours	39,581
		25,324



The Story of HNB Grameen



Operational Highlights

HNB Grameen Finance Limited
Annual Report 2015/16

April 2015

Agreement with HNB Assurance

The agreement to establish the Loan and Membership Protection Fund with the HNB Assurance PLC was signed on 30th April 2015.

Badulla Branch Relocated

Badulla branch relocated to No 24/1/1, Anagarika Dharmapala Mawatha, Badulla on 10th April 2015.

May 2015

HNB Grameen Awarded by the CRIB

The Sri Lanka Credit Information Bureau (CRIB) awarded HNB Grameen Finance Ltd. as the forerunner under the category of one hundred thousand to three hundred thousand customers.

Batticaloa Branch Relocated

Batticaloa branch relocated to No 39/2, Central Road, Batticaloa on 15th May 2015.

Motor Cycles Distribution for Employees

69 motor cycles were handed over to the Credit Executives of the HNB Grameen staff on 13th May 2015 at HNB Grameen Head Office.

June 2015

Newly Appointed Directors

Dr. S.U.H. Fernando and Mr. A.S. Wijesinha joined HNB Grameen Board as new Independent Directors in June 2015.

July 2015

Annual General Meeting

The Annual General Meeting of the Prime Grameen Micro Finance Ltd was held on 17th July 2015 at its Head Office at Nawala. The shareholders approved the change of name from Prime Grameen Micro Finance Ltd to HNB Grameen Finance Ltd consequent to the amalgamation with Hatton National Bank PLC.

August 2015

Mr. Ramesh Fonseka, Asst. General Manager (Compliance & Risk) was re-elected to the Board of Sri Lanka Micro Finance Practitioners' Association for the year 2015/16.

Mannar Branch Relocated

Mannar branch relocated to 1st Floor, Our Lady of Victory Building, Main Street, Mannar on 28th August 2015.

Corporate Rebranding

The amalgamation of HNB Grameen Finance Ltd; with HNB PLC, a corporate campaign was launched for rebranding through TV, Radio and press advertising together with revamping of the corporate website.

October 2015

HNB Grameen Team won the "Plate Championship" of the Six a side Inter Micro Financial Company Cricket Tournament organized for the year 2015 by the Micro Finance Practitioners Association.

November 2015

Launched Child Protection Awareness Campaign under the name 'For a Protected Generation of Children' which was highly acclaimed.

Leasing System Development Agreement

An agreement was signed with the Scienter Technologies (Pte) Ltd, which joined as the provider of Leasing System.

December 2015

HNB Grameen Launched Leasing

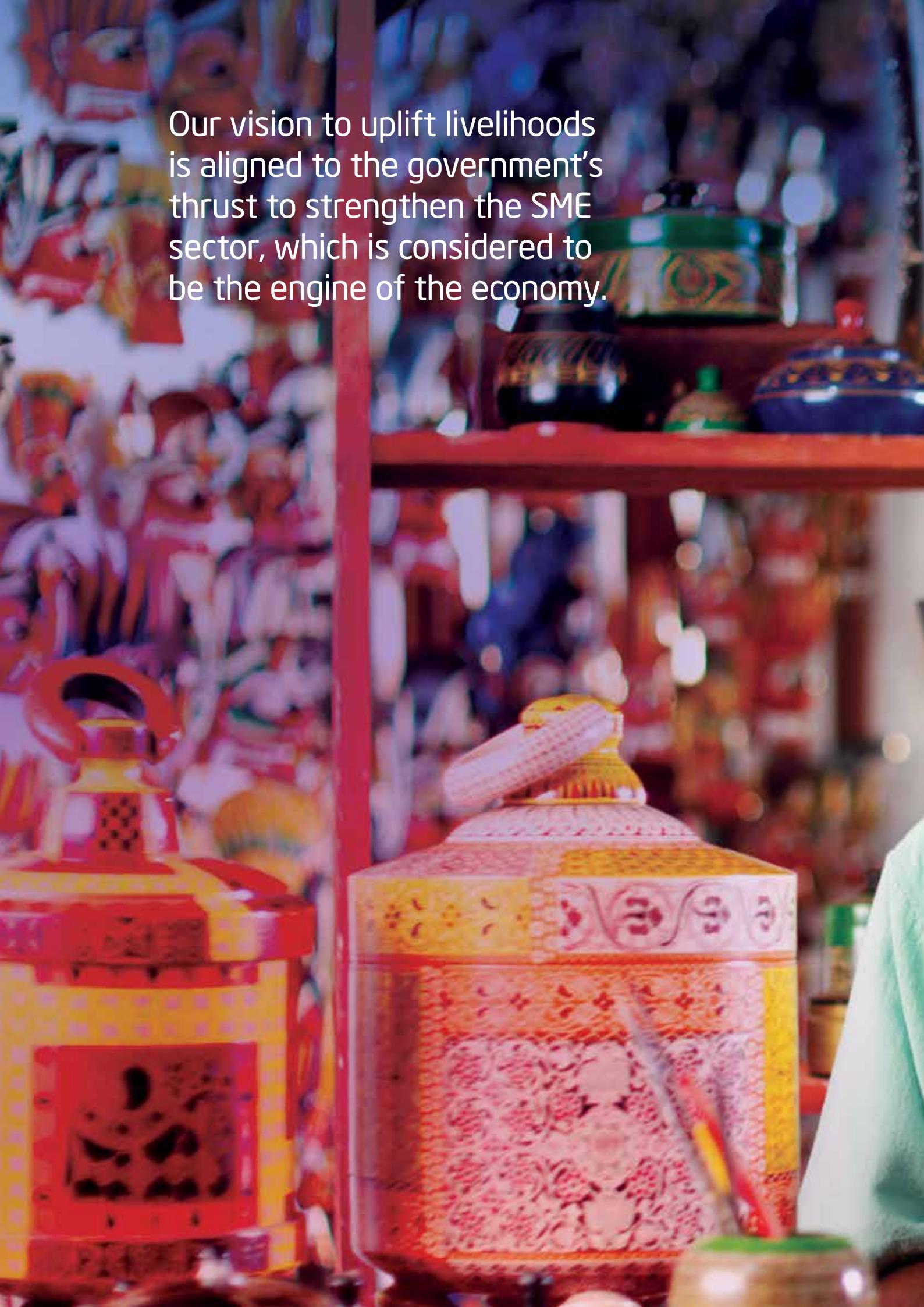
HNB Grameen diversified into Leasing business on 14 th December 2015.

January 2016

Mr. Priyalal Arangala who was the General Manager – Finance was promoted to the post of Chief Operating Officer of the company on 04th January 2016.

March 2016

Mrs. L.L.C.C. Thambiah who was an Independent Director of the company was appointed as an Executive Director with effect from 15th March 2016.

A vibrant display of colorful, hand-painted ceramic jars and containers in a market setting. The foreground features several large, ornate jars with lids, each featuring unique patterns in shades of yellow, red, and orange. In the background, more jars and containers are visible, creating a dense, colorful texture. The lighting is bright, highlighting the intricate details and rich colors of the painted surfaces.

Our vision to uplift livelihoods
is aligned to the government's
thrust to strengthen the SME
sector, which is considered to
be the engine of the economy.



Management Reports

Chairman's Review



"HNB Grameen's undisputed group lending based business model has not only proved resilient during the period but has also been able to deliver exceptional results outperforming competition."

Dear Shareholders,

It is with great pleasure that I present to you the Annual Report of HNB Grameen Finance Ltd for the financial year of 2015/16, which is by far the most successful year in the history of your company. The multi-faceted initiatives and strategies set in motion last year along with the synergies realized through the partnership forged with HNB in the latter part of 2014, laid the foundation for the excellent results achieved while also providing a platform for dramatically enhancing the growth potential of HNB Grameen.

Challenging Environment

The macro environment within which your company posted superlative results has been challenging on several fronts. Despite the interest rates remaining low during most of 2015, the uncertainty and the sluggishness that prevailed in the market, mainly due to the two major elections that were held last year, resulted in low demand for credit in the early part

"HNB Grameen enables the upliftment of the living standards and economic welfare among thousands of Sri Lankan families while also directly enhancing financial inclusion, thereby contributing to economic sustainability."

of 2015. Nevertheless, the surge in credit growth witnessed during the second half of 2015, prompted the Central Bank to tighten the monetary policy. As a result, the interest rates have increased by nearly 300bps since the beginning of 2016 impacting the interest margins of the company.

Outstanding Performance

HNB Grameen's undisputed group lending based business model has not only proved resilient during the period but has also been able to deliver exceptional results outperforming competition. The profit after tax for the year surpassed the Rs. 1 Bn landmark, by doubling the profit made in the previous year. Accordingly, the ROA of your company improved to 9% while the ROE improved to 61%. Despite the challenging environment, the loan book recorded a growth of 60% while the deposits grew by 38%. Your company also demonstrated a high level of credit discipline

and strong asset quality, with the gross NPA ratio continuing to remain below 1%. The strategic focus also enabled HNB Grameen to improve cost to income ratio significantly to 43% from 56% recorded in the previous year.

I am pleased to announce that the Board has proposed a final dividend of Rs 0.06 per share for both voting and non-voting shares in addition to the interim dividend of Rs. 0.05 per share paid in April 2016. Accordingly, the total dividend payout for the year would be 17%.

Key Developments

During the year the company launched two key product lines, namely, SME lending and Leasing to complement its core Micro lending business. The new businesses will enhance the scope of the HNB Grameen business and strengthen its presence in the market further, thereby creating 'Bigger

60%
Growth in
loan book

Chairman's Review

Possibilities'. Furthermore, significant investments were made during the year to adopt state of the art technology and to drive the business. Key initiatives in this regard, include implementation of a core banking system for the business and linking the entire distribution network, deployment of POS machines for field staff, enhancing the MIS capabilities as well as setting up a disaster recovery site.

During the year we strengthened our management team further. Mrs. L. L. C. Thambiah, a veteran of the Banking industry with over 40 years of experience was appointed as an Executive Director to the Board of HNB Grameen, where she had hitherto served in the capacity of an Independent Non-Executive Director. Mr. Arangala who functioned as the company's General Manager – Finance was promoted as the company's Chief Operating Officer while, Mr. R. M. P. Dayawansa, who possesses nearly 35 years of extensive Retail Banking experience was brought on board to steer the company's newly set up Leasing and SME businesses in the capacity of Deputy General Manager.

Sound Governance

Our Board has been responsible for setting the right tone from the top to ensure that a robust governance structure is in place. While we have introduced several best in class practices to strengthen our governance framework, we will continue to do so in the future to ensure organizational health and delivery of sustainable growth.

Sustainable Business Model

Companies have today realized the utmost importance of sustainability of their businesses and hence striven to integrate sustainability into their strategy. However, at HNB Grameen, sustainability has always been an integral component of the

business model. By way of micro lending, HNB Grameen enables the upliftment of the living standards and economic welfare among thousands of Sri Lankan families while also directly enhancing financial inclusion, thereby contributing to economic sustainability. Moreover, a majority of HNB Grameen borrowers are female entrepreneurs or aspiring female entrepreneurs. The credence that micro finance models with significant female representation among the borrower base leads to greater upliftment of communities and further widens the scope of sustainability inherent in the business model of your company.

Future Outlook

With the economic reforms that are expected to take effect following the facility to be extended by the IMF, we believe that the country would be on track to reach a GDP per capita of USD 7,000 by the year 2020. This would open up immense opportunities especially in the SME and microfinance sectors thereby widening the horizons for HNB Grameen.



Through introduction of new products and services, advancement of technology and continuous focus on developing human capital, your company remains strong and very well positioned to capture the opportunities that lie ahead. In the backdrop of exciting growth prospects that are anticipated, we plan to list HNB Grameen on the Colombo Stock Exchange by the end of 2016. This strategic endeavour will broad base the shareholding, while enabling greater access to capital markets, thereby unlocking a new avenue to obtain funding that would be required for future growth plans.

Appreciation

I would like to convey my heartfelt appreciation to my colleagues on the Board for their unwavering support and valuable contribution. I also wish to extend my sincere gratitude to each and every staff member of HNB Grameen led by the Managing Director and the management team for their untiring efforts, passion and dedication which propelled the company to unprecedented heights. I also wish to

sincerely thank all our valued customers for their loyalty and continuous patronage. Finally, I would like to thank the officials of the Central Bank of Sri Lanka for their invaluable guidance and all other stakeholders for the support extended to us right through the year.

With the synergies formed through the association with HNB, we have 'grown together stronger' and we comprehend that the 'possibilities are bigger' for us in the future. As such, we remain focused and committed to continue our journey towards reaching the pinnacle.



Jonathan Alles

Chairman

08 June 2016

Managing Director | Chief Executive Officer's Review

"HNB Grameen has successfully transformed itself from a microfinance dominated company to a more diversified financial solutions provider. During the year we strategically diversified our products by launching leasing, while simultaneously fine-tuning products for Small Scale Enterprises (SSE) and improving processes, which reflected a significant growth in this area of business."

Over the last few years, HNB Grameen has been undergoing a strategic transformation and this change was never more evident than in the 2015/16 financial year, during which the company made remarkable progress by surpassing the billion-rupee profit milestone, which is a momentous achievement in the history of the company. Strong group synergies from Hatton National Bank (HNB) helped us to achieve strategic goals during the year. Our theme for this annual report, 'Opportunities Just Got Bigger' mirrors the company's performance during the year under consideration and its optimistic outlook for the future.

Compelling Financial Growth

The company posted outstanding results by recording profit after tax of Rs. 1,110 Mn which reflects an improvement of 108% over the previous year. The cost to income ratio level, which was above 100% four years ago, was brought down

to 43% in the year under review, as we tenaciously managed the cost of the company supported by a strong IT platform to deliver operational efficiencies, which led to increased revenues.

Our asset base improved by 43% and total revenue by as much as 57% in the period under review. Our loans grew by 60% during the year. All our financial ratios visibly improved during the year. We succeeded in maintaining the NPA ratio within 1%, which is an exceptional accomplishment.

A focused initiative undertaken during the year was capital reduction. The company was burdened with a Rs. 3 Bn accumulated loss in year 2015/16. Our proposal to set off the loss against the company's share capital was accepted by our shareholders and by doing so we effectively wiped out all accumulated losses, which enabled

57%
Growth in
total revenue



the company to claim accumulated profits. We commend this visionary decision by the shareholders as it helped to strengthen our balance sheet. The company is pleased to announce to our valued shareholders that for the first time in the history of the Company the Board has declared dividends, which amounts to a total of Rs 0.11 per share.

Our fixed deposit base grew by 35% during the year. The granting of a National Long-Term Rating of 'A(lka)' with a Stable Outlook for HNB Grameen by Fitch Ratings in 2015, boosted customer confidence in the company and helped us garner corporate customers who commenced relationships with us and invested in our deposits. The personal attention given by our staff, which increased the number of relationships with individual customers, coupled with our widened geographical reach, also helped us grow our fixed deposit base. Our savings deposits recorded a growth of 56% during the year, the company continuing to tap its microfinance client base and with the introduction of new initiatives this portfolio improved further. The company is focused on growing shareholder wealth and is pleased to inform that earnings per share increased by more than 100% during the year.

"The company posted outstanding results by recording profit after tax of Rs. 1,110 Mn which reflects an improvement of 108% over the previous year."

43%
**Cost to
Income ratio**

Managing Director | Chief Executive Officer's Review

Operational Excellence

HNB Grameen has successfully transformed itself from a microfinance dominated company to a more diversified financial solutions provider. During the year we strategically diversified our products by launching leasing, while simultaneously fine-tuning products for Small Scale Enterprises (SSE) and improving processes, which reflected a significant growth in this area of business. Our leasing product is unique as it encompasses the entire spectrum from micro-leasing solutions for machinery at the grassroots level up to vehicle leasing, for existing and new customers. The company has a client base of over 200,000 customers majority of whom have obtained leasing services from competitors. By entering the leasing arena in a timely manner, HNB Grameen can now market leasing to its existing customers. This product, with its long-term tenure, will strengthen the balance sheet as the other products are short term in nature.

During this period, we improved HNB Grameen's penetration into the rural heartland of the country, thereby making rapid progress in delivering financial inclusion to the unbanked. The company achieved this by operating in the most under-served regions in the country and by moving beyond the more lucrative confines of the highly-populated Western Province. Presently, our reach extends to the most remote regions of Dambulla, Jaffna, Trincomalee, Padaviya, Badulla, Moneragala, Mullaitivu, Killinochchi and Hambantota and other war-affected areas in the north. Our team even access extremely isolated areas.

We widened our geographical reach during 2015/16 by adding ten new service centres to bring the total service centres to 21 from 11. This move helped us to grow our lending activities and broaden clientele by

15% during the year. HNB Grameen team's focused efforts on relationship building has helped in improving collections and enhanced deposit-taking.

The direct benefit of our investment in a robust IT platform was our move towards greater automation of processes which resulted in improvement in the area of cost management and other functions, thereby resulting in heightened productivity. The effective use of MIS assisted us in understanding customer behavior and market segmentation which lead to improved relationships and enhanced efficiencies.

Sustainable Performance

Our people and culture have given us a competitive edge during the year and we continue to invest in fostering both. Our impressive growth during the year under review is attributable to the total commitment displayed by our highly skilled staff. The company is proud to generate valuable employment opportunities and during 2015/16 we recruited 507 new



employees. As a responsible corporate, we desist from poaching talent and instead hire fresh recruits and train them to blend with our culture. Our mentoring approach for nurturing new talent has strengthened our talent pool. More importantly, our employees report a better standard of living after employment with HNB Grameen, which is a source of pride for the company.

Although our business is embedded in sustainable ethos with the primary aim of financial inclusion through microfinance, we also engage in CSR projects in the wider community. During the year, for the benefit of our customers, we conducted awareness programmes on child abuse under the theme of 'protection of future generation,' in partnership with the National Child Protection Authority. We organized seminars in areas reporting a high incidence of child abuse, namely, Kurunegala, Jaffna and Moneragala. We also carried out a far-reaching initiative to provide purified drinking water to two under-privileged primary schools in Vavuniya to benefit the students.

Challenges Ahead

The industry in which we operate is highly competitive and frequent policy changes serve to increase the challenges in the sector. In the face of rising interest rates, the company has to operate with lower margins, since it has to comply with the interest rates on deposits as set out by the regulator. Maintaining a quality loan portfolio remains a great challenge for our company. We leverage on a highly effective recovery mechanism which empowers recoveries at credit executive levels in the branches. Our process gets escalated thereafter at different stages of default to a higher level when our loans fall into non-performing advances. Our company's philosophy requires a constant adherence to a risk based governing structure. We maintain a robust risk framework to ensure sustainability of our business model.

On the other hand, we welcome the Microfinance Bill which has been introduced to better regulate the unorganized sector, as many companies do not report to the CRIB about customer credit records despite the fact that customers are accessing multiple loans, which threatens the overall asset quality for all players. Despite operating in a challenging environment, the company's attitude to transform challenges into opportunities for growth has driven its success during the period under consideration.

Future Prospects

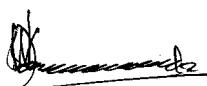
Going ahead, the company has set itself ambitious targets in financial and operational excellence. We remain focused on improving our technology infrastructure. I believe that new digital technologies will accelerate innovation across the company, which will improve returns and drive growth in the business. We plan to harness technology to introduce ATM cards in the

upcoming financial year by leveraging on HNB's ATM network.

Product diversification efforts will be sustained into the foreseeable future. A key pursuit will also be to build fee-based income. We have set a clear target to increase relationship numbers year on year. The company expects to augment this growth and enhance its portfolio by maintaining strict cost controls. In the months ahead, we will embrace group best practices and leverage the HNB brand.

Acknowledgements

I would like to place on record my appreciation to the Chairman, Deputy Chairman and the Board of Directors for their guidance and support. The entire HNB Grameen team needs to be commended for the high level of commitment displayed in the year under review, during which we surpassed the billion rupee mark. I would also like to thank customers for their continued support. On behalf of the company, I would like to thank the Governor of the Central Bank of Sri Lanka and the Director of the NBFI. All the achievements discussed in this review are not just ours to celebrate. They are yours too. Thank you!



B.M.D.C. Prabhath

Managing Director / Chief Executive Officer

08th June 2016

Board of Directors



Left to Right

A.J. Alles *Chairman*

Dr S.U.H. Fernando *Director*

Left to Right

M.A.R.C. Cooray *Director*

B.M.D.C. Prabhath
Managing Director / Chief Executive Officer

A.L. Somaratne *Director*
(Absent)





Left to Right

B. Premalal *Deputy Chairman*
L.L.C.C. Thambiah *Executive Director*
A.S. Wijesinha *Director*

Left to Right
N.H.T.I. Perera *Director*
Shiromi Halloluwa *Company Secretary*
H.K.S.R. Perera *Director*



Board of Directors

Mr. Jonathan Alles

Chairman

Non - Independent Non - Executive Director

Mr. Jonathan Alles was appointed Chairman of HNB Grameen Finance Ltd in the year 2014. He also holds the position of Managing Director/Chief Executive Officer of Hatton National Bank PLC.

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

He holds an MBA in Finance from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka. He is a Member of the Sri Lanka Institute of Directors and also serves as a member of the Advisory Committee of the Sri Lanka Business & Biodiversity Platform.

Mr. B. Premalal

Deputy Chairman

Non - Independent Non - Executive Director

Mr. Premalal is the Founder of Prime Lands (Pvt.) Ltd. He is a fellow member of the Institute of Chartered Management Accountants (UK), Chartered Business Administrator (Canada), Member of Sri Lanka Institute of Marketing and holds a Postgraduate Diploma in Marketing from University of Sri Jayewardenepura. He is the Deputy Chairman of HNB Grameen Finance Limited and has vast experience in the real estate industry and exposure to many other industries as an entrepreneur. Mr. Premalal is a winner of the UCD Entrepreneur of the year of 2011.

Mr. B.M.D.C. Prabhath

Managing Director /CEO

Executive Director

Mr. Prabhath is a financier by profession and an internationally certified micro finance expert (Frankfurt School - Germany).

He has over 20 years of experience in the private sector finance industry. He holds a Master's Degree in Business Administration (Sp. in Finance) from the University of Southern Queensland, Australia and a Postgraduate Diploma in Business and Financial Administration from Institute of Chartered Accountants of Sri Lanka. He is a Certified Management Accountant of Institute of Certified Management Accountants of Australia.

He is also a member of the Institute of Directors. He is the winner of the prestigious award "Game Changer of the year 2014" from WCRC, India.

Mrs. Crysanthi Thambiah

Executive Director

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

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

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

Mrs. M.A.R.C. Cooray

Non - Independent Non - Executive Director

Mrs. Rose Cooray is a Senior Director at Hatton National Bank PLC. She is the Chairperson of HNB Assurance PLC, HNB General Insurance LTD and Sithma Development (Pvt) LTD. She serves as a Director on the Boards of Ceylon Guardian Investment Trust PLC and Ceylon

Investments PLC. She is the Chairperson of the Board Integrated Risk Management Committee of HNB and HNB Grameen Finance LTD and serves as a member of few other Board sub committees at HNB and HNB Assurance PLC. Mrs. Cooray is a retired Deputy Governor of the Central Bank of Sri Lanka where she served over 35 years and since her retirement she has continued to serve in the financial sector over 6 years.

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

On release from the Central Bank to the Ministry of Finance, she served in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly six years, and represented the Government on the Boards of DFCC bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, DE La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, and National Housing Development Authority. Mrs. Cooray has extensive experience in policy making and implementing projects and programs especially in the area of regional development and microfinance and has been a resource person at national and international seminars in these areas. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the government. She has contributed research papers to professional journals.

She has been certified as a trainer in Micro Finance by the Asian Development Bank and Tokyo Development Learning Centre. She holds a BA (Hon.) degree from University

of Ceylon, Peradeniya, Sri Lanka and M.Sc, degree from Strathclyde University, UK.

Mrs. H.K.S.R. Perera

Non - Independent Non - Executive Director

Mrs. Sandamini is a Co-founder, Deputy Chairperson of Prime Lands Group, who has wide ranging experience in the Real Estate industry. Being an entrepreneur, she has achieved remarkable results for her own organization as well as in her professional career. She is a holder of Executive Master of Science in Strategic Marketing in Asia e-University, Malaysia. Member of Sri Lanka Institute of Marketing and Practicing Marketer. Recognized as the 3rd most Powerful Business Woman in Sri Lanka by Echelon Magazine in 2013. Honored Leaders Excellence Award 2014 for Excellence in Women's Empowerment from World Consulting and Research Corporation in New-Delhi. Winner of Best Women Entrepreneur - Large category 2014/2015 in Professional & Career Women Awards from Women in Management in Sri Lanka.

Mr. N.H.T.I. Perera

Non - Independent Non - Executive Director

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

He is a Chartered Accountant and Finalist CIMA (UK).

Mr. A.L. Somaratne

Non - Independent Non - Executive Director

Mr. Somaratne is a banker with more than 35 years experience Specializing in SME and Microfinance. 25 years of his banking career has been spent with the National Development Bank and left the Bank in 2005 as its Vice President in charge of SME and Microfinance. After leaving NDB he joined the International Finance Corporation (IFC) of the World Bank Group as its Head of Advisory Services for Maldives and Sri Lanka. He has also served as the Chief Executive Officer(CEO) of Nationwide Micro Bank of Papua New Guinea and General Manager of SPBD Microfinance in Fiji. He has work experience in countries like East Timor, Lesotho and Maldives

Dr. Udan Fernando

Independent Non - Executive Director

Dr. Fernando is an Executive Director of Centre for Poverty Analysis (CEPA), a Colombo-based Think Tank. He has also held leadership positions in the Sri Lankan development organizations 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 where he holds the Chair of Development Studies. He holds a PhD in International Development Cooperation from the University of Amsterdam. His specialization at Bachelor's and Master's level has been Law, Economics, Management and Labour Studies.

Mr. Anushka Wijesinha

Independent Non - Executive Director

Mr. Wijesinha is an economist and his research on industry, innovation, SMEs, and international economics has been published in national and international publications. He is currently the Chief Economist of the Ceylon Chamber of Commerce, the country's largest business grouping. He was previously the Head of Industry, Competitiveness and Regulatory Policy at the Institute of Policy Studies of Sri Lanka, and has worked with the Presidential Commission on Taxation (2009). He has been a consultant for the World Bank, Asian Development Bank, UNDP, UNESCAP, and GIZ. He is a Director of the Board of Union Assurance General Limited. In 2014, the World Economic Forum recognized him as a 'New Champions Awardee' at the Annual Meeting of New Champions. He is also a Visiting Lecturer at the Bandaranaike Centre for International Studies and the Founder of the Smart Future Forum. Mr. Wijesinha holds a Masters in Economics and Development from the University of Leeds Business School, UK and a BSc in Economics from the University College London, UK.

Ms. Shiromi Halloluwa

Company Secretary

Attorney-at-Law & Notary Public
Appointed Company Secretary in November 2014. Presently works as the Manager - Legal (Operations) of the Hatton National Bank PLC and Company Secretary of HNB Assurance PLC, a subsidiary of Hatton National Bank PLC. Counts over 20 years experience in the Legal Profession and 16 years as a member of the Legal Team of Hatton National Bank PLC.

Corporate Management



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



W.S.P. Arangala
Chief Operating Officer



W.B.A. Fernando
Deputy General Manager
Branch Network



R.K.M. Priyanga
Assistant General Manager
Branch Network



R.M. Mahindathissa
Assistant General Manager
Branch Network



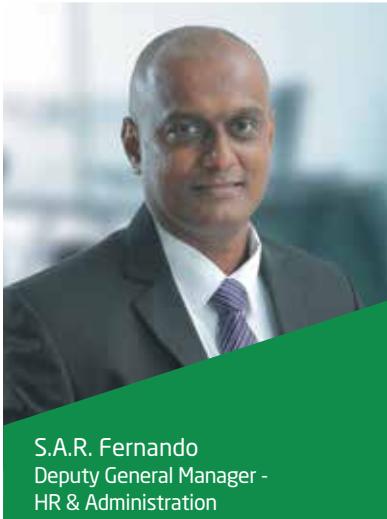
M.P.S. Cooray
Assistant General Manager
Branch Network



W. Punchihewa
Head of Legal



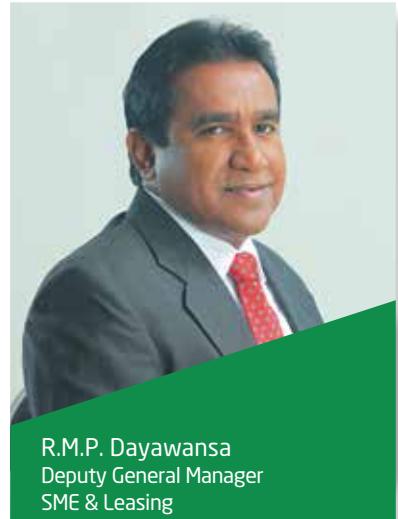
Pradeepa Dias
Head of ICT



S.A.R. Fernando
Deputy General Manager -
HR & Administration



B.S. Seneviratne
Deputy General Manager
Fixed Deposits & Savings



R.M.P. Dayawansa
Deputy General Manager
SME & Leasing



K.D.D. Prabath
Assistant General Manager
Branch Network



J.M.R. Fonseka
Assistant General Manager
Compliance & Risk



H.D.S.C. Gunasekara
Chief Accountant



D.M.K. Munasinghe
Head of Business Systems &
Development



Anura Udwatta
Head of Training

Management Discussion & Analysis

2015 ECONOMIC OVERVIEW

As Sri Lanka strives to transition to an upper middle-income country, it remains focused on long-term strategic and structural development challenges in building exports, public infrastructure and the development of human capital. However, GDP growth has yet to accelerate in tandem if Sri Lanka is to avoid the middle income trap.

The 2015 financial year witnessed a reduction in the GDP growth rate to 4.8% as against 4.9% in 2014. Moreover, this growth did not stem from its manufacturing or export performance but from private consumption, brought about mainly due to increased salaries and wages for public sector employees during the year. Much of the investments were seen in the real estate sector, construction activities and wholesale and retail trade services. Growth in the manufacturing sector expanded slightly as did the agricultural sector partly aided by a relatively low interest rate regime.

