Soaring to
GREATER HEIGHTS

HNB Grameen Finance Limited
Annual Report 2017/18

HNB GRAMEEN Finance

Soaring to GREATER HEIGHTS

HNB Grameen forges ahead on its journey, pursuing greater heights of success. Our passionate team is driven by fortitude, commitment and focus to make our business grow and flourish to new dimensions.

Powered by our advanced technological platform and a wide range of products, we are geared to help our clients elevate their lives to the next level. As our clients soar to greater heights achieving their financial aspirations we will be with them on their path to success.

Our sound strategies and business principles serve as a beacon of light in our journey of greatness whilst offering value to all stakeholders.

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www.hnbgrameen.lk

SCAN TO VIEW
THIS REPORT ONLINE

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Vision

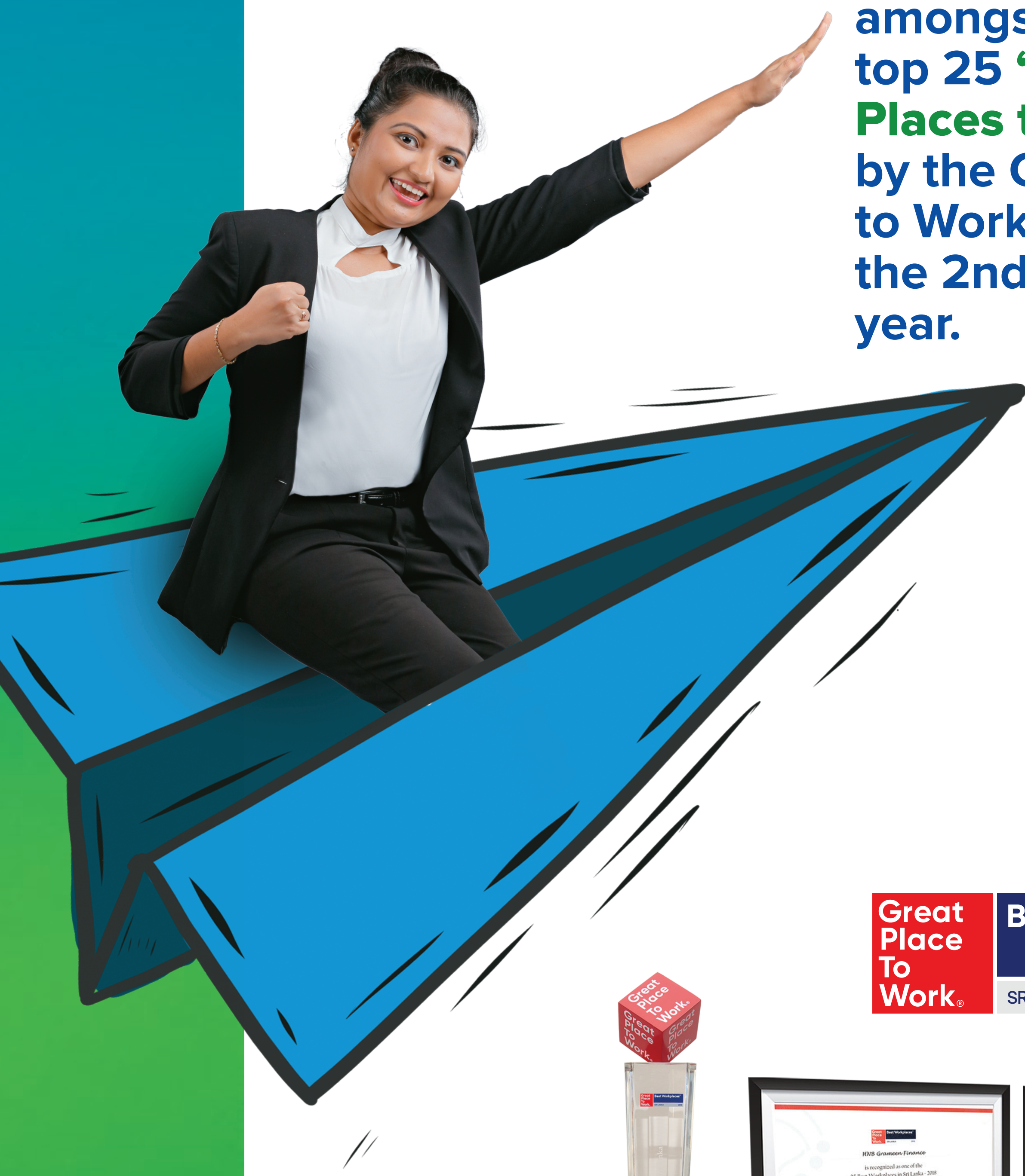
To be the recognised leader in providing innovative, technology-driven financial solutions with a human touch for all.

Mission

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

Values

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



HNBG is placed amongst Sri Lanka's top 25 "Great Places to Work" by the Great Place to Work survey for the 2nd successive year.

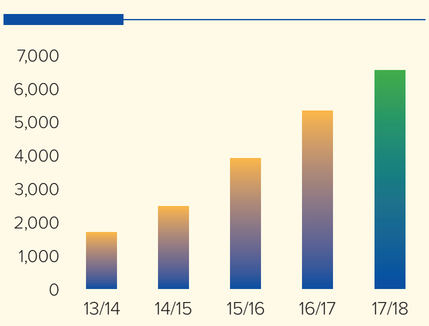
Great Place To Work®
Best Workplaces™
SRI LANKA 2018

Sustaining a Growth Trajectory

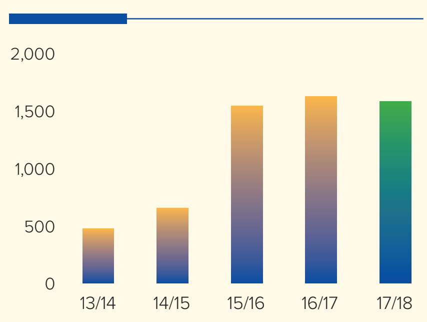
Financial Highlights

Operating Results			2017/18	2016/17	Change %
Income		Rs. Mn	7,483	6,234	20%
Interest Income		Rs. Mn	6,538	5,327	23%
Net Interest Income		Rs. Mn	4,164	3,861	8%
Profit Before Tax (PBT)		Rs. Mn	1,583	1,626	-3%
Taxation Expenses		Rs. Mn	571	568	1%
Profit After Tax (PAT)		Rs. Mn	1,012	1,059	-4%
Financial Position					
Total Assets		Rs. Mn	25,339	19,553	30%
Lending Portfolio		Rs. Mn	19,045	13,764	38%
Deposits		Rs. Mn	18,821	14,040	34%
Fixed Deposits		Rs. Mn	16,103	11,774	37%
Savings		Rs. Mn	2,718	2,266	20%
Shareholders' Funds		Rs. Mn	4,130	3,390	22%
Compliance Ratios	Requirement				
Core Capital to Risk-Weighted Assets Ratio (Tier - I)	> 5%	%	15.71	17.43	
Total Risk Weighted Capital Ratio (Tier - II)	> 10%	%	15.63	18.37	
Other Ratios					
Net Interest Margin (NIM)		%	21.42	26.69	
Cost to Income		%	46.76	41.87	
Return on Assets (ROA)		%	4.51	6.24	
Return on Equity (ROE)		%	26.91	36.62	
Gross Non-Performing Accommodations Ratio		%	3.79	2.47	

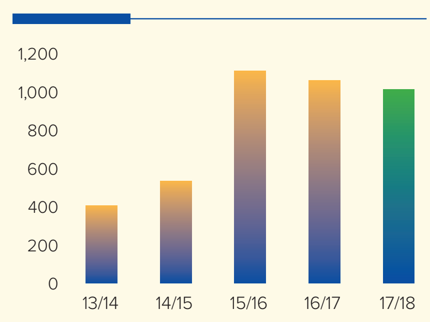
Interest Income Rs. Mn



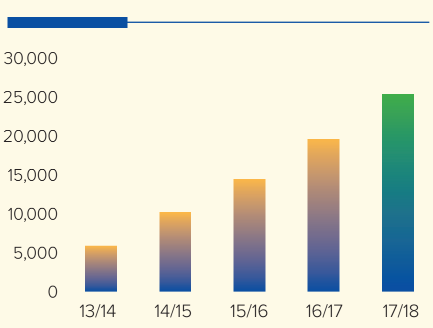
Profit Before Tax (PBT) Rs. Mn



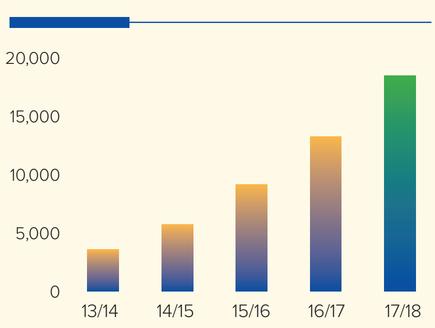
Profit After Tax (PAT) Rs. Mn



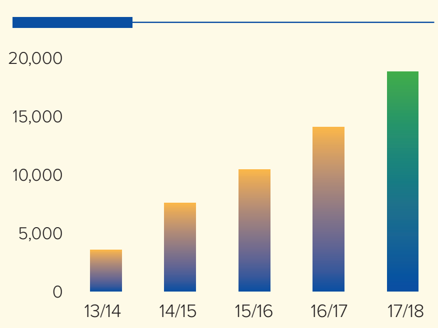
Total Assets Rs. Mn



Lending Portfolio Rs. Mn



Total Deposits Rs. Mn



Non-Financial Highlights

Customers
415,000

Branches
48

Meeting Centres
9,800

Number of Service Centres
21

Employees

1,746

New Product

HNB GRAMEEN නිවහන

නිවාස ණය යෝජනා ක්‍රමය

Environment

LED lights in island wide branches

Printing Cost **38%** reduced

Total Numbers of Training Hours **44,787**

CRIB Rating **A++**

Fitch Rating **'A (lka)'**

Our Journey

1999
Launched as a limited liability Company with the objective of offering Microfinancing facilities.

2000
Opened the first branch (City branch) with 2,500 customers.

2008
Expanded by opening 78 branches in all districts across Sri Lanka with a team of 2,498 employees.

2009
Re-branded the Company as Grameen Micro Credit Ltd.

2010
Received license from the Monetary Board of the CBSL, to operate as an LFC.

2011
- Prime Lands Group acquired ownership of the Company and paves the way for the revival of the Company by infusing Rs. 700 Mn in equity and Rs. 350 Mn as debt.
- Following the acquisition, re-branded as Prime Grameen Microfinance Ltd.

2012

Achieved an annual profit for the first time in the Company's history with a growth of 362% compared to the previous year.

2014

- HNB PLC, Sri Lanka's leading and oldest private Commercial Bank acquired Prime Grameen Microfinance Limited, from Prime Lands Group.
- Accordingly, Prime Grameen Microfinance Limited is renamed as HNB Grameen Finance Limited.
- Diversified the portfolio with the launch of 3 new products Abhilasha, Easy and Swashakthi Loans to cater to a new segment of Small Scale Enterprises.

2015

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

2016

- The Company crossed a milestone of over Rs. 1 Bn in profits.
- Launched 'Relax' & 'Saviya'; Small and Medium Enterprise loan scheme.

2017

- Developing World Markets (DWM) invests in a 7.93% ownership share of HNB Grameen Finance Ltd.
- Launched ATM facilities for Microfinance customers.
- HNBG was selected amongst the top "25 Great Places to Work in Sri Lanka". HNBG also won the award for the Best in "Pride and Advocacy" and the Bronze Award in the large Company's category.

2018

Achievement of Total Asset base of Rs. 25 Bn.

"It is significant that your Company was able to record a ROA of 4.5% and a ROE of 26.9%, in a highly competitive market."

Dear Stakeholder,

It is my pleasure to share with you the Annual Report and the audited financial statements of HNB Grameen for the year 2017.

Performance

HNB Grameen performed most admirably despite a challenging year to achieve a Profit After Tax of Rs. 1,012 Mn. Lending Portfolio grew by 38% Year-on-Year (YoY) whilst deposits increased by 34% YoY during the year under review. It is significant that your Company was able to record a ROA of 4.5% and a ROE of 26.9%, in a highly competitive market. Notably, HNBG continued to invest in increasing its staff cadre; and expanding IT infrastructure and software in line with its strategic imperative to capture new markets, new business and introduce new delivery channels. In that regard, it is quite commendable that despite these investments the Company was able to record a Cost to Income ratio of 46.76% during the year, albeit marginally higher than last year.

Backdrop to Performance

The year under review and the preceding year posed significant challenges for the microfinance industry. Adverse weather conditions of floods alternated by drought created significant negative impacts on agriculture and agri related businesses in the country. These impediments inhibited loan growth whilst the impact on agriculture combined with difficulty in gathering collections exerted considerable pressure on the Company's Non-Performing Assets (NPA) ratio which rose to 3.79% by the end of the financial year, however HNBG was successful in limiting NPA's well below the industry average.

Sri Lanka's economic policies during the reporting period were primarily focused on achieving macroeconomic stability. The Central Bank (CBSL) implemented significant policy initiatives during 2017 in this regard. However, GDP growth in 2017 remained subdued and below projections, at 3.3%, mainly due to the impact of adverse weather conditions.

The CBSL also maintained a tight monetary policy stance in 2017 which saw, interest rates peak in April before easing and stabilising thereafter.

Despite higher food prices stemming from weather related supply disruptions, increased taxes and a tighter monetary policy was able to anchor inflation as envisaged. Consequently, core inflation decelerated to match targets, while headline inflation - as measured by the year on year change in the NCPI closed the financial year at 2.8%.

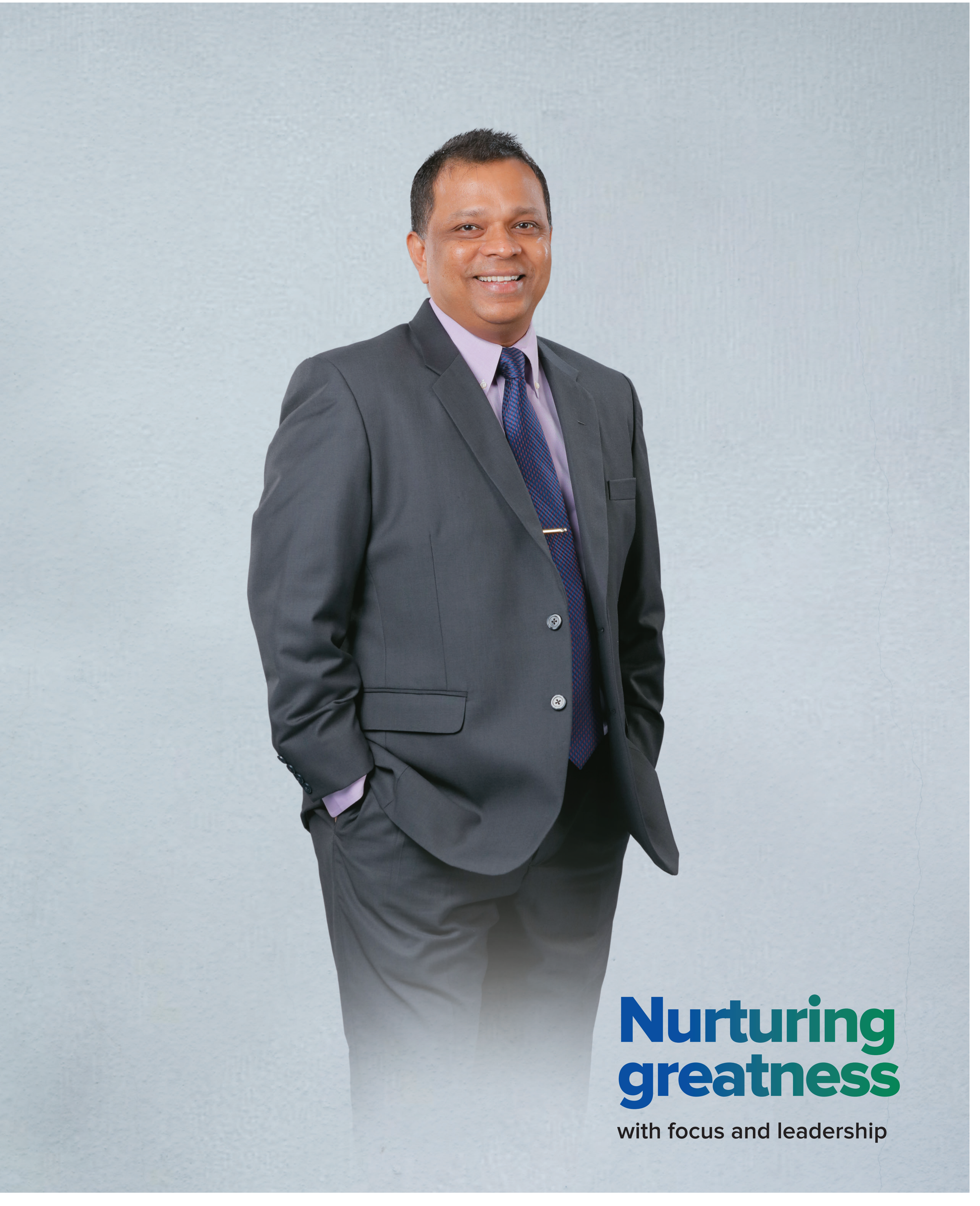
It is encouraging that the exchange rate remained stable in 2017 in an environment of minimum intervention by the CBSL. In fact, the Rupee vis a vis the US Dollar appreciated at certain points during 2017 and depreciated by only 2% during the year 2017, however, the rupee depreciated by a further 2% during the Company's last quarter of January to March 2018.

Moreover, Sri Lanka's Exports rebound strongly to reach the highest value to date in earnings expanding by 10.2% YoY to surpass USD 11 Bn. These improvements were mainly supported by the restoration of the EU-GSP+ facility, recovery in external demand, expansion in investment in export related industries, increased commodity prices in the international market, conducive external trade policies together with strong institutional support and the flexible exchange rate policy maintained by the CBSL. It is also noteworthy that FDI inflows to the country reached a high of Rs. 1.9 Bn, as compared with Rs. 1.07 Bn in 2016.

Accolades

We are most heartened by the accolades HNBG has received over the past few years. The year under review saw the Company being recognised by the international 'Great Place to Work Survey' Institute as one of the 'Top 25 Great Places to Work in Sri Lanka' for the second consecutive year and progressed on to win the Silver award in the Extra Large enterprises category in 2018; an accolade that reflects positively on our efforts to ensure that each of our employees feels a sense of contentment and pride in working for HNBG.

Similarly, HNBG was ranked as one of Sri Lanka's top Five Non-Bank Financial Institutions (NBFI's) in Corporate Governance and Risk by the Central Bank of Sri Lanka as per its official rankings for the year - an invaluable endorsement of the sustainability of its model and the trust associated with brand HNBG.



Nurturing greatness

with focus and leadership

Chairman's Review

Corporate Governance

Your Company has adopted the highest standards in governance at Board, Management and all levels of the business. The Board sets the tone at the top by promoting professional standards and corporate values that cascade down to senior managers and all other employees of the Company. The HNBG Board - which is comprised of 10 members from professional backgrounds - has established independent committees to ensure the maintenance of the highest standards in transparency, compliance and the efficacy of business and risk management strategies in order to oversee the discharge of stewardship. These Committees include the Board Audit Committee, Credit Committee, Nomination/ Human Resources and Remuneration Committee, Board Integrated Risk Management Committee, Strategic and Investment Committee and Related Party Transactions Review Committee.

In addition to being fully compliant with the mandatory requirements, HNBG has established its own set of benchmarks, structures and processes to meet accepted best practices in governance. It is thus most encouraging that HNBG's commitment to governance has been recognised by the CBSL which ranked HNBG amongst Sri Lanka's 'Top Five NBFI's in Governance & Risk", as I mentioned previously under Accolades. HNBG's Sustainable Model of Value Creation

A win-win, sustainable approach is intrinsic to HNBG's business model which has wealth creation and financial inclusion as its raison d'être. Since the Company's inception, its Micro Financing solutions to create livelihoods for lower income categories has enriched diverse communities across the rural hinterlands and urban localities of the country. The Company's engagement with micro and small scale sectors of the economy extends beyond financial empowerment to encompass capacity building through programmes to improve financial literacy, confidence building and training in business skills to partnering them in enterprise development; introducing and inculcating a savings habit and supporting Micro enterprises to graduate to Small Scale businesses.

Our involvement thus expands to social empowerment through enduring relationships. HNBG's social and economic empowerment takes a two-pronged approach. Empowering them to launch an enterprise on the one hand whilst also facilitating and forging market linkages on the other hand. The Company helps to establish links with domestic and export buyers who could facilitate peace of mind for these entrepreneurs by offering three to five year purchasing contracts for their agri-produce or manufactured goods.

Strategy & Prospects

The HNBG story began in 1999 as it launched Micro Finance (MF) to empower those with little or no access to formal channels of funding, by pioneering the Grameen Model of financing in Sri Lanka. Since its beginnings, led by the traditional MF product - branded as "Diriya"; the Company has widened and grown to introduce a significant number of products over the past few years. Its diversified portfolio, comprising lending to Small Scale and Small & Medium Enterprises, Leasing, Personal Loans and Housing Loans with an array of brands, today paves the way for it to reach new markets and customer segments in Sri Lanka; thus bolstering our buoyant outlook for growth into the future. It will continue to strengthen its unique selling propositions of product and service excellence whilst launching innovative products into new markets to reach the next tier in value creation.

HNBG will also increase its investments and continue to pursue a digital strategy

"Your Company has adopted the highest standards in governance at Board, Management and all levels of the business."

that is in alignment with rapidly evolving industry trends, customer needs and life styles. The digital strategy hit its stride with the launch of ATM Cards and POS machines for door-to-door collections in 2016, whilst the year under review saw the Company join the Sri Lanka Inter-bank Payment System (SLIPS). HNBG's technology solutions have sought to focus on process reengineering to deliver enhanced efficiency and customer service excellence. These advancements have already yielded strong returns for HNBG and we aim to continue these enhancements in automation to strengthen our competitive advantages in the years ahead.

During the year under review, HNBG undertook a rigorous strategic planning process with the support of a leading microfinance and SME Consulting Company. The result is an extensive and in depth strategic plan for the period 2018-2020; spanning new business, products and client segments, digitalisation, alternate channels, process reengineering, cost optimisation, data mining; together with improvement of asset quality, risk management, and compliance, and - above all - a strong value proposition for employees built around refining knowledge and skills, expanding career development opportunities, improving industry recognition and ensuring a great place to work in.