Inflation hovered in the low to mid-single digit levels, mainly due to the reduction in the prices of several key consumer items with the entry of the new government, a drastic lowering of international prices of crude oil and other commodities. However, this was partly negated by the depreciation of the Sri Lankan Rupee against the US Dollar with inflation recorded at 2.8 % in the fourth quarter 2015.

The Central Bank of Sri Lanka (CBSL) maintained a dovish outlook on monetary policy by maintaining the interest rates at competitive levels thereby encouraging the private sector to raise their investments to a higher level. However, interest rates witnessed a marginal upward move towards the latter part of the year mainly to keep in line with the increasing trend in the inflation.

NON-BANKING FINANCIAL SECTOR

There was an upward surge in the financial performance of the Licensed Finance Companies (LFC) during the financial year under review. The sector remained buoyant, recording expansion of both geographical spread and business volume. Total assets of the sector grew by 22.3% to Rs 181.6 billion in 2015 compared to a growth of 19.0% to Rs 130.0 billion in 2014, mainly derived by an increase in borrowings by 44.6% and an increase in deposits by 16.1%. The relatively high deposit rates offered by LFCs as compared to banks attracted a steady clientele for deposits.

A strong demand for credit in vehicle leasing and other secured loans in the sector was witnessed in the first half of the year, although raised import duties imposed in the second half caused a dip in new registrations. In the second half of the year, the CBSL took a decision to impose a maximum Loan to Value (LTV) ratio of 70% in respect of loans and advances granted for purchase or utilization of motor vehicles by both banks and LFCs, which served to slow demand for vehicle leasing.

MICROFINANCE INDUSTRY

Microfinance has deep roots in Sri Lanka and the sector has witnessed robust growth, contributing 2%-3% to the GDP. In Sri Lanka, the micro finance industry remains unregulated but plays a vital role in poverty alleviation, increasing overall production, providing employment and promoting entrepreneurship. A small number of registered finance companies are engaged in providing Micro Finance facilities. HNB Grameen Finance Ltd is one of the major players in the sector.

A survey on micro credit was conducted by the CBSL during 2015 with the objective of understanding developments

in the sector and assessing the status of financial literacy and financial inclusion of microcredit beneficiaries in the country. The findings support the fact that a majority of microcredit loans were concentrated among females and that a majority of the loans were used for business purposes. One segment was able to increase profit/revenue while another significant segment could not improve their businesses even with access to microcredit. The average number of loans accessed by a beneficiary is around three loans and a higher percentage of loans were concentrated in the range of Rs. 25,000 to Rs. 50,000. The survey further highlighted that accessing LCB/LSBs or not accessing them for financial facilities were mainly due to collateral considerations and the difficult and time consuming application process. The survey's finding of CBSL has substantiated that along with supplying micro finance products and services, HNB Grameen's focus on educating customers on technical aspects of their business and financial literacy is a sustainable approach to ensure that beneficiaries are able to thrive and grow.

IMPACT OF MFI BILL

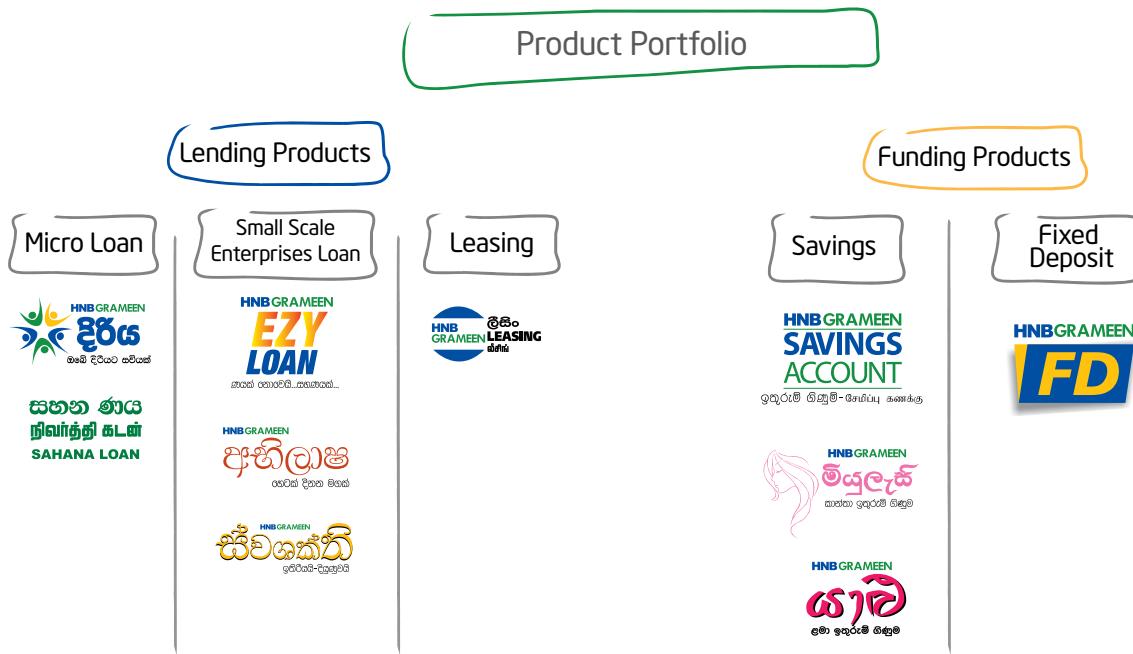
The Micro finance Bill introduced by the Central Bank of Sri Lanka aims to closely monitor and regulate financial entities engaged in offering micro finance services. Overall, we feel the pros for the bill outweigh the cons. The company is confident that the bill will serve to regulate the industry, minimize unethical practices and improve overall asset quality for all players. The general expectation of this bill is that there will be a shake-up of players with only the committed players left behind to serve the grassroots community. As a result, we expect greater demand for our microfinance lending model.

Our focus on empowering women at the grassroots level is creating a revolution wherein greater numbers of female entrepreneurs are picking up the courage to become financially independent.

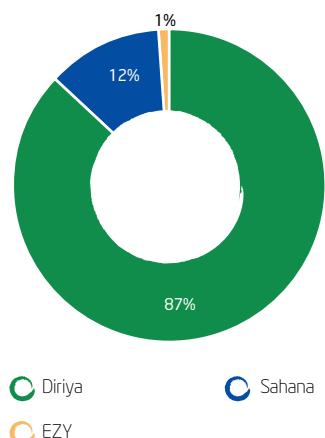


Management Discussion & Analysis

BUSINESS ENVIRONMENT



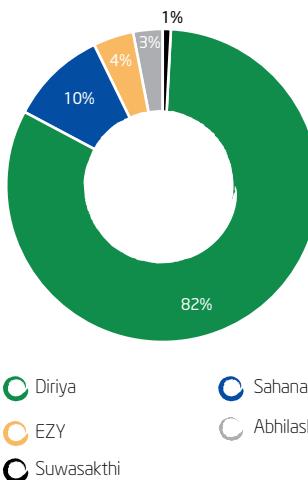
Loan Disbursement Summary 2014/15



The above graphs depicts the composition of loans in 2014/15 and 2015/16 financial years.

13 Bn
Diriya Loans

Loan Disbursement Summary 2015/16



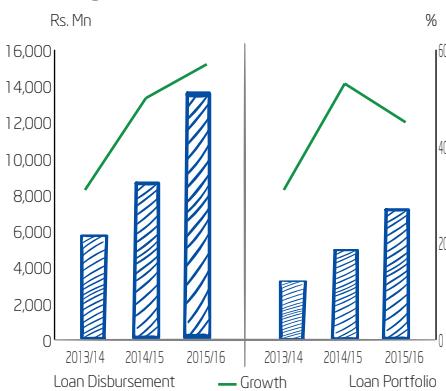
Diriya Loan

Diriya is a core microfinance product based on the Grameen group concept. During the year, we increased our reach by adding more service centers so that HNB Grameen Diriya loan services may be accessed in many more parts of the island.

The company disbursed over Rs. 13 billion in Diriya loans in the year under review whilst increasing the customer base by 13%.

Diriya loan portfolio increased from Rs.5,010 Mn to Rs.7,258 Mn as at 2015/16 recording a 45% growth rate.

Diriya



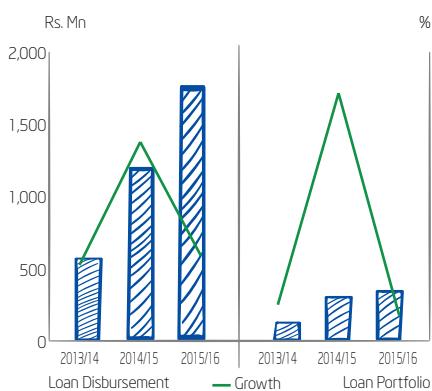
607%
Growth in EZY Loan

Sahana Loan

The Sahana Loan facility was designed to discourage customers from using their business income for personal consumption purposes. This is an interim loan facility granted to active members of Diriya Loans to financially meet their urgent consumption requirements. Diriya borrowers can obtain a loan up to a maximum limit of Rs. 15,000.

The repayment is made on a weekly basis. Sahana loan portfolio increased from Rs.310 Mn to Rs.352 Mn as at 2015/16 recording a 14% growth rate compared to the previous year.

Sahana



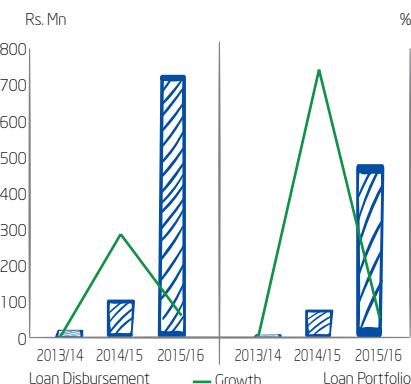
EZY Loan

This facility is granted for those in the SME sector to enable easy access to fund their working capital requirements, thereby discouraging entrepreneurs from seeking financing from unregulated sources, which could expose them to severe risk.

This loan scheme was launched in latter part of 2013/14 as a pilot project. Further, 607% growth in this segment affirming the efficacy of the strategy to cement the growth momentum during 2015/16.

A new customer segment was created in the rural sector of the island through this loan scheme. Ezy loan portfolio increased from Rs.78 Mn to Rs.490 Mn as at 2015/16 recording a 532% growth rate during last two years.

Ezy



Swashakthi Loan

This is a saving based loan product providing working capital requirements for micro entrepreneurs. This is not a collateral free loan, which we have introduced in 2014/15. This product helps to bring in lot of micro level entrepreneurs to the financial system. The company disbursed over Rs. 183 Mn. in Swashakthi loans in the year under review, whilst increasing the customer base by 555 %.

Swashakthi loan portfolio increased from Rs.11 Mn to Rs.90 Mn as at 2015/16 recorded a 731% growth rate.

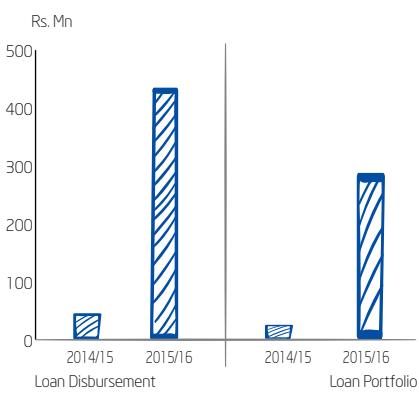
Abhilasha Loan

The Abhilasha Loan scheme is aimed at both male and female small scale entrepreneurs. We have started this loan product during 2014/15.

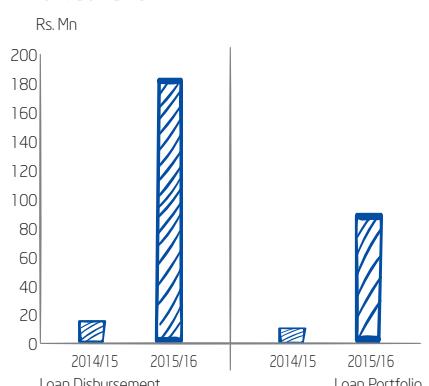
The loan provides enhanced financial services with, prolonged repayment periods. This product was specially designed to overcome the limitations in the group lending model while simultaneously capturing the upgraded market segment from the Diriya loan product. There is a substantial customer base in the rural market that prefers Abhilasha loans and the company has succeeded in increasing its relationships during the year. The company disbursed over Rs. 434 Mn in Abhilasha loans in the year under review , whilst increasing the customer base by 899%.

Abhilasha loan portfolio increased from Rs.35Mn to Rs.288 Mn as at 2015/16 recording a 729% growth rate in the last two years.

Abhilasha



Swashakthi



Leasing

Leasing is a powerful product to provide micro level entrepreneurs and SMEs with much needed asset-financing to generate income from modest businesses.

Although the industry has a large number of players and is a fiercely competitive market, the company is positioned against the competition on a caring, friendly and service at doorstep proposition. The company commenced lease financing from December 2015 as part of its diversification strategy. Our main objective in entering the leasing market during 2015/16 was to pre-empt existing customers with leasing needs from accessing those products from other competitors.

Management Discussion & Analysis

The branch expansion undertaken during the year under review will further help us market our leasing products amongst our new customers and raise greater awareness about the product.

FINANCIAL INCLUSION

Financial inclusion is defined as 'the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, where those services are not available or affordable'. This is also our understanding of financial inclusion and it is embedded in the company's DNA. The core objective of our business model is financial inclusion and the greater success we have in achieving this will determine the company's future sustainability.

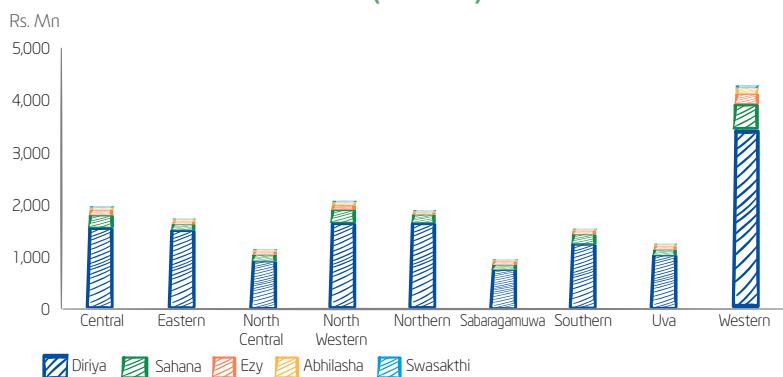
The company has made a concerted effort to diversify outside of the Western Province and this is evident from our region-wise disbursement in the year under review in contrast to the previous year. During the year, we have made strong headway in the Central, North Central, Eastern and Northern Provinces. Although the graph denotes higher percentage of total disbursement in Western Province, this is chiefly because of higher population density. We are satisfied with the outreach and disbursement achieved in other provinces in which we have recorded a remarkable growth over the previous year, in terms of business growth and outreach.

The company engages closely with customers beyond extending credit by conducting financial literacy sessions to enhance knowledge about managing finances and business development workshops which helps them improve their product development and services. We are proud that our financial services enable low income families to invest in enterprises, better nutrition, improved living conditions,

and to improve health and education of their children.

HNB Grameen is making a significant contribution to national growth in alignment with the government avowed intent to grow micro finance services, thereby boosting economic growth.

Provincial loan disbursement (2015/16)



Fixed Deposits

The company successfully consolidated its brand equity through the year which resulted in an increase in the Fixed Deposit Value by as much as 35%. During the year, Fitch Ratings assigned HNB Grameen a National Long-Term Rating of 'A(Ika)' with a Stable Outlook. The progressive track record of the company over the past years and the synergy of HNB Plc played a vital role in acquiring this rating.

Although the main focus was to increase the retail customer base with the new rating and HNB synergy, we were able to increase the corporate customer base throughout the year by offering lower interest rates than others in the market.

The special 15% interest rate for fixed deposits for senior citizens announced by the regulator brings with it more challenges. Unfortunately, this has led to existing senior citizen customers shifting their deposits to banks which offer higher interest rates.

48

Branches

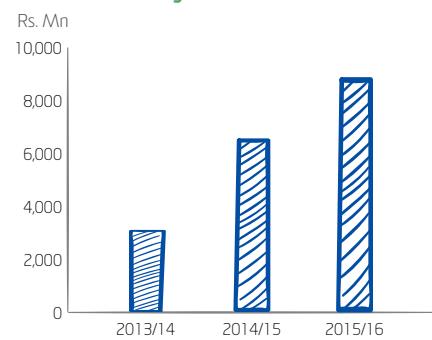
& **21**

Service Centres

FD Growth

Public deposits continue to be the main source of funding for HNB Grameen Finance and constitute 85% of total deposits. Since the merger with HNB, HNB Grameen Finance has managed to increase its fixed deposit base rapidly.

FD Liability



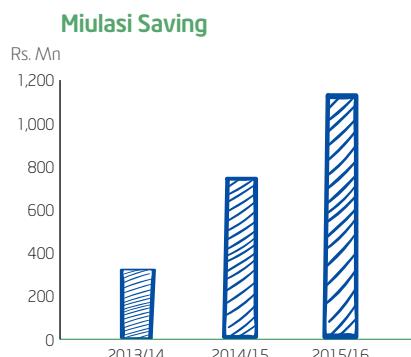
Savings

One of the company's primary objectives is encouraging the saving habit amongst its customers. In pursuit of this objective HNB Grameen offers three savings products namely: 'HNB Grameen Savings', 'Miyulas' and 'Yalu'. The combined savings customer base exceeds 250,000, a testimonial to the

growing potential of this segment. During the year under review, the savings customer base increased by 34%, while the portfolio increased by 56%. The three types of savings accounts cover all potential needs of customers:

- HNB Grameen Savings - general saving scheme for those above 18 years of age.
- Yalu Savings – savings scheme for minors, those below 18 years of age.
- Miyulasi Sathkara – specialized unique saving scheme that offers additional benefits to Diriya customers.

HNB Grameen Savings introduced a novel concept of collections via POS machines and online methods, which has built trust about the company in the minds of customers.

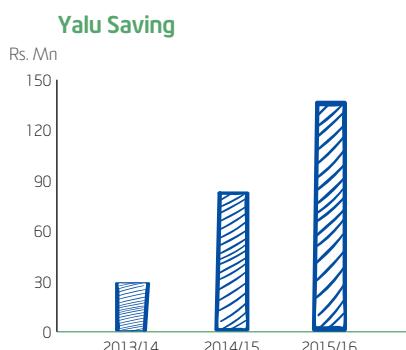
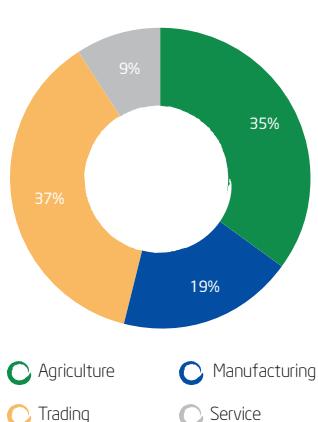


MARKETING

The period under review witnessed abundant marketing activity, in particular, the rebranding initiatives to establish Prime Grameen as HNB Grameen. The rebranding was achieved across various mass media and by enhancing the branch outlook to reflect the new brand. Many below the line communication channels were leveraged for product awareness campaigns. In order to reflect the new brand name and rejuvenated outlook, we revamped the corporate website www.hnbgrameen.lk with an attractive display and easy to use navigation. We strive to achieve 100% customer satisfaction.



Sector wise business category



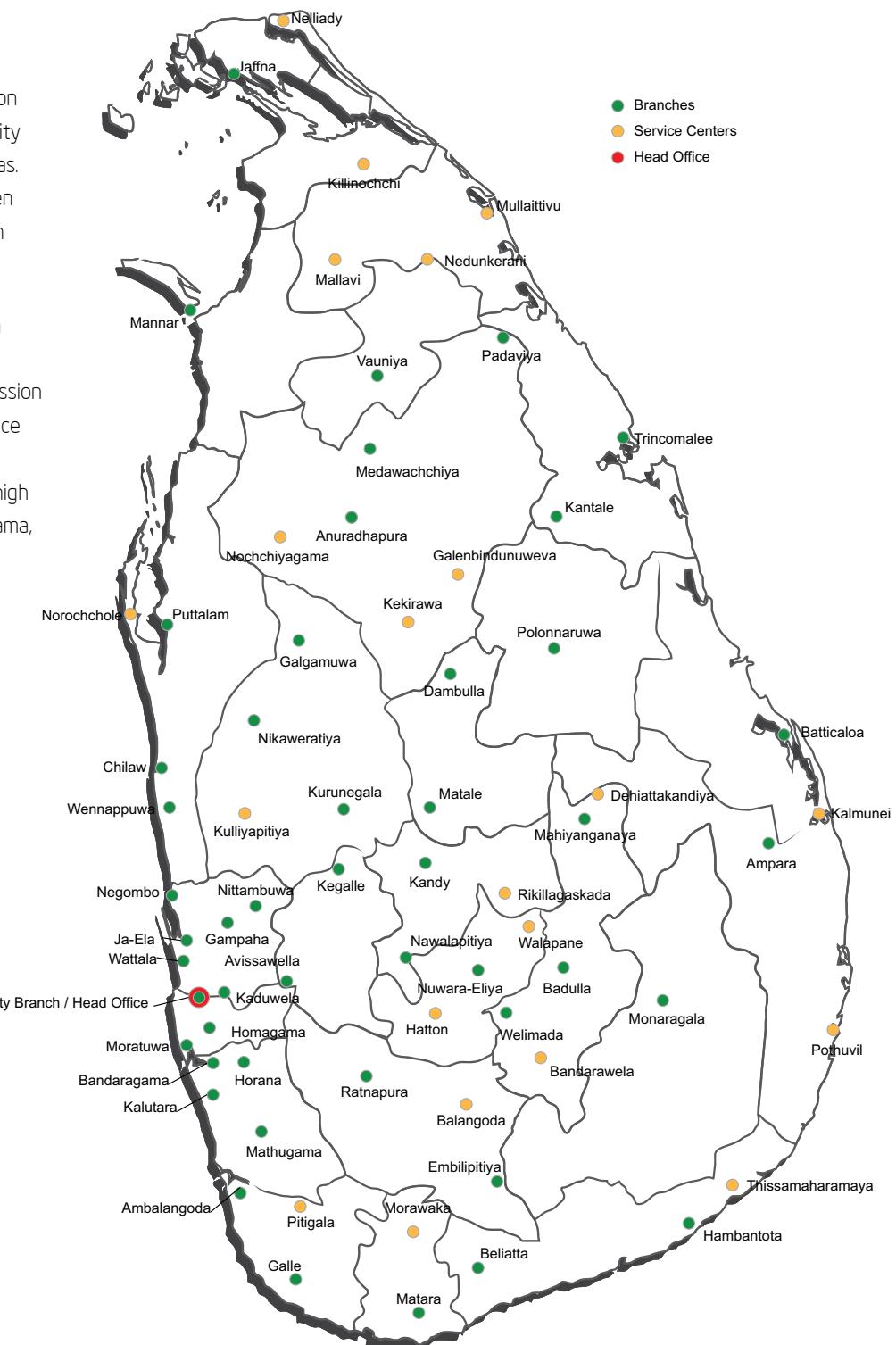
Trading and Agriculture sectors have contributed 37% and 35% towards business loans respectively, while the manufacturing sector loans amounted to 19%. The least contributor to HNB Grameen's portfolio was the services sector amounting to 9%.

Management Discussion & Analysis

Expanding Geographic Reach

HNB Grameen finance boasts of 48 branches and 21 service centres strategically located across 16 regions throughout the country. The emphasis on micro finance necessitates that a majority of the branches are situated in rural areas. Many of the existing branches have been upgraded to offer a superior transaction experience for customers.

Some of the branches were relocated in order to make them more commercially viable. The company was granted permission by the CBSL to establish five more service centres during the year under review, which were duly set up in areas with a high population density namely Nochchiyagama, Rikillagaskada, Mallavi, Kilinochchi, and Hatton.



IT REVIEW

During the year under review, our focus was to implement a powerful IT framework which would allow us to deploy strong technology-backed solutions to improve overall productivity, efficiency and security. HNB Grameen Information Communication Technology (ICT) and Business System Development (BSD) are the two main departments that deliver ICT related services to all stakeholders of the company.

We have been focusing on consolidating ICT operations for the last two years and during the period under review we were able to upgrade our technology platform, which is presently on a par with industry standards, to support business growth and meet the compliance and regulatory requirements. During the year we have entered into an Enterprise Agreement (EA) with Microsoft to license entire Microsoft software used in the organization. In the same year we established a disaster recovery (DR) site which will enable the company to continue business in an unforeseen event. Further, we were able to implement Information Systems Security Policy (ISSP), which helped improve security of information systems within the organization.

The company has automated its field operation by introducing POS machines integrated with the core banking system. This has enabled us to increase operational efficiencies and reduce manual work in the process. Further, it has enabled the company to centralize its entire business operations, improve security, and provide efficient customer service while increasing customer confidence and satisfaction.

In order to support the newly implemented core banking system and other digital delivery channels the entire branch network ICT infrastructure has been upgraded during the year.

Future Outlook

In the near future we will launch ATM facilities to our customers using synergies of HNB PLC. We will continue to introduce new ICT backed technologies to improve internal operations, enable company growth and enhance services offered to customers.

Management Discussion & Analysis

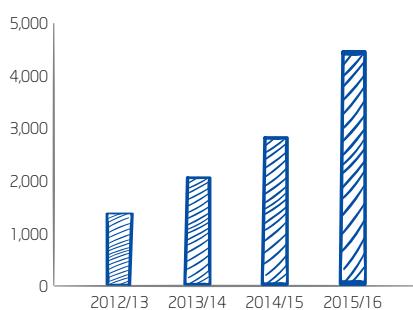
FINANCIAL REVIEW

This year, HNB Grameen declared Rs. 1,110 million profit after tax - the highest ever profit in its history. This is an exceptional achievement against the backdrop of an uncertain economic environment. In accordance with this outstanding performance, other key performance indicators too reflected an upward movement in contrast to the previous year. The financial review details our financial performance in greater detail:

Income

During the Financial Year 2015/16, the Total Income achieved was Rs. 4,485Mn, which reflects an increase of 57% over the previous year's figure of Rs. 1,646Mn. Interest Income was the highest contributor to the total income, amounting to 87% on a standalone basis.

Rs. Mn



Interest Income

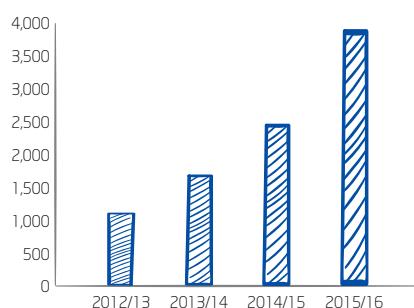
The breakup of the interest income consists of Loans and advances, Financial investments, Savings, Deposits and Financial leases. Of this, interest income from loans and advances which contribute to 96% of the total interest income grew by 58%

4,485 Mn

Income

to a figure of Rs 1,438Mn as against the previous year. Interest income from financial investments and savings deposits which contributes to 4% of the total interest income, grew by Rs 56Mn over the previous year. Meanwhile, income from savings deposits increased by 76% during the year under review. A new product launched in December 2015 - Financial Lease - is expected to gain growth momentum in the coming years.

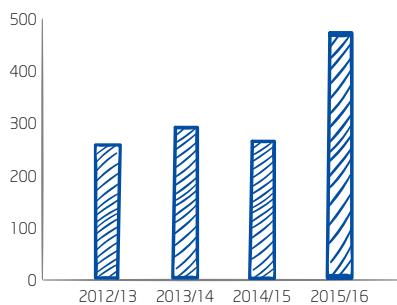
Rs. Mn



Non Interest Income

During the year under review, the total Non interest income grew by Rs 208 Mn, which reflects an increase of 56% over the previous year. This comprised of two main components, Fee and Commission income, which increased by 45% amounting Rs 150Mn and Other operating income which grew by 166%.

Rs. Mn

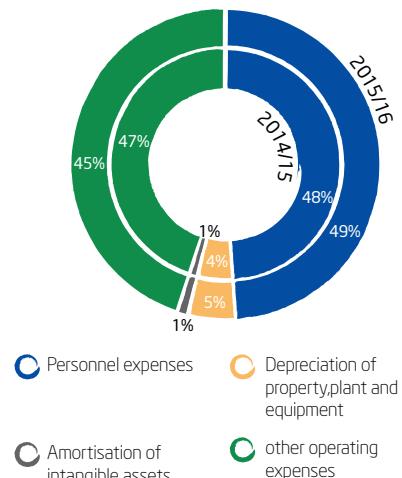


Operating expenses

There was an increase in operating expenses from Rs. 1,123Mn to Rs.1,455Mn in 2015/16, reflecting a 30% increase

mainly due to personnel and other operating expenses. Personnel expenses grew by 32% to Rs.712Mn. Other operating expenses increased by 28% to Rs. 743Mn compared to Rs.583Mn recorded in the previous year.

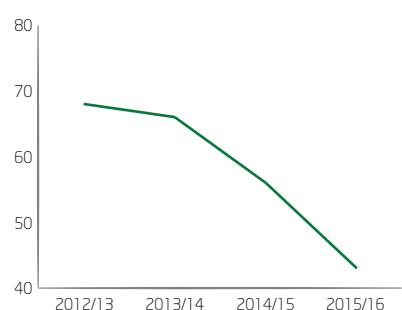
Composition of Operating Expenses



Cost to income ratio

Cost to income ratio reduced from 56% to 43% due to the prudent cost management and improved efficiencies brought in by IT.

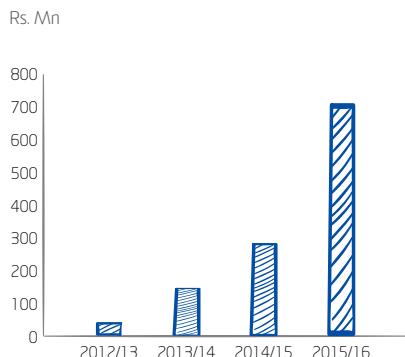
%



Tax Expenditure

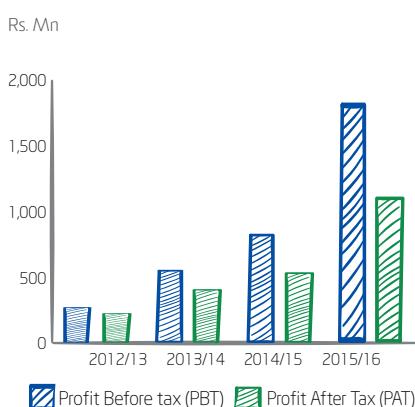
Total tax expense increased by 150% during the year. Income tax expense of the company was Rs. 435Mn in 2014/15. There was an increase of Rs. 312Mn in the year under review, a 254% increase during the year. Value added tax (VAT) & Nation building tax (NBT) increased by Rs.115Mn,

marking an increase of 71%, due to increase in our taxable profits.



Profitability Position

The company maintained its high growth momentum a record Profit Before Tax (PBT) of Rs. 1,822Mn, reflecting an increase of Rs. 1,003Mn or 122% growth during the year. It recorded Profit After Tax (PAT) of Rs. 1,110 Mn in 2015/16. Profit after tax improved by Rs. 576Mn, reflecting a remarkable growth of 108% in 2015/16. The reasons behind this strong performance was the high lending growth rate, the introduction of new products during the year and prudent cost management.



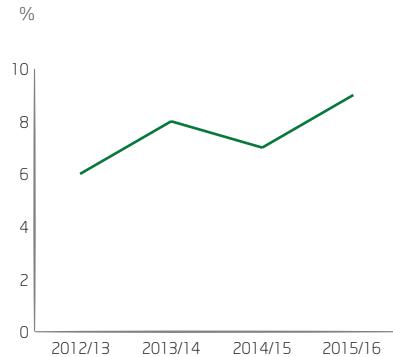
Return on Assets (ROA)

ROA increased by 2% during the year to 9%. The main reasons for this improvement

108%

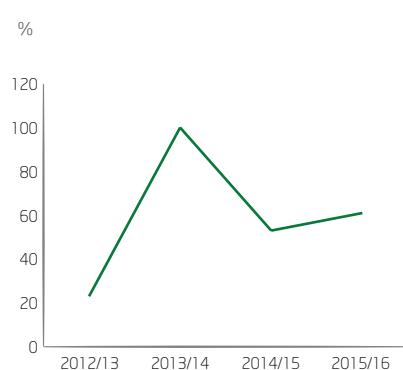
Growth in PAT

was an increase in the PAT due to higher turnover of interest earning assets.



Return on Equity (ROE)

ROE increased from 53% to 61%. The increase reflects the better performance during the year.

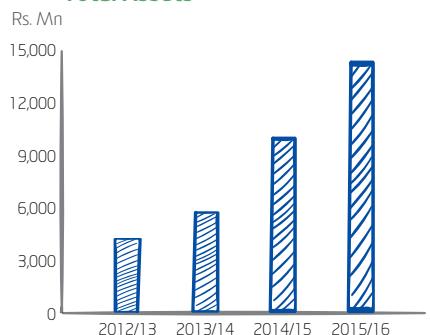


Assets Composition

By the end of the Financial Year 2015/16, the company has maintained an asset base of Rs.14,376Mn which reflects a 43% growth rate over the previous year. This expansion was possible as a result of growth in Loans and Advances by 60% and an increase in financial investments. The investment of the core banking system led to an increase in intangible assets of the company in 2015/16.

43%
Growth in
assets base

Total Assets



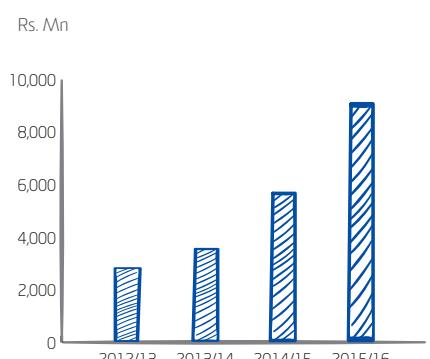
There was a 52% increase amounting to Rs. 12,270Mn in interest earning assets in 2015/16. Interest earning assets were Rs. 8,091Mn at the end of 2015/16. We have fully utilised assets during the year.

Interest earning assets to total assets



Lending Portfolio

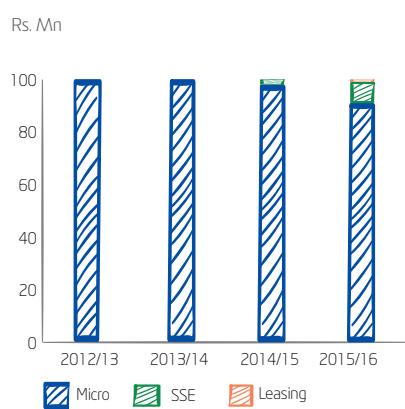
The company experienced a phenomenal growth of Rs. 3,414Mn in loans, which marks an increase by 60% over the previous year.



Management Discussion & Analysis

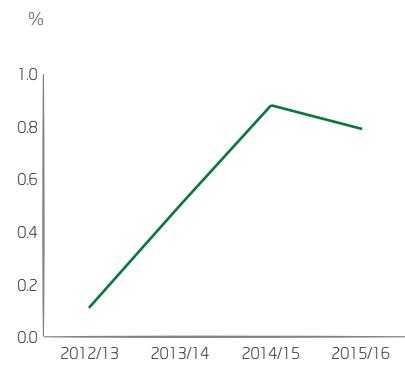
Product Portfolio Composition

Product diversification coupled with the company's introduction of leasing into its portfolio helped to improve the product portfolio. The company has successfully transformed the concentration risk in micro lending in previous years to other products such as Small Scale Enterprises (SSE) during the year. Exposure to micro lending has reduced from 98% to 91% during the year.



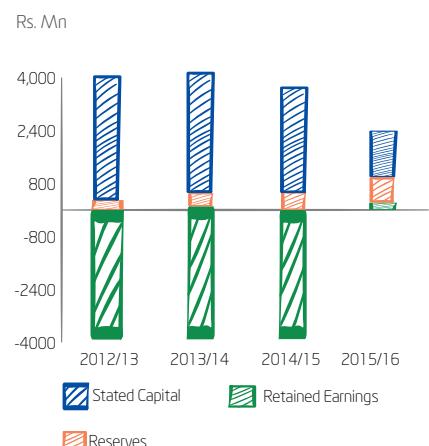
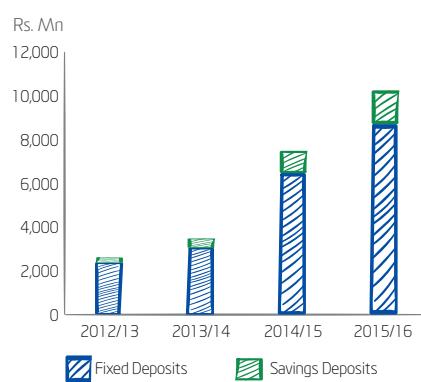
Non Performing Loans (NPL)

A company's NPL is considered to be the main indicator of the quality of the portfolio and HNB Grameen leads the industry by achieving a NPL rate of 0.79%, which is much below the industry level. The management has fine-tuned the recovery mechanism to maintain recoveries below 1% in contrast with the industry level of 5% to 7%.



Deposits Liability

Total deposits increased by Rs. 2,863Mn, reflecting 38% growth during the year. The positive synergy of the parent HNB brand and the personal attention focused on customers helped achieve this sharp growth.

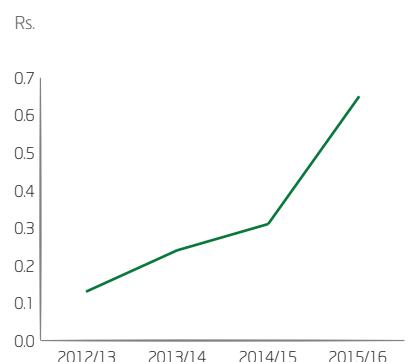
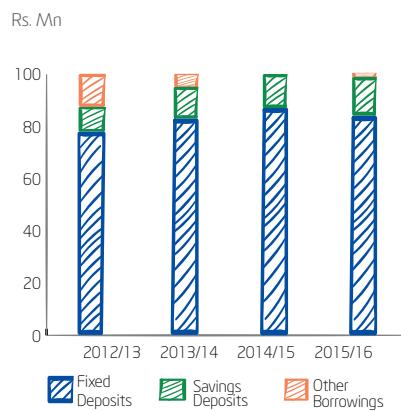


Earnings Per Share

The earnings per share of the business increased as a result of the increase in profitability recorded during the period under consideration. Accordingly, the company's earnings per share improved from Rs. 0.31 to Rs. 0.65, which indicates 110% growth rate during the year.

Funding Composition

During the year under review, savings contribution to the funding mix which is lowest costs among other sources increased by 2% while there was a noticeable reduction in fixed deposit contribution by 3%. In addition, the company's reliance on other borrowings contribution has increased during the year to 1%.



NPL below 1%

Equity Position

During the year, the company carried out a capital reduction initiative which enabled it to wipe out the carried forward loss of Rs. 3 billion against the shareholder capital.

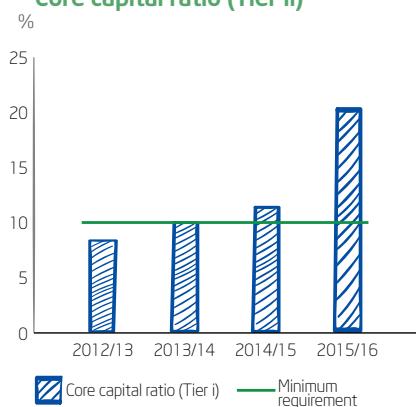
Capital Adequacy Ratio

The company showed an improvement in the core capital ratio (Tier i) and total risk weighted capital ratio (Tier ii) improving to 19% and 20% respectively from 9% and 11% last year. These are well above the minimum set by the Central Bank at 5% and 10% respectively providing sufficient buffer to meet any unexpected losses.

Core capital ratio (Tier i)



Core capital ratio (Tier ii)



19%
Core Capital Ratio

Sustainability Report

At HNB Grameen we embrace Paul Hawken's Quote on sustainability with our corporate vision of, "To be the leading and most successful microfinance provider with a human touch, committed to helping others to overcome poverty and to develop the economy of the country".

The performance of many organizations are measured on their net profit but we assess our performance based on how many lives we uplift and enhance and how many depend on us for their survival. This strong social commitment ensures our focus remains on building relationships with stakeholders. Sustainability is at the heart of our operations and the nature of our business itself is steeped in it. By uplifting livelihoods and supporting people at the bottom of the pyramid, we partner the nation in moving towards a prosperous future to ensure that every citizen is included.

As an organization with a strong commitment towards sustainability we are empowered to make strong corporate decisions based on the parameters of economic development, social development & environmental protection. The importance of compliance, good governance, and financial stability and ethical practices are embedded in our operations, along with allocation of resources for the betterment of our employees, the company and the society. During this financial year, our core focus areas were the well-being and safety of our Employees, Customers and the Community.

Economic Performance

Employees

Our employees have driven our success over the years and we truly recognize our human resources as the most valuable asset of the company. The culture of learning and sharing nurtured in the organization

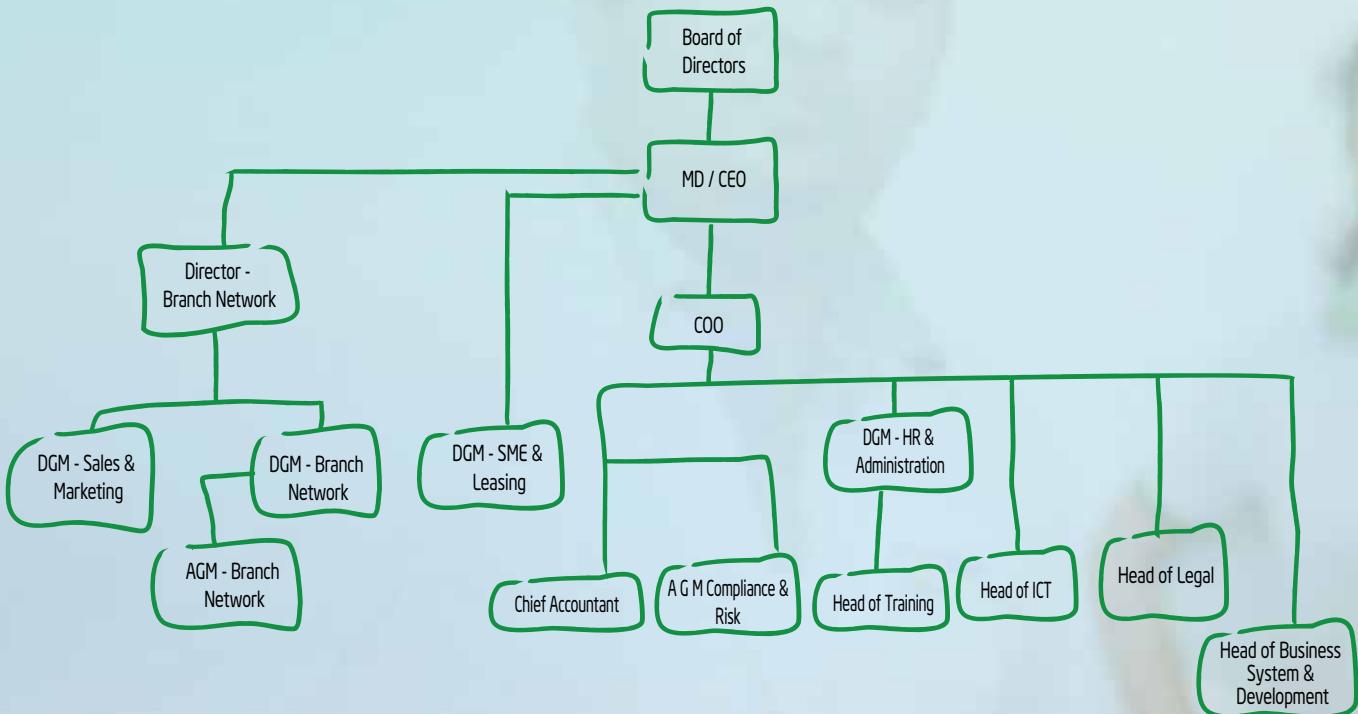
ensures a supportive and dynamic working environment. Further, employees thrive in the open and transparent culture that exists. An open-door policy facilitates good employee relations.

We prioritize investments in training and development to empower the employees to take the company to the next level. Further, our investments in human resources entails creating an environment conducive for people to work efficiently.

Identifying training and development needs is to align with the corporate strategic objectives which assisted us in retaining the skilled employees within the Organization.

The company has redesigned its organizational structure in the year 2015, based on new management concepts, which created a succession/career path for all employees.

Organizational Structure



"Sustainability, ensuring the future of life on Earth, is an infinite game, the endless expression of generosity on behalf of all". Paul Hawken

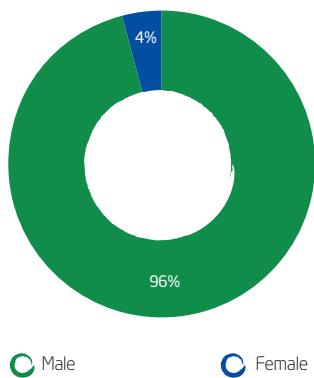


Sustainability Report

Gender Analysis

The organization has 1,362 committed employees spanning the entire country. It was recorded that 96% of our staff are male workers. Traditionally in the Micro Finance Sector, which is our core business, majority of the workers have been males hitherto. However, the company was successful in maintaining a ratio of 4% in the female cadre. The company will continue to recruit higher number of female work force in the coming years.

Gender Analysis



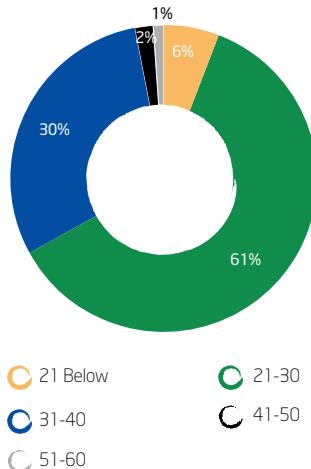
Age wise Analysis of Employees

In the company, 61% of the total employee cadre is within the age of 21 to 30, which reflects bright young talent in the organization. The balance 39% represents the matured and well experienced workforce of the organization which includes corporate and managerial level employees.

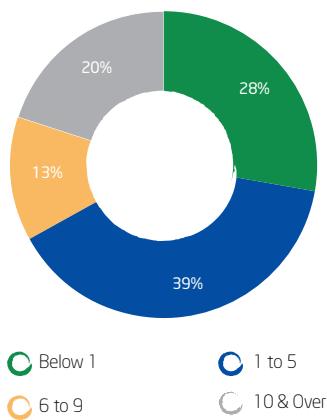
Of our staff 67% of the employees have been with the company for 5 years, which contributes to fresh thinking and brings in new skills and exposure to the organization.

The company always recognizes the contribution of its employees as vital for the success of the organization and rewards each and every employee equally irrespective of their terms of employment.

Age wise Analysis



Service wise Analysis of Employees



Training and Development



Employee training is vital for the success of the company and creates a progressive and rewarding career for the staff. The Human Resources (HR) department is responsible for the training initiatives for personal and career development needs of the staff.

Majority of our workforce is less than 30 years of age and we ensure that they enhance their skills regularly to avail of better career prospects.

During the year under review, the company offered tailor-made training programmes in order to develop their work related skills and to help reach their career goals.

Striving to improve attitudes and skills of the staff, our training department, constantly takes appropriate strides to identify training requirements of staff. We offer our key staff domestic/overseas training programmes to provide exposure to global best practices.

The company is focused in the development of technical knowledge of its staff to improve their career prospects and to foster a knowledge-based business operation. This inspires employees to achieve the corporate goals of the company. The company has invested in various programmes including Diploma in Micro Finance, Certificate in Micro Credit Management, Delinquency Management, Leadership & Management Development, and Sales & Customer Service Excellence.

Category	Number of Programmes 2015/16
Corporate & Senior Manager Level	12
Manager Level	22
Executive Level	20
New Staff Training	15
Total	69



Category	2015/16			Grand Total
	Number of Participants In-house	Number of Participants External	Number of Participants External (Foreign)	
Corporate & Senior Manager Level	71	84	18	155
Manager Level	687	63	144	750
Executive Level	359	448	26	807
New Staff Training	430	0	0	430
Total	1,547	595	188	2,330



Other staff

The company conducted leadership, technical skill and personal development programmes for its middle-level staff during the year. The objective was to improve opportunities for employee productivity whilst improving their career advancements.



Programme/Training	No of Programmes	No of Participants	Training Hrs
Technical Training	7	40	290
Certificate in Micro Finance (DF)	4	171	7,602
Diploma in SME (IBSL)	1	5	520
Diploma in Micro Finance (IBSL)	1	11	1,034
Induction Programmes	15	430	16,172
Leadership & Management Development	21	1,086	8,706
Other Institute Workshop	9	251	1,542
Overseas Programmes	6	188	3,008
Sales & Customer Service Excellence	4	143	667
SLIM Programmes	1	5	40
Total	69	2,330	39,581

During the year the company has offered 69 well thought of programs to 2,330 participants who are our employees, covering 39,581 training hours during the financial year under review.



Overseas exposures

The company organized for the 3rd time an annual foreign trip for employees who have served the organization for more than ten years. It should be noted that staff at all levels participated in this programme which includes Micro Finance training and fun activities.



Trained
2,330

Staff Members

Covering
39,581

Man Hours

Training highlights during the year

Corporate and Senior Management

The corporate management including Senior Managers of the company were offered many leadership programmers through out the year.

Sustainability Report



Employee Well-being

The company ensures that its employees strike the right balance between their professional and personal lives to inculcate well-being for them and their families. Variety of events are organized annually for the staff to interact and build relationships outside the workplace. Some of the events during 2015/16 were:



SLMFPA six-a-side cricket tournament Plate championship

nevertheless encourage employees to volunteer for religious, spiritual and cultural events. The staff organized blood donation programmes, 'Vesak /Poson Dansala' and many other events during the year. We believe this fosters oneness among our staff.

Welfare

The company believes that providing welfare facilities for employees and their families during their times of need builds loyalty and promotes ownership amongst employees towards the company.

We publish our monthly in-house magazine called 'Mehewara', in both Sinhala & Tamil languages, which is a platform for employees and their family members to display their talents. Further, the magazine communicates company news to customers and our employees and keeps them abreast of the company's milestones. The company started distribution of a printed version of the magazine during last year.

Rewards

The company organized a 'Stars' Night' to recognize talent of our branch network across the country. This is a much awaited event for the employees as it provides an opportunity for the stars to be celebrated amongst a large gathering of employees.

The HNB Grameen challenge trophy was won by the Vavuniya Branch which emerged as the top branch of the year. The three best branches received financial awards for their contribution during the year. The Best Executive, Most Promising Executive,

Sports and Recreational events:

The annual HNB Grameen sports day is a much looked after fun date in the calendar of the company. The HNB Grameen King and Queen were selected at the event followed by a fancy dress parade. This event promotes team work amongst the employees. Puttalam branch won the champion's trophy in Cricket for the second consecutive year.

SLMFPA six-a-side cricket tournament was organized by Sri Lanka Microfinance Practitioner Association (SLMFPA) with the participation of 70 institutions. HNB Grameen won the third place and the team was selected as the best performer of the annual cricket tournament.

The Finance House Association Sports Festival is the biggest sporting event among finance institutions. Our company participated in all events and was adjudged as having the 'Best staff'.

The company's softball cricket team participated in the Governors Trophy organized by Credit Information Bureau.

The annual get-together was organized along with a talent show where employees were given the opportunity to display their varied talents. It was an enjoyable day for our staff.

Other Activities

Although the nature of our business is steeped in a sustainable ethos, we



Emerging Branch and staff completed 10 and 15 year service were recognized at this event. The Best Executive for savings and fixed deposits, and Best Regional Credit Executive and Back Office Executive were also recognized at this event.

Social Parameters

Our Customers

To be further aligned to the company's vision and mission, the company extended its social contribution by conducting many awareness programmes to its customers on leadership, product development and services and financial management. These programs were conducted as part of financial inclusion.



Moving beyond articulating its commitment to ensure customer satisfaction, the

company established the 'Mehewara Support Fund' mainly to help its customers, spouses and their children in need of emergency assistance. This fund not only provides support for medical emergencies, but also could be utilized in the case of natural disasters, education of customers' children, and to provide infrastructure facilities to the under privileged schools.

This is an enduring project by HNB Grameen with voluntary contribution from every employee and the company. This move has certainly brought smiles to hundreds of families during the year.

Customer Testimonials

Mrs. Malani Rajapaksha

HNB Grameen – Kurunegala Branch



Malani Chandralatha Rajapaksha, a resident of Kaluwana, Kurunegala, started a bakery enterprise with the assistance of HNB Grameen. She recollects with gratitude the assistance granted to her by HNB Grameen in order to develop her enterprise that was encountering many difficulties in its early stages. Mrs. Malani states that "Kaluwana Centre was the first Grameen Centre to be set up in our area. I am its first member. At that point, I was under a lot of financial pressure. The biggest dream at that time for my husband and me was to start our own bakery. HNB Grameen and its loan system helped us to realize that dream.. Having started with a loan of Rs. 5,000,

we have by now taken Grameen loans of over Rs. 100,000. However, we never suffered an unnecessary burden since the Grameen officers often instruct us to obtain loans only within a manageable range. Manufacturing a vast range of bakery products in an enterprise initiated by my husband and myself, it has now expanded further into a larger business adding four more employees in order to manage its workload."

Mrs. K. D. Samantha Kumari

HNB Grameen, Kalutara Branch



K. D. Samantha Kumari is the proprietor of a Plant Nursery named 'Nipuni' at Maggona, and is a member of the Kalutara Branch. Coming from an extremely poor background with an education of up to year nine, she married young. Getting the idea of starting a nursery from her horticulturist husband, she began looking for financial assistance and she came across HNB Grameen through a friend. Mrs. Samantha stated that "To begin with, I received a loan amount of Rs. 5,000 which I used to purchase bougainvillea plants and started work on the nursery of exotic plants on a very small scale. Today my business is blooming". Currently Samantha Kumari has expanded her business into supplying plants to offices, employing six more people, aided by a loan of Rs 100,000 from HNB Grameen, which she praises as the power behind her success.

Sustainability Report

Mrs. Nishanthi Samudra Kumari

HNB Grameen - Galgamuwa Branch



Nishanthi Kumari, the wife of a three-wheeler driver and proprietor of 'Piyumi Concrete Works' started small as a manufacturer of flower pots and beeralu and later expanded into other concrete products including handling of marketing. Having become aware of HNB Grameen by watching a programme, she became the first member of the Makalana centre. The turning point in her life was accessing help from HNB Grameen. She is so touched by the role played by the company in the success of her enterprise, that she is full of praise for HNB Grameen. Mrs. Nishanthi stated that "I have not only grown the business but also educated all my children and given employment to others, thanks to the financial assistance extended to me by HNB Grameen. I hope others like me benefit from the organization too. I offer my blessings for the company to continue rendering its financial services with courage to thousands of other people who are as economically powerless as I was. Thus enabling them to see prosperity in their lives

Mrs. Dammika Gunawardena

HNB Grameen - Anuradhapura Branch



Having studied up to the G.C.E. O/L, Dammika Gunawardena from Wanniyakulama, a village in Anuradhapura, began her textile business after initially working in the garment industry. However in order to expand her business she needed finance and turned to HNB Grameen, who willingly partnered her. Dammika, who is now the proud owner of a textile showroom employing three women, has this to say about HNB Grameen: "Our lives have changed. However one thing that has remained unchanged is the mutual trust and friendship between HNB Grameen. I replaced my small sales room with a bigger showroom which was built some time later over a larger area. I received loans from HNB Grameen from time to time for the construction. The most recent loan of Rs. 150,000 I received from the company was taken for the purpose of purchasing textiles required for the shop. HNB Grameen has always been very helpful, courteous and gives me respect at all times, which matters a lot to me as a woman. I will always choose them over others when I need another loan".

Mrs. Ainun Jaleela Zarindeen

HNB Grameen - Welimada Branch



Hailing from Welimada, Jaleela gave up schooling after A/L to start a small sewing business, while simultaneously working at a bridal-wear store. As her business started growing, she needed finance and approached HNB Grameen's Welimada branch, which willingly started a center at Gurutalawa near Welimada and helped finance her expanding projects. Jaleela, who is now the proud owner of a shop under construction, has this to say about HNB Grameen: "They are definitely the power behind my success and have helped us in our distress and rejoiced in our success. They are now more like a relative and friend who I can turn for help when I need it the most. My success today is due to their understanding and generosity."

Our Community

At HNB Grameen Finance, we care about the community in which we live and work. Our social responsibility is focused on reaching out to grassroots communities to assist them in their professional and personal endeavors. The company is deeply engaged with local communities as a trusted partner. This resulted in the company supporting a wide range of requests for financial assistance for deserving projects.

Awareness Programmes

It is a well-known fact that child abuse is an unfortunate reality in the country and

"The company is deeply engaged with local communities as a trusted partner. This resulted in the company supporting a wide range of requests for financial assistance for deserving projects."



during the period under review there were many such incidents reported from around the country. The Kotadeniyawa incident in particular highlighted the extent of the problem. The company took it upon itself to conduct awareness programs across the country since our core business of micro financing is targeted at women. The company held a series of awareness programmes to raise awareness amongst the community on child abuse under the theme, 'For a Protected Generation of Children,' in collaboration with National Child Protection Authority in Nikaweratiya, Chilaw, Monaragala and Jaffna.

The company prioritized specific areas in child protection in accordance with information gathered by relevant authorities in carrying out the programme. The sole objective of the company was to educate parents on the importance of care and protection of children. HNB Grameen exerted its influence through 48 branches and service units to spread the awareness of child protection among the community across the country by way of leaflet campaigns, posters, banners, meetings etc. We believe this effort by the company constituted a timely national duty.

Nation-Building Efforts

The company has extended its good faith to its customers and their family members by providing dry rations and sanitary requirements to people affected by floods in 2015 in the areas of Kalutara, Chilaw, Matara, Horana, Kilinochchi , Mallavi and Jaffna. Orphans and the elderly also benefitted by the care and concerns of the company.

Stationery items were donated to school children who were affected by natural disasters and for those living in remote and vulnerable areas of the country.

The company carried out water purification projects at many schools across the country specially in the underprivileged areas. We believe that thousands of school children benefitted by this initiative.

The company donated cash gifts, and school books and stationery items to our members' children and for HNB Grameen "Yalu" savings account holders who successfully completed the year five scholarship examination.

The staff conducted many blood donation programmes across its branch network throughout the year.

The company undertook restoration work at the Palamottai Government Tamil Mixed School and Kovilkunchukkalam Government Tamil Mixed School situated in Vavuniya district, both of which possesses a history of 50 years and were affected by the war.

Environment Parameters

Towards a Greener Environment



The company believes that it has an utmost duty to protect the environment as a part of its business. It initiated the display of signboards across the country for raising awareness among the general public on environment protection. The first phase of installing 70 signboards focusing on six districts in Sri Lanka was initiated during the period under review. This was jointly launched with the National CSR and Management Project.

Sustainability Report

While we grow as a finance institution expanding our reach across the island, we are making conscious efforts to be an environmentally friendly organization in all our endeavors. In this regard, we have introduced several initiatives to reduce our carbon foot print.

We are focused on sustaining the operations for generations to come. The current trend of environmental changes may threaten our existence in the future. While foreseeing this, we have taken steps to plant trees across the island to help create a greener country. This will increase awareness among the public about environmental protection.

We are upgrading all our buildings with low power consumption LED lights, which will reduce usage of electricity. The company is also in the process of installing solar panels at our own locations to meet growing energy needs. We believe, this will help us to further reduce the use of fossil fuel and be greener.

The proposed document management system is also aimed at reducing the use of paper by the company. This process will help us to have a positive impact on the environment. We will further invest in driving new initiatives to reduce the effect on the environment while increasing awareness of the public.

Our commitment to sustainability measures is not just a lip service as our core business is based on enhancing the lifestyles of those with low income. As a growing organization we have taken a step further in developing our own employees in the year while our focus will move towards establishing processes towards protecting the environment to make our planet earth a better place to live for generations to come.