The Company has already commenced implementing this strategic plan under the close supervision of the Board, given its importance to the Company and the developmental objectives of the country. HNBG is therefore poised to "soar to greater heights" by harnessing the myriad opportunities ripe for development across Sri Lanka.

Developing World Markets (DWM), a global, emerging and frontier-focused investment company, invested in a 7.39% share of ownership of HNBG in 2016. Although the Company was to make its Initial Public Offering during the year under review, the non-conducive market conditions compelled us to postpone listing. Consequently, the Company intends to be listed in the Colombo Stock Exchange by the end of next financial year.

The CBSL estimates GDP growth to pick up over the next few quarters and we thus expect opportunities for microfinance and small scale financing to pick up in the year ahead. The CBSL also estimates inflation to be in mid-single digits as food supplies stabilise whilst the IMF forecasts average annual inflation to be around 5%. The first quarter of 2018 has been in line with CBSL projections thus far. Another spell of adverse climatic conditions in 2018 and a sharper depreciation of the Rupee could however, reverse this trend and exert upward pressure on inflation once again. International oil prices would also be a key factor in Sri Lanka's inflation.

A vibrant export sector is vital for the sustainable growth of Sri Lanka's economy. During the first quarter of 2018 exports in US Dollar terms increased by more than 7% over the same period of 2017; and the prospects 2018 point to higher growth supported by the reinstatement of the GSP+.

GDP growth in the first quarter of 2018 remained subdued at 3.2%. It is our fervent hope that the Government will be resolute in its commitment to a programme of fiscal consolidation, revenue mobilisation and state enterprise reform. These policy measures which are aimed at consolidating the fiscal position of the country by reigning in the budget deficit and preventing an overheating of the economy augur well for stronger macroeconomic fundamentals in the near future and hence greater inflow of investment.

HNBG will continue to kindle and facilitate the spirit of entrepreneurship for future generations of Sri Lankans, through the strength of its financial solutions and enduring relationships. In this manner we will continue to align ourselves with the nation's development agenda and the growth of the SME's and the small scale enterprises which play a vital role in Sri Lanka's growth trajectory; as HNBG continues soaring to greater heights in the years ahead. Appreciation

Mr. Thimal Perera and Ms. Sandamini Perera who had served on the board resigned with effect from May and July in 2017 respectively. I take this opportunity to thank them for their invaluable contributions and support. I also warmly welcome Mr. Rajive Dissanayake and Mr. Mahinda Perera who joined the Board in August and September 2017 respectively.

I would like to convey my sincere appreciation to my colleagues on the Board for their constant support and guidance. I also wish to express my sincere gratitude to the Governor of the Central Bank, the Deputy Governor, the Director NBFI and other officials at CBSL for the invaluable role they play and their guidance and support.

My heartfelt thanks to the Senior Management team led by the Managing Director, and the entire team at HNBG for their passion, commitment and efforts which helps HNBG keep raising the bar year-on-year.

My sincere appreciation also to all our customers and stakeholders for their support and loyalty. Moving forward, HNBG will continue to partner them, providing solutions to all their business needs and to help them soar to greater heights.

Jonathan Alles
Chairman

26 June 2018

"It give me much pride to share with you that HNBG, for the second consecutive year has been recognised as one of the top 25 "Sri Lanka's Great Places to Work""

Dear Stakeholder,

It is my pleasure to share with you the performance, outlook and strategies as the Company ends a year in which it continued to "soar", despite a challenging operating environment. This report is our second to follow an integrated format of reporting and it builds on the format of the previous year's, reflecting the Company's win-win model of value creation.

Performance

HNBG's Gross Income grew by 20% whilst the interest income grew by a significant 23% during the year. The Lending portfolio grew by 38% over 2016 (compared with a growth of over 50% in 2016) reflecting the slowdown in credit growth witnessed by the sector (Listed Finance Companies and Specialised Leasing Companies - LFI's and SLI's sector) due to the fiscal and macroprudential policy measures taken to curtail the importation of motor vehicles, the moderate economic growth and the high Interest rates that prevailed during the year.

The Company's Total Deposit base increased by 34%; bolstered by our brand equity - as a trusted and stable entity which helped attract depositors, well supported by an environment of rising interest rates. The Fixed Deposit base grew by a commendable 37%, spurred by a movement of funds from Capital Savings to Fixed Deposits due to the prevailing high Interest rates. HNBG's Savings Deposit base also grew by 20% in value terms whilst the number of Savings accounts grew by over 100% during the year, led by a growth in "Miyulasi" – the account which is exclusively for women. The Company's PAT however was impacted by the rise in Cost of Capital and impairment. Total impairment in real terms declined this year by 3% compared to the previous year. This decline however is due to the comparative of last year's impairment being high on account of the one-off provisioning for our investment in Entrust Securities PLC. A comparison sans the provisioning on Entrust reveals higher NPL's this year, owing to subdued economic growth and the set back experienced by the country's Agriculture sector.

HNBG's Cost of Capital continued to rise as the tight monetary policy stance of the Central Bank continued in 2017 as well, thus challenging the Microfinance industry. The rise in interest rates also contributed to an inhibited growth in loan disbursements during the year.

Inimical weather conditions which continued from 2016 contributed to a considerable decline in the output of the Agriculture sector as well as to an overall decline in economic activity; as reflected in the deceleration of GDP growth to 3.1% in 2017, compared with 4.5% in 2016. The wide geographic spread of our business thus proved to be effective as a risk mitigatory strategy during the year as we were able to balance the slow business activities in some areas with a more robust business growth in areas not affected by adverse weather conditions. However, the depreciation of the Rupee vis a vis the US Dollar, which impacted cost of living in Sri Lanka also contributed to lower purchasing power and reduced economic activity which in turn inhibited loan growth during the year.

It is commendable that HNBG's asset quality, although declining in comparison to the previous year, continued to be above the industry average, at 3.79%. The Gross NPL ratio for the LFC's and SLC's sector for the year ending 31 December 2017 rose to 5.9% compared with 5.3% in 2016. The industry knowledge and experience of our team and the value we place on building long term relationships with clients were factors which helped HNBG ensure a high quality Loan portfolio despite the adverse environmental conditions that impacted recoveries across the industry.

The Cost to Income ratio edged up marginally to 46.76%, mainly on account of the increase in our cadre in line with the strategic path of expansion of our new products, led by Leasing. It nevertheless remained below the industry average.

Strategic Initiatives

As I enumerated in my message last year, HNBG made a successful transition from a Microfinance Company to a diversified financial solutions provider in 2015. And reflecting progress in our strategic growth trajectory to increase the diversity of our portfolio; the share of Microfinance products declined during the year to 70% of the loan portfolio, vis a vis 83% in 2016/17 and 91% in 2015/16. The year under review saw the Company focus on further strengthening and expanding the newly launched products whilst also strengthening its product development team.

HNBG's Leasing business, after completing the first two years of business, performed commendably in an intensely competitive market environment in the country; by harnessing the competitive advantage of service standards rather than rates. This growth momentum prompted us to establish Special Leasing Business Units across our branch network.

A mindset and a work ethic built on

efficiency generating value

in all spheres

Chief Executive Officer's Review

Whilst we focused on marketing Leasing to our existing customers in the first year, the year under review saw the Company increase its visibility in Leasing and reach new markets as envisaged. HNBG thus signed MOU's with several leading vehicle dealerships in the country to grow and diversify its customer portfolio. The Leasing product, with its long term tenure, will strengthen the Balance Sheet as the other products in our portfolio are short term in nature.

During the year, the Company also launched "Nivahana" - a housing loan product offered in two tiers for two of its customer segments. The Loans with an upper limit of Rs. 500,000 is offered to our female Microfinance customers for purposes of building or refurbishing houses, whilst the second category of loans with an upper limit of Rs. 10 Mn is offered to executives and professionals against a mortgage of a property.

The SSE (Small Scale Enterprises) segment which we ventured into 2014, continued to create new frontiers of growth and opportunities through the products branded as 'Abhilasha' and Swashakthi, by supporting the higher "aspirations" of Microfinance clients who, having progressed in their micro enterprise, look to new horizons of growth and expansion, and hence higher levels of funding. This customer segment has proven to be an excellent launch pad for cross selling of our other products.

We continued with our strategy of technology driven growth to derive Triple Bottom Line impacts. Following the launch of the ATM cards to our Microfinance customers in 2016, the year under review saw the issue of another 161,554 cards, bringing the total number of ATM users amongst "Diriya" customers to 95%. Moreover, the year under review also saw the Company join the SLIPS (Sri Lanka Interbank Payment System). Several other technology initiatives also enabled us to enhance customer service and operational efficiencies across portfolios. The introduction of a Managed Print Service (MPS) across HNBG's many localities contributes to streamline printing facilities and reduce costs as well as paper consumption. Furthermore, a Document Management System (DMS) installed during the year is scheduled to become operational in the next financial year, enabling greater efficiencies, enhanced customer service through speedier processing of customer requirements, and a significant reduction in paper use and costs, by eliminating the need for couriering of documents between the Head Office and the branch network.

In line with our strategic intents to sustain the growth momentum that we've established, we will look to launch new products such as Gold Loans, Islamic Finance and fee income generating products such as Money Transfer Facilities in the year ahead.

Our People

It gives me much pride to share with you that HNBG, for the second consecutive year, has been recognised as one of the top 25 "Sri Lanka's Great Places to Work", by the globally recognised Great Places to Work Survey. Whilst we were awarded the Bronze in the large scale category in 2017 we have progressed to bag the Silver in the extra large enterprises category in 2018. This Survey which is based on a set of questions posed to employees is a valuable endorsement of your Company's people driven business model, its ethos and HR management practices and the culture we nurture.

HNBG, over the past two years has been on a growth trajectory as a Finance Company, and this transition from a Microfinance enterprise to a Finance Company has required a paradigm shift in our mindset. Accordingly, our HR management and the training and development initiatives have begun to support this change. Whilst we make a transition in some respects, we will also hold onto and strengthen the Grameen values and the HNBG ethos, which have been distinct intangible drivers of the Company's rapid success. These include building and sustaining long term relationships with all our stakeholders and encouraging a culture of camaraderie, of close relationships and a "one team" spirit across the Company, sans rank or hierarchy.

Our team expanded during the year, in line with the expansion of new products. Some of the senior positions created and recruited for during the year include a Head of Risk, a Head of Strategic Planning and an Internal IT Security Auditor. The total number of employees across the country thus increased to 1,746 as at end 2017/18 (compared with 1,594 at end 2017/16), of which as many as 1,086 are on the field, reaching out to customers and sharing their knowledge, encouraging and facilitating the entrepreneurial quests of many economically disadvantaged across the country. In line with our strategic imperatives, HNBG also launched a branding initiative for potential and current employees to help us attract and recruit the right talent and to support retention – specially amongst millennials. The employee recruitment process was also strengthened by developing interviewing skills of interviewers, via the introduction of designation based interviews and a well planned and structured welcoming and onboarding programme to support the retention of new recruits.

The passion and effort to uplift people's lives we believe must begin at home. HNBG thus considers that being the wind beneath that allows its employees to "soar" towards their potential, is a sine qua non for the Company to "soar to greater heights". Thus, the upward mobility and enhancement of the potential of the individual employee are priorities of our human resource management and training and development. The training and development Initiatives this year included overseas exposure for 91 members of our team.

Social and Environmental Responsibility

In addition to the role we play in creating opportunities for the economically disadvantaged, through our business model of Microfinancing, we also lend our time, efforts and resources to uplift lives and to reach out at times of need, through the Company's "Mehewera Fund", which is made up of voluntary employee contributions of a part of their monthly salary. These employee led social responsibility initiatives during the year are enumerated in the Social Capital section of this report.

The Meethotamulla catastrophe in April 2017 was a wake-up call for the nation, which moved us into action to seek ways in which we can contribute even in a small way, to reduce the country's non bio degradable waste and garbage. Our Head Office hence took a decision to ban the use of lunch sheets at office and supported its implementation by providing every employee a plastic lunch box for their daily use, thus eliminating the use of polythene sheets at Head Office and subsequently across the branch network.

Looking Ahead

Building on the strategic initiatives over the past two years, we will aim to increase Collateral based Lending products to account for as much as 50% of the Company's loan book by 2020. Expanding our customer base further through new products and delivery channels will continue to be a key strategy for Revenue and Profit growth.

We will continue to further diversify our portfolios of products as well as customers for greater diversity in terms of income levels, gender and age. Thus, the Company will look to fine tune its business model based on conclusions drawn from the Strategic Planning exercise undertaken during the year, and fine tune its portfolio mix to cater to a new clientele such as the new millennials.

The Financial industry which has links to the Agriculture sector is one which is vulnerable to vagaries of weather, which since recently have unfortunately been made more intense due to climate change. Hence, strategies to mitigate the impacts of climate change such as geographic and customer diversification and integrating weather predictions to our decision making would be priorities.

The fast growing trend of technology as the preferred channel of delivery in the financial services and the growing competition from new mobile technology driven channels, will be a key determinant of the sustainability of any financial enterprise. We will continue to increase our investments to build on the technological platforms to create new business as well as new ways of doing business and to exceed customer expectations.

Moreover, social changes such as changing values and attitudes which have also begun to permeate the rural communities pose challenges to how we engage and stay mindful of the need to find solutions for the medium term future.

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

As I enumerated in my review last year, several factors challenge the industry and its legitimate players and these have also received media publicity in the recent months. For instance Microfinance customers continue to access multiple loans, thus threatening the overall asset quality for all players. It is our fervent hope that these anomalies will be addressed, and rules strictly enforced for the protection of both consumers and legitimate players and for the sustainability of these industries. The negative media publicity has resulted in wrong public perceptions of the entire industry, due to the unethical practices of a few who do so with scant regard to the impact on recipients and the sustainability of the industry thus impacting the legitimate players like us whose business model is committed to win-win objectives of progress of all stakeholders, the sustainability of the entire industry and the nation's wider objectives.

We remain optimistic that an increase in Foreign Direct Investment supported by the Government's commitment to fiscal consolidation and revenue mobilisation, will contribute to stronger macroeconomic fundamentals in the year ahead, thereby kindling more opportunities for Microfinance and small scale financing.

A holistic concept in enterprise and our intrinsically win-win model of value creation; augmented by the strength, stability and brand equity of our business partner - HNB, finds HNBG well poised to keep "soaring to greater heights" ... in order to create new vistas for all our stakeholders, the industry... and the nation.

Acknowledgements

I would like to convey my sincere appreciation to our Chairman and Deputy Chairman and my colleagues on the Board for their guidance and constant support. I also extend my heartfelt thanks to our employees for their passion, talent and commitment, our customers and our business partners, for their confidence and trust in us and all other stakeholders who have partnered our progress and for the inspiration they give us. My sincere appreciation also to the Governor of the Central Bank and Director of the NBFI for the invaluable role they play in the industry.

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

26 June 2018

Left to right:

Mr. Anushka Wijesinha - Independent Non-Executive Director

Mr. Rajive Dissanayake - Non-Independent Non-Executive Director

Mrs. Crysanthi Thambiah - Executive Director

Mr. Chaminda Prabhath - Managing Director/CEO, Executive Director

Mr. Premalal Brahmanage - Deputy Chairman, Non Independent Non-Executive Director

Left to right:

Mr. Jonathan Alles - Chairman/Non-Independent Non-Executive Director

Mrs. Rose Cooray - Non-Independent Non-Executive Director

Mr. Hasitha Wijesundara - Independent Non-Executive Director

Dr. Udan Fernando - Independent Non-Executive Director

Mr. Mahinda Perera - Non-Independent Non-Executive 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 and counts over 30 years of banking experience having served several international banks including the HSBC, Dubai; Saudi British Bank, Riyadh; HSBC, Sri Lanka and National Bank, Abu Dhabi.

Mr. Alles is also Chairman of Acuity Partners (Pvt) Ltd and is the immediate past Chairman/Director of Lanka Financial Services Bureau Ltd, Lanka Ventures PLC, LVL Energy Fund. Mr. Alles holds a First Class MBA in Finance from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka. He serves as a Board member representing Patron Members of the Sri Lanka Business & Biodiversity Platform (Biodiversity Sri Lanka), Vice Chairman of the Banking, Financial & Insurance Services Group of the Employers' Federation of Ceylon and also is a Member of the Chamber Committee of the Ceylon Chamber of Commerce and the Sri Lanka Institute of Directors.

Mr. Premalal Brahmanage

Deputy Chairman

Non-Independent Non Executive Director

A dynamic leader and an entrepreneur Mr. Brahmanage is one of the co-founders of Prime Group and also the current Chairman. He, being a Chartered Management Accountant, has steered Prime Group to its current status as Sri Lanka's leading property development conglomerate within a short span of two decades. He is also the Deputy Chairman of HNB Grameen Finance Ltd and as a Director of Prime Finance PLC, first listed finance Company under Prime umbrella.

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 the University of Sri Jayewardenepura. He was conferred with the prestigious UCD Entrepreneur of the Year in 2011 considering his vast experience in the Real Estate industry and exposure to many other industries as an entrepreneur.

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

Mr. Chaminda Prabhath

Managing Director/CEO

Executive Director

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

He has over 25 years of experience in the private sector. He holds a Master's Degree in Business Administration (Sp. in Finance) from the University of Southern Queensland, Australia.

He is an Associate Member of the Chartered Institute of Management Accountants (ACMA, UK & CGMA) and member of the Chartered Institute of Marketing (MCIM, UK). He is also a Certified Management Accountant of the Institute of Certified Management Accountants of Australia (CMA, AUS). He has a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka.

He is the winner of the prestigious award 'Game Changer of the Year 2014' from World Consulting & Research Corporation (WCRC), India, awarded in recognition of his contribution to the Microfinance industry in Sri Lanka.

Mrs. Crysanthi Thambiah

Executive Director

Mrs. Thambiah is a veteran banker with 43 years of experience in the Financial industry. She served as a Corporate Management Officer at HNB PLC for 16 years and held the post of Deputy General Manager - Network Management at the time of her retirement.

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

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

Mrs. Rose Cooray

Non-Independent Non-Executive Director

Mrs. Cooray is a senior Director at Hatton National Bank PLC. She is the Chairperson of HNB Assurance PLC, HNB General Insurance Ltd, Sithma Development (Pvt) Ltd, Ceylon Guardian Investment Trust PLC and Ceylon Investments PLC. She is a Director of Guardian Capital Partners (PLC). She is the Chairperson of the Board Integrated Risk Management Committee of HNB and HNB Grameen Finance Ltd and serves as a member of few other Board sub committees at HNB and HNB Assurance PLC. 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 eight 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 is a certified trainer in Microfinance by the Asian Development Bank and Tokyo Development Learning Centre. She holds a BA (Hon.) degree from University of Ceylon, Peradeniya, Sri Lanka and a M.Sc, degree from Strathclyde University, UK.

Board of Directors

Mr. Anushka Wijesinha

Independent Non-Executive Director

Mr. Wijesinha is an economist and policy advisor and his research on innovation, SME development, and international economics, has been published in national and international publications. He is currently Advisor to the Ministry of Development Strategies and International Trade and focuses on trade, competitiveness and innovation. He was previously the Chief Economist and Head of the Economic Intelligence Unit of the Ceylon Chamber of Commerce, the country's apex industry body. Mr. Wijesinha is also a member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. He also serves on the Boards of Fairfirst Insurance Ltd and Seylan Bank PLC as an Independent Non-Executive Director. In previously roles, he headed Industry, Competitiveness and Regulatory Policy at the Institute of Policy Studies of Sri Lanka, was at the Presidential Commission on Taxation (2009), and has been a consultant for the World Bank, Asian Development Bank, UNDP, UNESCAP, and GIZ. In 2014, the World Economic Forum recognised him as a 'New Champions Awardee' at the Annual Meeting of New Champions in Tianjin, China. He is also a Visiting Lecturer at the Bandaranaike Centre for International Studies and Bandaranaike Diplomatic Training Institute. 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.

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 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. He holds a PhD in International Development Cooperation from the University of Amsterdam. His specialisation at Bachelor's and Master's level has been Law, Economics, Management and Labour Studies.

Mr. Rajive Dissanayake

Non-Independent Non-Executive Director

Mr. Dissanayake counts over 15 years of experience covering banking sector and capital markets. He currently serves as the Chief Strategy Officer of Hatton National Bank PLC.

Mr. Dissanayake is a CFA Charterholder, a Fellow Member of the Chartered Institute of Management Accountants, UK and a Chartered Global Management Accountant. He also holds a bachelors' degree in Business Administration from the University of Colombo.

In addition to being on the Board of HNB Grameen Finance Ltd, Mr Dissanayake is also a Director of HNB Assurance PLC, HNB General Insurance Ltd, Acuity Partners (Pvt) Ltd, Acuity Securities Ltd and Lanka Ventures PLC.

Mr. Dissanayake chairs the Board Audit Committee and is also a member of the Board Strategy Review Committee.

Mr. Hasitha Wijesundara

Independent Non-Executive Director

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

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

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

Mr. Mahinda Perera

Non-Independent Non-Executive Director

Mr. Perera is currently practicing as a Commercial Lawyer and a Business Consultant and counts many years of experience in advising on Commercial, Corporate and Employment Law as well as on compliance and regulatory aspects. In addition to providing legal advice, he also provides business consultancy services.

He is also a qualified Management Accountant (FCMA, UK & CGMA) and has an MBA from the Postgraduate Institute of Management, Sri Jayawardenepura University. He counts over 25 years of professional experience in the commercial sector as a Director/Chief Executive Officer of listed and unlisted companies before moving into the legal field. At present, Mr. Perera is an Independent Director of Prime Finance PLC and Industrial Asphalts (Ceylon) PLC.

Corporate Management

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

W.S.P. Arangala
Chief Operating Officer

L.L.C.C. Thambiah
Executive Director

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

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

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

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

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

Pradeepa Dias
Assistant General Manager - ICT/CIO

Bhanu Wijayaratne
Assistant General Manager - Risk

H.D.S.C. Gunasekara
Chief Accountant

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

Anura Udawatta
Head of Training

As enumerated in our last report, one of the key strategic priorities continued to be the diversification of our portfolio, to mitigate risks and enhance growth into the future.

Introduction

Following the launch of the first integrated Annual Report in 2017, HNBG continues to build on the model adopted last year. We have reviewed the strategic imperatives and consider them still relevant and vital to create and sustain value for all our stakeholders, in the context of the strengths and weaknesses of the Company and the opportunities and risks in the business environment.