Governance Report

HNB Grameen Finance Limited
Annual Report 2015/16

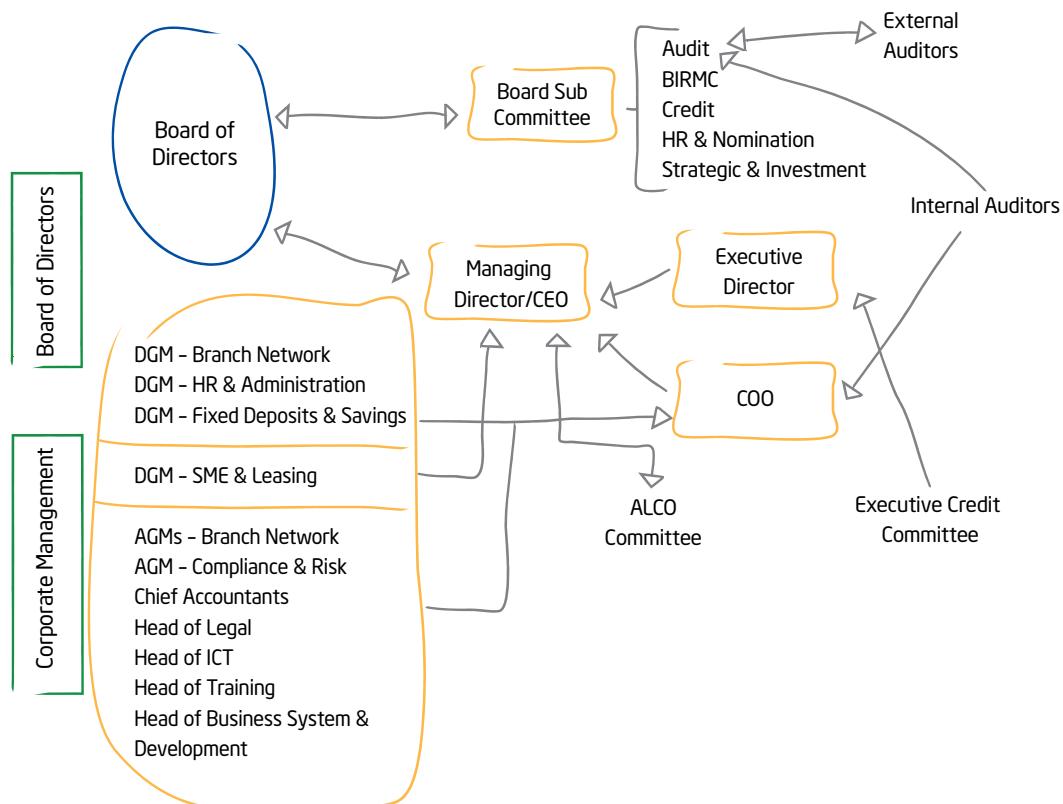
The Corporate Governance structure of HNGB is based on the Finance Companies (Corporate Governance) Direction No 03 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

It is in the best interest of the company we do our business ethically and follow the best corporate governance practices as we believe it is the cornerstone for sustainability. We strive not only to adhere to the directions of the CBSL but to go beyond and set benchmarks for the industry.

Our corporate governance code is structured on the following principles

A. Board members should be qualified for their positions, have a clear understanding of their role in Corporate Governance and be able to exercise sound judgment about the affairs of the company.

- B. The Board of directors should approve and oversee the company's strategic objectives and corporate values that are communicated throughout the organization.
- C. The Board of directors should set and enforce clear lines of responsibility and accountability throughout the organization.
- D. The Board should ensure that there is appropriate oversight by senior management consistent with board policy.
- E. The Board and senior management should effectively make use of the observations and recommendations made by the internal auditors, external auditors for purpose of strengthening internal control functions.
- F. The Board should ensure that compensation policies and practices are consistent with the company's corporate culture, long-term objectives and strategy.
- G. The company should be governed in a transparent manner.
- H. The Board and Senior Management should understand the company's operational structure and where the company's jurisdictions lies and those that may impede transparency.



Governance Report

The following table reflects the company's compliance with Direction No. 3 of 2008 on Corporate Governance issued by the Central Bank of Sri Lanka.

Rule Reference	Rule Direction	HNBG Compliance Level
The Responsibilities of the Board 2(1)	<ul style="list-style-type: none"> a) Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company. 	<p>The Board has developed a three year Strategic Plan that encompasses the strategic objectives and corporate values of the company.</p> <p>It needed to be communicated throughout the company.</p>
	<ul style="list-style-type: none"> b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years. c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently. 	<p>Strategic business plan includes overall risk policy, risk management, procedures and mechanisms of the company.</p> <p>However, company will have to establish a board approved risk management policy which includes risk policy, risk management procedures and mechanisms.</p>
The Responsibilities of the Board	<ul style="list-style-type: none"> d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers. 	<p>The Board has established a communication policy with all stakeholders, including depositors, creditors, shareholders and borrowers.</p>
	<ul style="list-style-type: none"> e) Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems; 	<p>Company will establish a valid process to review the reliability and the accuracy of Non-financial information which is used by the Board and the Board sub committees to ensure adequacy and the integrity of Company's management information system.</p>
	<ul style="list-style-type: none"> f) The board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management; 	<p>Board has to identify and designate KMPs as defined in SLAS and CBSL directions.</p>
	<ul style="list-style-type: none"> g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel. 	<p>Board will put in place a process to identify and designate KMPs as defined in SLAS and CBSL directions.</p>
	<ul style="list-style-type: none"> h) Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy. 	<p>The affairs of the company are reviewed and monitored by the Board of Directors and ensures that the Key Management Personnel and other members of the Executive Management exercise appropriate oversight on the activities of the company.</p>

Rule Reference	Rule Direction	HNBG Compliance Level
The Responsibilities of the Board	<ul style="list-style-type: none"> (i) that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: <ul style="list-style-type: none"> (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary. j) Ensuring that the finance company has an appropriate succession plan for Key Management Personnel. k) Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives. l) Understanding the regulatory environment. m) Board has a process in place for hiring and oversight of external auditors. 	<p>Company's Article 87A to 91 describes the general procedure for appointment of new directors to the company by the Board.</p> <p>At present, all non-independent Directors of the company are appointed by the Board of the company.</p> <p>Company will initiate a Conflict of Interest policy.</p> <p>Company will initiate a self-evaluation process of the board.</p> <p>The succession plan of Key Management Personnel of the company has to be approved by the Board.</p> <p>Members of the Executive Management are invited to Board Meetings when required and are expected to explain matters relating to their areas of responsibility.</p> <p>The Directors are informed of all changes to the regulatory environment.</p> <p>Board Audit Committee recommends the appointment of external auditors and is approved at the AGM of the company as per the articles of the company.</p>
2(2)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	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.
2(3)	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances.	A procedure agreed by the Board of Directors to obtain independent professional advice where necessary at the company's expense will be in place.
2(4)	A Director shall abstain from voting on any Board resolution in relation to a matter in which he/she or any of his/her relatives or a concern, in which he/she has substantial interest, is interested, and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	We confirm that such a situation has not arisen during the financial year under review. However the company should have a process in this regard under the conflict of interest policy.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision-making to ensure that the direction and control of the finance company is firmly under its authority.	A formal schedule of matters specifically reserved for the Board will be developed.

Governance Report

Rule Reference	Rule Direction	HNBG Compliance Level
2(6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	We confirm that such a situation has not arisen during the financial year under review.
2(7)	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	The Board has included in the Annual Report, an annual corporate governance report setting out the compliance with this Direction.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	The Board has developed a scheme of self-assessment to be undertaken by each Director which has to be approved by the Board.
3 Meetings of the Board 3(1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Twelve Board Meetings were held during the financial year in reference as stipulated.
3(2)		There were only five circulations of written or electronic resolutions/papers during the year.
3(3)	<p>The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.</p> <p>A notice of at least 7 days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.</p>	<p>The Board will put in place a process that will enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business, management of risks and finance.</p> <p>Date of the next Board meeting is collectively agreed by all Board members present during the previous meeting as a practice. They usually meet once a month.</p> <p>Agenda & Board papers for the meeting to be held have been submitted to the Board members at least 7 days before the Board meeting.</p>
3(4)	A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	All directors of the company have complied with the requirement except one Director who has not attended two third of the meetings in the period of 12 months ending 31st March 2016.

Rule Reference	Rule Direction	HNBG Compliance Level
3(5)	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Miss. Shiromi Halloluwa (Attorney-at law & Notary Public), is appointed as Company Secretary to handle secretarial functions of the company.
3(6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	The Chairman has delegated to the Secretary the functions of preparing the agenda for a Board meeting.
3(7)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable laws, directions, rules and regulations are followed.	Board will introduce a procedure to comply with the direction.
3(8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Board minutes are maintained by the Company Secretary and available to Directors for inspection.
3(9)	<p>The minutes of a board meeting should contain or refer to the following:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board.</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</p> <p>(d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and the decisions and Board resolutions.</p>	<p>Detailed minutes of the Board meetings are kept covering the given criteria. Board minutes of the company evidence that they contain the required details as specified in the direction.</p>

Governance Report

Rule Reference	Rule Direction	HNBG Compliance Level
4 Composition of the Board 4(1)	Clause 4(1) of the Finance companies (Corporate Governance) Direction No 3 of 2008 states that number of Directors in the Board should not be less than 5 and not more than 13.	There were 10 directors in the Board during the year 2015/16 which is within the statutory range.
4(2)	The total period of service of a director other than a director who holds the position of CEO or executive director, does not exceed nine years. In the event of any director serving more than 9 years, check that the transitional provisions have been applied with;	There are no directors who have served for more than 9 years. This company registered as a LFC in 2010, so it's only 6 years old.
4(3)	Clause 4(3) of the Finance companies (Corporate Governance) Direction No 3 of 2008 states that number of Executive Directors shall not exceed one half of the number of Directors in the Board.	There are two Executive Directors including CEO in the Board.
4(4) Composition of the Board	Clause 4(4) of the Finance companies (Corporate Governance) Direction No 3 of 2008 states that number of Independent Non-Executive Directors shall be at least one fourth of the number of Directors on the board.	There were three independent non-executive directors up to 15th March 2016.
4(5)	Appointment of alternative directors representing an Independent Non-Executive Directors.	There were no alternative Directors appointed during the F/Y 2015/16.
4(6)	The finance company has a process for appointing non- executive directors.	At present, Non-executive Directors are appointed by the Board of the company.
4(7)	The stipulated quorum of the finance company includes more than 50% of the directors and out of this quorum at least 50% should include non-executive directors with effect from 3 years commencing 01.01.2009 .(in other words w.e.f. 01.01.2012).	As per company's Article 66 to 69 the quorum for a meeting should be more than 50 % of the number of Directors of the company.
4(8)	The finance company should disclose the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Composition of the Board is disclosed under profiles of Board of Directors in the annual report on pages from 14 to 17.
4(9)	The company has a procedure for the appointment of new directors to the Board.	At present, all Directors of the company are appointed by the Board of the Company and there is a board approved process in this regard.
4(10)	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	There were no casual vacancies to fill during the period in reference to the company.
4(11)	Check if a director resigns or is removed from office. The Board announce to the shareholders and notify the Director, Dept. of Supervision non-bank Financial Institutions of CBSL regarding : The director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the board , if any;	Resignation of Directors has been informed to the Director Non-Bank Supervision including reasons for such resignation. During the year 2015 Mr. W. M. Karunaratne resigned and the Board informed the regulator.
5 Criteria to assess the fitness and propriety of Directors 5(1)	The age of a person who serves as director does not exceed 70 years subject to the transitional provisions have been complied with;	There are no directors who exceed 70 years of age, thus complying with the requirement.

Rule Reference	Rule Direction	HNBG Compliance Level
5(2)	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance Company.	There are no Directors who hold office as a Director of more than 20 companies.
6 Delegation of Functions by the board 6(1)	The delegation arrangements have been approved by the board and the board has taken responsibility for the matters in 2 (1) above even in the instances such actions are delegated.	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)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Delegation of credit authority will be reviewed and approved by the Board.
7 Chairman and the Chief Executive Officer 7(1) 7(2)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by one and the same person.	Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an independent non-executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Chairman is a Non-Executive Director. Chairman is not an Independent Director and a Senior Director has been appointed by the Board.
7(3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material / relevant relationship (s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Company has a Board approved process where they identify and disclose in its corporate governance report under 7(3) any relationship between the Chairman and the CEO and Board members and the nature of any relationships among members of the board.
7(4)	That the board has a self-evaluation process where the chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Company will initiate a self-evaluation process for Chairman.
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the company secretary.	Company Secretary prepares the agenda for the Board meeting which is approved by the Chairman.
7(6)	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	The Chairman ensures that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.

Governance Report

Rule Reference	Rule Direction	HNBG Compliance Level
7(7)	The board will have a self-evaluation process that encourages all directors to make a full and active contribution to the Board's affairs and the chairman taking the lead to act in the best interest of the finance company.	Company will initiate a self-evaluation process for Board members.
7(8)	The board will have a self-evaluation process that assesses the contribution of non-executive directors.	Company will initiate a self-evaluation process for Board members.
7(9)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever direct supervision of Key Management Personnel or any other executive duties whatsoever;	The Chairman is a Non-Executive Director who does not directly get involved in any of the executive duties of the Company.
7(10)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Company maintains effective communication with shareholders at the AGM of the company and views of shareholders are communicated to the Board.
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business.	As per the company's organizations chart, 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 Committee 8(1)	Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) in Finance Companies (Corporate Governance) Direction No. 3 of 2008. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee	Company has established two subcommittees namely Board Audit Committee (BAC) and Board Integrated Risk Management Committee as required by this Direction. Minutes of the Sub- committees are submitted to the main Board.
Audit Committee 8 8(2)	a) The Chairman of the committee shall be a Non- Executive Director who possesses qualifications and experience in accountancy and/or audit. b) The Board members appointed to the committee shall be Non-Executive Directors.	Mr. Thimal Perera, Non- Executive Director was appointed as the Board Audit Committee Chairman w.e.f 27th November 2014 who possess qualifications and related experiences. All the members of the Committee are Non- Executive Directors. All members in the committee are Non Executive Directors.

Rule Reference	Rule Direction	HNBG Compliance Level
Audit Committee	c) The committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	External auditor is independent since they directly report to the Board Audit Committee (BAC) and their report on financial statements of the company for the year 2015/16 indicates that the audit is carried out in accordance with SLAS. BAC has reviewed the CBSL guidelines and circulars. BAC has reviewed IFRS. No resignation or dismissal of the auditor has taken place during the year 2015/16. Present Audit Partner appointed during the financial year 2015/16 has not exceeded five years.
	d). The committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAuS.	External Auditor is independent since they directly report to the BAC and their Report on the financial statements of the company.
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	The company will initiate a policy regarding the engagement of an external auditor to provide non audit services in accordance with relevant regulators.
	f) The committee shall, before the audit commences, discuss and finalize with the External Auditors the nature and scope of the audit in accordance with SLAuS.	BAC has discussed and finalized the nature and scope of the audit with the external auditors.
	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: <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	Committee has a process of reviewing the financial information of the company in order to monitor the integrity of the financial statements of the company and discuss matters as required in the direction. Committee has reviewed the financial information of the company for the six months period ended. Committee reviews financial information of the company on quarterly basis.

Governance Report

Rule Reference	Rule Direction	HNBG Compliance Level
Audit Committee	h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	The external auditors are given an opportunity to meet the committee relating to any issue in the absence of executive management.
	i) The committee shall review the External Auditor's management letter and the management's response thereto.	BAC has reviewed the external auditors letter for the F/Y 2014/15 and management responses thereto.
	j) The committee shall take the following steps with regard to the internal audit function of the finance company:	(i) The committee has reviewed the scope, functions and the resources of the internal auditors.
	(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	(ii) Committee has reviewed and approved the Internal Audit Plan for the F/Y 2015/16 presented by the Internal Auditors prepared on overall risk assessment and the significant observations made during the previous year.
	(ii) Review the internal audit programmed and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	(iii) This does not apply to the company as the internal audit function is outsourced.
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	(iv) As the inter audit function is outsourced this does not apply to the company. Internal audit function is independent as it is outsourced to KPMG. They present final reports directly to the BAC.
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal Audit functions.	
	(v) Check that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	
	k) The committee shall consider the major findings of internal investigations and management's responses thereto.	The committee has reviewed the major audit finding during the year and management's response thereto.
	l) The committee should at least have two meetings with the external auditors without the executive directors being present.	BAC had a meeting with external auditors without the Executive Directors.
Audit Committee	m) Terms of reference of the Audit committee will ensure that there is;	Approved Terms of Reference of the committee evidence that it contains the matters stipulated.
	(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;	

Rule Reference	Rule Direction	HNBG Compliance Level
Audit Committee	n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	BAC had 4 meetings during the financial year 2015/16.
	o) The Board shall, in the Annual Report, disclose in an informative way,	Disclosed in the Annual Report on page 68 & 69.
	(i) details of the activities of the audit committee;	
	(ii) the number of audit committee meetings held in the year; and	
BIRMC 8(3)	(iii) details of attendance of each individual member at such meetings	
	p) The Secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	The Company Secretary has been appointed by the Board as the secretary to the BAC. Company Secretary functions as the secretary to BAC w.e.f 27th November 2014.
	q) The committee will have a whistle blowing policy that covers the process of dealing with the improprieties in financial reporting, internal control or other matters.	The company will establish a whistle blowing policy.
	a) The committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Committee consists of two non-Executive Directors, CEO and two DGMs supervising board risk categories such as market, liquidity and operational risk. Head of internal audit, COO and other related personnel of HNB PLC attend meetings by invitation. Present Committee members are Mrs. Rose Cooray (Chairperson) Mr. B. Premalal, Mrs. L. L. C. C. Thambiah & Mr. Anushka Wijesinhe.
	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, ie., Credit, Market, Liquidity and Operational risks to the company on a regular basis through appropriate risk indicators. The company follows the format (Risk Dashboards) in identifying and reporting credit risk, market risk and operational risks in addition to other methodology and formats. The company will initiate to strengthen the assessment process by adding more risk indicators and causality variables.

Governance Report

Rule Reference	Rule Direction	HNBG Compliance Level
BIRMC	<p>c) The committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the Credit committee and the Asset-liability committees, and report any risk indicators periodically.</p>	<p>ALCO reviews and monitors the liquidity investment policies and report submitted to the BAC. It also carries out a maturity gap analysis of any mismatch of assets and liabilities.</p> <p>Further, the company has identified risks and monitors them through relevant risk indicators such as NPL and increase in NPA ratio, risk arising out of internal and external frauds through the BIRMC.</p> <p>The credit limits, lending rates of each products are discussed and finalized at executive credit committee and reported to the credit committee for their perusal and advice.</p> <p>Committee will review the adequacy & effectiveness of all management level committees bench marking against their TOR.</p>
	<p>d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.</p>	Board Risk Committee have reviewed risk indicators which have gone beyond their limits.
	<p>e) The committee will meet at least 4 times during the F/Y.</p>	Risk Committee has met quarterly during the financial year 2015/2016. BIRMC has met often (more than 4 times) during the FY.
	<p>f) The committee will review and adopt a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.</p>	At HNBG specific risks and the limits are identified by relevant committees such as ALCO, and Risk Committee and such decisions are taken collectively.
	<p>g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</p>	Minutes of the Board Integrated Risk Management Committee (BIRMC) meeting are submitted to the next immediate Board meeting.
	<p>h) The committee shall establish a compliance function to assess the finance 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.</p>	The committee will establish a compliance function to assess the company's compliance with laws, regulations, regulatory guidelines, internal control and approved policies on all areas of business operations.

Rule Reference	Rule Direction	HNBG Compliance Level
9 Related Party Transactions	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
Related Party Transactions 9(1) 9(2)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A Director of the finance company; d) A Key Management Personnel of the finance company; e) A relative of a Director or a Key Management Personnel of the finance company; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest. 	<p>The company will establish a Board approved procedure to identify related parties as required and to avoid any conflict of interest that may arise from any transaction of the company with the related parties.</p> <p>Related party transactions are given in page No. 38 of the Annual Report.</p>
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	<p>The company will establish a Board approved procedure to identify and report the type of transaction with related parties.</p>

Governance Report

Rule Reference	Rule Direction	HNBG Compliance Level
9(4) Related Party Transactions	<p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favorable treatment" shall mean:</p> <ul style="list-style-type: none"> a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more. b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions. 	<p>Company will establish a Board approved documented procedure to ensure that the company does not engage in transactions with related parties in a manner that would grant such parties " more favorable treatment" as stated.</p> <p>Monitoring and reporting of transactions and retrieving of such data through the system and branch network has to be developed to ensure that no favorable treatment is accorded to such parties than that accorded to other constituents of the company carrying on the same business.</p>
10 Disclosures 10(1)	The Board shall ensure that: annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.	The preparation and publication of Financial Statements are in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.
10(2)	The Board shall ensure that: such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Such statements are published in the newspapers in compliance with CBSL regulations.
10(3)	<p>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.</p>	The disclosure has been made in the Report of the Board of Directors' on the Affairs of the Company in the Annual Report.

Rule Reference	Rule Direction	HNBG Compliance Level
Disclosures	b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Refer the Directors' Statement on Internal Controls over Financial Reporting in the Annual Report page No. 79 & 80.
	c) The External Auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	The External Auditor's certification on the effectiveness of the internal control mechanism is included in the Annual Report Page No. 81.
	d) Details of Directors, including names, transactions with the finance company.	Details of Directors, including names, transactions with the finance company are included in the Annual Report.
	e) Fees/remuneration paid by the finance company to the Directors in aggregate in the Annual Reports published after January 1, 2010.	Refer Notes to the Financial Statements on Fees/remuneration paid by the finance company to the Directors in aggregate in the Annual Report Page No. 123.
	f) Total net accommodation in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Refer Notes to the Financial Statements on Total net accommodation made in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of company's capital fund is included in the Annual Report Page No. 122.
	g) The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its Key Management Personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Refer Notes to the Financial Statements in the Annual Report in respect of the aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate of Management Personnel during the financial year.
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any noncompliance.	Refer the Report of the Board of Directors' on the Affairs of the Company and Financial Review in this Annual Report Page No. 64.
Disclosures	i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or noncompliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	We confirm that such a situation has not arisen during the financial year under review.
	j) The External Auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.	The board has obtained external auditors factual finding report on the Corporate Governance in accordance with the Direction issued by the Director, Department of Supervision of Non-Bank Financial Institutions of the central bank.

Annual Report of the Board of Directors

1. General

The Board of Directors of HNB Grameen Finance Limited has pleasure in presenting their Annual Report to the members for the year ended 31st March 2016 together with the audited financial statements of the Company. The financial statements were considered and approved by the Board of Directors on 8th June 2016.

HNB Grameen Finance Limited formally called and known as Prime Grameen Micro Finance Limited incorporated in 1999, is a finance company with a Finance license granted by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act No. 78 of 1988, which is now governed under Finance Business Act No. 42 of 2011. The Company has changed its name from Prime Grameen Micro Finance Limited to HNB Grameen Finance Limited w.e.f 17th July 2015 pursuant to the Special Resolution passed by the shareholders at the Annual General Meeting held on the 17th July 2015.

2. Primary Activities of the Company

The primary activities of the company during the year continued to be in the fields of Micro Finance, SMEs & Leasing. The company continued its focus on female entrepreneurs of the country, to improve their standards of living and develop the Sri Lankan economy.

2.1 Review of Business

The review of the company's business operations for the year under scrutiny, form an integral part of the Directors' report along with commentaries on financial results and a comprehensive

plan for development, is depicted under the Review of CEO, in pages from 14 to 17 of the Annual Report.

3. Financial Statements

Pages from 85 to 135 of the Annual Report records the Financial Statements for the year under review.

3.1 Directors' Responsibility for Financial Reporting

In presenting the affairs of the company in a transparent and an impartial manner, the Directors are responsible for the preparation of such financial statements. The Board of Directors affirm that the financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011, and the provisions of the Inland Revenue Act No. 10 of 2006.

4. Auditors' Report

The Report from the Auditor, on the financial statements is given on page 84 of the Annual Report.

5. Significant Accounting Policies

The Company formulates its financial statements adhering to Sri Lanka Accounting standards (LKAS/SLFRS). The policies adopted in the preparation of the financial statements are given on pages from 91 to 106 of the Annual Report.

6. Going Concern

Having affirmed the availability of adequate resources to continue its business operations in the foreseeable future, the Board of Directors is pleased to present the financial statements based on the going concern concept.

7. Income

The Company Income for the year under review was Rs 4,485,107,633 (2014/15 – Rs. 2,838,662,640/=). The analysis is found in Note No. 4.

8. Reserves

As at 31st March 2016 the company reserves were as given below;

9. Statutory Payments

The Board of Directors, to the best of their knowledge, affirm that all

	2016	2015
General Reserve	82,897,989	82,897,989
Statutory Reserves	425,052,453	204,734,159
Revaluation Reserve	262,313,846	262,313,846

statutory payments that are due to the government and due to employees have been made on time.

10. Dividends

An interim dividend of Rs0.05 per share was paid on 30.04.2016 to the holders of the ordinary shares (both voting and non-voting) for the financial year 2015/16.

The Directors recommend that a final dividend of Rs.0.06 per share on both voting and non-voting shares of the Company be paid for the financial year ended 31st March 2016. The Board of Directors was satisfied that the Company would meet the solvency test immediately after the interim dividend was paid on 30th April 2016 and the final dividend proposed which will be paid on or before 15th August 2016 in terms of the provisions of the Companies Act No. 7 of 2007. The Board provided the Statements of Solvency to the auditors and obtained Certificate of Solvency from the auditors in respect of each dividend payment conforming to the statutory provision.

11. Property, Plant and Equipment

Details of Property, Plant & Equipment

are given in Note 24 in the Financial Statement.

12. Market Value of Freehold Properties & Investment Properties

Details of Freehold properties & Investment properties are given in Note 24 in the Financial Statement.

13. Stated Capital

Pursuant to the Special Resolution passed by the shareholders at the Annual General Meeting held on 17th July 2015, the stated capital of the Company has been reduced from Rupees Three Billion Eight Hundred and Ninety Five Million Eight Hundred and Six Thousand Two Hundred and Forty (Rs. 3,895,806,240/-) constituting monies received by the Company from the issue of One Billion Four Hundred and Twenty One Million Three Hundred and Eighty Thousand Six Hundred and Twenty Four (1,421,380,624) ordinary voting shares and Two Hundred and Ninety Eight Million Two Hundred Thousand (298,200,000) non-voting ordinary shares to Rupees Two Hundred and Twenty Three Million Five Hundred and Forty Five Thousand Four Hundred and Eighty One (Rs .223,545,481/-) in accordance with

the provisions of section 59 of the Companies Act No. 7 of 2007.

The Stated Capital of the Company as at 31st March 2016 was Rs. 223,545,481/- consisting 1,421,380,624 (voting shares) and 298,200,000 (non-voting shares).

14. Shareholding

The shareholding distribution is reflected on page 136 and 137 100,376 voting registered shareholders and 3 non-voting registered shareholders were recorded as at 31st March 2016.

15. Major Shareholders

Page 136 indicates the shareholding analysis of the top ten voting (volume wise) and 03 non-voting (volume wise) shareholders of the Company, as at 31st March 2016.

16. The Board of Directors

The Board of Directors of HNB Grameen Finance Ltd consists of ten (10) Directors who possess extensive financial experience and industry knowledge. The following Directors held office at the end of the financial year and their brief profiles are given on page 20 and 21.

Name of the Director	Executive/Non-Executive	Independent/ Non-Independent
A.J. Alles - Chairman	Non Executive Director	Non Independent
B. Premalal - Deputy Chairman	Non Executive Director	Non Independent
B.M.D.C. Prabhath - Managing Director	Executive Director	Non Independent
H.K.S.R. Perera	Non Executive Director	Non Independent
L.L.C.C. Thambiah	Executive Director (w.e.f. 15.03.2016)	Non Independent
M.A.R.C. Cooray	Non Executive Director	Non Independent
N.H.T.I. Perera	Non Executive Director	Non Independent
A.L. Somaratne*	Non Executive Director	Non Independent
A.S. Wijesinha	Non Executive (appointed 18.06.15)	Independent
Dr. S.U.H. Fernando	Non Executive (appointed 25.06.15)	Independent

Annual Report of the Board of Directors

Resignation of Directors

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

Mr. W.M. Karunaratne, Non- Executive/Independent Director w.e.f. 25.06.15.

Mr. A.L. Somaratne*, Non Executive / Non-Independent Director w.e.f 01.06.16.

New Appointments of Directors

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

Mr. A.S. Wijesinha Non- Executive/
Independent
Director
w.e.f. 18.06.15

Dr. S.U. H. Fernando Non- Executive/
Independent
Director
w.e.f. 25.06.15

Retirement and Re- Election of Directors Recommended

The following Directors retired at the Annual General Meeting under Article 87(a) of the Articles of Association of the Company and offered themselves for re-election under the said Article.

Mr. Anushka Sheran Wijesinha

Mr. Sampathawaduge Udan Hithesi Fernando

The undernoted Directors retired by rotation at the Annual General Meeting under Article 95 &96 of the Articles of Association of the Company and offered themselves for re-election under the said Article.

Antonio Jonathan Alles

Mirihana Arachchige Rose Chandralatha Cooray

Neelakanni Hettiarachchige Thimal Ishan Perera

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

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

17. Board Sub-Committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to ensure control over certain affairs of the Company conforming to Corporate Governance Direction No. 3 of 2008 issued by the Department of Supervision of Non- Bank Financial Institutions of Central Bank of Sri Lanka, and in line with the company policy in adopting best practices. Accordingly, the following Committees have been constituted by the Board.