Amongst the key industry environmental factors which continue to influence the Company's strategies and performance are an intensifying competitiveness in the LFC (Licensed Finance Company) sector; changing demographics and pace of life; rising market expectations of customer service; macro-economic changes, the global industry's drive towards technology as the preferred channel of delivery and an increasing level of risk associated with the high profit generating Microfinancing (MF) sector due to unethical practices such as multiple borrowings. Certain macroeconomic policy changes, such as an increase in taxes imposed by the 2017 budget and a discouragement of vehicle imports also impacted the LFC sector's performance in 2017.

This year we include two other priorities as strategically important for HNBG to reach a new tier in value creation. Namely, technology and the uplifting of our social capital, an intrinsic element of our core business of Microfinancing.

As enumerated in our last report, one of the key strategic priorities continued to be the diversification of our portfolio, to mitigate risks and enhance growth into the future. Whilst HNBG, as the pioneer in MF in Sri Lanka, will continue to focus on promoting financial inclusion and women empowerment through its Microfinance model to facilitate socio economic progress of the poorest of the poor, thereby contributing to national economic goals; it has also identified the need to diversify its product and customer portfolios. The Company began a journey of diversifying by launching Leasing in 2015, encouraged by the opportunity to meet the needs of the Microfinance customers - as they aspire to higher incomes and improved standards of living. The year under review saw the completion of two full years of operations of the Leasing business, and the Company built on this platform to expand and promote Leasing across the island. Furthermore, the year under review also saw us launch a new housing loan branded as "Nivahana' which is elaborated on in the ensuing capital reports of this MD&A. The potential in the Leasing segment augurs well for the strength of the Company's Balance Sheet due to its long term tenure vis a vis the short term nature of its other products.

As was enumerated last year, the launch of a range of new Lending products in 2015 paved the way for HNBG to cater to a new customer segment of SSE (Small Scale Enterprises) and this segment grew during the year. The Company will continue to seek to diversify its customer profile in terms of gender and age, as well as income limits, and the year ahead will see us venture into new realms of products.

Recognising the rapidly growing role of technology as a disruptor in the marketplace and the indelible link between technology as a delivery channel for financial services, HNBG continued to invest in technology. Technology has also become an imperative for the Company to sustain its profitability and competitive advantages into the medium to long term future by enabling operational efficiency and the optimal utilisation of resources across the board, and thus facilitating a Triple Bottom Line impact.

Progress in our strategic imperatives for Sustainable growth into the future:

Strategic Progress in a Nutshell

Key Strategic Imperative	Relevance to HNBG	Progress in 2017	Plans for 2018
Ensure a Diversified portfolio and continue diversification to maximise returns and mitigate risks.	• Reducing reliance on one product. • Augmenting our capacity to sustain growth in an intensely competitive market. • Offering multiple channels of financial inclusion to our stakeholders. • Meeting the needs of the existing customer base. • Harnessing our brand strength to cross sell and meet the needs of a ready customer base.	• Launched –"Nivahana", a housing loan. • The Leasing business, after its first two years of operations, grew with disbursements reaching Rs. 4.5 Bn from Rs. 1 Bn in 2016 whilst its contribution to profitability increased to Rs. 39 Mn from Rs. 11 Mn in 2016. • Carried out aggressive BTL campaigns across the country.	• Increase collateral based lending with a target to account for 50% of our Lending portfolio by 2020.
Diversify our Customer Profile	• Maximising revenue and reducing risk. • Meeting intense competition in the MF sector.	• Established MOU's with several leading island wide automobile dealers. • The SME and SSE sectors accounted for a higher growth in customer portfolio.	• Expand the Leasing business whilst product development will explore opportunities for new products.
Expand Reach	• Increasing revenue • Expanding our geographic presence will see a further strengthening of partnerships with existing customers and forging of new ones. • Enhancing customer convenience through greater accessibility. • Harnessing the synergies of being a member of the HNB Group.	• Expanded ATM cards to 160,246. • Established MOU's with island wide vehicle distributors for the Leasing business.	• Adding more branches. • Strengthening our presence in identified high growth potential areas.
Customer Service Excellence	• Service excellence is a key to sustaining a competitive edge in the intensely competitive market of Leasing and LFC's sectors in the country. • Changing market expectations and lifestyles.	• The ATM cardholder base was expanded to 160,246. • Implemented SLIPS payments. • The introduction of the document management system enabled a speedier service to customers.	• Upgrading and enhancing the branch network. • Improving speed of service.

Strategic Progress in a Nutshell

Key Strategic Imperative	Relevance to HNBG	Progress in 2017	Plans for 2018
Continue to invest in Technology for a Triple Bottom Line impact through greater operational efficiency, new product development, expansion of reach and enhanced value addition to customers.	• The fast growing trend of technology as the preferred channel of delivery and business in the financial series and the growing competition from new mobile technology driven channels. • Need to reach the next tier in value creation. • Pressure on margins and the need for greater efficiency in resource utilisation. • Reducing our green footprint.	• Achieved significant reductions in bank charges by replacing cheque payments with ATM disbursements payments networks. • Introduced a Document Management System • Introduced an MIS dashboard for management decision making. • Recruited an internal IT Security Auditor.	• A Document Management System was just launched during the year and it is to become fully operational in the year ahead leading to significant cost savings and saving of paper.
Enhance the value of our Human Capital for higher value creation. The attraction and retention of the right talent.	• Human Capital is a core strength of HNBG and vital to reach the next tier in value creation. • The importance of service excellence to sustain a competitive edge. • Ability to provide a partnership approach to clients is important for win-win outcomes. • High employee attrition and competition for talent in the industry.	• Introduced designation based interviewing and strengthened interview skills. • Enhanced employee branding and the induction process for new employees to create a greater sense of belonging, loyalty, pride, and a cohesive team at HNBG. • Introduced a Mobile App to facilitate leave applications, etc via the mobile phone.	• Obtain expertise of an HR consultancy service to better harness and hone the potential of our Human Capital. • Strengthen incentives programmes. • Improve trade and market knowledge of employees catering to SME's. • Increase engagement with millennials. • Launch an intranet.
Uplifting our social capital	• The success of the business model of MF, and SSE is based on a win-win partnership approach with customers and is intrinsic to our model. • The need for skills and expertise in the MF sector.	• Financial literacy, product training and leadership programmes conducted during the year for MF clients and potential MF clients across the country.	• Enhance engagement with people in the localities of our branches and MF clients.
Continuously reduce our Carbon Footprint and support external initiatives to do so.	• Our capacity to create awareness, educate and mobilise at grass roots level. • Actioning the Group's Triple Bottom Line focus.	• Declared the Head Office premises a "polytene free" zone. • Introduced a Managed Print Service to manage printouts.	

Our product portfolio

Lending products

- Micro Loan - Diriya and Sahana
- SSE - EZY loan, Abhilasha and Swashakthi
- SME - Saviya, Relax, Nivahana
- Leasing

Funding Products

- Savings
- Fixed Deposits

Loan Portfolio

	2017/18	2016/17	2015/16
Micro	55%	73%	85%
Easy	8%	7%	6%
Abhilasha	4%	3%	3%
Swashakthi	1%	1%	1%
Staff Loans and Other	5%	2%	4%
SME Loans	4%	2%	0%
Finance Leasing	23%	12%	1%

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

Backdrop to performance

Sri Lankan Economy

Although the macro stabilisation policy measures taken by the Central Bank and the government in the past two years resulted in a number of notable improvements and placed the country on a firmer platform for the medium to long term future; Sri Lanka's real GDP growth decelerated to the lowest since 2001, to 3.1% in 2017, from the growth of 4.5% recorded in 2016. Growth was mainly driven by Industry activities, supported by the expansion in Services whilst output of the Agriculture sector contracted by 0.8%, due to adverse weather conditions that continued from 2016. However, the growth of forestry and logging, fruits and tea helped contain the contraction in agriculture activities to some extent. The drought and flood-related disturbances which significantly affected Agriculture activities also spilt over to other sectors of the economy through higher prices of domestic food supplies, increased expenditure on imports amidst rising international commodity prices, and costs incurred on relief measures, to impact negatively on overall growth.

The Industry sector which accounts for 26.8% of real GDP grew by 3.9% in 2017, primarily supported by manufacturing, construction and mining and quarrying activities. However, the growth of construction activities that supported overall economic growth throughout the post conflict period, with the exception of 2015, decelerated notably during 2017.

Services sector, which accounted for 56.8% of real GDP, grew by 3.2% in 2017, on a year-on-year basis, driven by the expansion in financial service activities, wholesale and retail trade, and other personal services activities.

Although earnings from exports increased to the highest levels recorded, the increase in imports, mainly arising from drought related imports of petroleum and rice as well as increased importation of gold; caused a wider trade deficit. Although inflows on account of services exports including tourism, and workers' remittances continued to cushion the impact of the widened trade deficit to some extent, the current account recorded a deficit of 2.6% of GDP during the year.

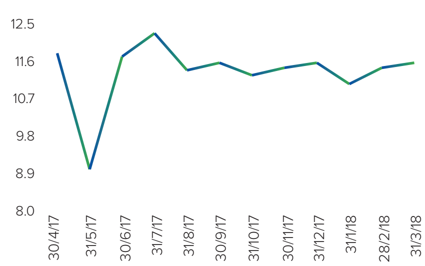
GDP Growth

1999 - 2008 Avg	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2022
5.1	3.5	8.0	8.4	9.1	3.4	4.9	4.8	4.5	3.1	4.8 *	6.0**

Sources: Central Bank of Sri Lanka; *IMF forecasts ** CBSL forecasts

Following the agreement with the IMF for an Extended Fund Facility (EFF) in June 2016, the third review of the Sri Lankan economy's performance under the EFF programme, conducted in December 2017, concluded that Sri Lanka's "macro-economic performance has been stable", and its Fiscal performance" satisfactory", resulting in the disbursement of the fourth tranche of US Dollars 251.4 Mn for Sri Lanka. Moreover, in November 2017, S&P Global Ratings upgraded its outlook on Sri Lanka to "Stable" from "Negative"; further bolstering our positive outlook for higher investments and growth in the year ahead. S&P's Stable Outlook reflects the expectation that the "Government will maintain the reform momentum over the next 12 months and smoothen the upcoming surge in debt redemptions, particularly in 2019". At the same time S&P also reaffirmed its B+/B Sovereign Credit ratings on Sri Lanka.

AWPR



Source: Central Bank of Sri Lanka

The Central Bank continued to maintain its tight monetary policy stance in 2017 to curtail the buildup of adverse Inflation expectations and the possible acceleration of demand driven inflationary pressures through excessive monetary and credit expansion. The Policy rates of the Central Bank were thus increased by 25 basis points in March 2017, in addition to the 100 basis point increase in Policy interest rates and the 1.50% point increase in the Statutory Reserve Ratio (SRR) in 2016. Macro prudential measures, such as the imposition of Loan To Value ratios (LTV) on account of credit facilities for motor vehicles, also buttressed the tight monetary policy stance. These measures saw interest rates peak in the first quarter of the year but begin to ease and remain stable during the remainder of the year. Reflecting tight monetary conditions, Deposit Interest rates of commercial banks continued to increase during 2017, although some moderation was observed towards the end of the year.

Reflecting these tight monetary conditions, Lending rates of commercial banks continued to increase in 2017, and stabilised at elevated levels towards the end of the year. The Average Weighted Lending Rate (AWLR), which is based on Interest rates of all outstanding Rupee denominated loans and advances extended by Licensed Commercial Banks (LCBs) to the private sector, increased by 68 basis points to 13.88% by end 2017 compared with 13.20% at end 2016. Bank wise AWLR also increased to a range of 10.22-16.23% by end 2017 compared to the range of 10.12 - 15.66% that prevailed at end 2016. Commercial Bank's Average Weighted Prime Lending Rate increased from 11.52% at end 2016 to 11.55% as at end 2017.

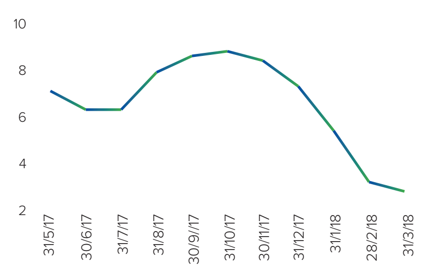
The market environment in the United States point to the Federal Reserve adopting a much tighter monetary policy in 2018, which in turn necessitates that we factor in their likely implication on domestic interest rates and capital flows in 2018.

Inflation

Despite the CBSL's tight monetary policy, the general price level, as measured by the consumer price indices, followed an overall increasing trend and remained at comparatively higher levels during 2017 mainly owing to prolonged supply side disruptions to agriculture. The prolonged drought in most areas of the country, from the latter part of 2016 and throughout most of 2017, had an adverse impact on key domestically produced food items, which represent relatively high shares in all consumer price measures, and thus exerted upward pressure on their prices. Higher prices of non-food commodities, due to upward revisions to administered prices of certain items, also contributed to the upward trend in the general price level. Accordingly, the year-on-year Headline Inflation moved on an overall increasing trend during the year.

The annual average NCPI inflation gradually increased from 4.6% in January 2017 to 7.7% in December 2017. The annual average CCPI inflation also moved in tandem with NCPI and increased from 4.3% in January 2017 to 6.6% in December 2017. However, Core Inflation followed a decelerating trend during the year, with NCPI based Core Inflation which was 7.1% in January declining to 2.7% in December, whilst CCPI based Core Inflation which peaked at 7.3% in March declined to 4.3% in December 2017.

Inflation as measured by NCPI (YoY)

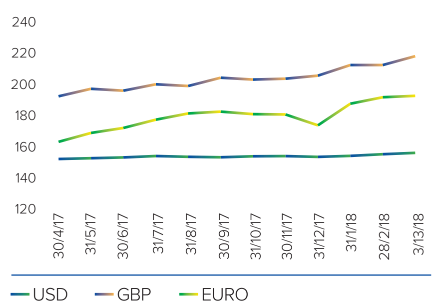


Source: Census and Statistics Department

Exchange Rate

As per its "Road Map 2017", the Central Bank of Sri Lanka (CBSL) implemented a more market based Exchange rate policy during the year, which limited the CBSL intervention in the foreign exchange market only in order to build-up international reserves with a minimal impact on the Exchange rate. Accordingly, the external value of the Sri Lankan Rupee remained relatively stable, depreciating by 2% against the US Dollar during the year, from Rs. 149.80 at end-2016 to Rs. 152.85 at end-2017. In addition, the annual average exchange rate depreciated by 4% to Rs. 152.46 against the UD Dollar in 2017. Increased foreign investments in the CSE and the government securities market and the conversion of export proceeds provided an opportunity for the Central Bank to absorb foreign exchange liquidity from the market; thus relieving depreciation pressure on the Rupee. These factors contributed towards the relative stability of the Rupee against the US Dollar. Depreciation pressure also gradually eased further, with the issuance of an international Sovereign Bond, the receipt of the foreign currency term financing facility and the disbursement of the third tranche of the IMF-EFF programme, which helped improve investor confidence. Based on cross currency movement, the Sri Lankan Rupee also depreciated by 10.46% against the Pound Sterling, by 13.49% against the Euro, by 7.54% against the Indian Rupee and 5.10% against the Japanese Yen.

Exchange Rates



Source: Central Bank of Sri Lanka

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

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector performance moderated during the year with low credit growth, declining profitability and increase in non-performing loans. The slowdown in the sector was mainly due to fiscal and macroprudential policy measures taken to curtail importation of motor vehicles, moderate economic growth and natural calamities such as floods and drought conditions that prevailed in 2017. Nevertheless, the key performance indicators of the sector, including capital, liquidity and profitability, continued to be positive. The sector expanded in 2017, with an asset growth of 11.8%, representing 7.9% of Sri Lanka's financial system and remained strong, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. The sector exhibits a shift in funding mix, as increased assets were mainly funded through deposits while borrowings of the sector declined compared to the high growth recorded during the previous year. The Central Bank initiated key prudential measures with much consideration on reviving the companies with weak financial positions. Necessary actions have been taken to cease or limit finance business operations of weak finance companies to safeguard depositors.

As at end of 2017, the sector comprised of 45 LFCs and six SLCs.

Microfinance Institutions

Sri Lanka's Microfinance (MF) sector enjoys comparatively higher penetration levels amongst low income sectors of the population in the country and offers plenty of opportunity for product diversification. As recommended by an expert study, existing players in the sector need to focus on deepening financial inclusion by serving unmet needs, for instance, government payments such as pension, insurance, and lifecycle microcredit products for the target customer segment. Furthermore, technology is also empahsised as a means for sustainable profitability. Investment to encourage behaviour change among low-income customers would allow MFIs and NBFCs to achieve scale and operational efficiency. Moreover, microfinance processing tasks, such as credit analysis, recording disbursements, payments, and monitoring can be carried out more efficiently through the use of technology.

The year under review saw the Department of Supervision of Microfinance Institutions (DSMI) of the Central Bank issue two directions approved by the Monetary Board as per its duties to regulate the MFI industry under the Microfinance Act No. 6 of 2016. Namely, Opening, Closure and Relocation of Business Places and the Structural Changes, regulating Licensed Microfinance Companies (LMFCs). Moreover, the DSMI also issued Principles, Standards and Guidelines, approved by the Monetary Board under Section 28(1) of the Microfinance Act, to the Registrar of Voluntary Social Service Organisations, for rules to be made to give effect to the same. DSMI also received several applications for license under the Microfinance Act which are being reviewed.

Outlook

Sri Lanka's economic growth trajectory is projected to improve gradually over the medium term, especially with higher private sector participation supported by conducive macroeconomic policies. Although the performance in 2017, was well below global growth estimates, annual real GDP growth is expected to gradually improve to around 6% by 2022, whilst according to IMF estimates Sri Lanka's GDP will grow by 4.8% in 2018 whilst inflation would decelerate to around 4% to 6% as food supplies stabilise in 2018. Another spell of adverse climatic conditions in 2018 and a sharper than expected depreciation of the Rupee could however, reverse this trend and exert upward pressure on inflation once again. International oil prices would also be a key factor in Sri Lanka's inflation. Oil prices have begun to rise and could exert upward pressure over the year ahead.

A vibrant export sector is vital for sustainable growth of Sri Lanka's economy; and the prospects for exports in 2018, also point to higher growth in the year ahead. The acceleration in exports is expected to be helped by the increased volume and complexity of the export basket, improved competitiveness of the economy in the export markets due to the flexible exchange rate policy, the reinstatement of the EU GSP+ and enhanced market access through improved trade linkages through the existing and new trade agreements. However, the escalation of the trade war between the US and China could have some bearing on Sri Lanka's trade not only with these two economies, but also with other trading partners through value chains. The deficit in the external current account is expected to be tapered over the medium term with the expected improvements in the trade account, inflows to the services account and workers' remittances. Exports are projected to grow at a higher rate than imports, thereby narrowing the trade deficit as a percentage of GDP from 11.05% in 2017 to 8.7 % by 2022. Imports are also projected to increase over the medium term with higher imports of intermediary and investment goods. Meanwhile, the surplus in the services account is expected to improve over the medium term supported by higher inflows, particularly on account of tourism, Information and Technology (IT) and transportation services.

The year under review saw the Government resolute in its commitment to a programme of fiscal consolidation, revenue mobilisation, state enterprise reform and public financial management reform. These policy measures which are aimed at consolidating the fiscal position of the country by reigning in the ballooned budget deficit and preventing an overheating of the economy augur well for stronger macroeconomic fundamentals in the near future and hence greater inflow of investment.

It is important that the CBSL will stays firm in its commitment to introducing and institutionalising the frameworks in order to ensure their resilience, durability and effectiveness as reiterated by the CBSL. These frameworks include a Flexible Inflation Targeting (FIT) regime, a Fiscal Consolidation framework, an Exchange Rate Act and a Liability Management Act; all of which will ensure greater stability, policy consistency and coherence and market competitiveness of the Sri Lanka Rupee. The World Bank has also stressed that the economic outlook for 2018 will largely depend on the government's commitment to the reform agenda of improving competitiveness, governance, and public financial management.

The growth strategy of Sri Lanka as articulated by the government is based on developing the country to transform itself into a hub in the region with a knowledge based, highly competitive social market economy. To this end, the numerous key initiatives, including the Port City development project, the Megapolis project, and the economic corridor projects, which are underway would also provide the necessary impetus.

Business Model

Financial Capital
Total Shareholders Fund

Rs. **4,130** Mn

Human Capital
1,746 employees

Manufactured Capital
48 branches and

21 service centers

Rs. **85.81** Mn investment on IT

Social Capital
Over **415,000**

total customers across the country

Intellectual Capital
Over 18 years of experience

Rs. **15** Mn investment on training and development

Natural Capital
Energy, water and paper consumption

Vision

Mission

Strategy

Sustainable business of HNBG

Strategy & Resource Allocation

Stewardship

Our Business Activities

Business Lines

Core Business Activities

- Microfinance
- SSE Loans
- SME Finance
- Finance Leasing
- Housing Loan
- Deposit and Savings Mobilisations

Value Added Services

- 160,246 ATM Cards

Supporting Services

Risk and Opportunity

Risk Management

Governance

Financial Capital

PAT Rs. **1,012** Mn

Company rating “A(lka)” with a stable outlook by Fitch Rating

Human Capital

152 employment opportunities created

Rs. **1,108** Mn employee benefits paid

Manufactured Capital

48 branches and

21 service centres

Social Capital

CSR Initiatives

6,817 hours of product training

19 literacy and leadership training for customers

Intellectual Capital

Great Place to Work

Branded together with Sri Lanka’s second largest private bank

Natural Capital

Use of energy saving bulbs for HNBG branches island wide

Declaration of “No Polytene Zone” throughout the organisation

Joining the SLIPS network thereby reducing the need for cheque payments to stakeholders

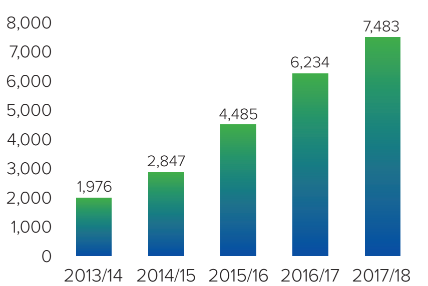
Implementation of Managed Print Service (MPS)

Financial Capital

Income

The Company's total Income increased by 20% to Rs. 7,483 Mn compared to Rs. 6,234 Mn in 2016/17 supported by the lending portfolio growth of 38%. However, the result was less than the budgeted due to the challenging economic conditions which prevailed during the year. 87% of Income came from Interest Income whilst the balance came from Non-Interest Income. Interest from Loans to members grew by 11% whilst the contribution to interest income from the newly introduced Leasing business increased by 321% driven by a 167% growth of the leasing portfolio and this augurs well for the Company's strategic intent of maintaining 50% of its portfolio as collateral based products.