- Audit Committee
- Integrated Risk Management Committee

In addition, the Board has appointed the following Committees comprising the members of the Board conforming to the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

- Nomination/ Human Resources & Remuneration Committee
- Credit Committee
- Strategic and Investment Review Committee

17.1 Audit Committee

Composition of the Committee

Members

Mr. N.H.T.I. Perera - Chairman
Mrs. M.A.R.C. Cooray - Director
Mrs. L.L.C.C. Thambiah – Director
Mr. A.S. Wijesinha – Director

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

The detailed report of the Audit Committee is given on page 68 and 69 of the Annual Report.

17.2 Integrated Risk Management Committee

Composition of the Committee

Members

Mrs. M.A.R.C. Cooray- Chairperson
Mr. B. Premalal - Director
Mrs. L.L.C.C.Thambiah- Director
Mr. A.S. Wijesinha - Director
Mr. J.M.R. Fonseka AGM - Compliance &

Risk functions as the Secretary to the Committee.

The detailed report of the Risk Management Committee is given on page 66 and 67 of the Annual Report.

17.3 Credit Committee

Composition of the Committee

Members

Mrs. L.L.C.C. Thambiah - Chairperson

Mr. A.L. Somaratne - Director

Mr. A.S. Wijesinha - Director

Mr. B.M.D.C. Prabhath - MD/CEO functions as the Secretary to the Committee.

The detailed report of the Credit Committee is given on page 72 of the Annual Report.

17.4 Nomination/ Human Resources & Remuneration Committee

Composition of the Committee

Mrs. H.K.S.R. Perera - Director

Members

Mrs. M.A.R.C. Cooray - Chairperson

Mr. A.J. Alles - Director

Mr. B. Premalal - Director

The Board Secretary functions as the Secretary to the Nomination/Human Resources & Remuneration Committee.

The detailed report of the Nomination/ Human Resources & Remuneration Committee is given on page 70 and 71 of the Annual Report.

17.5 Strategic/Investment Committee

Composition of the Committee

Mr. W.S.P. Arangala - Chief Operating Officer functions as the Secretary to the Strategic and Investment Review Committee.

The detailed report of the Strategic/ Investment Committee is given on page 73 of the Annual Report.

18. Directors' Meetings

The number of Directors' meetings, which comprise Board meetings, Audit Committee meetings, Nomination/ Human Resources & Remuneration Committee meetings, Strategic and Investment Review Committee meetings, Risk Management Committee meetings and Credit Committee meetings, together with the attendance of each Director at these meetings during the year is tabulated below.

Name of the Director	Board Meetings		Audit Committee Meetings		Nomination/ Human Resources & Remuneration Committee Meetings		Strategic and Investment Review Committee Meetings		Risk Management Committee Meetings		Credit Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
A.J. Alles(Chairman)	12	9			5	4	3	3				
B.M.D.C. Prabhath MD/CEO*	12	12	4	4	5	5	3	3	8	8	4	4
B. Premalal	-	12	8		5	4	3	3	5	0		
H.K.S.R. Perera	12	7					3	2				
L.L.C.C. Thambiah	12	12	4	4					8	7	4	4
M.A.R.C. Cooray	12	12	4	4	5	5	3	3	8	8		
N.H.T.I. Perera	12	12	4	4			3	2				
A.L.Somaratne**	12	10									4	3
W.M. Karunaratne***	2	0										
A. Wijesinha	10	8	3	2					5	3	4	3
Appointed w.e.f. 18th June 2015												
Dr. S.U.H.Fernando	10	6										
Appointed w.e.f. 25th June 2015												

Annual Report of the Board of Directors

A = Number of meetings held in the period during the year when the Director held office

B = Number of meetings attended

* B.M.D.C Prabhath MD/CEO attended all Board Sub Committees by invitation.

**Resigned w.e.f 01.06.2016

***Resigned w.e.f. 25. 06.2015

19. Directors' Interest in Shares

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

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

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

20. Related Party Transactions

Details of related party transactions are set out in Note 38 of the financial statement.

21. Directors' Remuneration

In relation to the Company, the Directors' remuneration for the financial year ended 31st March 2016 is given in Note No. 38.2 of the financial statements.

22. Directors' Interest in Transactions

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

23. 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 45 to 59 of the Annual Report.

24. 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.

25. Directors' Statement of Internal Controls

As per Section 10 of the Direction No. 03 of 2008 on Corporate Governance, the Board of Directors issued a report in relation to the internal control mechanism of the company. As such the Board authenticates that the financial reporting system is designed to assure the reliability of financial reporting in relation to the preparation of financial statements. When preparing such financial statements, the Board has complied with relevant accounting principles and regulatory requirements

The said report is given on page 79 & 80 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 page 81 of the Annual Report.

26. Environment

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.

27. 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 year under review.

28. 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.

29. Auditors

The newly appointed Messrs Ernst & Young, Chartered Accountants served as the auditors during the year under review and also provided audit related services as well as non-audit/ consultancy services. As far as the Directors are aware, the auditors do not have any other relationship or interest in the Company. The auditors too have provided a declaration confirming that they are not aware of any relationship with or interest in the Company or, in their professional judgment, may reasonably be thought to have a bearing on their independence within the meaning of the code of conduct and ethics of the Institute of Chartered Accountants of Sri Lanka applicable as at the date of their declaration.

A total amount of Rs. 6,000,000/- is payable by the Company to the auditors for the year under review comprising Rs. 5,749,362/- as audit fees Rs. 250,638/- as audit related fees.

The auditors have expressed their willingness to continue in office. The audit committee at a meeting held on 03rd June 2016 recommended that they be re-appointed as auditors. A resolution to re-appoint the auditors and to authorize the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting in accordance with the Companies Act No. 7 of 2007.

30. Annual General Meeting

The 06th Annual General Meeting of the Company will be held at the Auditorium on Level 6 of "HNB Grameen Building" at No. 168, Nawala Road, Nugegoda, on Thursday, 21st July 2016 at 10.00 a.m. The notice of the 6th Annual General Meeting is given on page 141 and 142.

For and on behalf of the Board.



A.J. Alles

Chairman



B.M.D.C. Prabhath

Managing Director/Chief Executive Officer



Shiromi Halloluwa

Board Secretary

Colombo, Sri Lanka

08 June 2016

The Board Integrated Risk Management Committee Report

Composition of the Committee

The Board Integrated Risk Committee (BIRMC) was established in accordance with clause 3 of Finance Companies (Corporate Governance) Direction No. 03 of 2008 for the purpose of assessing and managing the potential risks that are likely to have a significant impact on the operations of the company and advise the board on the recommended mitigation measures.

The Following members serve on the Board appointed Integrated Risk Management Committee;

Mrs. M.A.R.C. Cooray (NED) - Chairperson

Mr. B. Premalal (NED)*

Mrs. L.L.C.C. Thambiah (ED)*

Mr. A.S. Wijesinha (ID)*

*Mr. B. Premalal was appointed as a Non-Executive Director w.e.f. 4.9.2015.

*Mrs. L.L.C.C. Thambiah was appointed as an Executive Director w.e.f. 15.3.2016 Prior to that she held the post of Non-Executive Independent Director.

*Mr. A.S Wijesinha was appointed as an Independent Director w.e.f. 4.9.2015.

(NED – Non Executive Director, ED – Executive Director, ID - Independent Director,)

Invitees

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

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

Mrs. Shanti Gnanapragasam - AGM Risk (HNB PLC) invited (from 1.1.2015 to 30.10.2015)

Mr. Damith Pallewatte - AGM Risk (HNB PLC) invited w.e.f. 22.1.16.

Secretary

Mr. J.M.R. Fonseka AGM - Compliance & Risk functions as the Secretary to the Committee.

Brief profiles of the Directors are given on pages from 14 to 17 of the Annual Report.

The Primary Responsibilities of the Committee

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

- The Committee shall asses all Risks, i.e. Credit, Market, Liquidity, Operational and Strategies of the company on a monthly basis through appropriate risk indicators and management information.
- To ensure the suitability of data captured and to facilitate appropriate modeling, data analysis and to enable timely and effective management information to be produced for risk monitoring and decision making purposes.
- To consider the adequacy and effectiveness of the technology infrastructure supporting the Risk management framework.
- The Committee shall take prompt corrective action to mitigate the effect of specific risks in case 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.
- The Committee shall take appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective action as recommended by the Committee, and/or as directed by the Director of the Dept. of SNBFI of CBSL.
- The Committee shall submit minutes of discussion papers at each BIRMC meeting to the Board seeking the Boards views, concurrence and / or specific directions, at the Board meeting immediately followed by the BIRMC meeting.

Meetings

The BIRMC met 8 times during the year for the purpose discharging the stated duties. The Chairperson of the Committee briefs the Board of Directors on the main findings of the Committee at each Board meeting.

Work of the Committee During the Year

The Committee, at its meetings ,through reviews of appropriate risk techniques ,extensively dealt with all risk factors that might have an impact or likely to have an impact on the operations of the organization. They include, Operational Risk, Credit Risk, Liquidity Risk, Compliance Risk and Reputational Risk as well as strategies of the company. During the year in reference, through continuous and close monitoring and recommending remedial action at every meeting, the BIRMC assisted the management to reach a NPL rate less than 1% whilst maintaining a high quality loan portfolio. Timely information was provided to the main Board through development of appropriate dash boards and stress testing results on liquidity ,interest rates etc under several shock scenarios . Coverage of information reviewed and action recommended at the meetings are submitted to the Board of

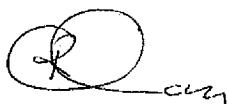
Directors through the minutes throughout the year. In addition the Chairperson briefs the Board on any other developments that need the attention of the Board.

The Committee also periodically reviewed the progress of the CBSL onsite examination recommendations to ascertain the level of compliance and to ensure implementation of such recommendations.

Business continuity plans were developed and DR drills of the company were conducted by the ICT Department under the direction of the BIRMC during the year under consideration.

Appreciation

The Committee wishes to acknowledge and thank Mrs. Shanti Gnanapragasam for her valuable services rendered to the Committee throughout, from January 2015 to October 2015.



M.A.R.C. Cooray

Chairperson

Board Integrated Risk Management
Committee

Colombo, Sri Lanka
08 June 2016

Board Audit Committee Report

Composition of the Committee

The Audit Committee ("the Committee"), was established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. It comprises of four (04) Directors and is responsible to the Board of Directors.

The following members serve on the Audit Committee:

Mr. N.H.T.I. Perera (NED/NID) Chairman

Mrs. M.A.R.C. Cooray (NED/NID)

Mrs. L.L.C.C. Thambiah (ED)*

Mr. A.L. Somaratne (NED/NID) *

Mr. A. Wijesinghe (NED/ID) *

(NID – Non Independent Director, ID – Independent Director, ED – Executive Director)

*Mrs. L.L.C.C. Thambiah was appointed as an Executive Director w.e.f. 15/03/2016. Prior to that she held the post of Non-Executive/Independent Director.

*Mr. A.L. Somaratne resigned w.e.f. 28/7/2015.

*Mr. A. Wijesinghe appointed w.e.f. 28/7/2015.

Invtees

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

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

Mr. J.M.R Fonseka
Assistant General Manager-Compliance

Mr. Sameera Gunasekera
Chief Accountant

Each of the members of the Committee has a depth of financial expertise and collectively the Committee has considerable banking and financial management expertise to contribute to the governing requirement. More information on experience and brief profiles of the members are given on pages from 20 to 21 of the Annual Report.

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

Audit Committee Responsibilities

The Committee is mainly responsible for:

- I. Monitoring the integrity of the company's financial reporting and satisfying itself that any significant financial judgements by the management are sound.
- II. Monitoring the company's internal controls including controls relating to financial statement reporting.
- III. Monitoring and reviewing the activities and performance of the external and outsourced internal auditor/s, including monitoring their independence and objectivity; and
- IV. Ensuring compliance with Central Bank directions and instructions in relation to reporting requirements.

Meetings

For the purpose of discharging the above duties the Audit Committee met four (04) times during the year. Other Management Officers also attended these meetings on invitation. On the invitation of the Committee, the Engagement Partner of the company's external auditors, Messrs Ernst & Young as well as the engagement partner of the outsourced internal auditor Messrs

KPMG attended Committee meetings during the year.

Financial Reporting

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

Risk and Internal Control

The Committee assesses the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards.

The Committee also understands the scope of internal and external auditor's review of risk management and internal control systems.

The external auditors have issued an Assurance Report on Directors' Statement on Internal Controls. The report is given on page 81 of the Annual Report.

The Committee has reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the company.

External Audit

During the year, the Committee continued to review the external audit plan and methodology, with the objective of understanding the quality control/ processes adopted by the External Auditors. Moreover, the Committee conducted meetings with the External Auditors to discuss the audit scope and plan. The Committee also perused the Report of the Auditors and the Management Letters issued in consultation with both the External Auditors and the Management, and continuously monitored the actions taken by the Management to implement the recommendations made. The Committee met the External Auditors without the presence of the Management on one occasion during the year. Additionally, the External Auditors were given adequate access to the Committee as well as to all relevant information required. The Committee also reviewed and recommended for approval of the Board the fees payable to the auditors for the interim and final audits for the financial year ending 31st March 2016. The Committee reviewed and monitored the independence of the External Auditors by obtaining written statements from Messrs. Ernst & Young on the relationship between the auditors and the Company, including non-audit services, discussing the relationships and the firm's own internal procedures for maintaining the independence of its staff.

External Auditor Rotation

In keeping with the Group Policy of Auditor rotation, Messrs Ernst & Young were appointed at the last AGM held on 17th July 2015. According to this Policy, the Company's previous External Auditor Messrs Kreston MNS & Co were not eligible for reappointment. In early 2015, the Committee made recommendations to the Board regarding the appointment of the company's External Auditors. Accordingly, in order to select the External Auditor for the financial year ending 31st March 2016, Requests for Proposals were dispatched to three audit firms from the approved list of the Central Bank of Sri Lanka.

Internal Audit

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

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

During the year under review Messrs KPMG was appointed to carry out a systems migration audit to ensure the validity of the processes and the completeness of the data migrated on to the new technology platform

implemented during the year. This review is currently ongoing.

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



N.H.T.I. Perera

Chairman

Audit Committee

Colombo, Sri Lanka

08 June 2016

Nomination / Human Resources & Remuneration Committee Report

Composition of the Committee

The Nomination/Human Resources & Remuneration Committee (the Committee), appointed on 27th November 2014 by the Board of Directors, comprises three Non-Executive Directors. The following Directors serve on the Nomination/Human Resources & Remuneration Committee;

Mrs. M.A.R.C. Cooray (NED/NID) - Chairperson

Mr. A.J. Alles (NED/NID)

Mr. B. Premalal (NED/NID)

(NID- Non Independent Director, NED -Non Executive Director)

Invtees

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

Mr. Ruwan Fernando – DGM (HR)

Ms. Chiranthi Cooray – DGM (HR) – HNB PLC

Brief profile of the Directors are given on pages from 20 to 21 of the Annual Report.

The Board Secretary functions as the secretary to the Committee.

Policy

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

Committee Responsibilities

Nomination Related:

The Committee works closely with the Board of Directors in reviewing the structure and skills needed for a dynamic and stable organization. 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;

- To select/appoint new Directors/ Managing Director/CEO and the key management personnel.
- To 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.
- To regularly review the structure, size, composition and competencies of the Board.
- To consider and recommend the re-election of the current Directors, taking in to account the high caliber and capability to achieve greater heights and contribution made by the Director/s concerned towards the overall discharge of the Board's responsibilities.
- To set criteria such as qualification, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Managing Director and other Key Management personnel.
- To determine the independence of the Directors of the Board, the independence should be based on standards and norms set out in the
- Central Bank regulations, Colombo Stock Exchange regulations etc.

Human Resources & Remuneration Related:

The Committee is vested with powers to;

- Determine the remuneration policies (salaries, allowances and other incentives) relating to Directors, Managing Director and key Management Personnel of the company.
- Determine and recommend to the Board of Directors annual increments, bonuses and incentives of the Managing Director and the senior management team based on individual and corporate performance against set targets and goals periodically.
- Make recommendations to the Board of Directors from time to time of the additional/new expertise required by the company.
- Interview applicants for senior management posts based on recommendation by the Managing Director/CEO taking into account their performance and achievements. Also to decide on new recruitments, extensions and terminations after evaluating criteria for same.
- Make recommendations/decisions/ directions pertaining to the statutory payments made by the company on behalf of its employees (EPF, ETF, Terminal benefits etc) ensuring the effective fulfillment of all commitments arising as a result of the employer employee relationship.
- Recommend/decide/give directions on disciplinary matters resulting in

a significant financial loss to the company caused by key management personnel of the company.

Meetings

The Committee met five (5) times during 2015/2016. Attendance at meetings is given in the table on page 63 of the Annual Report.

Fees

All Non-Executive Directors receive a monthly attendance fee for participation in the deliberations at the Committee as per the Director's Remuneration Policy approved by the Board. They may also receive an attendance fee for attending sub-committee meetings. They do not receive any performance or incentive payments.

Professional Advice

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

Succession Planning

The Committee continuously assessed the adequacy of the expertise available at the Senior Management level and maintained a succession plan for the Key Management positions of the Company .



M.A.R.C. Cooray

Chairperson

Nomination/Human Resources &
Remuneration Committee

Colombo, Sri Lanka
08 June 2016

Credit Committee Report

Composition of the Committee

The Board Credit Committee ("Committee") appointed on 27th November 2014 by the Board of Directors, comprises of three Non-Executive Directors and is responsible to the Board of Directors. The following members served on Credit Committee:

Mrs. L.L.C.C. Thambiah (ED)* - Chairperson

Mr. Anushka Wijesinha (NED/ID)

Mr. A.L. Somaratne (NED/NID)

(ED – Executive Director, NED – Non Executive Director, NID – Non Independent Director, ID – Independent Director)

Mr. B.M.D.C. Prabhath, Managing Director/ CEO functions as the Secretary to the Committee.

*Mrs. L. L. C. C. Thambiah was appointed as an Executive Director w.e.f. 15.03.2016. Prior to that she held the post of Non-Executive/Independent Director

Invtees

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

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

Mr. Padmasiri Dayawansa - DGM SME & Leasing

Credit Committee Duties / Responsibilities

- Review the methodologies in assessing Company's credit risks whilst recommending appropriate exposure limits.
- Ensure concentration of credit risks are within the risk tolerance of the Company.
- Monitor new areas of lending through Product Development Committee.
- Monitor adherence and ensure

compliance with the limits set out in the lending policy.

- Approve and monitor the risk elements of the Company and review the Credit Risk report on a quarterly basis.
- Recommend actions to the Board to mitigate credit risk where applicable.
- The committee shall submit minutes of the discussion papers at each Board Credit Committee (BCC) to the Board seeking the Board's views, concurrence and/or specific directions, at the Board meeting immediately followed by the BCC meeting.

Meetings

The Committee met four (4) times during the financial year in reference.

Authority

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

Progress Report of the committee during the year in reference

During the year under review the Credit Committee paid close attention to quality loan disbursement, by extensively reviewing the operations followed by the company. This contributed in the company recording an exceptional growth, year on year by 60% and managing a NPA ratio of less than 1%.

The Committee by developing appropriate dashboards and analytics supported by the IT platform monitored efficiently the key indicators of the company region wise.

The Board Credit Committee directed the company to diversify the product portfolio from traditional micro finance business to mitigate the concentration risk of the company. The existing Ezy, Abhilasha and Swashakthi products which come under the Small Sector Enterprises segment were upgraded after fine-tuning the processes hitherto followed by the company. This enabled the company to achieve substantial growth in this area of business, and enhance the number of relationships in the company.

Leasing was strategically launched to further diversify the company's product portfolio during end 2015. This product will support our existing clients to obtain bundled products and enable the company to also penetrate into new market segments, and new clients.

The Committee periodically reviewed the recovery mechanism adopted by the company through the MIS generated and thereby strategies were formulated to compliment and strengthen the model in the recovery process.



L.L.C.C. Thambiah

Chairperson

Credit Committee

Colombo, Sri Lanka
08 June 2016

Strategic / Investment Review Committee Report

HNB Grameen Finance Limited
Annual Report 2015/16

Composition of the Committee

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

The following members serve on Strategic / Investment Review Committee:

Mr. A.J. Alles (NID/NED) - Chairman

Mr. B. Premalal (NID/NED)

Mrs. M.A.R.C Cooray (NID/ NED)

Mr. N.H.T.I Perera (NID/NED)

Mrs. H.K.S.R. Perera (NID/NED)

(NID – Non-Independent Director and NED – Non Executive Director)

Invtees

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

Mr. Rajive Dissanayake – Asst. General
Manager (Strategy)/Chief Strategy Officer

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

Brief profile of the Directors representing
the Committee are given on pages from 20
to 21 of the Annual Report.

Strategic / Investment Review Committee Responsibilities

Reviewing the company's strategic position and strategic vision and providing guidelines to the company on strategic planning process in order to formulate an effective strategic plan and its implementation. Also to carry out periodic assessment of company's investment policies ensuring optimum yield. During the year under

review more focus was placed to review periodically the performance against the approved 3 year strategic plan and overcoming challenges in implementing a more viable plan to acquire more customers and more importantly retaining them. The strategies proved successful because they were consistent with stakeholders' expectations. Given the competition from conventional players in the sector and taking into account the risks associated during the year, more attention was placed on product diversification.

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

- To monitor the performance of the equity portfolio.
- To carry out any tasks assigned to the Committee through the company's investment policy and/or as required by the Board of Directors.
- To agree with the marketing budgets and evaluate effectiveness of marketing and communication initiatives.
- To approve IT investments and ensure effective implementation of the IT Strategy.

Meetings

The Committee had three (3) meetings during 2015/2016. Other Members may attend meetings on invitation.



A.J. Alles

Chairman

Strategic/ Investment Review
Committee

Colombo, Sri Lanka
08 June 2016

- Review the impact of external issues. Examine the external challenges and opportunities relevant to the strategic vision and key goals of the company.
- Review the internal strengths and weaknesses and give guidance to the management.
- Oversee and monitor the planning process that leads to the formulation of the strategic plan.
- Examine the effectiveness of key strategies for achieving proposed goals and objectives.
- To Drive the Business and monitor performance against budgets.
- To drive the strategies through processes, people and technology.
- To evaluate and recommend to the Board strategic equity investments, divestments and disposals.
- To identify the areas of concern which need changes in strategic direction.

Risk Management

"Risk management should be an enterprise-wide exercise and engrained in the business culture of the organization."

Julie Dickson

Risk Management is a continuous process of identifying and assessing risks, arising on account of internal and external factors, which affect the business, and implementing specific mitigating actions to arrest such risks thereby minimizing unexpected losses. How a company should manage its risks is well described by the aforementioned statement of Julie Dickson. An effective risk management of a company should not be limited to the Board of Directors, CEO and the corporate management but be embedded in the culture of the organization that goes down to the line mangers and field staff.

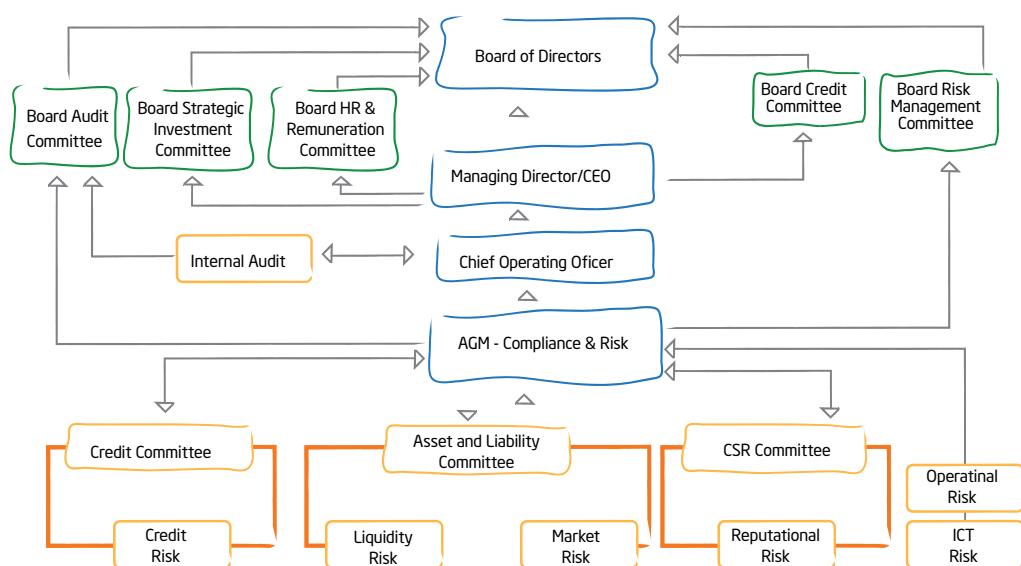
As an institution engaged in offering financial services, HNBG is actively and continuously involved in managing risks which are embedded in the company's business strategy. The company recognizes that mitigating risks is about making pre-emptive and deliberate decisions to, ensure the timely identification, analysis, measurement, management and reporting

of such risks. We believe that in the company's business process, reducing the effects of the uncertainties and seizing opportunities that could be exploited, is a strategic business tool.

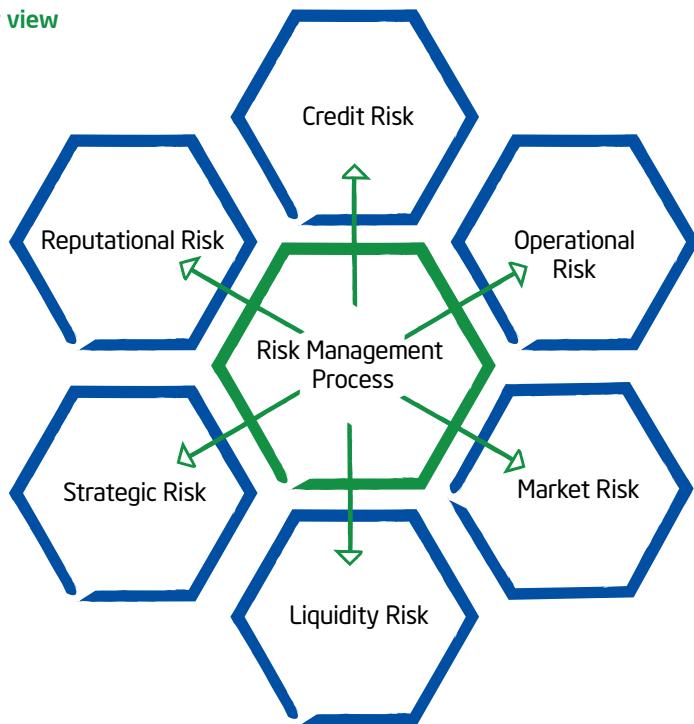
The Board Integrated Risk Management Committee (BIRMC) of the company, established by the Board of Directors as per the Direction No 3 of 2008 (Corporate Governance) of the Central Bank of Sri Lanka, is mandated, inter alia, with the responsibility of ensuring that the company has a well structured risk management framework and suitable compliance policies and systems in place and to assess and monitor all types of risks on a continuous basis. The BIRMC ensures that risk management strategies, processes and policies are in place to manage risks covering several areas including credit, operational, market, liquidity, strategy and reputational risks. At all its meetings, the BIRMC reviews the key risk indicators encompassing relevant risk areas and measures are taken

to arrest any unhealthy developments. The risk management framework developed supports daily operations of the company by strengthening the company's risk management processes at all levels resulting in better internal controls, timely management information and meeting regulatory compliance requirements.

We believe that the key component in sustaining the leadership in the industry depends heavily on management's appetite to invest in technology. With this objective, a significant investment on upgrading our ICT infrastructure has been undertaken with the installation of a new core-banking system in the last quarter of the year. The commencement of automation of operations of the company will no doubt enable the company to achieve more efficiencies in all its activities including risk management and will provide opportunities to move with times and capitalize on latest developments in the industry.



Risk Management over view

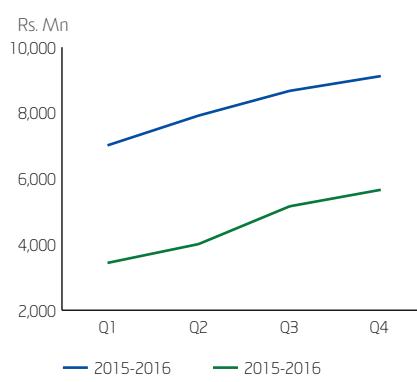


Credit Risk

Credit risk occurs, when an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired, resulting in economic loss of the company.

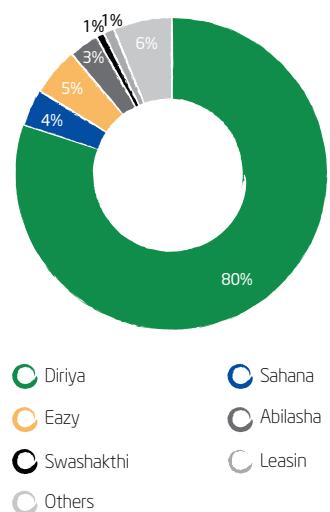
Granting credit to micro and small entrepreneurs is the core business of HNGB, and therefore credit risk is the most material risk to the company. Given this importance, managing credit and lending portfolio is among the main focus areas of HNGB. Maintaining credit risk exposure within acceptable limits and thereby minimizing probable losses are the objectives of this process. HNGB's credit management process, includes an appropriate evaluation framework in selecting clients, early warning reporting, minimizing concentration risk and close portfolio monitoring. This process, combined with a tenacious recovery mechanism, has proven effective in generating a significant growth in its loan portfolio and having a NPL rate of less than 1%.

Portfolio Growth



Further, measures have been taken to diversify the product portfolio with the introduction of dynamic products and the launching of leasing.