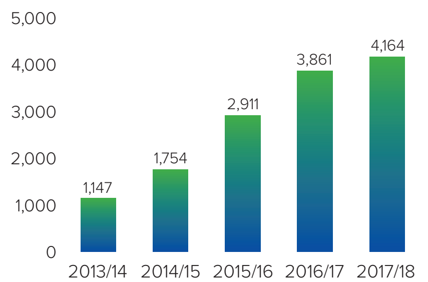
Total Income Rs. Mn



Net Interest Income (NII)

Interest expense increased by a significant 62% relative to the 23% growth in Interest Income, to Rs. 2,373 Mn, driven by a Rs. 4.33 Bn increase in fixed deposits and higher funding costs due to the upward trajectory of interest rates. Resultantly, NII grew up only by a moderate 8% to Rs. 4,164 Mn during the year, due to the backdrop of lower macroeconomic activity that prevailed during the year.

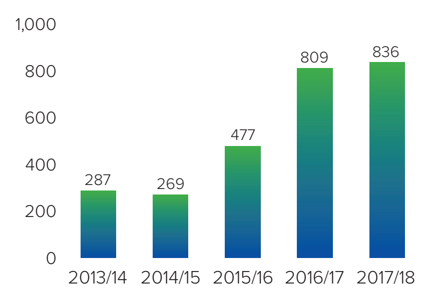
Net Interest Income Rs. Mn



Non-Interest Income

Non-Interest Income grew marginally by 4% during the year to Rs. 836 Mn while Net Fee and Commission Income, which is the main component of the Non-Interest Income, grew by 4% to Rs. 592 Mn.

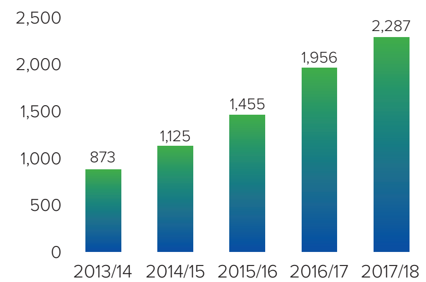
Non-Interest Income Rs. Mn



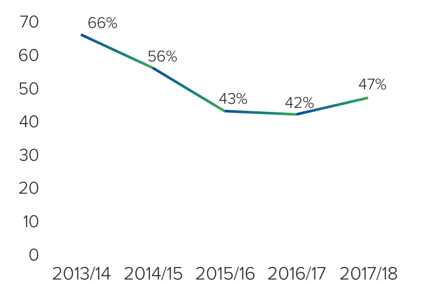
Operating Expenses and Cost to Income Ratio

Operating Expenses increased by 17% as a result of an increase in the personnel and other expenses. Consequently, HNBG's cost to income ratio increased from 41.67% in 2016/17 to 46.76% in 2017/18 led by relatively higher growth in operating expenses vis a vis the growth in the total operating income. The rigorous cost monitoring initiatives and improvements to technology are expected to facilitate for cost savings in the future.

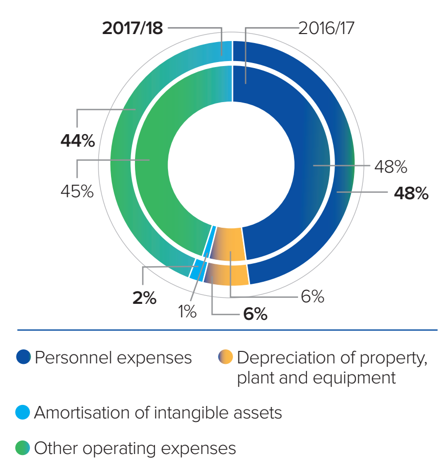
Operating Expenses Rs. Mn



Cost to Income Ratio %



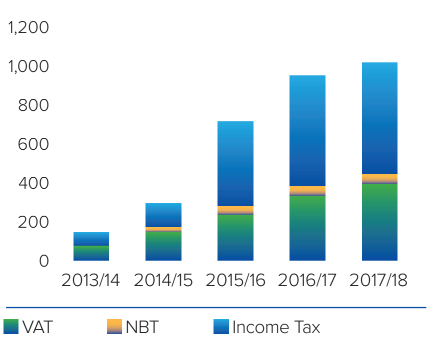
Composition of Operating Expenses Rs. Mn



Taxation

HNBG's Income Tax expense increased slightly during the year under review to Rs. 570 Mn. Charges on Value Added Tax (VAT) increased by Rs. 61 Mn as a result of the higher VAT base as well as the higher VAT rate of 15% in the year compared to the previous year in which the Company's total value addition was subject to a 11% VAT up to 01 May 2016, 15% from 02 May 2016, 11% from 12 July 2016 and 15% from 01 November 2016 up to 31 March 2017 as per section 25A of the Value Added Tax Act No. 14 of 2002.

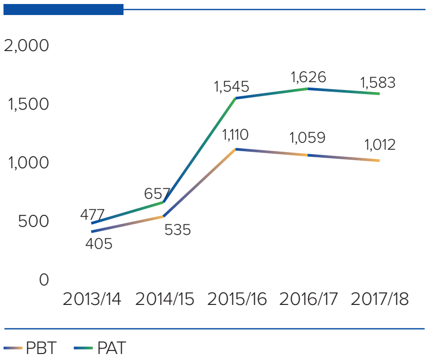
Taxation Rs. Mn



Profit Before Tax and Profit After Tax (PBT & PAT)

Pre-tax profit for the financial year ended 2017/18 stood at Rs. 1,583 Mn recording a decline of Rs. 44 Mn. Subsequently PAT amounted to Rs. 1,012 Mn recording a slight decline of 4% reflecting the increase in interest expense and operating expenses.

PBT and PAT Rs. Mn

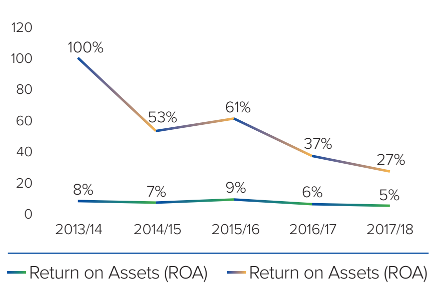


ROA and ROE

ROA and ROE, measured using profit after tax, declined to 4.51% and 26.91% respectively, by end 2017/18 compared to the corresponding period of 2016/17. Simultaneously, ROA, calculated based on the pre-tax profit declined from 9.59% in 2016/17 to 7.05% in 2017/18.

Shifting more towards collateral based products such as Leasing, from Microfinance has led to the flat profitability and higher growth in average assets resulting in a decline in the Return on Asset ratio in 2017/18 as in comparison to Microfinance, Leasing generates a lower yield while increasing the asset base with a higher value.

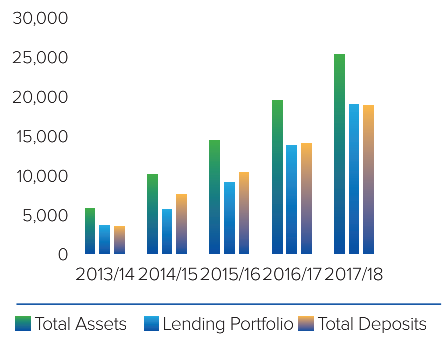
ROA & ROE %



Financial Position

Total Assets increased by 30% over the previous year, driven by the growth in Loans and Financial Investments. Meanwhile, the Deposit base increased by 34% as a result of strong growth recorded in both Fixed and Savings deposits in line with the higher Interest rate environment in the country.

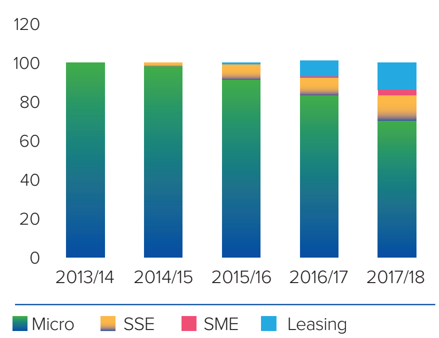
Financial Position Rs. Mn



Lending Composition

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

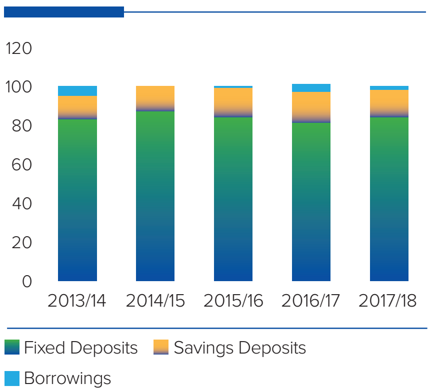
Disbursement Composition %



Funding Mix

Fixed Deposits, being the primary source of funds, accounted for more than 80% of total funding. In the meantime, HNBG's Savings base also increased by Rs. 452 Mn recording a growth of 20% compared to the previous year.

Funding Mix %



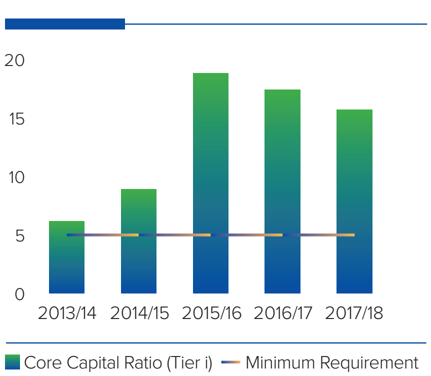
Non-Performing Loans Ratio (NPL)

Although the NPL ratio increased from 2.47% in 2016/17 to 3.79% in 2017/18 over last year, it remained well below the market average. The main cause of the increase in the NPL was adverse weather conditions during the year, rising inflationary pressures and a weaker Agricultural sector. HNBG had an influx of NPL's from Leasing, which contributed to the overall gross NPL ratio during the year. The Company has taken proactive measures to control the NPL while implementing individual product wise strategies.

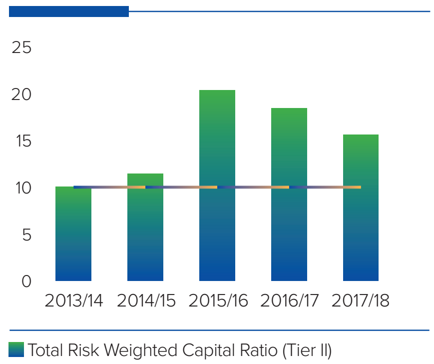
Capital Adequacy & Liquidity Ratio

Core Capital Adequacy Ratio (Tier I) and Total Capital Adequacy Ratio declined slightly to 15.71% and 15.63% respectively, during the year under review due to the growth in the Leasing and Microfinance portfolios of the Company which are considered risk weighted assets and hence give a higher denominator base.

Core Capital Ratio (Tier I) %



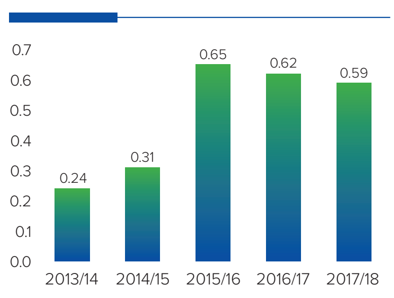
Total Risk Weighted Capital Ratio (Tier II) %



Earnings Per Share

Earnings per share was at Rs. 0.59 on account of a marginal decline in the profitability whilst the weighted average number of ordinary shares remained same.

Earnings Per Share Rs.



Sustainable Development Goals

HNBG's Contribution towards the Sustainable Development Goals

1 NO POVERTY	The micro and other loan products enable income generation activities and support uplifting of living conditions and reduces poverty levels among the community.
2 ZERO HUNGER	Reduced food wastage at the canteen after the implementation of a mechanism to measure the food that remains at the end of lunch.
3 GOOD HEALTH AND WELL-BEING	Conducted awareness programmes on protecting children from abuse and customer awareness programmes.
4 QUALITY EDUCATION	Support to schools.
5 GENDER EQUALITY	Working towards increasing the percentage of women in the workforce.
6 CLEAN WATER AND SANITATION	Water tanks were provided for families who had no access to drinking water. Built two houses for our customers in the northern province.
7 AFFORDABLE AND CLEAN ENERGY	LED lights used in branches island wide to reduce our electricity consumption
8 DECENT WORK AND ECONOMIC GROWTH	Contributing to the economic growth of the country by creating employment opportunities
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Centralized printing services were introduced to optimize the usage of paper and enable responsible printing. This initiative improved efficiency and contributed to triple bottom line growth.
10 REDUCED INEQUALITIES	Our financial products reach populations who otherwise have no access to capital and thus help reduce inequalities through livelihood creation and uplifting of standards of living.
11 SUSTAINABLE CITIES AND COMMUNITIES	CSR projects at branch level and through the Mehewera Fund.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Reduction of paper usage via the implementation of a Management Print Service (MPS) and the use of a POS Machine. Encourages a paperless environment.
13 CLIMATE ACTION	Refrain from lending to projects which can have negative impact on the environment.
14 LIFE BELOW WATER	Since our business is not directly linked we have not initiated any projects as of now.
15 LIFE ON LAND	We are looking at projects for the future.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Awareness programme to prevent child abuses. Adopting a policy of 'Know Your Customer'. Gradually expanding our presence in the post conflict provinces, Northern and Eastern Provinces.

Social Capital

HNBG's Social Capital primarily comprises Customers, Suppliers and the Communities at large at the many localities across the country. Social sustainability is inherent to HNBG's business model which follows a vision to uplift the economically disadvantaged. Being integrated into the local communities and engaging with all its stakeholders in win-win partnerships to enhance value creation for all, is hence a key priority and intrinsic to our core business.

CUSTOMERS

Driven by a Vision to "Uplift the poorest of the poor" HNBG's customer base, since its inception in 2000 consists primarily of rural and agricultural communities and small enterprises whom we strive to uplift through our core business of Microfinancing.

Product & Customer Diversification

As enumerated in our strategies, we also aim to diversify our customer base in terms of gender and income levels as the Company makes the transition from a Microfinancing entity to an LFC and is on the path to reach the next tier in value creation.

Composition of our Loan Portfolio %

Product segment	2017/18	2016/17	2015/16
Micro	55	73	85
Easy	8	7	6
Abhilasha	4	3	3
Suwashakthi	1	1	1
Staff Loans and Other	5	2	4
SME Loans	4	2	0
Finance Leasing	23	12	1

During the year under review the Company launched a Housing Loans scheme branded as "Nivahana". Moreover, the Leasing business launched in 2016 grew during the year whilst the higher value Lending products launched in 2014 to cater to the SSE (Small Scale Enterprises) constituting Abhilasha, Swashakthi and Ezy Loans made notable contributions.

The boxed story below quotes one such individual who is a new comer to our customer portfolio of Leasing.

Leasing Client. Dr. Chamara Bandara; Entrepreneur and founding CEO of SCB Corporate and Corporate Doctors (Pvt) Limited - A Business Consulting & Accounting Firm. He is a Chartered Accountant with a PHD in Business and also a Council Member of the Board of the Rajarata University and an Independent Director of Lucky Lanka.

Dr. Chamara obtained a Honda CRV on a 4-year lease from HNBG, in 2017. He first got to know of HNBG through his network of contacts and found their friendly service and the solution they could offer him, unmatchable by any of the other Leasing providers he checked out. "I found that their friendliest service and the very logical path they took combined with creativity to arrive at the best solution without circumventing the law, was a great asset." Dr. Chamara as an entrepreneur does not receive a guaranteed monthly salary and his income style required a solution that suited him. "The flexibility they demonstrate and their commitment to finding the best possible solution; their ability to understand the customer's priorities and limitations; the speed of response and the youthful energy of the team are I think their key competencies which will help HNBG go along way and grow rapidly" he adds.

"The doorstep service they provide is also an advantage for me" he added. These strengths are also well bolstered by the "trust that comes with the HNB brand name" he concluded.

The Geographic Spread of our Lending Customer base

Province	Loan Book (Rs. Mn)	Number of Customers
Central	2,135	27,923
Eastern	1,743	25,163
North Central	1,508	21,001
North Western	2,591	26,491
Nothern	1,545	16,256
Sabaragamuwa	1,160	14,232
Southern	1,640	26,535
Uva	1,287	25,262
Western	6,419	87,662
Total	20,028	270,525

Enhancing Value Creation for our Customers & Suppliers in 2017/18

- Expanded the reach and enhanced customer convenience and offering for Leasing customers by establishing Specialised Business Units (SBU's) for Leasing within selected branches located in high potential areas.

- Continued to enhance customer convenience by issuing an ATM card to bring the total number of ATM card holders (since its launch in 2016) amongst our MF clients of 152,100 about 94% of total ATM users. These customers can now withdraw their loan instalments in smaller amounts if they wish to, and place convenient to them, without having to visit a branch to collect a cheque and subsequently a bank to cash that cheque. In addition to enhancing convenience and a better management of their funds, the card also enabled many a customer to take their first step towards technology enabled banking.

- HNBG also joined SLIPS (Sri Lanka Inter-Bank Payment System) during the year, thus enabling the electronic transfer of funds and eliminating the need for cheque payments to our suppliers and all other stakeholders.

- Company has a "Member Protection Fund" and if a member is faced with a disaster, based on the situation, the Company will set off their loans.

Below are the details of benefits.

Victim Type	Cash Benefit	Diriya Loan Write Off	Other Loan Write Off
Member death Age 60>	15,000	Yes	Yes
Member death Age 60<	No	Yes	Yes
Member accident death	50,000	Yes	Yes
Member accident fully disable	50,000	Yes	Yes
Member accident partially disabled	25,000	Yes	Yes
Member ill (Special)	No	Yes	Yes
Age 60> Husband death	15,000	Yes	Yes
Age 60> Husband ill (Special)	No	Yes	Yes
Age 60> Parent death	10,000	No	No
Age 18> Children death	10,000	No	No

SUPPLIERS

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

In keeping with the Company's ethos, it extends support to small scale entrepreneurs by signing service agreements and enabling them to maintain their supply and good faith with the Company. Moreover, we also offer concessionary speed loans to meet the working capital requirements of our long term suppliers.

Partnerships

The year under review also saw the Company forge several partnerships by signing Memorandums of Understanding (MOU's) with leading automobile dealers for world renowned brands, to promote the vehicle leasing business. The MOU's were signed with the following Companies in 2017:

- Diesel & Motor Engineering PLC (DIMO) in February 2018 to offer attractive leasing packages with lowest interest rates to customers who wish to buy Tata vehicles and DIMO Agri Machinery and Vehicles which include Mahindra tractors and Swaraj Tractors.

- Ideal Motors (Pvt) Ltd to offer attractive leasing options for Mahindra vehicles.

- Colonial Motors PLC to offer attractive leasing options for Vespa and Aprilia Motor scooters.

- Associated Motorways Ltd (AMW) to offer attractive leasing options for Renault KWID passenger cars, Suzuki Shakthi Mini Trucks and New Holland Tractors.

COMMUNITY

Creating economic inclusivity and more

A win-win approach to value creation is intrinsic to our business model. The Grameen concept, which empowers the disadvantaged to become entrepreneurs by providing access to formal funding sans any collateral, has created livelihoods for hundreds of thousands over the past 15 years. In addition to our over 270,000 lending customer base, the economic value creation activities create indirect employment and sustains many more families and communities across the island. The business model of the "Diriya" product which lends exclusively to groups of women, makes a significant contribution to gender equality in the households by empowering women to contribute to economic activity and become financially independent.

Our Economic Impact on Communities

Direct Employment by HNBG Diriya, Swashakthi, Abhilasha + Indirect Employment Generated by HNBG = Livelihood creation by HNBG

Widening their Horizons

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

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

Customer Programmes	Programme	No of Participant	Total Hours
Customer Awareness Program	19	2,964	9,130
Product Program	54	2,105	6,817
	73	5,069	15,947

In addition to the integral role we play in uplifting the disadvantaged through our businesses, HNBG also actively engages in philanthropy and other CSR initiatives "to uplift others" in numerous ways, to reach out at times of need or disasters, upgrade national and rural infrastructure and support social events in the neighboring localities. HNB Grameen Mehewera Fund is the main vehicle for the Company's philanthropic initiatives.

The "HNB Grameen Mehewera Fund" made up of contributions from the Company and employees is a fund dedicated to help clients and employees at times of need such as urgent medical treatment, reimbursement of expensive medicine and other related assistance. Employees voluntarily contribute a percentage of their monthly salaries to sustain the fund.

Furthermore, the Company also conducts CSR projects island wide through its branch network and actively encourages employees to engage in CSR activities through formal and informal mechanisms. For example, as a formal mechanism, the annual evaluation for branch ranking also includes a points component for the CSR project(s) carried out by the branch. The total invested by the Mehewera Fund, during April 2017 to March 2018 amounted to Rs. 2,006,644; whilst the total investment on our Social Capital (since the fund's inception in 2014 amounted to Rs. 5,064,144 and benefited 279 individuals.

Mrs. Inoka and her husband with their six children lived in the small coconut palm thatched structure depicted in the photo above. Bright sunlight and then heat intruded on them, but what they dreaded was the rains, no matter how light the rain, it always made their school books wet or drenched, and made their mother huddle them together and look for some corner to get some of sort protection from the rain that beat in or came through the leaking roof.

Inoka who looked for help to build a basic and decent structure – that they could call home and fulfil a basic need says she "sought help from every place she could possibly think of but to no avail; the few pledges she received also never got translated into action". It is when the credit officer at HNBG's Puttalam branch brought this story to the notice of his Manager and he in turn made a request to the CEO at Head Office that things started moving. HNBG's Puttalam branch manager in turn brought it to the attention of the CEO with the hope that the Company's Mehewera Fund could make even a small contribution to start this project. But the CEO instead promptly decided that "we should build this house for them". A prompt willingness to help this family in dire need of a dwelling resulted in swift action by HNBG.

Inoka and her husband work hard to provide for their children and to give them a decent future. "Since the income earned by my husband who works at the service center is insufficient to meet the needs of our six children I decided to start an income generating activity of sewing and needed to purchase a sewing machine. It is the HNBG "Diriya" loan that helped me to purchase a machine in 2012 and they have been helping me to grow my business ever since then" adds Inoka.

With her eyes filled with tears of joy, Inoka told us how the gratitude she feels in her heart towards HNBG can never be adequately expressed. What a wonderful deed they have done by relieving us from the dire conditions we were in and providing this permanent shelter over our heads and then helping me to carryout a livelihood she added.

During the year under review, the Mehewera Fund, under the initiative of several branches also supported many in need to obtain medical help and repair homes.

Mehewara Donations during April 2017 to March 2018

Purpose of Donation	No.
Medicine (For Cancer, Kidney and Eyes, Leukemia, Paralysis)	58
To help a business destroyed by a fire	1
Medical help for heart patients	6
Donation of a house	2
Landslide victims	2
Medicine (Accident)	14
Water tank & water project	3
Wheel chair	1
Total donations	87
Total value of donations	Rs. 2,007,000

Support to Repair their Dwellings

Branch	Member Name	Purpose of Donation
Nikaweratiya	H G A D Pushpakumara	Water Project
Badulla	A J F Farsana	For repairing the house

- A donation of a wheel chair to one of our members of the Welimada branch for her son who is unable to walk.

- A water tank for a village in Trincomalee which did not have access to drinking water.

Lending a hand to obtain medical help

Branch	Member Name	Purpose of Donation
Bandarawela	K Karunarathna	For Medicine (Eye problem)
Mahiyanganaya	K H Waduge	For Medicine (Accident)
Bandarawela	E M M P Chamari	For Medicine
Welimada	H M Ranjani	For a Wheel chair
Kuliyapitiya	H A P Damayanthi	For Medicine
Anuradhapura	M A D S R Perera	For Medicine (Cancer)

Blood donations campaigns were held at our City Branch, the Moneragala branch and Homagama branch.

Protecting our Children

The Matara branch, organised a seminar themed "Towards protecting our children: - a topical subject of protecting children from abuse and child predators; an urgent imperative for a healthier future. This awareness programme, organised in conjunction with the Woman and Child Protection section of the Sri Lanka Police and the Weligama Provincial Council September 2017 at the Weligama Urban Council auditorium.

Mr. Manoj Samarasekera the Officer In Charge of Public Relations of the Women and Children section of the Police, well known speaker on the topic, addressed a gathering of parents as depicted in photo below.

Reaching out in Times of Need

HNBG employees of the Welimada branch also responded swiftly and reached out to help landslide victims by providing dry rations to 22 families of the Microfinance membership who were displaced in the Glenanore Estate Division.

Customer Testimonials

"The last loan I obtained from HNBG was for Rs. 150,000 and I will always be grateful to them for the possibilities they created for me and the warm and friendly service they have consistently shown to me."

Mrs. Sarojini who lives in the village of Nappatimunai in Kalmunai exemplifies the spirit of entrepreneurship, a woman's courage and perseverance that can bring light to change the bleakest of circumstances... And when lent a helping hand.

Having being forced to give up schooling in Grade 5 to ease the burden of poverty that her family was struggling with, Sarojini had to begin tending to her younger siblings at a tender age. Subsequently when her father, the only bread winner in the family died when she was 16, Sarojini had to seek employment to support her family, and she sought work in a textile weaving mill in her neighbourhood. She thus became familiar with textile weaving and acquired the skills whilst she continued to work after marriage at the age of 20 years.

It is then that she thought venturing on her and purchasing a weaving mill to begin weaving of textiles. Sarojini purchased her first sewing machine with a loan of Rs. 30,000 which she obtained from HNBG. "Having been through very hard times; poverty and want of resources is nothing new to me, that I know to use any resource I have sparingly. Every loan I have obtained from HNBG has been utilised to purchase a weaving machine" says Sarojini. The business she ventured into just five years ago, with the purchase of one weaving machine from a loan of just Rs. 30,000 from HNBG, has grown today to include over 10 weaving machines and 25 people working for her. "The last loan I obtained from HNBG was for Rs. 150,000 and I will always be grateful to them for the possibilities they created for me and the warm and friendly service they have consistently shown to me" adds Sarojini.

Customer Testimonials

"HNBG opening a MF centre in this area has been a tremendous relief to us who otherwise had limited opportunity to access funds"

Ms. Nandani Swarnalatha of Ihala Bage Nikadalupotha is a farmer who cultivates chillies and capsicums on a half acre plot of land and depends on HNBG's Diriya loans to fund her farming. "HNBG opening a MF centre in this area has been a tremendous relief to us who otherwise had limited opportunity to access funds" says Nandani. "Most people in this area depend on the local money lender but once we pay pack the loan with his interest, we have hardly anything left" says Nandani. "We cannot access banks easily and no one has provided us with customised loans to suit our needs the way HNBG has, and they support us to make sure we advance at least a step at a time'' she concludes.

"within a few days of my application, my loan for the entire amount of Rs. 800,000 I requested was approved. I was spared the usual hassle of obtaining a bank loan and didn't have to waste valuable time at banks."

Mrs. Indu Jayatilake of Girithale is today an owner of a concrete block making enterprise and an ornamental plants sale. She launched into enterprise in 1991 and today owns three branches in Hingurakgoda, Girithale and Polonnaruwa.

Upon visiting a concrete block making venture to purchase some blocks when her husband was on holiday, Indu went back home and thought the process is something that could be easily replicated and she could begin to make them herself. She decided to ask her husband who was working in Saudi Arabia at the time to fund the machine and thus began her entrepreneurial quest, in 1991. Her husband retuned to work in Saudi and she managed the business on her own. Having made 3,000 blocks it took a while and a lot of discouraging moments before she was able to capture her initial order. Following a suggestion and prodding by her two assistants she then expanded to make flower pots, and concrete furniture. The standards she maintained and her approach of driving volumes by keeping smaller profit margins proved to be effective in making her maiden venture a success, as the reputation of the quality of her products and reasonable pricing, spread, she began to receive orders from all quarters.

At the same time, customers who came to buy her products such as concrete furniture and pots also urged her to venture into the sale of ornamental plants. However, the considerable amount of funding that the establishment of greenhouse and nurturing plant saplings required she thought could be an obstacle; as she believed in keeping funds from her concrete product business separate from any other business. She began to think about going to a bank and it is then that she heard about HNBG and their Ezy Loan scheme.

"I couldn't believe it" says Indu, that "within a few days of my application, my loan for the entire amount of Rs. 800,000 I requested was approved and I was spared the usual hassle of obtaining a bank loan and didn't have to waste valuable time at banks." She appreciates the "ease of obtaining the loan and the efficiency and promptness of their service." HNBG representatives now come to my place and collect my monthly instalment payment and I am able to pay according to my funding position at the time" she adds, much appreciative off the convenience it offers and the time she can spend on her business instead.

"We soar together as one Team"

Human Capital

We are most heartened and honoured by the prestigious recognition from our employees - to be chosen amongst Sri Lanka's "Top 25 Great Places to Work" for the second consecutive year (following the internationally recognised Great Place to Work survey).

We are spurred on by this endorsement from our employees of our commitment to fulfilling their expectations, strongly believing that service excellence must begin at home.

At the award ceremony held at Hilton Colombo on 11th July 2018, HNBG was selected amongst the top "25 Great Places to Work in Sri Lanka" and the Silver amongst the Extra Large Companies category in 2018.

Deriving and Delivering Value with our Human Capital

Whether it be in empowering the "poorest of the poor" by building relationships based on "human touch", or feeling unified by a higher purpose of contributing to the national economy, or the rapid growth of HNB Grameen Finance Ltd to become among the best finance companies in the nation in a mere span of 18 years, have been fueled by the talents, passion and efforts of its people. The entire team that makes up HNB Grameen Finance Ltd as at 31st March 2018 stood at 1746 a 9.5% increase from the previous year, reflecting the growth of the Company in terms of product range, reach and volumes.

HNBG is today amongst the top finance companies in the country. We have identified that sustaining this position in the medium term as well as reaching the Company's next tier of growth requires us to enhance the capacities of our Human Capital. And towards this end the Company has identified the following key HR strategies as priorities for the next three years.

Strategy	Action Intended in 2018-2020
Strengthen management capacity to meet evolving business needs and manage a larger organisation.	• Obtain external expertise.
Develop talent to manage more sophisticated financial instruments.	• Increase training for these product segments.
Improve HR retention and minimise attrition	• Develop & communicate career progression paths for middle and entry level employees. • Introduce position bands to complement the current designation based progression plan. • Develop an employee grievance/redressal system. • Conduct an independent employee engagement survey once every 3 years and respond to findings.
Restructure the organisation in line with business needs	• Create a new organisational structure which is more in line with the future goals of the Company. • Align the departments and create reporting structures.
Improve HR Development policies and processes	• Develop and modify training material to support the future objectives of the Company. • Expand the use of digital medium as a delivery channel for training. • Create a PMS based on objective as well as subjective criteria.

Our Socially Sustainable Business Model

More than 67% of HNBG's workforce lives and work outside Western Province -thus contributing to employment generation in rural areas – in keeping with our Vision to contribute to the nation's economy by reducing the geographic disparity in Sri Lanka's income distribution.

The fact that more than 20% of our employees have been with the Company for more than 10 years and above reflect the loyalty as well as the tacit knowledge and industry experience of our team, At the same time the average age of our people is below 30 years in age which augurs well for new perspectives and the dynamism of the Company.

Service and Gender Analysis as at 31.03.2018

Service	Count
Below 1 Year	397
1 - 2 Years	524
3 - 4 Years	277
5 - 9 Years	155
10 Years & Above	393
Grand Total	1,746

Gender	Count
Female	96
Male	1,650
Grand Total	1,746

Key Performance Indicators

Service	2017/18	2016/17
Profits per Employee (Rs.)	579,486	664,262
Attrition rate	13.65%	13.66%
Average Training Hours per Employee	25.65	33.41

HR Priorities Identified in 2017	Action in 2017 - in a Nutshell
Managing Employee Turnover	• Introduced an excellent onboarding process to welcome new recruits. • Increased visits to branches to interact in person replacing phone calls with face-to-face interactions. • Looked at reducing the culture differences we identified across the branch network. • Launched an employee branding campaign such as through a video themed "Deweni Gedera" and visuals in interview room and Facebook. • Developed interview skills of interviewers. • Introduced designation based interviews.
Introducing new ways to reward & recognise employees	• Recognise the best employee in each region and the best employee island wide. • Conduct an IQ Competition to recognise employee's knowledge. • Launched Kaizen suggestion scheme with the best idea for the month recognised.
Create pathways and groom employees for career progression	• Enhanced the HR system.
Augment channels for internal & external communication	• Launched a Mobile App which enables leave application through one's mobile device. • Launched a Facebook Photo contest for employees.

Managing Employee Turnover

As we identified in last year's report and listed above, Retaining talent is a key challenge faced by the entire industry. Amongst the initiatives introduced during the year to meet this challenge was an enhanced employee 'onboarding' programme to welcome new recruits. This initiative includes a step-by-step process to welcome new recruits in an uplifting manner that creates a sense of belonging and being valued; building a solid foundation for future loyalty and engagement with brand HNBG . The 'onboarding' includes the provision of a 'Welcome Kit', a comprehensive two days of introductions by and to, the Company's senior and other employees and the respective branch managers, lunch and/or breakfast with co-workers and familiarisation with his or her new office environment. These two days of introductions and bonhomie is followed by an induction and training programme on the Company's values and goals as well as job specific requirements and expectations. This initiative in which employees are warmly welcomed and a sense of being valued is communicated, is expected to have an impact on the millennial new recruits in particular.

In addition, the Company also launched a branding initiative through a video clip themed "Deweni Gedera" - "Your second home" and the welcoming first impression that a new recruit gets is thus a first step in fostering a sense that HNBG becomes a second home for its employees, a place which elicits loyalty and a passion and commitment to drive its success.

Training & Development

Following the Company's strategic direction to diversify its portfolio in terms of products and customer base and to expand its reach, the training & development initiatives during the year focused on the new product areas in which it needs more training; namely, Leasing, SSE, SME and Housing Finance.

The Company's training calendar focuses on technical as well as soft skills and internal as well as external training programmes which included overseas exposure during the year. Training needs are identified during the annual performance evaluation and career development review processes, conducted for and with every employee. The Company also continued to train internal trainers to sustain the learning & development culture into the future.

The Company conducted or facilitated 96 training programmes during the year of which 30 were conducted in-house whilst the remainder were external programmes.

	2017/18	2016/17
Investments in T&D (Rs. Mn)	15.0	18.5
Training Hours	44,787	53,258
Number benefited	3,395	2,447

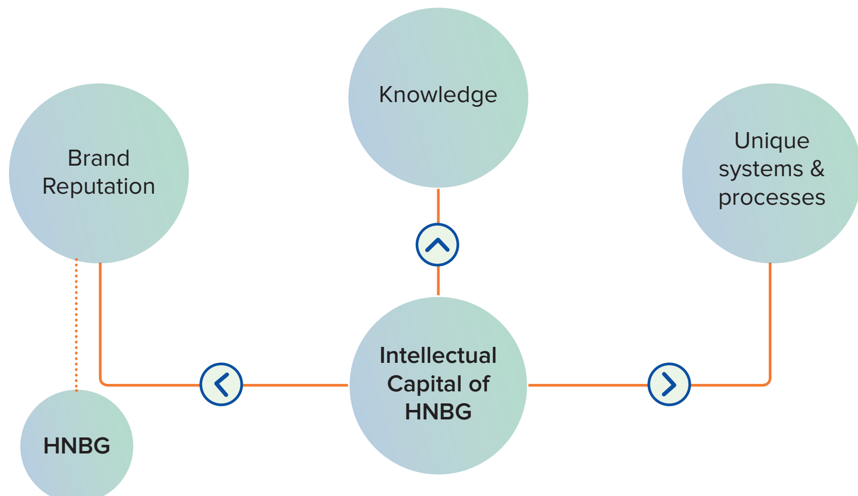
The overseas exposure during the year included a four day tour to Malaysia offered to employees who were selected as the "Best Employees" during the year as well as those who had completed 10 years of service. The tour, which included a one day training programme organised by a Microfinance firm in Malaysia, was a training opportunity as well as a reward and incentive by the Company to the selected employees for their contribution to achieving the Company's goals. In addition to the product specific, customer service and motivational programmes during the year, the Company also carried out leadership development programmes to support the Company's growth trajectory, based on our belief that the progress of the individual goes hand in hand with the progress of the Company. "Build Creative Thinkers" was one such programme to nurture creativity and innovation whilst 'Attitude Blast" was another to help team members spearhead a culture change in the organisation, build strong mindset and Company loyalty.

Category	No. of Programs	No. of Participant	Total Hours
Certificate of SME	1	25	450
Certificate in Microfinance	4	221	10,608
CBSL Programmes	3	20	97
Lanka Microfinance Programmes	2	19	304
Leadership & Management Development	38	1,446	11,259
Sales & Customer Service Excellence	12	750	4,331
IT Programs	7	107	735
Overseas Programmes	1	91	365
Induction Programmes	17	387	14,706
Other Institute Workshops	11	420	2,297
	96	3,486	45,151

In addition to the many formal and informal channels of interactions that the Company actively promotes to build camaraderie, HNBG employees also unite to contribute, in money and in kind, for different charity projects on their own initiative. The "HNBG Mehewara Fund" is made up of voluntary contributions from employees who seek to help those in need due to illnesses, natural disasters or poverty. These initiatives prove to be truly rewarding for the impact they can have on others whilst being valuable opportunities for camaraderie and bonding as a team. The year under review saw the funds used to build houses for clients and purchase white canes for the blind. These projects are discussed in the Social Capital section of this MD&A.

Intellectual Capital

The value that an organisation can create is dependent upon its intellectual capital and at HNBG we have identified three key intangible assets as vital to our value creation.



Brand Equity

As the pioneer of the Grameen model of Microfinancing in Sri Lanka the Company has been synonymous with the unique Grameen concept of group-based lending in the country. Our integrated approach and the hybrid model is unique and focuses on women to ensure long term sustainability. Thus, enabling HNBG to target its vision to fuel entrepreneurship and assist the "poorest of the poor". Its brand reputation has come to represent these objectives. The well-earned brand equity plays a particularly critical role today in the backdrop of unethical and unprofessional practices by many industry players and the negative publicity that Sri Lanka's Micro finance industry is hence being subject to. Your Company is able to retain its brand identity as a legitimate player which pursues a win-win model with sustainable practices that uplift rather than exploit. Our brand equity will thus be a key to our sustained growth in the current backdrop.

Since the acquisition of the Company, then known as "Prime Grameen" by HNB - Sri Lanka's oldest private commercial bank, one of the country's most respected entities and Sri Lanka's second largest private commercial bank, the Company's brand equity has risen significantly. With a 127 year heritage, brand HNB has been synonymous with attributes of trust, stability and strength which have in-turn reinforced our brand equity with attributes of trust, dependability, stability and confidence in the public eye which is vital for the reputation of a finance company.

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

In line with the Company's strategic priorities of product diversification and expansion of reach the Company also introduced new brands and strengthened the platform of its brand portfolio during the year. New product brands introduced during the year.

HNB GRAMEEN
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Knowledge base

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

- MD/CEO, B.M.D.C. Prabhath
- LMD interview on the Great Place to Work Survey

HNBG has been in business for 18 years, and as much as 31% of its staff are those who have been with the Company for more than five years whilst 23% have been with the Company for more than 10 years. Moreover, as much as 67% are from outside the Western Province. These employees represent and contribute immensely to the Company's value creation process with a store house of tacit and explicit knowledge, including specialised expertise in the business domain of Microfinance and knowledge of rural communities. These intangibles have been a key to the sustainability of the Company's business model in an industry in which lending decisions are seldom based on black or white number crunching, but instead on experience, tacit knowledge and insights of our relationship managers, community based knowledge and most of all relationships. The quality of the relationships have also proven to be a valuable asset in the Company's risk management strategy and its effectiveness. This knowledge is a valuable element in HNBG's intellectual capital as a key differentiator in an industry which is based on forging and nurturing relationships with varying market segments. The Company's tacit and explicit knowledge has also been interdependent with its ability to integrate into rural communities, another valuable element of its intangible capital base.

The knowledge base is also significant in the Company's differentiation strategy in which HNBG strives to be more than a mere provider of financial capital to also play a role as investment advisors to clients who have no access to formal channels of financing.

A Unique Business Model and Processes

Our integrated approach towards financial inclusion is designed to cater to the varied needs of the local rural communities through a hybrid model which focuses on loans and savings tailored to meet local needs and to focus on women to ensure long term sustainability, responsible borrowing and returns to the community at large.

One of the key success factors of HNBG's sustainable model of value creation in the MF industry has been its processes with regard to delivery, customer service and customer engagement which over the years the Company has fine-tuned to be a key differentiator and an intangible capital.

Since pioneering the Grameen concept in Sri Lanka, HNBG has established the necessary systems and processes dedicated to ensure that 213,500 active borrowers across the island, are met once every week at a designated meeting centre - a practice which the Company has carried out consistently and consecutively over the past 18 years of business. These systems and processes add value through customer engagement, fostering of customer loyalty and motivation, customer education, reducing risk, ensuring timely payments, and facilitating another key differentiator of being investment advisors to customers. The dedication and consistency with which this well-structured weekly meetings are carried out have been a vital element of the sustainability of HNBG's business model vis a vis competition.

As enumerated elsewhere in this report, the Company is also mindful that evolving lifestyles and pace of life necessitates that we change the modes of customer engagement and service delivery from weekly meetings to more digital based channels. Following the strategic planning exercise carried out during the year, the Company will look to fine-tune and remodel its processes based on the solid platform it has built as a leader in MF in the country.

Accolades

The awards and recognition we have received bear testimony to our commitment to quality and excellence in how and what we do.

- Amongst the 25 "Great Places to Work" in Sri Lanka by Great Place to Work Survey for the second consecutive year.

- Compliance award for Annual Report at the 53rd Annual Report Awards 2017 organised by CA Sri Lanka in the category of Finance and Leasing Companies (Total Assets up to Rs. 20 Bn).

  In addition the recognition received by the Company, team efforts by our employees were also rewarded by the following awards in sports.

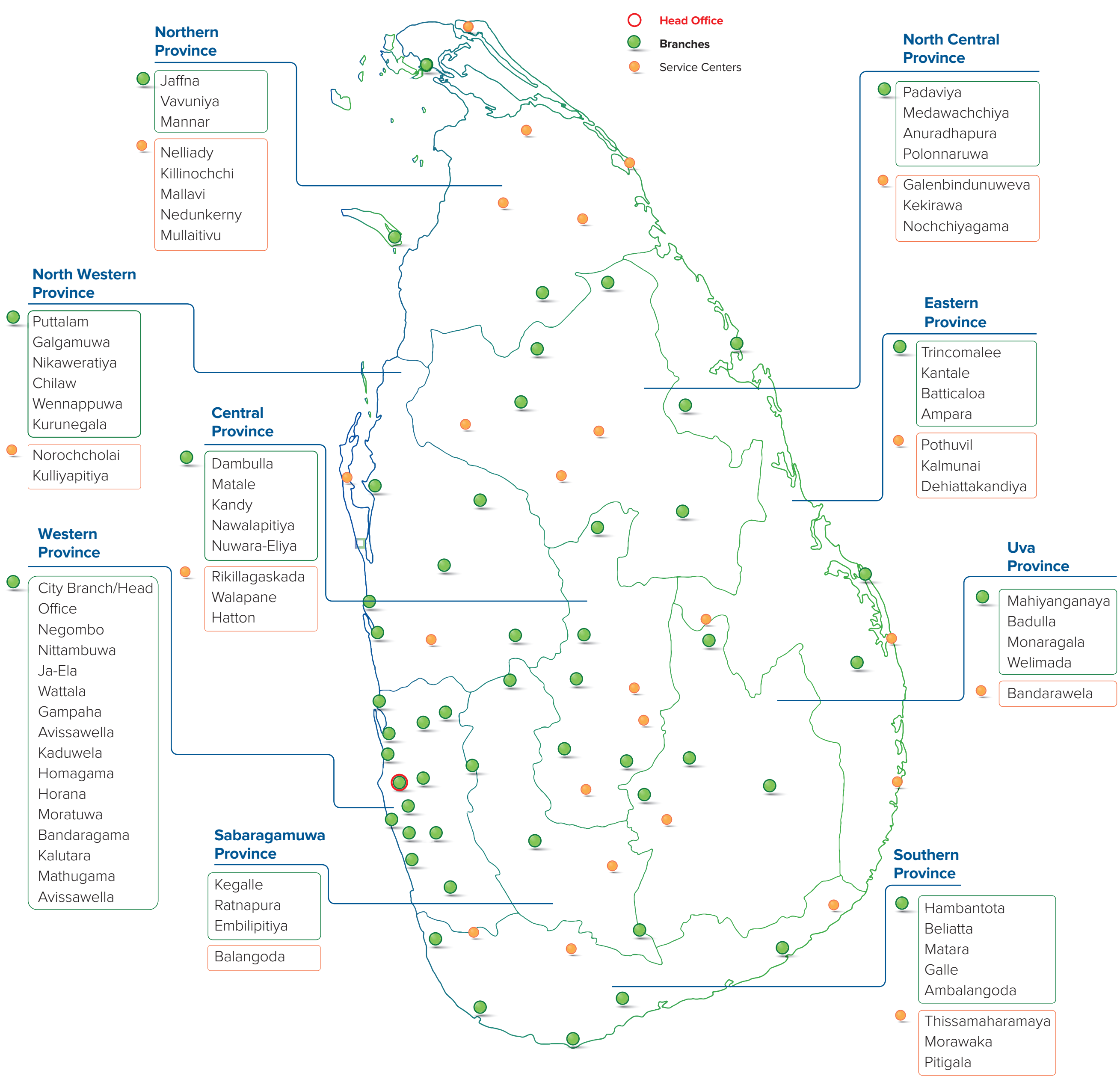
- Mercantile Softball Cricket Association - T20 League Softball Cricket Tournament - Winner 2017.
- David Peiris MCA "E" Division 30 - Over League Tournament 2017 Winner - 1st April 2017 MCA.
- Mercantile Softball Cricket Association - Mercantile Cricket Sixes 2017-Runner up.