Loan Portfolio - Product Wise as at 31/03/2016



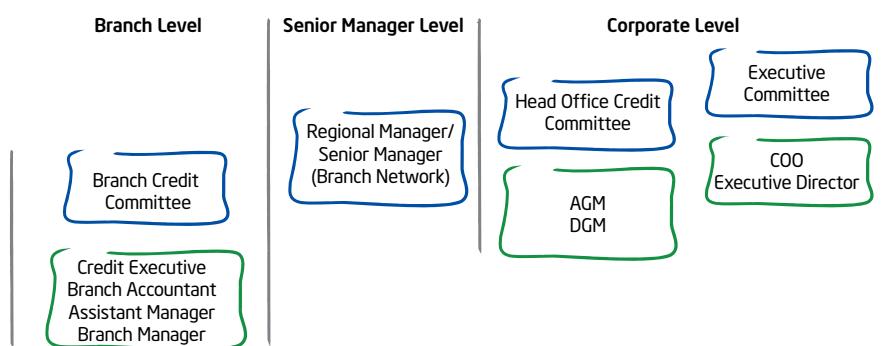
NPL 2014/15 & 2015/16



Risk Management

Our credit evaluation strategy

The success of HNBG having a low NPL and a satisfactory loan book lies in its stringent yet advantageous techniques and policies used in evaluating clients. Being one of the leading MFI companies in the finance industry, we recognize that it is of utmost importance that we identify the customer needs correctly and target to meet their expectations, to sustain the leadership in the market.



Thus, our credit evaluation process is well structured incorporating checks and balances with appropriate delegated authorities at different levels, spanning from credit executive to Managing Director/CEO, providing speedier delivery channels whilst having effective control over the overall risk profile of the organization.

Operational Risk

Operational risk arises from losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk could occur due to one or more of the following reasons.

- Business disruption and systems failures
- Internal fraud
- External fraud

- Execution delivery process management

Damage to physical assets losses of most companies are due to operational weaknesses and therefore it is important that operational risk management should stand out clearly in a company's internal control framework

A Business Continuity Plan (BCP) was formulated and an offsite disaster recovery (DR) centre was established to ensure that in any eventuality the company's operations would continue unhindered with minimal disruption.

Introduction of many security features in our ICT system will control internal frauds that may arise out of information leakage. We have also fine-tuned our procedures with appropriate checks and balances to minimise possible external frauds.

We are prone to external frauds due to the nature of our operations. Changes to our operational procedures done after identification of possible risks factors, coupled with the introduction of digital delivery channels, have effectively minimized external frauds. Installation of CCTV cameras at branches in compliance with regulatory requirements has also helped us to thwart potential external frauds.

We conduct regular risk assessment analysis on our assets. We have commenced installing fire extinguishers in all our branches and have obtained insurance covers to mitigate any possible losses that may arise out of damages to our assets.

Market Risk

Market risk arises from fluctuations in interest rates, foreign currencies, equity prices, vehicle and commodity prices. Since HNBG's operations mainly involve granting loans and accepting deposits, movements in interest rates is the most important market risk for the company. Mobilization of public funds still remains our main funding source. Hence increase in deposit rates have a direct impact on our operational cost resulting in a reduction of our net interest

margins since our policy is not pass down the full impact of these increases to our borrowers. Variations in interest rates also affect the investment portfolio of the company . Other market risks, such as the fluctuating of gold prices and movement of the rupee against foreign currencies do not impact on the business of HNGB as we do not engage in pawning and foreign borrowings. Although arising from variations in the tax structure, a wide movement of vehicles prices witnessed in the market the company did not impact on its operations significantly as leasing business commenced only in December 2015.

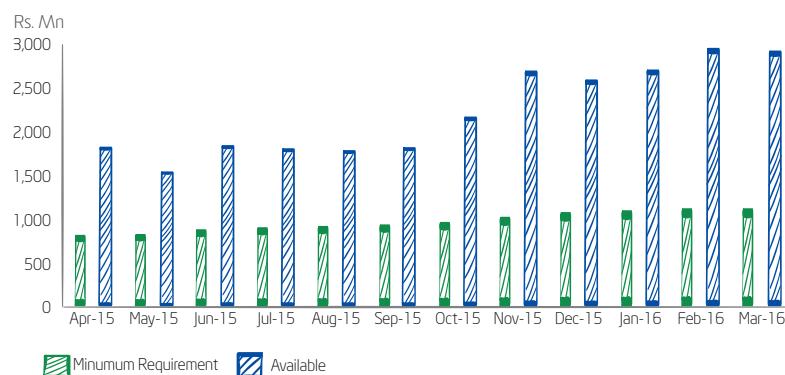
Liquidity Risk

Financial institutions face liquidity risk when its safety and soundness is impacted due to its inability to meet contractual obligations towards deposit holders. This could arise due to multiple reasons including mismatches in the borrowings and deposits of the company with its lending portfolio . Hence it is important that we evaluate possible mismatches growing and ensure the company holds sufficient amounts of liquidity to meet our obligations . As per its corporate liquidity policy ,HNBG maintains an adequate liquid fund assuring the company's ability to meet short and long term obligations. Effective liquidity risk management practices ensured HNGB's ability to meet its obligations towards deposit holders at maturity or on demand. Further, the board understands that proper liquidity risk management is essential for the sustainability of the organization.

During the year under review HNGB's liquidity position has remained strong at CBSL specified levels assuring institutional stability. Further, liquidity risks are assessed by BIRMC continuously for identification of possible risks through various tools.

ALCO monitors the liquidity requirement of the company and the impact of interest rates fluctuations on its operations. It carries out maturity gap analysis and the movement of assets and liabilities.

Liquidity Requirement & Availability F/y 2015/16



Strategic Risk

Strategic risk management (SRM) is the process of identifying, assessing and managing the risk in the organization's business strategy and taking swift action when risks are identified. SRM involves evaluating how a wide range of possible events and scenarios will affect the strategy and its execution and the impact on the company's ultimate goals. SRM requires the organization to define tolerable levels of risk as a guide for strategic decision-making.

At HNGB, company's strategic risks are evaluated by the Strategic and Investment Committee. It periodically reviews the company's business plan and the effectiveness of the strategies developed by the company in pursuit of the goals and objectives set out in the business plan; leveraged on the enhanced ICT infrastructure and MIS. The committee analyses the strategies of each product to ensure that those strategies do not trigger a risk that is likely to have an impact on the company's performance, and take pre-

emptive actions to mitigate such risks.

Reputational Risk

Reputational risk is a result of the failure of the company to manage its key risks. Reputational risk could arise due to many factors, such as non-compliance of regulatory requirements, and negative publicity regarding the company's business practices or management. HNGB therefore is focussed on promoting and practising strong corporate governance and risk management practises at all levels of the company and has a well-defined process of monitoring and mitigating potential reputational risk factors.

Effective communication by way of issuing timely and accurate financial reports and other communication bulletins , maintaining media presence and valuable customer services , and complying with provisions of relevant statutes are among the actions of the company put in place in meeting the reputational risk.

Risk Management

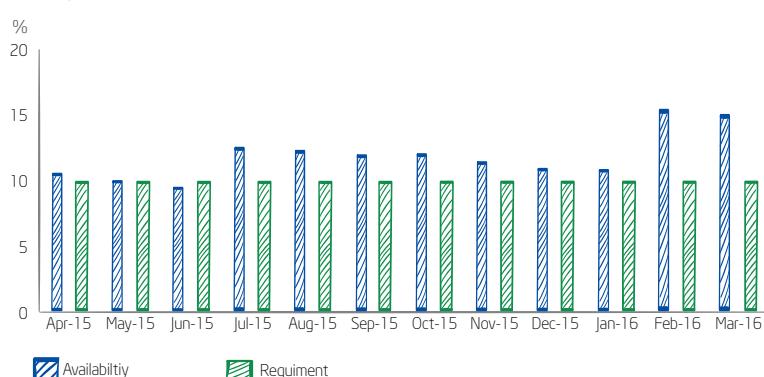
Way Forward

HNBG is committed in its endeavours in building a strong risk management framework that is required to match with its fast growing activities and its future growth plans envisaged. Building suitable risk management infrastructure , risk dash boards for easy management of risks and deploying other key risk indicators to monitor the growing developments are priorities and the Board has already taken several initiatives in this direction.

Tier i



Tier -ii



Directors' Statement on Internal Control

HNB Grameen Finance Limited
Annual Report 2015/16

Responsibility

The Board of Directors presents this statement of Internal Control in compliance with Paragraph 10 (2) (b) of Finance Companies (Corporate Governance) Direction No.03 of 2008 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of company's System of Internal Controls. Such a system is designed to manage the company's key areas of risk within an acceptable risk profile in achieving the policies and business objectives of the company. Accordingly, the system of Internal Controls can only provide a reasonable, but not absolute, assurance against material misstatement of management and financial information and records or against financial losses or fraud. 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 Controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board. The management assists the Board in the implementation of the Board's policies and procedures on risk and controls by identifying and assessing the risks faced by the company and in the design, operation and monitoring of suitable Internal Controls to mitigate and control these risks. The Board is of the view that the System of Internal Controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key Internal control processes

The key processes that have been established in reviewing the adequacy and integrity of the System of Internal Controls in regard to financial reporting include the following:

Sub-committees are established to assist the Board in ensuring the effectiveness of the company's daily operations in accordance with the corporate objectives and strategies and the annual budget as well as the policies and business directions that have been approved by the Board.

The Internal Auditors of the company check for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on majority of units and branches, the frequency of which is determined by the level of risk assessed by the internal audit, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the company reviews Internal Control issues identified by the Internal Audit function, regulatory authorities and management, and evaluates the adequacy and effectiveness of Internal Control Systems. They also review the Internal Audit functions with particular emphasis on the quality of audits performed and the minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis in assessing the Internal

Control System. The Internal Audit function checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their audit process.

- The Board Risk Management Committee is established to assist the Board to oversee the overall management of principal areas of risk of the Company.
- Other Board level and Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Company's core areas of business operations. These committees include the Nomination/ Human Resources and Remuneration Committee, the Credit Committee, the Audit Committee, the Risk Management Committee and Strategic & Investment Committee.

The Company adopted the new Sri Lanka Accounting Standards Comprising LKAS & SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, progressive improvements on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made whilst, further strengthening of processes will take place pertaining to impairment of loans and advances, related party disclosures and financial statement disclosures.

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 which 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 the external auditors

The External Auditor has reviewed the above Directors' statement on internal controls included in the Annual Report of the company for the financial year ended 31st March 2016 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is consistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal control System over the financial reporting of the company.

For and on behalf of the Board.



N.H.T.I. Perera

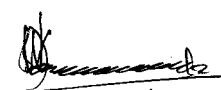
Chairman

Audit Committee



Jonathan Alles

Chairman



B.M.D.C. Prabhath

Managing Director / Chief Executive Officer

Colombo, Sri Lanka

08 June 2016

Independent Assurance Report



Ernst & Young
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HMAJ/SPF/BV/SID/JJ

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF HNB GRAMEEN FINANCE LIMITED

Introduction

We were engaged by the Board of Directors of HNB Grameen Finance Limited (formerly known as Prime Grameen Micro Finance Limited), (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2016.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000.

Summary of work performed

We conducted our engagement to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process that the directors have adopted in reviewing the system of internal control over financial reporting for the Company.

The procedures performed are limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3000 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3000 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

08 June 2016
Colombo

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

A member firm of Ernst & Young Global Limited



By extending loans to small and medium enterprises, HNB Grameen Finance is empowering people to uplift their livelihoods whilst also generating employment in their communities.



Financial Reports

Independent Auditors' Report



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HMAJ/SPF/BV/SID/JJ

TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of HNB Grameen Finance Limited (formerly known as Prime Grameen Micro Finance Limited), (the "Company"), which comprise the statement of financial position as at 31 March 2016, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Other Matter

The financial statements of the Company for the year ended 31 March 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 26 May 2015.

Report on Other Legal and Regulatory Requirements

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

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion:

We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company

The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 7 of 2007.

08 June 2016
Colombo

Statement of Profit or Loss

HNB Grameen Finance Limited
Annual Report 2015/16

Year ended 31 March	Note	2016 LKR	2015 LKR
Gross Income	4	4,485,107,633	2,838,662,640
Interest income		3,906,231,603	2,467,538,240
Interest expenses		(995,689,242)	(715,610,870)
Net Interest Income	5	2,910,542,361	1,751,927,370
Fee and commission income		485,813,442	336,146,746
Fee and commission expenses		(75,520,940)	(109,782,746)
Net Fee and Commission Income	6	410,292,502	226,364,000
Net Interest, Fee and Commission Income		3,320,834,863	1,978,291,370
Other operating income		93,062,588	34,977,654
Loss from trading		(26,578,802)	(768,443)
Total Operating Income	7	3,387,318,649	2,012,500,581
Impairment charges for loans and other losses	8	(110,452,151)	(70,461,526)
Net Operating Income		3,276,866,498	1,942,039,055
Personnel expenses	9	(712,015,514)	(540,590,862)
Other expenses	10	(743,321,460)	(582,677,877)
Total Operating Expenses		(1,455,336,974)	(1,123,268,739)
Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		1,821,529,524	818,770,316
Value Added Tax (VAT) on financial services	11	(234,120,096)	(137,916,069)
Nation Building Tax (NBT) on financial services	12	(42,567,290)	(23,514,572)
Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		1,544,842,138	657,339,675
Income tax expenses	13	(434,748,933)	(122,793,299)
Profit for the Year		1,110,093,205	534,546,376
Basic earnings per share	14	0.65	0.31

The Accounting Policies and Notes on pages 91 through 135 form an integral part of the Financial Statements.

Statement of Comprehensive Income

Year ended 31 March	Note	2016 LKR	2015 LKR
Profit for the Year		1,110,093,205	534,546,376
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/(loss) on defined benefit plans	31	12,921,679	(3,412,787)
Deferred tax effect on actuarial gain/(loss) on defined benefit plans	25	(3,618,070)	955,580
Deferred tax effect on revaluation of property, plant & equipment	25	-	384,555
Other Comprehensive Income for the Year Net of Tax		9,303,609	(2,072,652)
Total Comprehensive Income for the Year		1,119,396,814	532,473,724

The Accounting Policies and Notes on pages 91 through 135 form an integral part of the Financial Statements.

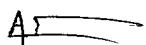
Statement of Financial Position

HNB Grameen Finance Limited
Annual Report 2015/16

As at 31 March	Note	2016 LKR	2015 LKR
ASSETS			
Cash and cash equivalents	15	451,223,290	404,340,779
Loans and advances to members	16	8,759,039,215	5,538,291,449
Loans and advances to others	17	379,450,581	186,387,074
Financial investments - Available-For-Sale	18	12,430,283	234,000
Financial investments - Held-To-Maturity	19	2,639,328,475	1,822,097,147
Financial assets held for trading	20	14,943,120	194,914,296
Other assets	21	196,666,654	156,134,024
Investment properties	22	904,500,000	886,300,000
Intangible assets	23	67,807,042	10,715,176
Property, plant & equipment	24	950,441,553	880,474,986
Deferred tax asset	25	-	5,978,982
Total Assets		14,375,830,213	10,085,867,913
LIABILITIES			
Due to customers	26	10,420,418,906	7,557,913,372
Debt issued and other borrowed funds	27	909,572,460	815,134,777
Income Tax payable	28	278,240,026	109,483,565
Value Added Tax payable	29	41,305,715	114,718,215
Other liabilities	30	150,860,944	96,795,571
Retiring benefit obligation	31	134,383,355	119,196,601
Deferred tax liability	25	49,026,181	-
Total Liabilities		11,983,807,587	8,813,242,101
SHAREHOLDERS' FUND			
Stated capital	32	223,545,481	3,895,806,240
General reserve	33	82,897,989	82,897,989
Statutory reserve fund	34	426,752,800	204,734,159
Investment fund	34	-	-
Revaluation reserve		262,313,846	262,313,846
Retained earnings		1,396,512,510	(3,173,126,422)
Total Equity and Liabilities		14,375,830,213	10,085,867,913

The Accounting Policies and Notes on pages 91 through 135 form an integral part of the Financial Statements.

I certify these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



W.S.P. Arangala

Chief Operating Officer

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

Signed for and on behalf of the Board by:

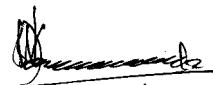


Jonathan Alles

Chairman

08 June 2016

Colombo



B.M.D.C. Prabhath

Managing Director/CEO

Statement of Changes In Equity

Year ended 31 March 2016	Stated Capital LKR	General Reserves LKR	Statutory Reserve LKR	Investment Fund LKR	Revaluation Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 01 April 2014	3895,806,240	82,897,989	97,824,885	61,395,350	267,482,817	(3,665,255,193)	740,152,088
Profit for the year	-	-	-	-	-	534,546,376	534,546,376
Other comprehensive income for the year, net of tax							
Actuarial loss on defined benefit plans	-	-	-	-	-	(3,412,787)	(3,412,787)
Deferred tax effect on actuarial loss on defined benefit plans	-	-	-	-	-	955,580	955,580
Deferred tax effect on revaluation of property, plant & equipment	-	-	-	-	384,555	-	384,555
Other comprehensive income for the year, net of tax	-	-	-	-	384,555	(2,457,207)	(2,072,652)
Total Comprehensive Income for the Year	-	-	-	-	384,555	532,089,169	532,473,724
Transactions recorded directly in equity							
Realisation on account of depreciation on revalued assets	-	-	-	-	(5,553,526)	5,553,526	-
Deferred tax adjusted on realisation of revaluation reserve	-	-	-	-	-	-	-
Transfer of investment fund to retained earnings	-	-	-	(61,395,350)	-	61,395,350	-
Transfer to statutory reserve fund	-	-	106,909,274	-	-	(106,909,274)	-
Balance as at 31 March 2015	3,895,806,240	82,897,989	204,734,159	-	262,313,846	(3,173,126,422)	1,272,625,812
Profit for the year	-	-	-	-	-	1,110,093,205	1,110,093,205
Other comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans	-	-	-	-	-	12,921,679	12,921,679
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(3,618,070)	(3,618,070)
Other comprehensive income for the year, net of tax	-	-	-	-	-	9,303,690	9,303,690
Total Comprehensive Income for the Year	-	-	-	-	-	1,119,396,814	1,119,396,814
Transactions recorded directly in equity							
Transferred to statutory reserve fund	-	-	222,018,641	-	-	(222,018,641)	-
Capital reduction	(3,672,260,759)	-	-	-	-	3,672,260,759	-
Balance as at 31 March 2016	223,545,481	82,897,989	426,752,800	-	262,313,846	1,396,512,510	2,392,022,626

The Accounting Policies and Notes on pages 91 through 135 form an integral part of the Financial Statements.

Statement of Cash Flows

HNB Grameen Finance Limited
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Year ended 31 March	Note	2016 LKR	2015 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before Tax		1,544,842,138	657,339,675
Adjustments			
Interest expenses on borrowings	5.2	8,511,811	18,492,845
Interest expenses on debentures	5.2	69,904,419	64,823,338
Interest income from financial investments held to maturity	5.1	(124,404,108)	(85,018,439)
Interest income on treasury bond	5.1	(12,372,066)	(2,546,667)
Dividend income	7.1	(60,000)	(40,000)
Profit/(loss) on disposal of property, plant & equipment	7.1	(296,872)	233,430
Fair value gain on investment property	7.1	(14,000,000)	-
Impairment charge/(reversal) for loans and other assets	8	110,452,151	70,407,512
Provision for value added tax	29	234,120,096	138,233,612
Crop insurance levy	10	11,349,144	3,872,913
Provision for nation buiding tax	12	42,567,290	23,514,572
Ammortization on intangible assessts	23	8,180,662	4,532,421
Depreciation - on property, plant & equipment	24	78,173,019	52,352,182
Gratuity provision	9	31,690,645	29,250,107
Loss on mark to market valuation of treasury bond	7	1,787,152	4,390,293
Disposal (gain)/loss from treasury bond	7	26,578,802	(3,621,850)
Provision for amount payable under sip saviya scheme	30.1	1,100,000	1,021,427
Fair value gain	17.1	4,500,000	-
Operating profit/(loss) before changes in operating assets and liabilities		2,022,624,283	977,237,371
(Increase)/decrease in operating assets			
Loans & advances to members	16	(3,259,289,662)	(2,030,588,526)
Loans & advances to others	17	(195,023,753)	(155,596,331)
Other assets	21	(40,532,630)	(28,291,526)
Increase/(decrease) in operating liabilities			
Due to customers	26	2,752,125,940	4,010,761,637
Other liabilities	30	54,065,373	8,095,232
Cash flow from operating activities		1,333,969,551	2,781,617,857
Gratuity paid	31	(3,582,213)	(8,098,775)
VAT paid	29	(307,532,596)	(238,327,337)
Income Tax paid	28	(201,303,324)	(96,916,342)
WHT paid	30	(1,129,598)	(218,945)
Notional Tax		(12,172,457)	(9,286,652)
NBT paid		(39,912,801)	(23,735,112)
Crop Insurance Levy paid		(10,158,536)	(5,929,722)
Net Cash Flow from Operating Activities		758,178,026	2,399,104,972

Statement of Cash Flows

Year ended 31 March	Note	2016 LKR	2015 LKR
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	24	(148,402,241)	(120,683,718)
Purchase of intangible asset	23	(68,323,759)	-
Investment properties purchased	22	(4,200,000)	-
Proceeds from sale of property, plant & equipment		559,528	283,269
Net of investment in government security	19.1	342,324,589	(1,556,110,470)
Investment on debentures	19	(150,000,000)	-
Net investment in fixed deposits	19	(984,467,991)	(1,336,500)
Investment in treasury bond	20	182,107,650	(198,357,922)
Fixed deposit interest received	19	967,782	1,484,977
Treasury bill interest received	19.1	8,976,547	6,169,740
Reverse repurchase interest received	19.1	49,836,339	49,170,398
Treasury bond interest received	20	17,520,000	1,600,000
Dividend income	7.1	60,000	40,000
Net Cash Flow from Investing Activities		(753,041,556)	(1,817,740,226)
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid	28	(4,074,608)	(9,915,840)
Interest payments on debentures	6	(61,902,416)	(66,007,203)
Interest payments on borrowings	28	(8,511,811)	(16,976,059)
Borrowings during the year	28	131,237,876	-
Loans repayments during the year	28	(15,003,000)	(200,061,778)
Net Cash Flow from Financing Activities		41,746,041	(292,960,880)
Net increase/(decrease) in cash and cash equivalents		46,882,511	288,403,866
Cash and cash equivalents at the beginning of the year	15	404,340,779	115,936,913
Cash and Cash Equivalents at the end of the year	15	451,223,290	404,340,779

The Accounting Policies and Notes on pages 91 through 135 form an integral part of the Financial Statements.

Notes to the Financial Statements

HNB Grameen Finance Limited
Annual Report 2015/16

1. REPORTING ENTITY

1.1 Corporate Information

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

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

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

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

1.2 Principal Activities and Nature of Operations

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

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

1.3 Parent Enterprise & Ultimate Parent Enterprise

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

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 7 of 2007 and the Sri Lanka Accounting Standards.

1.5 Date of Authorization of Issue

The financial statements were

authorized for issue by the Board of Directors on 08 June 2016.

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 (hereafter known as "SLFRSs/ LAKSs"), promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and comply with the requirements of the Companies Act No. 7 of 2007 and and Finance Business Act No. 42 of 2011 and amendment thereto.

2.1.2 Basis of Measurement

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

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

Notes to the Financial Statements

2.1.3 Presentation of Financial Statements

The assets and liabilities of the Company presented in the statements 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 41 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 mature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standards (LKAS 1) - Presentation of Financial Statements.

2.1.4 Functional and Presentation Currency

The financial statement of the Company is presented in Sri

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

2.1.5 Materiality and Aggregation

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

2.1.6 Changes in Accounting Policies

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

2.1.7 Comparative Information

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

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could

result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

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

2.2.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 42 to the financial statements.

2.2.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual

results may differ, resulting in future changes to the allowance.

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

2.2.4 Impairment of Available for Sale Investments

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

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates,

among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.2.5 Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances necessitate to do so. 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.

2.2.6 Fair Value of Property, Plant and Equipment

The land and buildings of the Company is reflected at fair value. The Company engaged independent valuers to determine fair value of land and buildings in terms of Sri Lanka Accounting Standards (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.

Notes to the Financial Statements

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

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

2.2.8 Classification of Investment Property

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

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

2.2.9 Taxation

The Company is subject to income tax and judgment was required to determine the total provision for current, deferred and other taxes

due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

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

2.2.10 Deferred Tax Assets

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

2.2.11 Defined Benefit Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates,

expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Company. Details of the key assumptions used in the estimates are contained in Note 31 to the financial statements.

2.2.12 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognized in the financial statements are described in Notes 37.

2.3 Summary of Significant Accounting Policies

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

2.3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected. Financial statements of the Company are presented in Sri Lankan Rupees, which is the functional and presentation currency of the Company. Transactions in foreign currencies are re-translated into Sri Lankan rupees at the spot rate of exchange prevailing at the dates of the transactions.

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

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

Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

2.3.2 Financial Instruments - Initial Recognition and Subsequent Measurement

2.3.2.1 Non-Derivative Financial Assets

Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per Sri Lanka Accounting Standards (LKAS 39) - Financial Instruments Recognition and Measurement.

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

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

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

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

Classification of financial assets

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

- financial assets at fair value through profit or loss;
- held-to-maturity financial assets;

Notes to the Financial Statements

- loans and receivables; and
- available-for-sale financial assets.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has

the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

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

Loans and receivables

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

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

(a) Cash and cash equivalents

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

(b) Finance leases and hire purchase

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

(c) Advances and other loans to customers

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

Available-for-sale financial assets	Bank overdrafts	Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.
Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of profit or loss.	Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.	Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.
2.3.2.2 Non-Derivative Financial Liabilities	Deposits and bank borrowings - classified as other financial liabilities carried at amortized cost	The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.
Classification and Subsequent Measurement of Financial Liabilities	Deposits and bank borrowings are the Company's sources of debt funding.	No reclassifications of financial instruments were done during the year
The Company initially recognizes non-derivative financial liabilities on the date that they are originated. The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals and other payables:	The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortized cost using the effective interest method.	2.3.2.4 Derecognition of financial Assets and Financial Liabilities
	2.3.2.3 Reclassification of Financial Assets and Liabilities	Financial assets
	The Company reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standards (LKAS 39) - Financial Instruments Recognition and Measurement. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.	The Company derecognizes a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.
		(a) The Company has transferred substantially all the risks and rewards of the asset, or
		(b) The Company has neither transferred nor retained substantially all the risks and

Notes to the Financial Statements

rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

2.3.2.5 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable

legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

2.3.2.6 Renegotiated Loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

2.3.2.7 Amortized Cost Measurement

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

2.3.2.8 Fair Value Measurement

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- (a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- (b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- (c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures,

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

2.3.2.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on

the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

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

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

or less than suggested by historical trends.

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

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the

Notes to the Financial Statements

impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Reversal of Impairment

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

Write Off of Financial Assets Carried at Amortized Cost

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

2.3.3 Cash and Cash Equivalents

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

2.3.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of

whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.4.1 Finance Leases

Finance leases - Company as a lessee

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

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

Finance leases - Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest

income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.3.4.2 Operating Leases

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

Operating leases - Company as a lessee

Operating lease payments are recognized as an expense in the statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognized as an expense in the period in which they are incurred.

Operating leases - Company as a lessor

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

2.3.5 Property and Equipment

2.3.5.1 Basis of Recognition

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

2.3.5.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes

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

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

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

Cost Model

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

Revaluation Model

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

2.3.5.3 Subsequent Costs

The subsequent cost of replacing a component of an item of property,

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

2.3.5.4 Depreciation

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

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

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

(a)	Buildings	40 years
(b)	Motor Vehicles	05 years
(c)	Furniture & Fittings	05 years
(d)	Computer & Accessories	05 years

Notes to the Financial Statements

(e)	Machinery & Equipment	05 years
(f)	Fixtures & Fittings	05 years

2.3.5.5 De-Recognition

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

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

2.3.5.6 Capital Work-in-Progress

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

2.3.6 Intangible Assets

2.3.6.1 Basis of Recognition

An intangible asset is recognized 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 amortization 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 capitalized development costs, are not capitalized, and expenditure is charged against income statement in the year in which the expenditure is incurred.

2.3.6.3 Amortization 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 recognized 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 derecognized 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 recognized 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 recognized 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 recognized in the Statement of profit or loss. Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

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 recognized 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 recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. All employees of the

Notes to the Financial Statements

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 unrecognized 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 recognized 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 recognized immediately in profit or loss.

The Company recognizes 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 recognize as personnel expenses in Statement of comprehensive income. This retirement benefit obligation is not externally funded.

2.3.10 Provisions

A provision is recognized 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 recognized as finance cost.

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

2.3.11 Income Tax Expense

2.3.11.1 Current Tax Expense

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision

for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

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

2.3.11.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognized for all temporary differences.

Deferred tax assets are recognized 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 utilized, 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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

2.3.11.3 Value Added Tax on Financial Services (VAT)

Company's total value addition is subjected to a 12% Value Added Tax up to 31 December 2014 and 11% from 01 January 2015 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

2.3.11.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (Amendment) Act No. 11 of 2012, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off

against the income tax payable in the four subsequent years.

2.3.11.5 Crop Insurance Levy

In terms of Section 14 of the Finance Act No. 12 of 2013 all institutions under the purview of Finance Companies Act No. 78 of 1988 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

2.3.11.6 Nation Building Tax (NBT)

The business of banking and finance will be liable for NBT at 2% of the liable turnover from 01 January 2014 onwards. The liable turnover with reference to any person engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

2.3.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

2.3.12.1 Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts

estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.12.2 Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Such income is recognized 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.

Notes to the Financial Statements

3. NEW ACCOUNTING STANDARD BECAME EFFECTIVE DURING THE YEAR

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2016 reporting periods. None of those have been early adopted by the Company.

3.1 SLFRS 9 Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

3.2 SLFRS 14 Regulatory Deferral Accounts

SLFRS 14 is an interim standard which provides relief for first time adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts.

SLFRS 14 is effective for annual periods beginning on or after 1 January 2016.

3.3 SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Company, as it is an existing SLFRS preparer/does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

3.4 Amendments with No Significant Impact

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

- (a) Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11).
- (b) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).

(c) Equity Method in Separate Financial Statements (Amendments to LKAS 27).

(d) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).

(e) Annual Improvements to SLFRSs.

(f) Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28).

(g) Disclosure Initiative (Amendments to LKAS 1).

Year ended 31 March	2016 LKR	2015 LKR
4 GROSS INCOME		
Interest Income	3,906,231,603	2,467,538,240
Fee and commission income	485,813,442	336,146,746
Other Income	93,062,588	34,977,654
Total Income	4,485,107,633	2,838,662,640
5 NET INTEREST INCOME		
Interest Income	5.1	3,906,231,603
Interest Expense	5.2	(995,689,242)
Net Interest Income		2,910,542,361
		1,751,927,370

Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions.