Manufacturing Capital

HNBG's manufactured capital consists of its branch network and IT systems.

Branch Network

Our physical presence, with 48 branches and 21 service centres located across the island continues to be one of our key competitive advantages. The Company's focus on Microfinance has necessitated that a majority of the branches be located in rural areas.



During the year under review, the Company focused on consolidating its position and achievements and the number of branches hence remained the same. However, the expansion of the recently launched Leasing business prompted the establishment of specialised Leasing Business Units and 20 such units were opened in select branches in high potential areas . These 20 units accounted for 70% of the Leasing business during the year. The year ahead will see an increase in such Specialised Leasing Business Units.

CUSTOMER TOUCH POINTS

	2018	2017	2016	2015	2014	2013
Number of branches	48	48	48	48	48	48
No. of Service Centres	21	21	21	11	5	2
No. of Leasing Units	20	20	-	-	-	-

Technological Platforms

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

We have recognised that technology has become an imperative to sustain and grow our profitability; by facilitating the better management of costs on the one hand and the growth of revenue on the other hand; such as through the creation of new delivery channels, new products and expansion of our reach. Our Call Centre established in 2016 has greatly enhanced customer convenience and service levels.

HNBG joined SLIPS (Sri Lanka Inter Bank Payment System) – the online electronic fund transfer system during the year. The electronic fund transfers have enabled the Company to achieve significant reductions in costs and increase efficiency and eliminated the need for cheque payments to suppliers and other stakeholders who the Company conducts business with.

The year under review saw the Company complete the implementation of a Document Management System and Share Point based workflow which commenced in the preceding year and it is likely to become operational in the year ahead, yielding significant efficiencies through automated workflows.

Following the launch of ATM cards in the preceding year, the Company issued a further 161,554 ATM cards bringing the total number of customers who enjoy ATM access to 160,246 as at the year end. By eliminating the need for the issuance of cheques to customers who obtain loans; the launch of ATM cards yielded a cost saving in 2017.

The total investments into enhancing our IT platforms during the past few years are given below. A year of consolidation and a focus on strategic review and formulation were factors which contributed to a decline in investments during the year under review.

For the year ended 31st March

	2017	2016	2015	2014	2013
Investments in IT (Rs. Mn)	85.81	102.2	565	288	928


Natural Capital

Given the nature of the business we are in - the financial services industry, the direct impact we have on the environment is minimal and limited to a relatively low consumption of natural resources such as energy and water and the carbon footprint of business related travel. However, we are unable to avoid the impacts of climate change on our business; in fact, they have been the predominant factor in inhibiting the industry's performance in the past two years. Agriculture and related businesses were adversely affected by extreme weather conditions which impacted communities across many areas of the country in 2016 and 2017. Moreover, climate change or global warming is recognised as the world's biggest environmental challenge of the 21st century. A continuous effort to reduce our carbon footprint is thus a key priority for us at HNBG; and we are driven by the fact that every little step counts and takes us closer towards our goals.

Encouraging Green Friendly Enterprises

Our environmental conservation efforts also begin at the point of lending where we consider the possible environmental impact of the Microfinancing activity and refrain from lending to any activity which has an environmentally detrimental impact. For example during the year, we refrained from lending to a project for soil extraction.

Our Head Office Premises is Declared a "No Polytene Zone"

During the year one such step we took to reduce carbon footprint as a team at the Head Office was to declare the Head Office a 'No Polytene Zone' by prohibiting polythene inside our premises. The catastrophe that took place at the garbage dump in Meethotamulla taking many lives in April last year, urged us to action as soon as possible.

One of the main uses of polytene in our office environment has been for wrapping of lunches brought and bought by employees. To help employees comply with this for the greater good of the environment, the Company presented each employee with a more environmental friendly alternative to bring their lunches by providing a reusable metal lunch container. In addition, an employee who purchases lunch from a nearby food outlet which may be using polytene is expected to take the metal container and get the lunch filled into that box. This commitment is not only a symbolic one to encourage each one to do their bit and create awareness but also intended to reduce the use of non-recyclable consumption at our premises by 238 employees. Before the implementation of this initiative, our monthly non-recyclable items weighted an average of 80-90 kg. However, in six months we have seen a significant decline in our monthly non-recyclable items, to 40 kg on average.

The Company has also begun to expand this practice to its other locations island wide.

In addition to funding environment friendly initiatives, we also extend our efforts to create awareness, disseminate knowledge and advocate environmental consciousness and environment friendly behavior amongst our clients. The Microfinance meeting centres across the island, where over 200,000 members gather every week to make their installment payments, provide an ideal fora to educate and advocate communities on the critical and urgent imperative of environmental conservation and sustainability practices, and on how each of them can contribute perhaps even in a small way, to greening their footprints. The awareness generating sessions include energy saving tips, choosing organic ingredients in the manufacture of foods, home gardening and cultivation, other green friendly income activities and the win-win impact of going green. We believe that knowledge and access to funds are tools of empowerment which will help nurture an environmental consciousness amongst our customers across the country.

In addition, the Company trained 65 of its Managers and Regional Managers on the importance of minimising carbon footprint and of being proactive to protect the environment. They were informed of the 'No Polytene zone' at Head Office and of the importance - initiating the same at the branches. Following on, the 'no polythene zone' has been initiated at branches island wide.

Electricity and water for running of offices and fuel are the main natural resources consumed by HNBG. Consumption of these at all locations during the year, as given below increased over the previous year. However, the Company hopes to reduce electricity consumption in the year ahead and has accordingly installed LED lights at all its branches located island wide. The water consumption increased by as much as 87%, due to the increase in cadre and secondly due to the 'No Polythene Zone' practice which has created the need to wash lunch boxes or plates.

	2017/2018	2016/2017
Electricity (Units)	1,563,175	1,363,544
Water (Units)	35,450	19,003

Our Triple Bottom Line Steps in 2017

HNBG continued to use technology for a Triple Bottom Line impact. Expanding the digital channels of delivery and operational improvements enabled us to enhance customer service whilst reducing costs as well as making the footprints of our business greener.

- The year under review saw HNBG join the SLIPS network and thus reduce the need for cheque payments to its stakeholders. The resulting saving in paper is captured in table below.

	2017/2018	2016/2017
No. of cheques	97,799	272,888

- We also introduced a Managed Print Service (MPS) during the year. This system requires an employee who makes a print command to authorise with his or her employee ID by physically walking to a shared printer. This system, which has done away with desktop printers in favour of outsourced shared printers was implemented across all locations of the Company, thus prompting an optimal utilisation of resources and better self-governance and consciousness about printing and its impact on the environment. By facilitating greater accountability, and an ability to cancel printing to think twice and print only what is essential, HNBG was able to reduce printing costs by as much as 38% (amounting to a saving of Rs. 11.5 Mn) in just the first year of implementation.

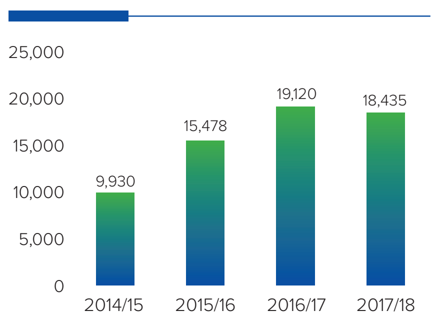
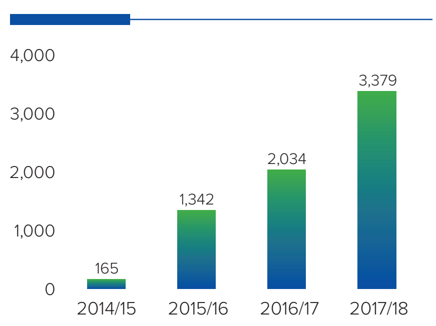
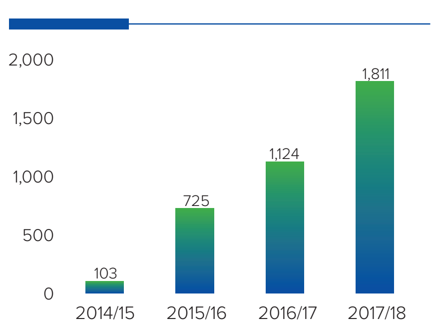
- Following the launch of ATM cards in 2016, the Company had 160,246 ATM users as at 31st March 2018 thus further reducing the number of cheques issued by 64% per annum leading to a sharp reduction in paper usage.

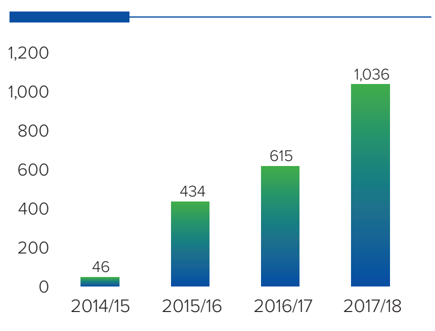
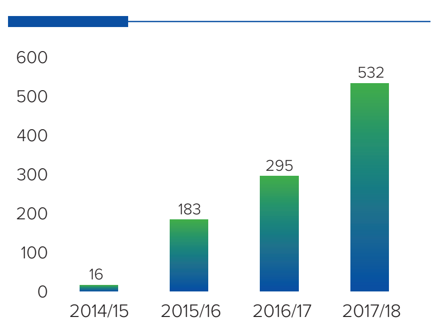
	2017/2018	2016/2017
Total A4 bundle usage	9,890	8,526

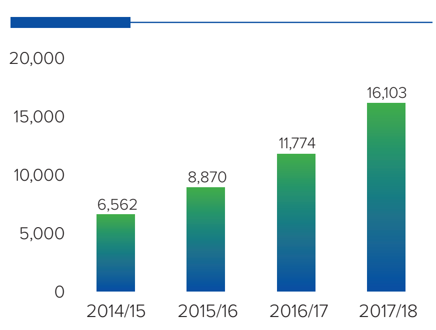
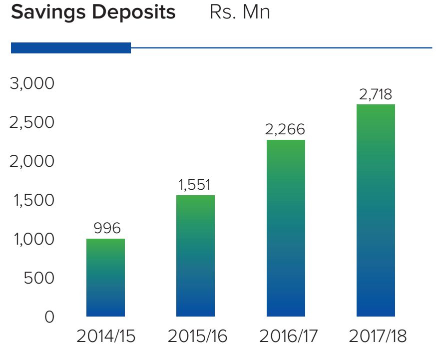
- However as presented above, the number of A4 bundles purchased during the year increased by 16% over 2016/2017 and this increase is attributed to the growth in business and the resulting increase in documentation. The Leasing business achieved a tremendous 109% growth while other loan disbursements grew by 6%.

- Wasting food is also about depleting our natural resources unnecessarily. Aware that people tend to throw away food for varied reasons and most often unwittingly; the Company also introduced an initiative to measure the food that remains at the end of lunch, at our Head Office premises. A lunch room helper is tasked with weighing and recording the food remains of approximately 238 employees who eat in the lunch room. This information is intended to create awareness and remind ourselves to minimise excesses and waste by being more mindful to serve an appropriate quantity.

Performance of Products

Product	Product Description	Performance
Lending Products		
Micro Loans	HNBG's Micro Loans are branded as Diriya and Sahana. Diriya is the primary microfinance product which uses Grameen concept. Through Diriya product HNBG has reached out to the economically disadvantaged female entrepreneurs, whose access to traditional forms of financial services is limited due to their lack of resources and social distinction. Sahana is an interim loan facility granted to active members of Diriya Loans to financially meet their urgent consumption requirements.	HNBG's flagship product, Micro Loans accounted for more than 50% of the portfolio while accounting for 72% of interest income. During the year, portfolio further grew to Rs. 11 Bn with total disbursements under Micro Loans amounted to Rs. 18 Bn while comprising a customer base of 252,923 at the end of 17/18. **Micro Loans** Rs. Mn 
Small Scale Enterprises Loans (SSE)	SSE Loans are categorized as Easy, Abhilasha and Swashakthi. Easy Loans facilities are granted for those in the SME sector who hold current accounts at LCBs in Sri Lanka enabling them with 'easy' access to fund working capital requirements. Customers can enjoy this facility ranging from Rs. 100,000 to Rs. 5,000,000. Abhilasha Loan scheme is aimed at both male and female individual entrepreneurs, away from the group lending practice and provides enhanced financial services with greater flexibility and prolonged repayment periods. The Swashakthi Loan scheme launched during 2014 offers financial assistance to the savings customer base, which exceeds 250,000 striving entrepreneurs.	**SSE Loans** Rs. Mn  Easy Loan portfolio recorded an impressive growth of 76% to Rs. 1,565 Mn. Simultaneously, the Easy loan customer base increased from 1,500 in 2016/17 to 1,800. **Easy Loans** Rs. Mn 

Product	Product Description	Performance
Small Scale Enterprises Loans (SSE)		Loan portfolio of Abhilasha, which is considered as a hybrid product between Micro Loans and SME, grew by 85% during the year. Disbursements during the year amounted to Rs. 1,036 Mn. **Abhilasha Loans** Rs. Mn  Swashakthi the savings based loan product recorded a remarkable growth of 108% growth led by our unique and personalised door-to-door service and the special attributes of the product. Total disbursements for the year reached Rs. 532 Mn while the customer base grew to 3,050 as at year end. **Swashakthi Loans** Rs. Mn 
SME Products	SME products are branded as “Relax”, “Saviya” and Nivahana. Relax loan was launched to capture the lending opportunities of employees in the government and established private sector organisations. “Saviya” SME Loan scheme has been introduced by HNBG to assist all entrepreneurs to develop their businesses with minimum hassle.	Recently launched SME product portfolio accounted for 4% of the total portfolio as at 31.03.2018.

Product	Product Description	Performance
SME Products	Nivahana housing product launched in 2016 serves two categories of clientele. First category consists of professionals and businessmen who have a stable income stream while other category consists of existing members who have a proven good track record of repayment.	
Leasing	The leasing product introduced in December 2015 caters to a wide spectrum of leasing solutions ranging from micro-leasing to vehicle leasing, for both existing and new customers.	The year under review was the second year of operation of the Company's Leasing business which was introduced in the last quarter of 2015/16. Leasing segment amounts 23% of the total portfolio of the Company while contributing 9% to the Interest Income.
Funding Products		
Fixed Deposits	HNBG caters to Fixed Deposits customers through 48 branches and offers from six - monthly products to five - year Fixed Deposits.	The Fixed Deposits base grew by 37% during the year to Rs. 16.1 Bn led by the prevailing higher interest rate environment. Rather than focusing on advertising, Company's door-to-door service in deposit collection, capitalising on HNB's brand name helped to attract more new customers during the period. **Fixed Deposits** Rs. Mn 
Savings Deposits	The Company offers three Savings products to its customer base, namely 'Miyulasi', 'Yalu' and 'HNB Grameen Savings Account". Miyulasi was introduced as a savings scheme to female borrowers, with the view to inculcate the savings habit in the loans customer base. Yalu was launched to instil the habit of saving in children while HNB Grameen Savings Account, the general savings account caters to the masses.	Savings base of the Company grew by 20% during the year to reach Rs. 2,718 Mn. **Savings Deposits** Rs. Mn 

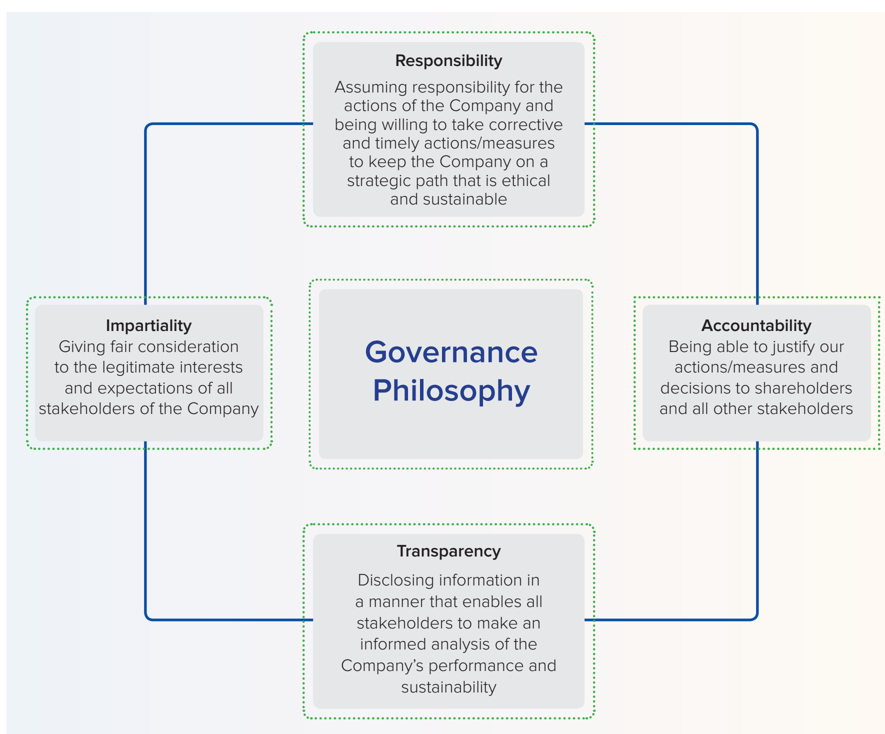
Governance Philosophy

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

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

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

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



GOVERNANCE FRAMEWORK

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

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

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

B. **External Governance Structure** within which the Company enables towards conforming to applicable laws, regulations and best practices.

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

A. INTERNAL GOVERNANCE STRUCTURE

Internal governance structure of HNBG which allows for effective and efficient decision making with accountabilities, is based on the following.

- **The Board of Directors**
  The Board is highest decision makers and is ultimately responsible for governance. Governance framework/ structure enables the Board to balance its role of providing risk oversight and strategic counsel ensuring adherence to regulatory requirements and risk tolerance.

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

- **Board sub-committees**
  Some functions of the Board are delegated to Board sub committees. However, the Board as a whole remains responsible for the areas covered by these sub-committees.

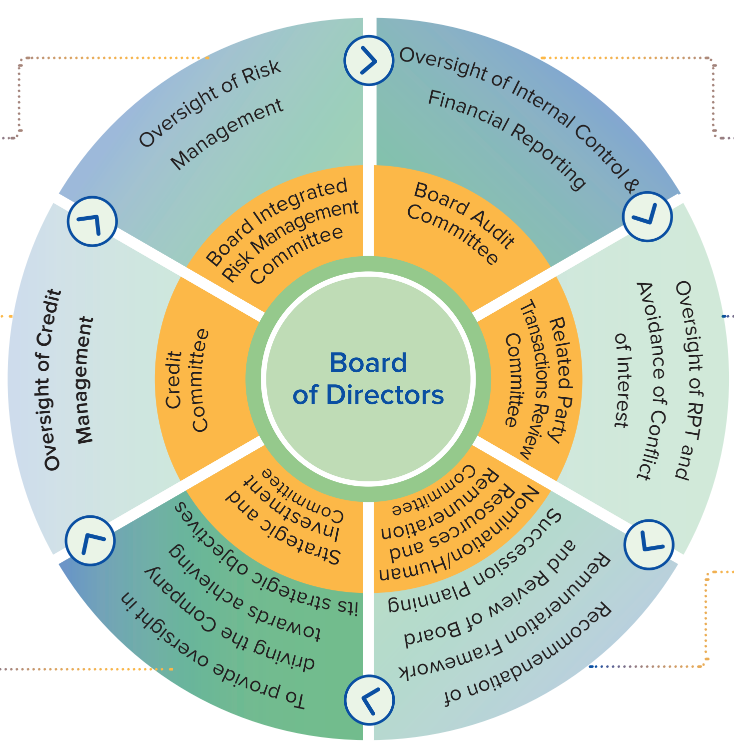
  The Board has delegated certain of its functions to a number of sub-committees as shown in the diagram below. These sub- committees are provided with sufficient resources enabling them to focus on their designated areas of responsibility and ensure independent oversight.

HNBG Board sub-committees

Board Integrated Risk Management Committee Composition
Mrs. M.A.R.C. Cooray
Mr. B.M.D.C. Prabhath
Mr. A.S. Wijesinha
Mr. M. Perera

Credit Committee Composition
Mr. P.A.H.D. Wijesundara
Mr. A.S. Wijesinha
Mrs. L.L.C.C. Thambiah

Strategic and Investment Committee Composition
Mr. A.J. Alles
Mr. B. Premalal
Mr. A.G.R. Dissanayake



Board Audit Committee Composition
Mr. A.G.R. Dissanayake
Mrs. M.A.R.C. Cooray
Mr. A.S. Wijesinha
Mr. M. Perera

Related Party Transactions Review Committee Composition
Mr. A.S. Wijesinha
Mr. B.M.D.C. Prabhath
Mr. P.A.H.D. Wijesundara

Nomination/Human Resources and Remuneration Committee Composition
Mrs. M.A.R.C. Cooray
Mr. A.J. Alles
Mr. B. Premalal

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

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

B. EXTERNAL GOVERNANCE STRUCTURE

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

Applicable Major Law/ Regulation/ Best practices

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

A detailed HNBG's level of compliance with Finance Companies (Corporate Governance) Directions is set out on pages 70 to 83.

C . ASSURANCE

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

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

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

- **Internal Audit**
  HNBG's internal audit function which focuses on providing an independent risk based oversight to Board Audit Committee on the processes and controls within the Company and level of compliance with laws and regulations plays a vital role in the governance structure of the Company. The Internal Audit is responsible for independent, objective assurance on internal control mechanism, in order to systematically evaluate and propose improvements for more effective internal control processes and governance. Internal Audit also carries out independent reviews of compliance with risk policies and procedures to ensure the effectiveness of risk management procedures in place at HNBG. To maintain its independence, the Internal Audit reports to the Board, through the Board Audit Committee. M/s. KPMG, Chartered Accountants are the internal auditors of HNBG.

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

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

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

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

HNBG GOVERNANCE STRUCTURE

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

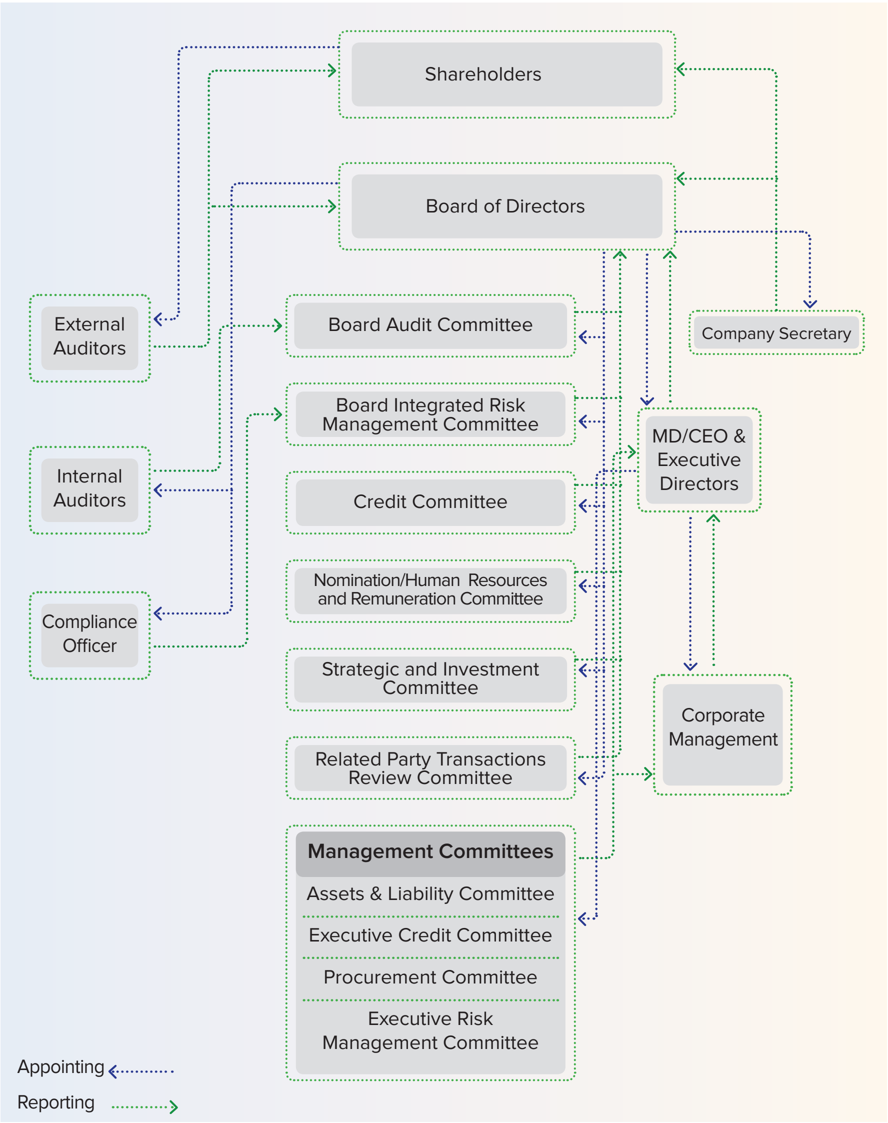
HNBG operates within a clearly defined governance structure. Through this structure, the Board balances its role of providing risk oversight and strategic counsel whilst ensuring adherence to regulatory requirements and risk tolerance. The governance structure provides for delegation of authority whilst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

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

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

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

HNBG Governance Structure



Statement of Compliance

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

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

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

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

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
2	**RESPONSIBILITIES OF THE BOARD OF DIRECTORS**	
2 (1)	Strengthening the safety and soundness of the Company	
	(a) Approve, oversee and communicate strategic objectives and corporate values	Company's strategic objectives and corporate values are determined by the Board views relating to the above are communicated to all levels of staff through structured meetings.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	The Company's strategic plan was approved by the Board for three years covering the period from 2018 to 2020. Risk Management Policy was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and was approved by the Board.
	(c) Identifying and managing risk	The Board appointed Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying and managing the overall risk of the Company. The Risk Management Report in annual report provides further details in this regard.
	(d) Communication policy with all stakeholders	The Board approved communication policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.
	(e) Adequacy and integrity of the internal control system and management information system	The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control and management information system for reviewing its effectiveness. The Board Audit Committee, on behalf of the Board undertakes the detailed monitoring and reviewing of the internal controls and reports to the Board on its findings. Board approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and observations were monitored by the Board and confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(f) Identifying and designating Key Management Personnel	Board identified Key Management Personnel according to the Sri Lankan Accounting Standards and as per the guidelines issued by the Central Bank of Sri Lanka for the purpose of corporate governance and it includes Board of Directors, Chief Executive Officer/Managing Director.
	(g) Authority and responsibilities of the Board and Key Management Personnel	The Company has a Board approved schedule of matters specifically reserved for the Board defining the areas of authority and key responsibilities of Key Management Personnel and their job descriptions.
	(h) Oversight of affairs of the Company by Key Management Personnel	Oversights of the affairs of the Company by its Key Management Personnel take place at the regular Board meetings and sub-committee meetings and Key Management Personnel make regular presentations to the Board on matters under their purview.
	(i) Assess the effectiveness of own governance practices	According to the Company's Article, Board has delegated functions of selection and nomination of Directors and Key Management Personnel to the Nomination/Human Resources and Remuneration Committee. The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of this has been submitted to the Board Chairman by the Company Secretaries for further recommendations.
	(j) Succession plan of Key Management Personnel	The succession plan of Key Management Personnel of the Company has to be approved by the board.
	(k) Regular meeting with the Key Management Personnel	The Key Management Personnel regularly make presentations and participate in discussions on their areas of responsibility at respective sub-committee meetings where progress towards corporate objectives are also reviewed, and where necessary make representations to the Board as well.
	(l) Regulatory environment	The Board of Directors of the Company monitors closely, regulatory compliances at monthly Board meetings and review new Directions issued from time to time by the regulator. All Board members attend the Director's and CEO's forums arranged by the CBSL and the Management Personnel of the Company maintain dialogues on an ongoing basis.
	(m) Hiring and oversight of External Auditors	The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of the Board, External Auditors are appointed by the shareholders of the Company, at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with external audit.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities	The Chairman and the Chief Executive Officer are appointed by the Board and their functions and responsibilities are separated and further defined and approved by the Board of Directors. The Chairman is a Non-Independent Non-Executive Director. The Chief Executive Officer is in charge of the overall management of the Company.
2 (3)	Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense	Directors are able to obtain independent professional advice as and when necessary at Company expense and a Board approved procedure is in place.
2 (4)	Avoidance of conflicts of interest	Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and implied) between their duty to HNBG and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his/her interest and unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings. We confirm that such a situation has not arisen during the financial year under review.
2 (5)	Availability of a formal schedule of matters specifically reserved to the Board for a decision	A formal schedule of matters specifically reserved for the Board is in place.
2 (6)	Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions	No such situation has arisen during the period.
2 (7)	Inclusion of an annual corporate governance report on compliance with the Corporate Governance Directions in the Annual Report	This report addresses the requirement.
2 (8)	Annual self-assessment by the Director	The Board has developed a scheme of self-assessment to be undertaken by each Director which had been approved by the Board.
3. MEETINGS OF THE BOARD		
3 (1)	Convening Board meetings at least twelve times a financial year at monthly intervals.	The Board has met 12 times for the financial period under review, which is twelve month, and have ensured that the performance of the Company for the financial period under review has been duly assessed at those meetings.
3 (2)	Inclusion of proposals by all Directors in the agenda	The Board has put in place a process that enables all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business, management of risks and finances.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
3 (3)	Notice of Meetings	Directors are given adequate time, at least 7 days of notice for regular Board meetings. For all other meetings a time period as set out in the respective TOR is given.
3 (4)	Directors attendance at Board meetings	All Directors have attended at least two-thirds of the meetings held during the period and no Director has been absent from three consecutive regular Board meetings during the period from 01st April 2017 to 31st March 2018.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	SSP Corporate Services (Private) Limited, a Company registered with the Registrar General of Companies as a qualified secretary, handles secretarial services for the Board and shareholder meetings and carryout other functions specified in related laws and regulations.
3 (6)	Preparation of agenda for a Board meeting by the Company Secretary	The Company Secretary prepares the agenda which is approved by the Chairman.
3 (7)	Directors access to advice and services of the Company Secretary	All Directors have access to the Company Secretary and records of Board meetings. Board has introduced a procedure to comply with the direction.
3 (8)	Maintenance of minutes of Board meetings inspection thereof by the directors	The Company Secretary maintains meeting minutes and circulates them to all Board Members which shall be open for inspection at any reasonable time to any Director. Additionally, Directors have access to past Board Papers and minutes through a secured electronic link.
3 (9)	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities	Minutes of all meetings are duly recorded with sufficient details and retained by the Company Secretary under the supervision of the Chairman.
4. COMPOSITION OF THE BOARD		
4 (1)	Number of Directors	As at 31st March 2018, Board comprised of ten Directors with five of them being Non-Independent Non-Executive, three are Independent Non-Executive, and two are Executive Directors.
4 (2)	Subject to transitional provisions contained herein and subject to para 5. (1) of this direction the total period of service of the Director other than a Director who holds the position of CEO or Executive Director shall not exceed nine years	The total period of service of all Non-Executive Directors does not exceed the nine-year period.
4 (3)	Appointment, Election or Nomination of an employee as a Director of the Company & number of Executive Directors shall not exceed one half of the number of Directors in the Board	There are two Executive Directors including Chief Executive Officer out of 10 Directors which is within the requirement of CBSL. The number of Executive Directors has not exceeded one half of the number of directors of the Board.
4 (4)	Independent Non-Executive Directors	Three out of ten Directors are Independent Non-Executive Directors. The Board evaluates Independence of the Directors annually based on the Directors self-declaration.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
4 (5)	Appointment of Alternative Director	This has not arisen during the financial period from 01st April 2017 to 31st March 2018.
4 (6)	Skills and experience of Non-Executive Directors	Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are provided in this annual report.
4 (7)	More than half the quorum of Non-Executive Directors in Board Meetings	One half of the quorum consisted of Non-Executive Directors in all meetings held.
4 (8)	Expressly identification of the Independent Non-Executive Directors in corporate communications and disclose in the details of Directors	Details of Directors are included in this Annual Report.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	The new appointments to the Board is based on the recommendations made by the Nomination/Human Resources and Remuneration Committee and there is a procedure in place for the appointments to the Board. After complying with this procedure names are referred to the CBSL for approval prior to appointment. During the current period following persons were appointed to the Board, • Mr. A.G.R. Dissanayake - Non-Independent Non-Executive Director. • Mr. M. Perera - Non-Independent Non-Executive Director.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at first General Meeting after their appointment	All Directors appointed to the Board are subject to a re-election by the shareholders at the first Annual General Meeting after their appointments and there were no casual vacancies during the year.
4 (11)	Disclosure of resignations/removal of Directors by the shareholders and the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka	Resignation of Directors has been informed to the Director Non-Bank Supervision including reasons for such resignation. During the financial period Mr. N.H.T.I Perera (Non-Independent/Non-Executive Director) and Mrs. H.K.S.R. Perera (Non-Independent/Non-Executive Director) resigned and the regulator was informed by the Board.
5. CRITERIA TO ASSESS THE FITNESS AND PROPERTY OF DIRECTORS		
5 (1)	The age of a Director shall not exceed 70 years	There are no Directors who are over 70 years of age.
5 (2)	Holding in office as Director of more than 20 companies/entities/institutions including associate and subsidiary companies	There are no Directors who hold office as a Director of more than 20 companies.
6. DELEGATION OF FUNCTIONS		
6 (1)	Delegation of Board functions	By Article 113, the Board is empowered to delegate its powers to a Committee of Directors or to any other person as it deems fit.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
6 (2)	Periodical evaluation of the delegation process	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.
7. THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER		
7 (1)	Division of Responsibilities of the Chairman and the Chief Executive Officer	The role of Chairman and the Chief Executive Officer is separated and held by two individuals appointed by the Board.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a senior Director	Chairman is a Non-Executive Director. The Board designated Mr. A.S Wijesinhe (Independent Non-Executive Director) as the Senior Director in accordance with the CBSL directive.
7 (3)	Disclosure of the identity of the Chairman and CEO and any relationship with the Board members.	No material relationship including financial, business or family exists between Chairman Mr. A.J Alles and the Managing Director/Chief Executive Officer, Mr. B.M.D.C Prabhath.
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	The Chairman provides Leadership to the Board as required. All key and appropriate issues are discussed by the Board on a timely basis.
7 (5)	Role of the Chairman in the preparation of the agenda for Board meetings	The Chairman has delegated the function of preparing the Agenda to the Company Secretary.
7 (6)	The Chairman to ensure that all Directors are informed adequately and timely of the issues arising at Board meetings	The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board Papers with sufficient time prior to the meeting.
7 (7)	Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company	All Directors actively participate in Board affairs.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Non-Executive and Executive Directors work together with the best interests of the Company. Non-Executive Directors participate in Board sub-committees to provide further opportunities for active participation.
7 (9)	Avoidance of engaging in activities involving direct supervision of Key Management Personnel or any other executive duties by the Chairman	The Chairman is a Non-Executive Director who does not directly get involved in any of the executive duties of the Company.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
7 (10)	Maintain effective communication with shareholders	Company maintains effective communication with shareholders at the AGM of the Company and views of shareholders are communicated to the Board.
7 (11)	MD/CEO functions as the apex executive-in-charge of the day-to-day operations and business	As per the Company's organisation structure, the CEO/MD functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.
8. BOARD APPOINTED COMMITTEES		
8 (1)	Establishing Board Committees, their functions and reporting	The following Board sub-committees have been appointed by the Board and each such Committee is required to report to the Board: 1. Credit Committee 2. Board Integrated Risk Management Committee 3. Nomination/Human Resources and Remuneration Committee 4. Board Audit Committee 5. Related Party Transactions Review Committee 6. Strategic and Investment Committee Recommendations of these Committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.
8 (2)	Audit Committee (a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	The Chairman of the Audit Committee Mr. A.G.R Dissanayake is a Non-Executive Director and a Chartered Financial Analyst as well as a Certified Global Management Accountant and a Fellow Member of the Chartered Institute of Management Accountants of UK. Qualifications and experience are disclosed on page 24 of this Annual Report.
	(b) All members of the Committee to be Non-Executive Directors	All members of the Audit Committee are Non-Executive Directors.
	(c) Responsibility of the Audit Committee to recommend: i. The appointment of the External Auditor	The Board Audit Committee (BAC) at its meetings recommended that M/s Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial period from 01st April 2017 to 31st March 2018;
	ii. The implementation of the Central Bank guidelines	BAC has reviewed and implemented the Central Bank guidelines issued to auditors from time-to-time;
	iii. The application of the relevant accounting standards; and	The application of International Financial Reporting Standards (IFRS's) is compiled with;

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	iv. The service period, audit fee and any resignation or dismissal of the Auditor;	No resignation or dismissal of the Auditors has taken place during the period 01st April 2017 to 31st March 2018. The term of engagement of the present audit partner who was appointed during the financial year 2015/16, does not exceed five (05) years. BAC has recommended the audit fee for the financial period 01st April 2017 to 31st March 2018.
	(d) Review and monitor the External Auditors' independence, objectivity and the effectiveness of the audit processes	The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. External Auditors directly report to the Board Audit Committee.
	(e) Develop and implement a Policy on the engagement of an External Auditor to provide non-audit services	The Board approved policy is in place. When such services are obtained from the External Auditor, prior approval is obtained from the Audit Committee as per the policy.
	(f) Responsibility of the Audit Committee to discuss and finalize with the external auditors the nature and scope of the audit	The Board Audit Committee meets with the External Auditors to discuss their audit plan, nature and the scope of the audit before the commencement of an audit. Accordingly, the Board Audit Committee met the External Auditor's M/S Ernst & Young, Chartered Accountants during the year under review to discuss and finalise the scope of the audit.
	(g) The Committee shall review the financial information of the finance Company, in order to monitor the integrity of the financial statements of the finance Company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (I) Major 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.	Quarterly, bi annual financial statements as well as year-end financial statements are submitted to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements take place and obtain required clarifications in respect of all areas, before the Committee makes its recommendations for Board's approval.
	h) Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Managerial Persons.	The Committee met External Auditors without the presence of the Executive Directors and Corporate Management.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(i) Reviewing of the External Auditors' Management Letter and the response thereto	During the year, the Board Audit Committee reviewed External Auditor's Management Letter for the year 2016/17 and the Management's responses thereto.
	(j) Review of the internal audit function	
	* The adequacy of the scope, functions and resources of the internal audit department;	The Committee reviewed the scope, functions and the resources of the Internal Auditors.
	* Internal audit programme and results of the internal audit process;	Committee has reviewed and approved the Internal Audit Plan for the Financial period 01st April 2017 to 31st March 2018 presented by the Internal Auditors prepared on overall risk assessment and the significant observations made during the previous year.
	* Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	This does not apply to the Company as the Internal Audit function is outsourced.
	* Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	No such situation has arisen during the period from 01st April 2017 to 31st March 2018.
	* Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers;	No such situation has arisen during the period from 01sr April 2017 to 31st March 2018.
	* Ensure that the internal audit function is independent of the activities it audits	Internal audit function is independent as it is outsourced to KPMG. They present final reports directly to the Board Audit Committee.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(k) Consideration about the major findings of internal investigations and management's responses thereto;	Based on reports submitted by the Internal Auditor (KPMG), the Board Audit Committee reviews and considers major audit findings and the management's responses thereto. However, no such major audit findings have been reported during the period from 01st April 2017 to 31st March 2018.
	(l) Participants at the Audit Committee meetings and the need to meet with the External Auditors without the presence of the Executive Directors	The Committee met two times with the External Auditors without the presence of Executive Directors. The Managing Director, Executive Directors, Chief Operating Officer, AGM - Risk & AGM - Compliance, and other corporate management members attend the meetings by invitation and the Internal Auditors normally attend all meetings, where it is deemed necessary, other members of the corporate management also attend meetings by invitation, when required.
	(m) Terms of reference of the Audit committee will ensure that there is; (i) Explicit authority to investigate into any matter within its terms of reference; (ii) The resources which it needs to do so; (iii) Full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;	Approved Terms of Reference of the Committee evidence that it contains the matters stipulated.
	(n) Regular Meetings of the Audit Committee	The Board Audit Committee met five times during the financial period under review.
	(0) Disclosure of activities of the Audit Committee and attendance of members at meetings thereof in the Annual Report	The Report of the Audit Committee is on page 89 and includes the details of activities, meetings held during the year and Directors attendance to the Audit Committee.
	(p) Recording and maintenance of detailed minutes of the Audit Committee meetings.	The Company Secretary acts as the secretary of the Audit Committee and records and maintains all minutes of the meetings.
	(q) Responsibility of the Audit Committee to review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters	The Company has a Board approved Whistleblowing Policy whereby employees of the Company can raise concerns in confidence about the malpractices of the Company.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
8 (3)	**Integrated Risk Management Committee**	
	(a) Composition of the Integrated Risk Management Committee and the duty of the committee to work with Key management personnel closely and make decisions on behalf of the Board within the framework of authority	The Integrated Risk Management Committee comprises three Non - Executive Directors, including the Chairperson and Chief Executive Officer supervising broad risk categories such as credit, market, liquidity, operational and strategic risk. Head of internal audit, Chief Operating Officer, AGM Compliance, AGM Risk, Manager Risk and DGM Risk (HNB PLC) attend meetings by invitation.
	(b) The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	BIRMC has a process to assess risks, i e., credit, market, liquidity and operational risks of the Company on a regular basis through appropriate risk indicators. The Company will continue to strengthen the assessment process by adding more risk indicators and causality variables.
	(c) Responsibility of the Integrated Risk Management Committee to review the adequacy and effectiveness of all management level committees	ALCO reviews and monitors the liquidity investment policies and report submitted to the Audit Committee. However, it will submit the reports to the BIRMC in future as required by CBSL. It also carries out a maturity gap analysis of any mismatch of assets and liabilities. Further the Company has identified risk and monitors them through relevant risk indicators such as NPL and increase in NPA ratio, risk arising out of internal and external frauds through BIRMC. Committee reviews the adequacy and effectiveness of all management level committees benchmarking against their TOR.
	(d) Responsibility of the Integrated Risk Management Committee to take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee	The risk indicators introduced have been reviewed against the benchmark and corrective actions are taken to mitigate the effects of such risks that are at a level beyond the prudent levels decided by the Committee.
	(e) Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management	The Integrated Risk Management Committee met nine times during the financial year 2017/2018.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(f) Responsibility of the Integrated Risk Management Committee to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka	Committee refers such matters, if any, to the HR Department for necessary action. However, the specific risk and limits identified by the Integrated Risk Management Committee and such decisions are taken collectively.
	(g) Responsibility of the Integrated Risk Management Committee to submit a risk assessment report within a week of each meeting to the Board	Minutes of the Board Integrated Risk Management Committee (BIRMC) meeting are submitted at the next immediate Board meeting.
	(h) Establishment of a compliance function	The Company's compliance with laws and regulations were monitored by the Compliance Officer (AGM – Compliance). The Company has established a process to assess the compliance with internal controls and approved policies pertaining to all areas of business operations.
9. RELATED PARTY TRANSACTIONS		
9 (2)	Responsibility of the Board to take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with related parties	The Related Party Transaction Policy is in place which describes the related parties, types of related party transactions and the favourable treatment granted to the said parties and stipulate that the Board members should avoid any conflicts of interest that may arise from any transactions with the Company. During the year Board appointed a Related Party Transactions Review Committee to ensure that the transactions with related parties are in accordance with best practices. Transactions carried out with Related Parties in the normal course of business are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 39 of Financial Statements.
9 (3)	Nature of transactions with related parties to which the Corporate Governance Directions apply	Board approved process is in place to identify the related party transactions.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
10. DISCLOSURES		
10 (1)	(a) Preparation and publication of annual audited financial statements and periodical financial statements in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the period from 01st April 2017 to 31st March 2018 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.
	(b) Publication of above mentioned statements in the newspaper in an abridged form, in Sinhala, Tamil and English	Such statements are published in the newspapers in compliance with CBSL regulations.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Directors' Responsibility for Financial Reporting" on page 104.
	(b) A Report by the Board on the finance company's internal control mechanism	Directors' Statement on Internal Control System and Financial Reporting is given on page 103.
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism	The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.
	(d) Details of Directors Including names, Transactions with the finance Company	Details of Directors including names, transactions with the finance company are included in the Annual Report.
	(e) Fees/remuneration paid by the finance company to the Directors in aggregate	Refer Note 10 to the financial statements on fees/remuneration paid by the finance company to the Directors in aggregate in the Annual Report.
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds	As at 31st March 2018, HNBG has not granted any accommodation to related parties.