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income), provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to LKR 12.1 Mn.

Year ended 31 March	2016 LKR	2015 LKR
5.1 Interest Income		
Loans and advances given to members	3,715,702,304	2,362,357,163
Loans and advances given to non members	37,502,989	9,314,025
Financial Investments - Held to Maturity	124,404,108	85,018,439
Financial Investments - Fair Value through Profit and Loss	13,746,636	3,311,672
Savings Deposits	13,247,456	7,536,941
Finance Leases	1,628,110	-
Net interest income	3,906,231,603	2,467,538,240
5.2 Interest Expense		
Deposits from Customers	917,273,012	632,294,687
Debentures	69,904,419	64,823,338
Other Borrowings	8,511,811	18,492,845
	995,689,242	715,610,870

Notes to the Financial Statements

	Year ended 31 March	2016 LKR	2015 LKR
6 NET FEE AND COMMISION INCOME			
Trade related Documentation charges		485,813,442	336,146,746
Fee and commission expenses		(75,520,940)	(109,782,746)
		410,292,502	226,364,000
7 OTHER INCOME			
Other Operating Income	7.1	93,062,588	34,977,654
Net Mark to Market Valuation Loss		(26,578,802)	(768,443)
		66,483,786	34,209,211
7.1 Other Operating Income			
Rent Income		43,917,700	29,688,730
Recovery of Loan Balance Written-off		18,540,442	4,989,253
Fair value change in investment properties		14,000,000	-
Reversal of Provision on Available-For-Sale Investments		12,196,283	-
Sundry Income		4,051,291	259,671
Profit from Disposal of Property, Plant & Equipment		296,872	-
Dividend Income		60,000	40,000
Other Operating Income		93,062,588	34,977,654
8 IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES			
Loans and Receivable from Members	8.1	105,918,099	49,476,301
Loans and Receivable from Other Customers	8.2	4,534,052	3,562,666
Other Assets	8.3	-	17,422,559
		110,452,151	70,461,526
8.1 Loans and Advances to Members			
Individual Impairment Losses			
Charge for the year		79,537,316	44,964,411
Recovery during the year		-	(15,525,031)
Collective Impairment Losses		26,380,783	20,036,921
		105,918,099	49,476,301
8.2 Loans and Receivable from Other Customers			
Individual Impairment Losses			
Charge for the year		-	3,562,666
		-	3,562,666

Year ended 31 March	2016 LKR	2015 LKR
8.3 Other Assets		
Other Impairment	4,534,052	17,422,559
	4,534,052	17,422,559
9 PERSONNEL COST		
Salaries and Bonus	568,932,269	429,502,069
Employer's Contribution to Employees' Provident Fund	53,034,203	42,693,197
Other Personnel Cost	45,099,845	28,472,189
Retirement Benefit Cost	31,690,645	29,250,107
Employer's Contribution to Employees' Trust Fund	13,258,552	10,673,300
Total	712,015,514	540,590,862
10 OTHER EXPENSES		
Other Operating Expenses, among others include the following:		
Depreciation on Property, Plant & Equipment	77,562,766	52,352,180
Advertising & Publications	47,292,737	44,537,703
Repairs & Maintenance	56,392,960	44,502,080
Crop Insurance Levy	11,349,144	3,872,913
Amortisation of Intangible Assets	8,790,909	4,532,422
Directors Remuneration	7,565,000	7,359,000
Auditors' Remuneration	6,000,000	7,170,000
Legal Charges	5,395,125	4,489,731
Donation	4,205,029	6,601,623
Loss on Disposal of Property, Plant & Equipment	-	233,430
11 PROVISION FOR VALUE ADDED TAX		
Value Added Tax for the year		
Financial Services	234,120,096	134,226,240
Non Financial Services	-	637,647
Under provision in respect of previous years	-	3,052,182
	234,120,096	137,916,069
Value Added Tax		
The Company's total value addition is subjected to Value Added Tax at 12% up to 31 December 2014 and at 11% from 01 January 2015 as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.		
12 PROVISION FOR NATION BUILDING TAX		
Nation Building Tax for the year		
Financial Services	42,567,290	22,967,874
Non Financial Services	-	222,982
Under provision in respect of previous years	-	323,716
	42,567,290	23,514,572

Notes to the Financial Statements

Year ended 31 March	2016 LKR	2015 LKR
13 INCOME TAX		
Current Income Tax		
Current Income Tax charge	383,361,840	152,862,960
Under provision in respect of previous year	-	2,283,373
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	51,387,093	(32,353,034)
Income tax expense reported in the Statement of Profit or Loss	434,748,933	122,793,299
13.1 Reconciliation Between Tax Expense and the product of Accounting Profit Multiplied by the Statutory Tax Rate		
Accounting profit before tax	1,544,842,138	657,339,675
At the statutory income tax rate of 28% (2015: 28%)	432,555,799	184,055,109
Tax Effect on:		
income exempt from tax	(16,800)	(11,200)
non deductible expenses	131,950,122	95,102,179
deductible expenses	(60,775,954)	(43,972,304)
Current Tax on Profits for the year	503,713,167	235,173,784
Tax effect on utilized tax losses	(120,351,327)	(82,310,825)
Current Income Tax charge	383,361,840	152,862,960
Deferred Taxation Charge/(Reversal)	51,387,093	(32,353,034)
Income tax expense at the effective income tax rate of 28.1% (2015: 18.7%)	434,748,933	120,509,926
13.2 Tax Losses Brought Forward and Utilised during the Year		
Balance at the beginning of the year	429,826,167	723,793,398
Tax Losses Incurred During the Year	-	-
Tax Losses Utilised During the Year	(429,826,167)	(293,967,231)
Tax Losses Not Utilised and Carried Forward	-	429,826,167

Year ended 31 March	2016 LKR	2015 LKR
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:		
Net Profit for the period	1,110,093,205	534,546,376
Profit attributable to Ordinary Shareholders	1,110,093,205	534,546,376
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	0.65	0.31
Balance as at 31 March	2016 LKR	2015 LKR
15 CASH AND CASH EQUIVALENTS		
Cash in hand	50,851,152	14,309,695
Balances with banks	400,372,138	390,031,084
Total	451,223,290	404,340,779
16 LOANS AND ADVANCES TO MEMBERS		
At amortised cost:		
Loans and advances to members	16.1	8,913,718,165
Less: Allowance for Impairment losses	16.2	(154,678,950)
		8,759,039,215
		5,538,291,449
16.1 Product-Wise Analysis of Loans and Advances to Members		
Loans		8,476,840,827
Leases		114,417,229
Saving Advance	16.1.1	181,804,948
Loan against Deposits	16.1.2	140,655,161
		8,913,718,165
		5,614,656,848
16.1.1 Saving Advance		
Saving Advance		186,577,253
Less : Deferred Interest on Concessional lending		(4,772,305)
		181,804,948
		142,033,293

Notes to the Financial Statements

		2016 LKR	2015 LKR
16.1.2 Loan Against Deposits			
Loan Against Deposits		139,511,612	28,732,281
Interest Receivable on Loan against Deposits		1,143,549	753,915
		140,655,161	29,486,196
16.2 Allowance For Impairment Losses			
	Individual Impairment LKR	Collective Impairment LKR	Total LKR
Balance as at 01 April 2014	551,018,247	3,435,582	554,453,829
Charge for the year	44,964,411	20,036,921	65,001,332
Recovered during the year	(15,525,031)	-	(15,525,031)
Written off during the year	(527,564,731)	-	(527,564,731)
Balance as at 31 March 2015	52,892,896	23,472,503	76,365,399
Amount written off	(27,604,548)	-	(27,604,548)
Charge for the year	8.1	79,537,316	105,918,099
Balance as at 31 March 2016	104,825,664	49,853,286	154,678,950
Balance as at 31 March		2016 LKR	2015 LKR
17 LOANS AND ADVANCES TO OTHERS			
Loans to Other Entities		-	105,949,420
Staff Loans	17.1	261,184,797	174,465,981
Mortgage loan		121,862,502	18,057,565
Loans given to others		-	2,011,791
		383,047,299	300,484,757
Less: Allowance for impairment losses	17.2	(3,596,718)	(114,097,683)
		379,450,581	186,387,074
17.1 Staff Loans			
Balance at the beginning of the year		174,465,981	32,691,983
Loans granted during the year		158,249,500	183,703,970
Less: Recovered during the year		(67,030,684)	(41,929,972)
		265,684,797	174,465,981
Less: Fair Value Gain		(4,500,000)	-
		261,184,797	174,465,981

17.2 Allowance for Impairment Losses

	Balance as at 01 April 2014	Impairment charge during the year	Written off during the year	Balance as at 31 March 2015
Staff Loan	4,585,597	-	-	4,585,597
Loan to other entities	109,600,091	-	(3,650,671)	105,949,420
Loan Mortgage	-	3,562,666	-	3,562,666
	114,185,688	3,562,666	(3,650,671)	114,097,683
	Balance as at 01 April 2015	Impairment charge during the year	Written off during the year	Balance as at 31 March 2016
Staff Loans	4,585,597	34,052	(4,585,597)	34,052
Loan to other entities	105,949,420	-	(105,949,420)	-
Loan Mortgage	3,562,666	-	-	3,562,666
	114,097,683	34,052	(110,535,017)	3,596,718
			2016 LKR	2015 LKR

18 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

Unquoted equity securities	12,430,283	234,000
	12,430,283	234,000

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.

	2016		2015	
	Number of Shares	Cost LKR	Number of Shares	Cost LKR
18.1 Investments in Non Quoted Shares				
Credit Information Bureau of Sri Lanka	100	234,000	100	234,000
Standard Credit Lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd	1,742,326	12,196,283	-	-
		50,888,757		38,692,474
Less: Allowance for Impairment losses		(38,458,474)		(38,458,474)
		12,430,283		234,000

Notes to the Financial Statements

		2016 LKR	2015 LKR
Balance as at 31 March			
19 FINANCIAL INVESTMENTS - HELD-TO-MATURITY			
Fixed Deposits		1,015,545,077	15,532,009
Debenture		150,000,000	-
Sri Lanka Government Securities	19.1	1,473,783,398	1,806,565,138
		2,639,328,475	1,822,097,147
19.1 Sri Lanka Government Securities			
Treasury Bills		725,209,836	142,804,936
Repurchase Agreement - REPO		703,104,335	1,627,833,824
		1,428,314,171	1,770,638,760
Interest Receivable		45,469,227	35,926,378
		1,473,783,398	1,806,565,138
20 FINANCIAL ASSETS HELD FOR TRADING			
Cost of Treasury Bond Investment		16,250,272	198,357,922
Interest Receivable		480,000	946,667
		16,730,272	199,304,589
Less: Loss From Mark to Market Valuation		(1,787,152)	(4,390,293)
		14,943,120	194,914,296
As at 31 March 2016	Year of Maturity	Cost of Investment	Face Value Carrying Value
		LKR	LKR
Treasury Bond	01 May 2021	16,250,272	16,000,000
		16,250,272	16,000,000
Balance as at 31 March		2016 LKR	2015 LKR
21 OTHER ASSETS			
Other Financial Assets		128,048,274	93,035,304
Other Non Financial Assets	21.1	68,618,380	63,098,720
		196,666,654	156,134,024
21.1 Other Non Financial Assets			
Other Receivables		78,512,870	73,078,210
Less: Allowance for impairment losses		(9,894,490)	(9,979,490)
		68,618,380	63,098,720

	2016 LKR	2015 LKR	
Balance as at 31 March			
22 INVESTMENTS PROPERTIES			
Land			
Balance at the beginning of the year	315,638,224	315,638,224	
Additions during the Year	4,200,000	-	
Fair Value Adjustment for the period	14,316,945	-	
Balance at the end of the year	334,155,169	315,638,224	
Building			
Balance at the beginning of the year	570,661,776	570,661,776	
Additions during the Year	-	-	
Fair Value Adjustment for the period	(316,945)	-	
Balance at the end of the year	570,344,831	570,661,776	
Net Book Value	904,500,000	886,300,000	
The company carries investment properties at fair value. Valuations of the above investment properties were carried out as at 31 March 2016 by R. S. Wijesuriya, a Professional Independent Valuer. Compnay earned LKR 17 Mn as rental income for the financial year. (2015: 8 Mn).			
23 INTANGIBLE ASSETS			
Cost			
Balance at the beginning of the year	27,255,398	27,255,398	
Transfers during the Year	(3,051,231)	-	
Additions during the Year	68,323,759	-	
Balance at the end of the year	92,527,926	27,255,398	
Amortization and Impairment			
Balance at the beginning of the year	16,540,222	12,007,801	
Transfers during the Year	(943,664)	-	
Charge for the year	9,124,326	4,532,421	
Balance at the end of the year	24,720,884	16,540,222	
Net Book Value	67,807,042	10,715,176	
23.1 Intangible Assets by Class			
	Accumulated Cost	Amortization	Net Book Value
Balance as at 31 March 2015			
Softwares	27,255,398	16,540,222	10,715,176
	27,255,398	16,540,222	10,715,176
Balance as at 31 March 2016			
Softwares	75,158,704	23,562,936	51,595,768
Licenses	17,369,222	1,157,948	16,211,274
	92,527,926	24,720,884	67,807,042

24.1 Carried at Cost/Valuation

		As at 01 April 2014 the Year	Transfers during the Year	Additions during the Year	Disposals during the Year	As at 31 March 2015 the Year	Transfers during the Year	Additions during the Year	Disposals during the Year	As at 31 March 2016
24.1.1 Cost/Fair Value										
Land	183654358	-	-	-	183654358	-	-	-	-	183654358
Building	500945642	-	-	-	500945642	-	-	-	-	500945642
Furniture & Fittings - (Free hold)	39056493	-	7669924	(2525074)	44201343	10105497	(3505926)	5080914	5080914	
Office Equipment - (Free hold)	48611271	-	22595683	(2877906)	68329048	(1211444)	39688376	(1247160)	105568820	
Computer - (Free hold)	55272988	2312208	7671574	(1478200)	63778570	150,000	67,060,778	(912476)	130076872	
Computer - (Lease hold)	15108197	(2312208)	-	(3989)	1279200	(150000)	-	-	126422000	
Motor Cycles - (Free hold)	661,000	-	-	(211,000)	450,000	-	-	-	450,000	
Motor Vehicles	-	-	7000,000	-	7000,000	-	-	-	7000,000	
Motor Vehicles - (lease hold)	12300,000	-	-	-	12300,000	-	-	-	12300,000	
Machinery & Equipment	2638601	-	-	-	2638601	-	-	-	2638601	
Fixtures & Fittings	35,260,986	-	12526,976	(751,000)	47036,06	1211,444	17,044,419	(287,140)	65,004,785	
Network Accessories	19989,004	-	63219,561	-	83208,555	-	14493,171	-	97,701,736	
	913497,640	-	120683,718	(7847,169)	1026334,189	-	148402241	(5952,702)	1,168783,728	
24.1.2 Accumulated Depreciation and Impairment										
Building	-	-	12523641	-	12523641	-	12523641	-	-	25047282
Furniture & Fittings - (Free hold)	31690,343	-	3072505	(2511693)	32251,155	(117,090)	4094,060	(3464,932)	32763,193	
Office Equipment - (Free hold)	16850,496	-	9619,096	(2877,875)	23591,717	146,199	15408,389	(1247,157)	37899,148	
Computer - (Free hold)	34,718,059	1,425,862	61,374,51	(1395,758)	40885,614	(145,644)	10,086,235	(891,815)	49934,390	
Computer - (Lease hold)	3,779,417	(1,425,862)	2895,862	(2,194)	5247,223	(70,001)	2533,646	-	7710,868	
Motor Cycles - (Free hold)	661,000	-	-	(211,000)	450,000	-	-	-	450,000	
Motor Vehicles	-	-	233,333	-	233,333	-	1,400,000	-	1,633,333	
Motor Vehicles - (lease hold)	1,333,333	-	2460,000	-	3793,333	-	2460,000	-	6253,333	
Machinery & Equipment	1,674,422	-	527721	-	2202,143	-	407,991	-	2610,134	
Fixtures & Fittings	7,330,204	-	8260,052	(331,953)	15258,303	197,775	11,579,832	(86,143)	26949,767	
Network Accessories	2800,220	-	6622,521	-	9422,741	(11,239)	17,679,225	-	27,090,727	
	100,837,494	-	52,352,182	(7,330,473)	145859,203	-	78,173,019	(5690,047)	218342,175	

	As at 2016	As at 2015
24 PROPERTY, PLANT & EQUIPMENT (CONTD.)		
24.1 Carried at cost/Valuation (Contd.)		
24.1.3 Written Down Value		
Land	183,654,358	183,654,358
Building	475,898,360	488,422,001
Furniture & Fittings - (Free hold)	18,037,721	11,950,188
Office Equipment - (Free hold)	67,669,672	44,737,331
Computer - (Free hold)	80,142,482	22,892,956
Computer - (Lease hold)	4,931,132	7,544,777
Motor Cycles - (Free hold)	-	-
Motor Vehicles	5,366,667	6,766,667
Motor Vehicles - (Lease hold)	6,046,667	8,506,667
Machinery & Equipment	28,467	436,458
Fixtures & Fittings	38,055,018	31,777,759
Network Accessories	70,611,009	73,785,824
	950,441,553	880,474,986
24.2 Building Work in Progress		
Balance at the beginning of the year	-	8,203,199
Impairment Provision made during the year	-	(8,203,199)
Balance at the end of the year	-	-
25 DEFERRED TAX LIABILITY/(ASSET)		
Balance at the beginning of the year	(5,978,982)	27,714,187
Transfer from/(to) Income statement	51,387,093	(32,353,034)
Transfer from/(to) other comprehensive income	3,618,070	(1,340,135)
Balance at the end of the year	49,026,181	(5,978,982)
Deferred tax assets, liabilities relates to the following		
Deferred tax liabilities		
Accelerated depreciation for tax purposes	91,689,042	123,586,404
Revaluation surplus on Buildings	-	24,102,059
Deferred tax assets		
Retirement benefit obligation	(37,627,339)	(33,375,048)
Unutilised tax losses	-	(120,292,397)
Finance leases	(5,035,522)	-
Net deferred tax liabilities	49,026,181	(5,978,982)

Based on current year profits, an accumulated tax loss of LKR 429,826,167 has fully been claimed and hence no future deferred tax implication arises.

Notes to the Financial Statements

	Balance as at 31 March	2016 LKR	2015 LKR
26 DUE TO CUSTOMERS			
Fixed deposits	8,672,682,124	6,475,543,527	
Deferred Transaction Cost	(47,940,218)	(45,619,095)	
Interest Payable on Fixed Deposits	244,947,964	132,247,247	
	8,869,689,870	6,562,171,679	
Savings Deposits	1,550,729,036	995,741,693	
	10,420,418,906	7,557,913,372	
27 DEBT ISSUED AND OTHER BORROWED FUNDS			
Redeemable Debentures	27.1	770,337,308	768,975,024
Borrowings		84,997,000	-
Finance leases		54,238,152	46,159,753
	909,572,460	815,134,777	
27.1 Redeemable Debentures			
Balance at the beginning of the year		765,000,000	765,000,000
Interest payable to Debenture Holders		5,337,308	3,975,024
	770,337,308	768,975,024	

27.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2016	Outstanding as at 31 March 2015
2010	Seylan Bank PLC	001	Secured	125,000,000	125,000,000
2010	Seylan Bank PLC	002	Secured	200,000,000	200,000,000
2010	Seylan Bank PLC	003	Secured	200,000,000	200,000,000
2010	Seylan Bank PLC	004	Secured	140,000,000	140,000,000
2013	Prime Lands (Private) Limited	001	Unsecured	100,000,000	100,000,000
				765,000,000	765,000,000

The outstanding debentures amounting to LKR 665,000,000 issued to Seylan Bank is redeemable from 2020 to 2040 and with interest payments at annual average Treasury bill Rate as per the rescheduling terms agreed with Seylan Bank.

During the year 2013/2014, The loan balance due to Prime Land (Private) Limited amounting to LKR 100,000,000 has been converted to unsecured subordinated Non Convertible Debentures. This Debenture is redeemable on 16 June 2018 with interest payments at the rate of 17% p.a as per the terms agreed with Prime Land (Private) Limited.

		2016 LKR	2015 LKR
Balance as at 31 March			
28 PROVISION FOR INCOME TAX			
Balance at the beginning of the year		109,483,565	60,759,171
Provision for the year		383,361,840	152,862,960
Under Provision during Previous year		-	2,283,373
		492,845,405	215,905,504
Payment made During the year		(201,303,324)	(96,916,342)
WHT Paid		(1,129,598)	(218,945)
Notional Tax		(12,172,457)	(9,286,652)
Balance at the end of the year		278,240,026	109,483,565
29 VALUE ADDED TAX PAYABLE			
Balance at the beginning of the year		114,718,215	214,811,940
Provisions made			
VAT on Financial Services		234,120,096	134,226,240
VAT on Non Financial Services		-	955,190
Under Provision during Previous Years		-	3,052,182
		348,838,311	353,045,552
Payments made during the year		(307,532,596)	(238,327,337)
		41,305,715	114,718,215
30 OTHER LIABILITIES			
Other Financial Liabilities	30.1	120,332,406	42,663,188
Other Non Financial Liabilities	30.2	30,528,538	54,132,383
		150,860,944	96,795,571
30.1 Other Financial Liabilities			
Mehewara Fund		538,050	1,323,990
Other Payables		119,794,356	41,339,198
		120,332,406	42,663,188
30.2 Other Non Financial Liabilities			
NBT Payable		5,038,079	2,801,947
WHT Payable		1,499,027	1,511,095
Other Payables		23,991,432	49,819,341
		30,528,538	54,132,383

Notes to the Financial Statements

		2016 LKR	2015 LKR
Balance as at 31 March			
31 RETIRING BENEFIT OBLIGATION			
Movements in Present Value of the Retirement Benefit Obligation are as follows.			
Balance at the beginning of the year		119,196,601	94,632,482
Add: Retiring gratuity expenses	31.1	18,768,967	32,662,894
		137,965,568	127,295,376
Less: Benefits paid during the year		(3,582,213)	(8,098,775)
Balance at the end of the year		134,383,355	119,196,601
31.1 Retiring Gratuity Expense			
Current Service Cost		18,377,698	18,830,290
Interest Cost		13,312,948	10,419,817
		31,690,646	29,250,107
Actuarial (Gain)/Loss		(12,921,679)	3,412,787
		18,768,967	32,662,894

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31 March 2016 using "Projected Unit Credit Method" as recommended by Sri Lanka Accounting Standards (LKAS 19) - Employee Benefits.

The principal assumptions used in the actuarial valuations are as follows:

Long term Interest Rate	10.5%	9.5% p.a
Retirement Age	55 years	55 years
Future Salary Increase Rate	9.5%	10%

Assumptions regarding future Mortality is based on 1967-70 Mortality Table issued by the Institute of Actuaries, London. The defined benefit obligation is not externally funded. Actuarial gain on defined benefit plan is recognized 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;

	Present Value of Defined Benefit Obligation
Discount Rate	
1% less	140,816,750
1% More	128,574,900
	Present Value of Defined Benefit Obligation
Salary Escalation Rate	
1% less	128,473,164
1% More	140,816,750

32 STATED CAPITAL

	Issued and Fully Paid Voting Ordinary Shares	Issued and Fully Paid Non Voting Ordinary Shares	Total
	Number	Number	Number
Balance on 01 April 2014	1,421,380,624	298,200,000	1,719,580,624
Share Issued During the year	-	-	-
Balance on 31 March 2015	1,421,380,624	298,200,000	1,719,580,624
Share Issued During the year	-	-	-
Capital Reduction	-	-	-
Balance on 31 March 2016	1,421,380,624	298,200,000	1,719,580,624
<hr/>			
	LKR	LKR	LKR
Balance on 01 April 2014	913,806,240	2,982,000,000	3,895,806,240
Share Issued During the year	-	-	-
Balance on 31 March 2015	913,806,240	2,982,000,000	3,895,806,240
Share Issued During the year	-	-	-
Capital Reduction	729,026,759	2,943,234,000	3,672,260,759
Balance on 31 March 2016	184,779,481	38,766,000	223,545,481

The Company carried out a capital reduction of LKR 3.6 Bn with the approval of shareholders, granted at the Annual General Meeting held 17 July 2015.

	2016 LKR	2015 LKR
33 GENERAL RESERVE		
Balance at the beginning of the year	82,897,989	82,897,989
Balance at the end of the year	82,897,989	82,897,989

34 OTHER STATUTORY RESERVES

	Statutory Reserve Fund	Investment Fund	Total
Balance on 01 April 2014	97,824,884	61,395,350	159,220,234
Transferred during the year	106,909,275	(61,395,350)	45,513,925
Balance on 31 March 2015	204,734,159	-	204,734,159
Transferred during the year	222,018,641	-	222,018,641
Balance on 31 March 2016	426,752,800	-	426,752,800

34.1 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.

Notes to the Financial Statements

34.2 Investment Fund

"In terms of Budget Proposals 2011 and subsequent guideline dated 29 April 2011 issued by the Central Bank of Sri Lanka, the Company has made transfers to the investment fund to build up a permanent fund within the Company as follows;

- i. 5% of the profits before tax calculated for the payment of Income Tax purposes on dates specified in Section 113 of the Inland Revenue Act No.10 of 2006 for the Self Assesment payment of taxes.
- ii. 8% of the Profit calculated for the payment of Value Added Tax on Financial Services on dates as specified in the Value Added Tax No. 14 of 2002 for the payment of Taxes.

As per the Central Bank's Letter dated 31 July 2014, Operations of the Investment Fund has ceased with effect from 01 October 2014. Accordingly remaining balance in Investment Fund Account (IFA) has been transferred to Retained Earnings through the Statement of Changes in Equity.

35 CAPITAL COMMITMENTS

There are no capital commitments as at 31 March 2016.

36 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.

37 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2016.

38 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 38.1 and 38.2.

38.1 Transactions With Parent Company and Related Companies

During the year ended 31 March 2016 and 2015, the Company has carried out transactions with its related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

	2016 LKR	2015 LKR
Balance as at 31 March		
38.1.1 Transactions with the Parent Company		
Hatton National Bank PLC is the parent and the ultimate controlling party of the company		
Statement of Profit or Loss		
Interest Income - Financial Investments - Held to Maturity	16,045,082	-
Interest Income - Savings Deposits	2,647,292	-
Interest Expense - Other Borrowings	7,376,090	-
Other expenses - Bank Charges	424,868	84,025
Statement of Financial Position		
Cash And Cash Equivalents - Balances with banks	116,603,679	8,624,205
Financial Investments - Held-To-Maturity - Fixed Deposits	1,000,000,000	-
Financial Investments - Held-To-Maturity - Debenture	150,000,000	-
Debt Issued And Other Borrowed Funds - Borrowings	84,997,000	-
Debt Issued And Other Borrowed Funds - Finance leases	24,606,557	-
38.1.2 Transactions with Related Companies		
Statement of Profit or Loss		
Other Operating Income - Rent Income	390,000	390,000
Interest Expense - Debentures	17,046,575	17,000,000
Fixed Deposit interest expenses	3,144,086	3,048,697
Other expenses - Vehicle rent	2,721,096	3,229,860
Interest Expense - Other Borrowings	-	6,700,379
Statement of Financial Position		
Debt Issued And Other Borrowed Funds - Redeemable Debentures	100,000,000	100,000,000
Due To Customers - Fixed Deposits	33,360,986	33,360,986
Debt Issued And Other Borrowed Funds - Other Borrowings	-	56,500,000
38.2 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.		
38.2.1 Compensation Paid To Key Management Personnel of The Company		
	2016 LKR	2015 LKR
Balance as at 31 March		
The following represents the compensation paid to Key Management Personnel of the company		
Short-term Benefits	7,565,000	5,767,000
Retirement Benefits	-	1,592,000

Notes to the Financial Statements

38.2.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

The Company enters into 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 unfavorable features.

Balance as at 31 March	2016 LKR	2015 LKR
Statement of Profit or Loss		
Interest Expense - Deposits from Customers	6,207,805	1,931,975
Statement of Financial Position		
Due To Customers - Fixed Deposits	121,728,379	32,602,476

39 PLEDGED ASSETS

Nature of Assets	Nature of Liability	Carrying Amount Pledged		
		2016 LKR	2015 LKR	Included under
Immovable Properties	First Mortgage for Loans and Borrowings	886,300,000	872,300,000	Investment Properties
Leased Assets	Charged over Leased Assets on Finance Lease Liabilities	10,977,799	16,051,444	Property, Plant & Equipment

40 FINANCIAL RISK MANAGEMENT

40.1 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.

40.2 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.

40.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers and investment in debt securities.

a) Allowances for Impairment

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of customer receivables. The Company policy on impairment consists of allowance for individual impairment that identified based on specific loss event and a collective impairment established for similar receivables in term of their Credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

b) Write-off Policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardized 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 pressurized by the other members to pay installments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the company. Immovable assets are taken as securities for high valued loan disbursements such as Abhilasha. Other Securities such as personal guarantees are taken for Diriya and Swashakthi Loan facilities. In this context group members will be cross-guarantors each other by which they are pressurized 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 2016 (2015: no collaterals held).

Notes to the Financial Statements

40 FINANCIAL RISK MANAGEMENT

40.3 Credit Risk

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 authorization structure for the approval and renewal of credit facilities. Authorization 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.

40.3.1 Credit Quality by Class of Financial Assets

As at 31 March 2016	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	451,223,290	-	-	451,223,290
Loans and Advances to members	8,608,100,975	305,617,190	154,678,950	8,759,039,215
Loans and Advances to others	379,847,299	3,200,000	3,596,718	379,450,581
Financial Investments - Available-For-Sale	12,430,283	-	-	12,430,283
Financial Investments - Held-To-Maturity	2,639,328,475	-	-	2,639,328,475
Financial Assets Held for Trading	14,943,120	-	-	14,943,120
Other Financial Assets	128,048,274	-	-	128,048,274
Total Financial Assets	12,233,921,716	308,817,190	158,275,668	12,384,463,238

As at 31 March 2016	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and Advances to members	114,954,288	30,323,207	19,093,733	141,245,961	305,617,190
Loans and Advances to others	-	-	3,200,000	-	3,200,000
	114,954,288	30,323,207	22,293,733	141,245,961	308,817,190

40.3.2 Maximum Exposure of Financial Assets

As at 31 March 2016	Gross carrying amount	(Net of provision)	Net exposure
Cash and cash equivalents	451,223,290	451,223,290	
Loans and Advances to members	8,759,039,215	8,322,161,877	
Loans and Advances to others	379,450,581	260,788,078	
Financial Investments - Available-For-Sale	12,430,283	-	
Financial Investments - Held-To-Maturity	2,639,328,475	735,428,906	
Financial Assets Held for Trading	14,943,120	-	
Other Financial Assets	128,048,274	128,048,274	
Total Financial Assets	12,384,463,238	9,897,650,425	

40.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements. The treasury manages the liquidity position as per the treasury policies and procedures.

The treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at Company ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to Monthly ALCO meetings.

The Company relies on Fixed Deposits, savings and debt facility by banks were our main primary sources of funding. Company actively manages this risk through maintaining competitive pricing and constant

40.4.1 The Maturity Analysis of Financial Assets and Liabilities Based on Undiscounted Gross Inflow and Outflow

As at 31 March 2016	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Cash and cash equivalents	451,223,290	451,223,290	451,223,290	-	-
Loans and Advances to members	8,759,039,215	10,357,833,260	3,938,123,440	5,985,666,228	434,043,593
Loans and Advances to others	379,450,581	495,883,702	16,393,591	66,864,676	412,625,434
Financial Investments -					
Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial Investments -					
Held-To-Maturity	2,639,328,475	2,754,709,875	1,962,626,080	574,583,795	217,500,000
Financial Assets Held for Trading	14,943,120	24,170,272	720,000	720,000	22,730,272
Other Financial Assets	128,048,274	128,048,274	128,048,274	-	-
	12,384,463,238	14,224,298,955	6,497,134,675	6,627,834,699	1,099,329,582
Due to customers	10,420,418,907	11,664,733,816	2,977,762,297	3,610,631,624	5,076,339,895
Debt issued and other borrowed funds	909,572,460	1,816,661,910	39,649,821	100,035,474	1,676,976,615
Other Financial Liabilities	120,332,406	120,332,406	120,332,406	-	-
	11,450,323,773	13,601,728,132	3,137,744,524	3,710,667,098	6,753,316,510
Liquidity gap related period	-	622,570,823	3,359,390,151	2,917,167,601	(5,653,986,928)
Liquidity gap Cumulative	-	-	3,359,390,151	6,276,557,751	622,570,823

Notes to the Financial Statements

40.5 Market Risk

The Company is exposed to market risk due to changes in interest rates.

The Company ensures the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are monitored by the treasury division which get advises from the ALCO meetings.

40.5.1 Sensitivity Analysis

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows;

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2016
Interest earning assets					
Cash and cash equivalents	451,223,290	-	-	-	451,223,290
Financial investments - Held-To-Maturity	1,954,113,933	535,214,542	150,000,000	-	2,639,328,475
Financial assets held for trading	14,943,120	-	-	-	14,943,120
Loans and advances to members (gross)	3,266,139,961	5,259,780,186	386,346,007	1,452,011	8,913,718,165
Loans and advances to others (gross)	10,019,859	38,373,324	277,381,238	57,272,876	383,047,297
Total interest earning assets	5,696,440,163	5,833,368,053	813,727,245	58,724,887	12,402,260,347
Interest bearing liabilities					
Due to customers	2,745,784,899	3,118,993,134	4,478,211,761	77,429,113	10,420,418,907
Debt issued and other borrowed funds	16,408,228	33,409,981	194,754,251	665,000,000	909,572,460
Total interest bearing liabilities	2,762,193,127	3,152,403,115	4,672,966,012	742,429,113	11,329,991,367
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,934,247,036	2,680,964,937	(3,859,238,767)	(683,704,226)	1,072,268,980
Effect on profitability by 1 percent increase in interest rates - increase/(decrease) in profits - annualized effect	29,342,470	26,809,649	(38,592,388)	(6,837,042)	-
Effect on profitability by 1 percent decrease in interest rates - increase/(decrease) in profits - annualized effect	(29,342,470)	(26,809,649)	38,592,388	6,837,042	-

41 Maturity Analysis of Assets and Liabilities

	As at 31 March 2016	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets									
Cash and Cash Equivalents									
Cash and Advances to members	451,223,290	-	-	-	-	-	-	-	451,223,290
Loans and Advances to others	3,143,047,194	2,669,185,141	2,561,177,767	334,555,939	49,629,284	1,443,890	-	-	8,759,039,215
Financial Investments- available-for-sale	6,423,142	11,986,693	26,386,632	149,946,326	127,434,912	57,272,876	-	-	379,450,581
Financial Investments- held-to-maturity	-	-	-	-	-	-	-	-	12,430,283
Financial Assets Held for Trading	1,954,113,933	19,631,477	515,583,065	-	150,000,000	-	-	-	2,639,328,475
Other Assets	14,943,120	-	-	-	-	-	-	-	14,943,120
Investment Properties	88,006,791	35,799,694	18,675,527	41,852,563	5,821,396	6,510,683	-	-	196,666,654
Intangible Assets	-	-	-	-	-	-	-	-	904,500,000
Property, Plant & Equipment	5,657,757,470	2,736,603,005	3,121,822,991	526,354,828	332,885,592	65,227,449	1,935,178,878	14,375,830,213	
Liabilities									
Due to customers									
Debt issued and other borrowed funds	2,745,784,896	946,793,068	2,172,200,057	3,763,159,491	715,052,271	77,429,113	-	-	10,420,418,906
Income Tax Payable	16,408,228	11,103,119	22,306,862	168,457,751	26,296,500	665,000,000	-	-	909,572,460
Value added tax payable	-	278,240,026	-	-	-	-	-	-	278,240,026
Other Liabilities	41,305,715	-	-	-	-	-	-	-	41,305,715
Retiring Benefit Obligation	150,860,944	-	-	-	-	-	-	-	150,860,944
Deferred Tax Liability	-	-	-	-	-	-	-	-	134,383,355
Shareholder's Fund	2,954,359,783	1,236,136,213	2,194,506,929	3,931,617,242	741,348,771	742,429,113	2,575,432,162	14,375,830,213	

41 Maturity Analysis of Assets and Liabilities (Contd.)

	As at 31 March 2015	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets									
Financial Investments									
Cash and Cash Equivalents	404,340,780	-	-	-	-	-	-	-	404,340,780
Loans and Advances to members	2,261,774,226	1,869,869,280	1,378,295,952	27,151,019	1,200,969	-	-	-	5,538,291,446
Loans and Advances to others	965,146	7,680,746	11,785,163	65,516,776	93,843,317	6,595,927	-	-	186,387,075
Financial investments- available-for-sale	-	-	-	-	-	-	-	-	234,000
Financial investments- held-to-maturity	1,478,344,952	32,687,131	311,065,064	-	-	-	-	-	1,822,097,147
Financial Assets Held for Trading	194,914,296	-	-	-	-	-	-	-	194,914,296
Other Assets	12,398,405	63,744,220	6,976,773	22,981,637	2,710,413	590,130	46,732,446	156,134,024	
Investment Properties	-	-	-	-	-	-	-	-	885,300,000
Intangible Assets	-	-	-	-	-	-	-	-	10,715,177
Property, Plant & Equipment	-	-	-	-	-	-	-	-	880,474,985
Deferred Tax Asset	-	-	-	-	-	-	-	-	5,978,982
	4,352,737,805	1,973,981,377	1,708,122,952	115,649,432	97,754,699	7,186,057	1,830,435,590	10,085,867,911	
Liabilities									
Bank Overdraft									
Due to customers	1,715,380,118	745,641,609	1,995,388,816	2,592,884,385	508,618,443	-	-	-	7,557,913,371
Debt issued and other borrowed funds	5,338,346	1,062,433	2,213,967	6,686,375	100,000,000	665,000,000	-	-	780,301,121
Income Tax Payable	-	109,483,565	-	-	-	-	-	-	109,483,565
Value added tax payable	27,445,343	21,000,000	42,000,000	24,272,872	-	-	-	-	114,718,215
Other Liabilities	67,391,549	10,236,399	13,228,081	27,944,994	1,043,720	7,335,229	4,449,254	131,629,226	
Retiring Benefit Obligation	-	-	-	-	-	-	-	-	119,196,601
Shareholder's Fund	-	-	-	-	-	-	-	-	1,272,625,812
	1,815,555,356	887,424,006	2,052,830,864	2,651,788,626	609,662,163	672,335,229	1,396,271,667	10,085,867,911	

42 FAIR VALUE OF ASSETS AND LIABILITIES

42.1 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.

42.1.1 Financial Investments - Available-For-Sale

Available-For-Sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

42.1.2 Financial Assets at Fair Value through Profit or Loss - Held for Trading

Financial assets held for trading consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

42.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 42.3.2. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

42.1.4 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 42.4.1 and 42.4.2.

Notes to the Financial Statements

42.2 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.

42.2.1 Loans and Receivables to Customers

The estimated fair value of loans and receivables with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

42.2.2 Financial Investments Held to Maturity

Financial assets held to maturity consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

42.2.3 Due to Customers

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

42.2.4 Debt Securities Issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

42.3 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 2016	Fair Value		Amortized cost - Loans and Receivable	Amortized cost- Held to Maturity	Total carrying amount	Fair Value	Fair Value Hierarchy
	through Profit and Loss	Available For Sale					
Cash and Cash Equivalents	-	-	451,223,290	-	451,223,290	451,223,290	-
Investments in Government Securities							
- Measured at fair value	14,943,120	-	-	-	14,943,120	14,943,120	Level - I
- Measured at amortized cost	-	-	-	1,473,783,398	1,473,783,398	1,473,783,398	-
Investment Fixed deposits & Debentures	-	-	1,165,545,077	-	1,165,545,077	1,165,469,465	Level - II
Financial Investments							
Available For Sale	-	12,430,283	-	-	12,430,283	12,430,283	-
Finance Lease Receivables	-	-	114,417,229	-	114,417,229	116,922,599	Level - II
Loans and Advances to Members and Others	-	-	9,138,489,796	-	9,138,489,796	8,722,948,341	Level - II
Other financial Assets	-	-	128,048,274	-	128,048,274	128,048,274	-
Due to customers	-	-	10,420,418,906	-	10,420,418,906	10,418,220,834	Level - II
Debt issued and other borrowings	-	-	909,572,460	-	909,572,460	897,267,738	Level - II
Other financial liabilities	-	-	120,332,406	-	120,332,406	120,332,406	-

42.4 Valuation of Non-Financial Assets

42.4.1 Changes in Value of Non-Financial Assets

	As at 31 March 2016			Cost/Carring Amount			Fair Value	
	Building Sqft	Extent Perches	Land	Building	Total	Land	Building	Total
Property, Plant & Equipment								
No. 94/96/1, Kandy Rd, Kurunegala.	5,755	7.1	19,600,266	60,799,747	80,400,013	19,600,266	60,799,747	80,400,013
No. 46/A, Thangalle Rd, Hambanthota.	2,113	9.3	6,605,752	10,824,556	17,430,288	6,605,752	10,824,536	17,430,288
No. 677, William Copallawa Mw, Kandy.	5,400	9.3	18,642,581	51,639,548	70,282,129	18,642,581	51,639,548	70,282,129
No. 168, Nawala Rd, Nuwegoda.	30,887	25.9	138,805,759	352,634,529	491,440,288	138,805,759	352,634,529	491,440,288
			183,654,358	475,898,360	659,552,718	183,654,358	475,898,360	659,552,718
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nuwegoda.	24,952	396	151,063,000	407,937,000	559,000,000	156,474,658	407,525,342	564,000,000
Vihara Road, Rankewatte, Matale.	Land	15.0	9,000,000	-	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	-	12,800,000	12,800,000	-	12,800,000
No. 465/1, Old Police Station Road, Kahathuduwa.	20,494	182.6	49,008,000	71,992,000	121,000,000	54,740,871	70,259,129	125,000,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8.0	25,267,000	90,733,000	116,000,000	28,439,640	92,560,360	121,000,000
No. 06, Abaya Place, 7th Lane, Anuradhapura.	Land	13.5	20,000,000	-	20,000,000	20,000,000	-	20,000,000
No. 10/11, Galle Road, Katubedda, Moratuwa.	Land	23.0	34,500,000	-	34,500,000	34,500,000	-	34,500,000
Adampodaiyaiyal, Adampodaimalalkadu, Trincomalee.	Land	7240	14,000,000	-	14,000,000	14,000,000	-	14,000,000
Nalluruwa, Pandura.	Land	17.8	4,200,000	-	4,200,000	4,200,000	-	4,200,000
			319,838,000	570,662,000	890,500,000	334,155,169	570,344,831	904,500,000
As at 31 March 2015								
Property, Plant & Equipment								
No. 94/96/1, Kandy Rd, Kurunegala.	5,755	7.1	19,600,266	62,399,740	82,000,006	19,600,266	62,399,740	82,000,006
No. 46/A, Thangalle Rd, Hambanthota.	2,113	9.3	6,605,752	11,109,393	17,715,145	6,605,752	11,109,393	17,715,145
No. 677, William Copallawa Mw, Kandy.	5,400	9.3	18,642,581	52,998,483	71,641,064	18,642,581	52,998,483	71,641,064
No. 168, Nawala Rd, Nuwegoda.	30,887	25.9	138,805,759	361,914,385	500,720,144	138,805,759	361,914,385	500,720,144
			183,654,358	488,422,001	672,076,359	183,654,358	488,422,001	672,076,359
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nuwegoda.	24,952	396	151,063,000	407,937,000	559,000,000	151,063,000	407,937,000	559,000,000
Vihara Road, Rankewatte, Matale.	Land	15.0	9,000,000	-	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	-	12,800,000	12,800,000	-	12,800,000
No. 465/1, Old Police Station Road, Kahathuduwa.	20,494	182.6	49,008,000	71,992,000	121,000,000	49,008,000	71,992,000	121,000,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8.0	25,267,000	90,733,000	116,000,000	25,267,000	90,733,000	116,000,000
No. 06, Abaya Place, 7th Lane, Anuradhapura.	Land	13.5	20,000,000	-	20,000,000	20,000,000	-	20,000,000
No. 10/11, Galle Road, Katubedda, Moratuwa.	Land	23.0	34,500,000	-	34,500,000	34,500,000	-	34,500,000
Adampodaiyaiyal, Adampodaimalalkadu, Trincomalee.	Land	7240	14,000,000	-	14,000,000	14,000,000	-	14,000,000
			315,638,000	570,662,000	885,300,000	315,638,000	570,662,000	885,300,000

Notes to the Financial Statements

42.4.2 Valuation Details of Non-Financial Assets

	Valuation Method	Range of estimates for unobservable inputs				
		Value per perch (Land)	Value per sq. ft. (Building)	Estimated rent per month	Discount Rate	Rate per perch for land
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	Cost approach	2,500,000	10000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	350,000	4000	73,000	-	-
No. 677, William Gopallawa Mw, Kandy.	Cost approach	2,000,000	10000	300,000	-	-
No. 168, Nawala Rd , Nugegoda.	Income approach	-	-	2,000,000	20%	-
Investment Properties						
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	Income approach	-	-	1,700,000	20%	-
Vihara Road, Rankewatte, Matale.	Market Comparable Method	-	-	-	-	600,000
No. 44/1, Service Road, Puttalam.	Market Comparable Method	-	-	-	-	500,000
No. 465/1, Old Police Station Road, Kahathuduwa.	Income approach	-	-	450,000	20%	-
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	Income approach	-	-	450,000	20%	-
No. 06, Abaya Place, 7th Lane, Anuradapura.	Market Comparable Method	-	-	-	-	1,500,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Market Comparable Method	-	-	-	-	1,500,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Market Comparable Method	-	-	-	-	20,000
Nalluruwa, Panadura.	Market Comparable Method	-	-	-	-	235,000

43 SEGMENT REPORTING

An operating segment is a component of the company that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the company's other components, whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

HNB Grameen has three main segments, namely Finance, Leasing and Others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the company as well as to make decisions about resource allocation.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the financial statements.

There are no inter-segment transactions occurred during the year.

Income taxes are allocated to specific segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidated adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2014/15 and 2015/16 financial years.

	Financial		Leasing		Others		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
Net Interest Income	2,757,899,776	1,657,956,807	1,244,385	-	151,398,200	95,867,052	2,910,542,361	1,753,823,859
Net Fee and Commision Income	409,498,264	226,364,000	794,238	-	-	-	410,292,502	226,364,000
Net loss from Trading	-	-	-	-	(24,791,650)	(768,443)	(24,791,650)	(768,443)
Net loss from Financial Investments	-	-	-	-	(1,787,152)	-	(1,787,152)	-
Other operating income	18,454,352	4,989,253	86,090	-	74,522,146	38,333,433	93,062,588	43,322,686
Total Operating Income	3,185,852,392	1,889,310,060	2,124,713	-	199,341,544	133,432,042	3,387,318,649	2,022,742,102
Impairment charges for Loan & Other Losses	(110,452,151)	(70,461,526)	-	-	-	-	(110,452,151)	(70,461,526)
Net Operating Income	3,075,400,241	1,818,848,534	2,124,713	-	199,341,544	133,432,042	3,276,866,498	1,952,280,576
Operating Profit/(loss)	1,347,112,837	523,907,633	(1,612,243)	-	199,341,544	133,432,042	1,544,842,138	657,339,675
Income Tax Expenses	(378,654,222)	(97,868,193)	-	-	(56,094,711)	(24,925,106)	(434,748,933)	(122,793,299)
Profit/(loss) for the year	968,458,615	426,039,440	(1,612,243)	-	143,246,833	108,506,936	1,110,093,205	534,546,376
Total Assets	11,537,130,807	8,200,438,046	118,322,268	-	2,720,377,138	1,885,429,867	14,375,830,213	10,085,867,913
Total Liabilities	10,784,016,554	7,856,687,283	119,934,511	-	1,079,856,522	956,554,818	11,983,807,587	8,813,242,101

Share Information

Ten Largest Shareholders - Voting

No	Shareholders Name	31 March 2016		31 March 2015	
		No of Shares	%	No of Shares	%
1	Hatton National Bank PLC	724,904,118	51.00	724,904,118	51.00
2	Prime Lands (Private) Limited	675,091,533	47.50	675,091,533	47.50
3	B M D Chaminda Prabhath	1,000,000	0.07	1,000,000	0.07
4	H M U Senevirathna	150,000	0.01	150,000	0.01
5	W S P Arangala	110,000	0.01	110,000	0.01
6	S L Y Liyanawatte	102,500	0.01	102,500	0.01
7	S T D Peris	101,000	0.01	101,000	0.01
8	J S B Galagoda	101,000	0.01	101,000	0.01
9	W B A Fernando	100,500	0.01	100,500	0.01
10	S A R Fernando	100,500	0.01	100,500	0.01
Sub Total		1,401,761,151	98.62	1,401,761,151	98.62
Others		19,619,473	1.38	19,619,473	1.38
Total		1,421,380,624	100.00	1,421,380,624	100.00

Largest Shareholders - Non Voting

No	Shareholders Name	31 March 2016		31 March 2015	
		No of Shares	%	No of Shares	%
1	Seylan Bank PLC	233,200,000	78.20	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67	37,772,148	12.67
	Prime Grameen Class A Non-Voting Share Trust - Trustee (Varners				
3	International (Lanka) (Private) Limited)	27,227,852	9.13	27,227,852	9.13
Total		298,200,000	100.00	298,200,000	100.00

Distribution of Shareholders - Voting

Shareholding Range	As at 31 March 2016				As at 31 March 2015			
	No. of shareholders	%	No. of Shares	%	No. of shareholders	%	No. of Shares	%
1 - 1,000	99,530	99.157	16,997,804	1.20	99,530	99.157	16,997,804	1.20
1,001 - 10,000	810	0.807	1,573,143	0.11	810	0.807	1,573,143	0.11
10,001 - 100,000	25	0.025	948,426	0.07	25	0.025	948,426	0.07
100,001 - 1,000,000	9	0.009	1,865,600	0.13	9	0.009	1,865,600	0.13
Over 1,000,000	2	0.002	1,399,995,651	98.50	2	0.002	1,399,995,651	98.50
Total	100,376	100.00	1,421,380,624	100.00	100,376	100.00	1,421,380,624	100.00

Analysis of Shareholding - Voting

Shareholding	As at 31 March 2016			As at 31 March 2015		
	No. of shareholders	Total Holding	%	No. of shareholders	Total Holding	%
Institution	2	1,399,995,651	98.50	2	1,399,995,651	98.50
Individual	100,374	21,384,973	1.50	100,374	21,384,973	1.50
Total	100,376	1,421,380,624	100.00	100,376	1,421,380,624	100.00

Analysis of Shareholding - Non Voting

Shareholding	As at 31 March 2016			As at 31 March 2015		
	No. of shareholders	Total Holding	%	No. of shareholders	Total Holding	%
Institution	2	270,972,148	90.87	2	270,972,148	90.87
Prime Grameen Class A Non-Voting Share Trust - Trustee (Varners International (Lanka) (Private) Limited)	1	27,227,852	9.13	1	27,227,852	9.13
Total	3	298,200,000	100.00	3	298,200,000	100.00

Notes

Notes

Notice of Meeting

HNB Grameen Finance Limited
Annual Report 2015/16

Notice is hereby given that the Sixth (6th) Annual General Meeting of HNB Grameen Finance Limited is convened on Thursday the Twenty First (21st) day of July 2016, at the Auditorium on Level 6 of "HNB Grameen Building" at No. 168, Nawala Road, Nugegoda at 10.00 in the forenoon to transact the following business.

- i. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31st March 2016 and the Auditors' Report thereon.
- ii. To declare a final dividend of Rs. 0.06 per share for the year ending 31st March 2016, to the shareholders as recommended by the Directors.
- iii. To re-elect Anushka Sheran Wijesinha, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 87(a) of the Articles of Association of the Company.
- iv. To re-elect Sampahawaduge Udan Hithesi Fernando, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 87(a) of the Articles of Association of the Company.
- v. To re-elect Antonio Jonathan Alles who retires by rotation at the Annual General Meeting, as a Director of the Company in terms of Article 96 of the Articles of Association of the Company.
- vi. To re-elect Mirihana Arachchige Rose Chandralatha Cooray who retires by rotation at the Annual General Meeting, as a Director of the Company in terms of Article 96 of the Articles of Association of the Company.

- vii. To re-elect Neelakanni Hettiarachchige Thimal Ishan Perera who retires by rotation at the Annual General Meeting, as a Director of the Company in terms of Article 96 of the Articles of Association of the Company.
- viii. To appoint Messers. Ernst & Young (EY) - Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- ix. To authorise the Directors to determine payments for the year 2016 for charitable and other purposes.
- x. To consider and if thought fit to authorize the adoption of the new Articles of Association of HNB GRAMEEN FINANCE LIMITED substantially in the form of the draft provided to the shareholders with the Notice of Annual General Meeting of the Company (as per the Circular to shareholders dated 8th June 2016 which is forwarded herewith) to bring it in line with the provisions of the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange, as approved by the Monetary Board of the Central Bank of Sri Lanka by its letter dated 6th November 2015 by the adoption of the following resolution as a special resolution as given below:-

Special

Resolution I - IT IS HEREBY RESOLVED THAT the existing articles of association of the Company be replaced in its entirety with the articles of association contained in the printed document annexed hereto and signed by the Chairman for the purpose of identification.

- xi. To consider and if thought fit to authorize the Company that upon the Company becoming a listed company pursuant to the shares of the Company being listed on the Diri Savi Board of the Colombo Stock Exchange, to change its status from a public company to a public listed company by the adoption of the following resolution as a special resolution as given below:-

Special

Resolution II - IT IS HEREBY RESOLVED that the status of the Company be changed from a public limited company to a public listed company in terms of Section 92 (1) (g) of the Companies Act No. 07 of 2007 and accordingly, that the Company change its name from "HNB Grameen Finance Limited" to "HNB Grameen Finance PLC" in accordance with the terms of Section 11 (3) of the Companies Act No. 07 of 2007.

Notice of Meeting

IT IS HEREBY NOTED THAT the application seeking approval for the listing of shares on the Colombo Stock Exchange shall be submitted by the Board of Directors on a date to be determined by the Board of Directors as it shall so deem fit.

By Order of the Board

HNB GRAMEEN FINANCE LIMITED

Shiromi Halloluwa
SHIROMI HALLOLUWA
Board secretary

Colombo, Sri Lanka.
08 June 2016.

Notes:

1. A member entitled to attend or attend and vote at the meeting is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at No: 168, Nawala Road Nugegoda, not less than 48 hours before the time appointed for holding the meeting.

Form of Proxy

HNB Grameen Finance Limited
Annual Report 2015/16

I/We.....

of.....

being *a shareholder/shareholders of the HNB Grameen Finance Limited, hereby appoint

.....of.....

or failing him/her Antonio Jonathan Alles or failing him Bamunuachchi Magedarage Don Chaminda Prabhath or failing him Brahmanage Premalal or failing him Hene Kankanamge Sandamini Rukmal Perera or failing her Lydia Laura Crysanthi Crossette Thambiah or failing her Mirihana Arachchige Rose Chandralatha Cooray or failing her Neelakanni Hettiarachchige Thimal Ishan Perera or failing him Anushka Sheran Wijesinha or failing him Sampahawaduge Udan Hithesi Fernando as *my/our proxy, to represent *me/us, to speak and to vote for *me/us on *my/our behalf on the resolutions (including the under mentioned) at the Sixth (6th) Annual General Meeting of the Company to be convened on Thursday the 21st day of July 2016 at 10.00 in the forenoon at the Auditorium on Level 6 of "HNB Grameen Building" at No: at No. 168, Nawala Road, Nugegoda and at any adjournment thereof and at every poll which may be taken in consequence thereof :

To declare a dividend of Rs. 0.06 per share	In favour	
	Against	
To re-elect Anushka Sheran Wijesinha, as a Director of the Company	In favour	
	Against	
To re-elect Sampahawaduge Udan Hithesi Fernando, as a Director of the Company	In favour	
	Against	
To re-elect Antonio Jonathan Alles, as a Director of the Company	In favour	
	Against	
To re-elect Mirihana Arachchige Rose Chandralatha Cooray, as a Director of the Company	In favour	
	Against	
To re-elect Neelakanni Hettiarachchige Thimal Ishan Perera, as a Director of the Company	In favour	
	Against	
To re-appoint Messers. Ernst & Young (EY) - Chartered Accountants, the Auditors for the ensuing year/authorise the Directors to fix their remuneration.	In favour	
	Against	
To authorise the Directors to determine payments for charitable and other purposes	In favour	
	Against	
To adopt the new Articles of Association of HNB GRAMEEN FINANCE LIMITED	In favour	
	Against	
To change the status of HNB GRAMEEN FINANCE LIMITED from a public limited liability company to a public listed company and to change its name from "HNB Grameen Finance Limited" to "HNB Grameen Finance PLC"	In favour	
	Against	

Mark your preference with "✓"

Signed this day 2016.

Signature/s

Please provide the details :

Shareholder's NIC No./Company Registration No.

Folio No./Number of Shares held

Proxy holder's NIC No. (if not a Director)

Note – See reverse hereof for instructions to complete the Proxy *Delete inappropriate words

INSTRUCTIONS TO COMPLETE PROXY

1. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be deposited with the Board Secretary, at the Registered Office of the Company at No: 168, Nawala Road Nugegoda, not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.

 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Corporate Information

Name

HNB Grameen Finance Limited
(Subsidiary of Hatton National Bank PLC)

Nature of Business

Acceptance of fixed deposits, maintenance of savings accounts, providing of Micro Finance Loans Finance leasing, Business Loans and value added services.

Legal Status

A public limited liability company incorporated in Sri Lanka under the Companies Act No.17 of 1982 and re-registered under the Companies Act No. 7 of 2007.
The company is registered under the Finance Companies Act No. 78 of 1988 & re-registered under the Finance Business Act No. 42 of 2011.
The Company is registered under the Finance Leasing Act No. 56 of 2000.

Date of Incorporation

20 December 1999

Business Registration No.

PB 965

Central Bank Registration No.

RFC/036

Accounting Year-End

31st March

Tax Payer Identification No.

134008555

VAT Registrations No.

134008555-7000

SVAT Registrations No.

SVAT007287

Memberships

Lanka Micro Finance Practitioners' Association
The Finance House Association of Sri Lanka

Registered Office & Principle Place of Business

HNB Grameen Finance Limited
No.168, Nawala Road,
Nugegoda,
Sri Lanka.
Tel : +94 11 2176262
Fax: +94 11 2176263
E-mail: info@hnbgrameen.lk
Website: www.hnbgrameen.lk

Outlets

Branches - 48
Service Centers – 21

Company Secretaries

Ms. Shiromi Halloluwa
Hatton National Bank PLC
Company Secretarial Division,
Legal Department, Level 18,
"HNB Towers"
No. 479, T.B. Jayah Mawatha,
Colombo 10.
Sri Lanka.
Tel : +94 11 2661856

External Auditors

Ernst & Young
Chartered Accountants
201, De Saram Place,
Colombo 10.
Sri Lanka.

Tel : +94 112 463500

Internal Auditors

KPMG Sri Lanka
No: 32A,
Sir Mohamed Macan Markar Mawatha,
Colombo.
Sri Lanka.
Tel : +94115 426426

Credit Rating Agency

'A (lka)' Np/stable
Fitch Ratings Lanka Ltd.
No. 15-04, East Tower,
World Trade Centre
Colombo 01,
Sri Lanka.
Tel: +94 112 541900
Fax: +94 112 541903

Bankers

Hatton National Bank PLC, Seylan Bank PLC,
DFCC Vardhana Bank PLC, Bank of Ceylon,
Sampath Bank PLC & People's Bank



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