Rule Reference	Corporate Governance Principle	HNBG's Level of Compliance
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel	Aggregate remuneration paid to the KMPs as defined in LKAS 24 - 'Related Party Disclosures' for financial reporting purpose, disclosed under Note 39 to financial statement on page 149.
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls	Refer the Report of the Board of Directors' on the Affairs of the Company and Financial Review in this Annual Report.
	(i) a statement of the regulatory and supervision concerns on lapses in the Company's risk management, or non-compliance (if any) with the Finance Business Act, and rules and directions that need to be disclosed to the public as directed by the Monetary Board.	There were no significant lapses in Company's risk management or non-compliance with this Direction.
	(j) The External Auditor's certification of the compliance with the Corporate Governance directions.	The Company has obtained a report from External Auditors over the compliance of corporate governance directions.
11. TRANSITIONAL PROVISIONS		
	Transitional and other general provisions	The Company has complied with transitional provisions when applicable.

Risk Management Overview

Financial industry has turned extremely challenging and exciting, with the ever changing macroeconomic dynamics, both domestically and globally, coupled with the landscaping of regulatory changes and technological advancements taking effect across the globe. As a result, the importance of Risk Management has been felt more than ever before, requiring the 'Risk Function' to prepare the organisations to be more proactive, in order to take control of the unexpected challenges that may crop up due to the endless changes taking place in economic integration, coupled with geopolitical frictions, technological advancements, high customer expectations and ever changing regulatory requirements.

Finance business in Sri Lanka is an important element in the financial system of the country, as it facilitates supply of credit and liquidity to the market by way of financial solutions. In the given process, the Microfinance and Non-Banking Finance Institutions (NBFIs), mainly cater to the lower and middle layers of the market, which account for the largest segment of the Sri Lankan population.

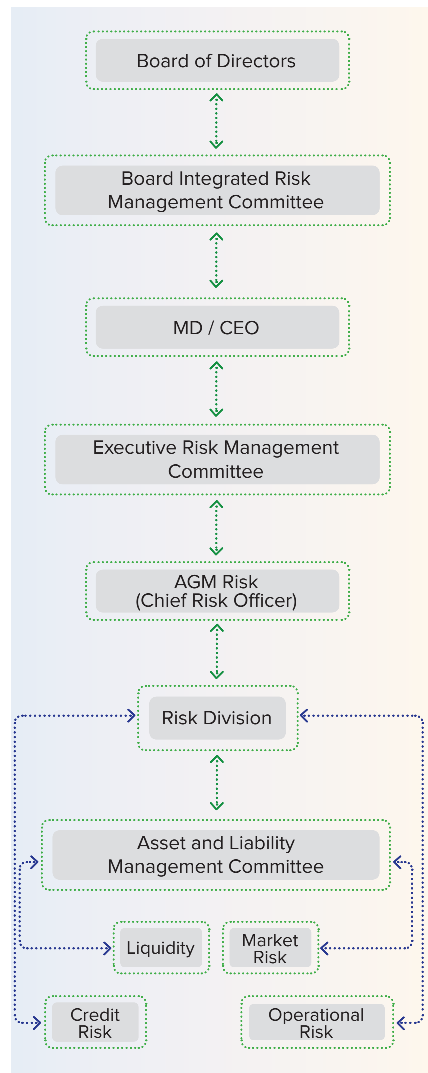
Sri Lanka, though is generally considered as an emerging market and a developing economy, was substantially strained in 2017, due to reasons such as unsettled political environment, disturbance to industrial peace, bad weather conditions and set backs witnessed in the agricultural sector contributing to slow economic growth. Nevertheless, the contributions from the finance business stood tall towards the fulfilment of growth objectives of the country and the economy. Moving with a view to improving efficiency, most institutions have deployed modern technology in their day-to-day operations. In the backdrop of continuously changing landscape of risk factors both internationally and internally, the importance of having in place an effective Risk Management Framework in financial institutions cannot be under estimated. In this context it is imperative that the financial institutions give utmost priority to Risk Management by developing a dynamic and better risk management tools and techniques, broad-basing the risk reporting and building a strong risk culture within the finance business sector.

Risk Management Framework

HNBG has embarked on establishing an Integrated Risk Management Framework to ensure effective identification and monitoring of all types of broad risk categories that could create an impact on the Company.

The Board is supported by the Board Integrated Risk Management Committee (BIRMC) ensuring that the Company's risk profile covering broad risk categories such as Credit Risk, Operational Risk, Liquidity Risk and Financial Risk are identified, reviewed, monitored, controlled and mitigated, in order to avoid possible surprises and sudden shocks.

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



Board Integrated Risk Management Committee (BIRMC)

The BIRMC provides independent monitoring of all risk related aspects within the Company, including the overseeing of the formulation of Risk Management Policies and the Risk Management Framework, thereby assisting the Board of Directors (BOD) in overseeing the overall risks profile of the Company. BIRMC, reviews and monitors such broad risk categories, using effective risk mitigation strategies, and creating a strong risk culture within the organisation. The details with regard to the composition, terms of reference of the BIRMC and its key areas of focus, is published elsewhere in this Annual Report under Risk Management Committee Report.

Responsibilities of BIRMC

The main responsibilities of BIRMC are as follows.

- Review the adequacy and effectiveness of relevant management level committees such as Executive Risk Management Committee (ERMC), Asset and Liability Committee (ALCO) etc, in order to address the subject risks faced by the Company and also to manage such risks within quantitative and qualitative risk limits as specified.
- Take prompt corrective action to mitigate the ill-effects of identified risks, in the event such risks do materialise at levels beyond the prudent levels decided by the Committee, keeping in line with Company's policies and other regulatory cum supervisory requirements.
- Take appropriate action against the officers responsible for breaches and violations of regulations and laid down procedures, including risk mitigating controls. Committee shall ensure that prompt corrective action is initiated by the management as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka.
- Establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies covering all areas of business operations.
- Submit periodic reports to the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and/or for any other specific directives.

Executive Risk Management Committee

The Executive Risk Management Committee (ERMC) is responsible for reviewing the risks associated with the Company's business activities, keeping in line with the Company specified risk tolerance levels, and risk mitigating strategies, which are integrated with the existing operational procedures in order to enhance management and control of such risks, supported by the organisational structure that formally assign responsibilities to the Corporate and Senior Management to manage and mitigate such risks.

The main objectives of the ERMC is to share and notify the assessments and analytics prepared by the Risk Division covering the broad risk categories. Accordingly, the ERMC shall monitor and review all risk exposures and risk-related policies/procedures, affecting credit, market, operational, liquidity and other related risks, with the assistance of the Risk Division of the Company, keeping in line with the directives issued by the BOD, BIRMC and the regulators.

Risk Division

The Risk Division of the Company is in the process of intensifying its activities to ensure that all types of risk categories faced by the Company are well managed within tolerable levels. The Risk Division has embarked on defining the risk appetite of the Company on various business aspects, which will be escalated to BIRMC and then to BOD for it's approval. Upon doing so, the Risk Division would drive initiatives to ensure that the Company conducts its business activities as per the BOD approved business strategy, within the said defined risk appetite of the Company. Accordingly, the Risk Division would be responsible to identify, assess, review and monitor risks that may arise when transacting business of the Company, with the support of the Corporate and Senior Management.

Objectives of Risk Management

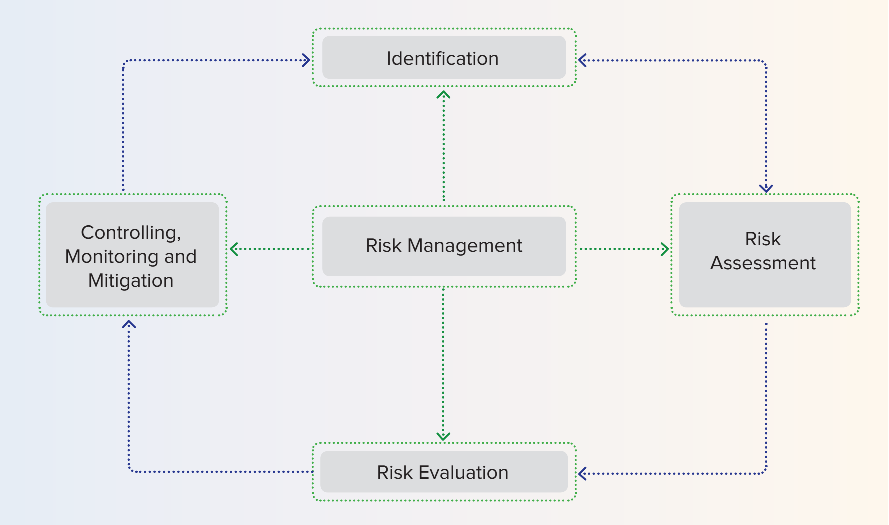
Risk Division assesses all relevant risks such as Credit, Operational, Liquidity, Strategic etc. faced by the Company, on a monthly basis through appropriate risk indicators, using the management information provided by the Analytics Division of the Company.

The Risk Function would rely on the Compliance Function of the Company to ensure that there is no breach of relevant regulatory requirements and all provisions of applicable laws including AML/CFT regulations, company law and foreign exchange regulations and the regulatory requirements specified by the Institute of Chartered Accountants of Sri Lanka (ICASL) are duly being met and complied with.

In doing so, the Risk Management Function would add value to the Company's business operations, by providing analytics and recommendations to support the achievement of HNBG's overall strategic objectives.

Risk Management Process

The Risk Management Process can be broadly defined as follows



- Identification – Identification of risks that may arise when transacting business of the Company.
- Risk Assessment – Analyse the Company's exposure on identified risks and assess the impact of such risks on the Company and estimate the value of possible losses and damages, in the event such identified risks do materialize and occur.
- Risk evaluation – Compares the estimated risks against the risk criteria's that the Company has already established.
- Controlling, Monitoring and Mitigation – Implementation of policies and procedures that help the avoidance or minimization of risks, which could be further extended towards risk transfer and risk financing as well.

Risk Management Culture

HNBG has embarked on creating a sound 'Risk Culture' throughout the Company, covering all aspects of business operations, activities and initiatives undertaken.

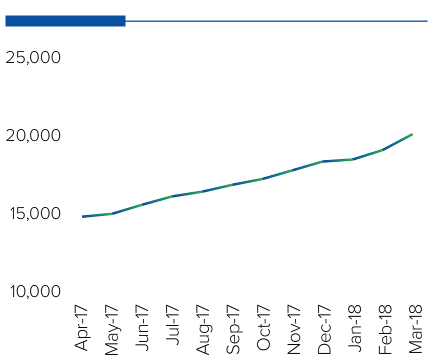
As a new initiative in the given process, the "Executive Risk Management Committee" was constituted and is functioning at present, as appropriate.

In addition, the 'Risk Governance" requirements specified by the CBSL are also complied with through regular reviews conducted by the Risk Division and discussed and deliberated at ERMC before being escalated to BIRMC for its review and directives as appropriate. Upon being reviewed by BIRMC, the matters which merit the attention of BOD are escalated as appropriate. In the given process, the Corporate Management is ultimately responsible for establishing and putting in place a strong risk culture within the Company. Further, the Corporate Management of the Company would ensure that every employee has a clear understanding of their responsibilities in terms of risk, when transacting business and engaging in regular business activities.

The Model of Three Lines of Defense

Credit Risk

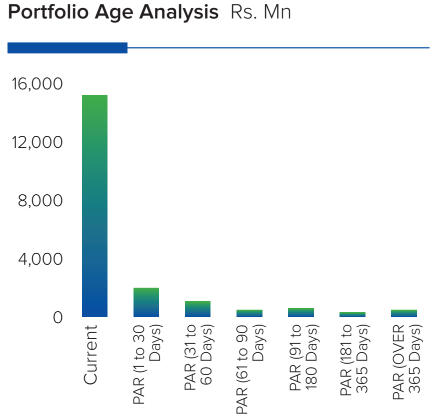
Gross Loan Portfolio Rs. Mn



The Loans and advances portfolio of the Company grew by 38% during the year, mainly upheld by Micro, Leasing and SME lending, whilst keeping the overall NPLs at manageable levels.

Even though the NPL ratio indicates an increase within the year, same is yet lower than the industry averages. The Company is in the process of strengthening the internal controls and the monitoring systems to improve NPL ratio, which includes a setting up of a separate Recovery Unit to aggressively monitor, control and lower the NPL of the Company.

Portfolio Age Analysis Rs. Mn



When analysing the portfolio by its overdue status, majority of the portfolio falls within the 'below 30 days' overdue fraction, which denotes more than 85% of the total portfolio. This is a healthy position for a Company which extends its credit facilities mostly through non-collateral based products.

Operational Risk

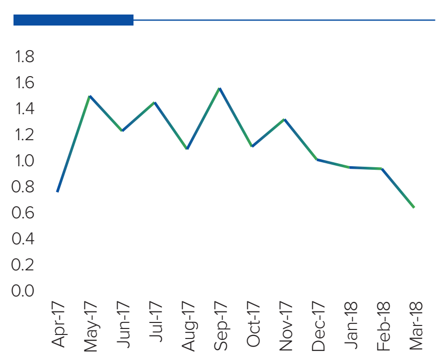
Operational Risk indicators

	31-Mar-17	31-Mar-18
Operational Self Sufficiency (OSS)	147.48%	137.15%
Operating Expense Ratio (OER)	36.08%	32.01%

OSS ratio continuously stood strong, though there is a moderate decline, compared to the previous year.

Staff Turnover Ratio

Staff Turnover %



Staff turnover ratio indicates an inconsistent trend over the year which is a common factor in the Micro and NBFI sector.

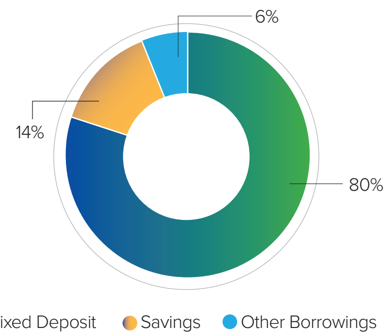
Majority of the staff attrition is recorded among the staff who have less than three years' service with the Company, for obvious reasons such as joining competitor companies for better prospects etc.

Liquidity Risk

Liquidity Risk can be defined as the risk that could arise when a Company is not in a position to meet its short term liabilities. Such situations usually occur due to the inability of the Company to convert a security or its hard assets to cash, without a loss of capital and/or an income in the process. It can also be defined as the risk that stems from lack of marketability of an investment that cannot be bought or sold quickly to prevent or minimise a loss.

	31-Mar-17	31-Mar-18
Current Ratio	1.67:1	1.40:1
Quick Assets Ratio	0.36:1	0.26:1
Liquid Assets Ratio	20.95%	16.83%
Customer Deposits to Total Interest Bearing Funds	91.33%	94.13%
CASA Deposits to Total Deposits	16.14%	14.39%
Loans to Deposits (LDR)	100.68%	105.63%

Funding Mix as at 31-Mar-18



Financial Risk

	31-Mar-17	31-Mar-18
Cost to Income Ratio	41.87%	46.76%
Asset Turnover Ratio	0.31:1	0.29:1
Return on Assets (ROA)	6.24%	4.51%
Return on Equity (ROE)	36.62%	26.91%

Capital Adequacy Ratio (CAR)

Capital Adequacy means the statutorily required minimum reserves of capital, the financial institution is required to maintain which can also be expressed in other words, as the equity that must be held as a percentage of risk-weighted assets of the Company. Accordingly, CAR is the measurement tool which is used to express the percentage of Company's risk weighted credit exposures. CAR is to be maintained at specified levels to protect depositors and promote the stability of the financial system, which is also known as "Capital to Risk Weighted Assets Ratio (CRAR)."

Board Audit Committee Report

Composition of the Committee

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

- Mr. A. G. R Dissanayake - Chairman
- Mrs. M. A. R. C Cooray - Member
- Mr. A. S Wijesinha – Member
- Mr. M. Perera - Member (appointed to the Committee on 12th December 2017)

Terms of Reference

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

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

Authority

Committee is empowered to;

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

Meetings

For the purpose of discharging its duties the Audit Committee met five times during the period. Representatives from the management, internal and external auditors or others were invited to participate at the meetings as and when required.

Financial Reporting

The Committee, as part of its responsibility, oversee the Company's financial reporting process on behalf of the Board of Directors. Accordingly, Committee reviewed and discussed financial statements with the Management prior to their release. The review included the extent of compliance with the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and any other regulations relating to financial reporting.

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

Risk and Internal Control

The Committee assessed the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards. The Committee discussed Internal and External Auditors' review of risk management and internal control systems and made appropriate recommendations. The External Auditors have issued an Assurance Report on Directors' Statement on Internal Controls. The Committee has reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the Company.

External Audit

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

Internal Audit

The Committee engaged in following activities during the period with regard to the internal audit functions of the Company;

Board Audit Committee Report

- Reviewed the internal audit program and results of the internal audit process and, where necessary, ensured that appropriate actions were taken on the recommendations.

- Reviewed the performance of Internal Auditors, made recommendations to the Board of Directors on their reappointment for the next year and fee to be paid.

Conclusion

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

A.G.R Dissanayake
Chairman
Audit Committee

26 June 2018
Colombo

Nomination/Human Resources and Remuneration Committee Report

Composition of the Committee

The Remuneration and Nomination Committee is appointed by the Board of Directors of the Company. As at 31st March 2018, the Committee comprised the following Directors.

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

The Policy

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

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

Committee Responsibilities

Nomination Related

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

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

Human Resources & Remuneration Related:

The Committee is vested with powers to;

- Determine the remuneration policies (salaries, allowances and other incentives) relating to Directors, Managing Director and Key Management positions of the Company.
- Determine and recommend to the Board of Directors, annual increments, bonuses and incentives for the Managing Director and the Senior Management team and all employees, based on individual and corporate performance against set targets and goals.
- Make recommendations from time to time to the Board of Directors, on the additional/new expertise required by the Company.
- Interview applicants for Senior Management positions based on recommendations by the Managing Director/CEO, taking into account their performance and achievements. Also, decide on new recruitments, extensions and terminations after evaluating criteria for same.
- Make recommendations/decisions/ directions pertaining to the statutory

Nomination / Human Resources and Remuneration Committee Report

payments made by the Company on behalf of its employees (EPF, ETF, Termination benefits, etc.) ensuring the effective fulfillment of all commitments arising from the employer employee relationship.

- Recommend/decide/give directions on disciplinary matters, concerning Key Management Personnel which have caused a significant financial loss to the Company.

Action Taken

During the period in reference, the committee recommended to the Board two Non-Executives Non-Independent Directors to fill the vacancies created by resignation of Mr.Thimal Perera and Mrs. Sandamini Perera who held the posts of Non-Executives Non-Independent Directors. It was also recommended to the Board the recruitment of AGM Risk and Head of Legal to strengthen the corporate governance of the Company. The Committee having considered the financial performance of the Company and achievements of staff on agreed performance areas sanctioned the bonus and salary increment proposal submitted by the management.

Meetings of the Committee

The Committee met six times during the year in reference. The attendance of the members at these meetings are given on page 100.

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

M.A.R.C Cooray
Chairperson

Nomination/Human Resources & Remuneration Committee

26 June 2018
Colombo

Board Integrated Risk Management Committee Report

Composition

The Board Integrated Risk Management Committee (BIRMC) was comprised as follows during financial year 2017/18.

Members

- Mrs. M.A.R.C Cooray (Non-Independent/Non-Executive Director) -Chairperson
- Mr. B.M.D.C Prabhath (Managing Director/CEO)
- Mr. B. Premalal (Non-Independent/ Non-Executive Director) resigned from BIRMC w.e.f 23rd October 2017
- Mr. M. Perera (Non-Independent/Non-Executive Director) appointed w.e.f 23rd October 2017
- Mr. A.S Wijesinha (Independent/Non-Executive Director)
- Mr. C.B Wijayaratne-Appointed as AGM Risk w.e.f 01st November 2017 and assumed duties as the Secretary to BIRMC w.e.f 27th November 2017.

Invitees

- Mr. W.S.P Arangala
  Chief Operating Officer
- Mr. P.G.D.B Pallewatte
  DGM Risk (HNB PLC)
- Mr. J.M.R Fonseka
  AGM Compliance - Functioned as the Secretary to BIRMC up to 27th November 2017
- Mr. S.N Kothalawala
  Manager Risk

Meetings

The BIRMC met nine times during the period under review, (i.e. from 01st April 2017 to 31st March 2018) for the purpose of discharging the duties assigned to the Committee. During the period, the BIRMC reviewed the Risk Policy Framework, Risk Management Strategies and Key Risk Indicators presented by the Risk Division. Also the BIRMC assessed, reviewed and monitored the risks faced by the Company, Using the risk reports presented by the Risk Division.

The attendance of the member Directors at the BIRMC meetings are given in the Annual Report of the Board of Directors.

At the Board meetings, the Chairperson kept the Directors apprised of the main findings and issues highlighted in the risk reports, if such issues merited their attention. In addition, the minutes of the BIRMC meetings were regularly presented to the Board, for its information and action as appropriate.

Terms of Reference

The Terms of Reference of BIRMC as set out by the Board of Directors of HNBG, includes the followings.

- The Committee shall assess, review and monitor risks that may arise when transacting business of the Company.
- The Committee shall closely work with Key Management Personnel and make decisions on behalf of the Board of Directors (BOD), within the scope of the authority and responsibility assigned to the Committee by BOD.
- The Committee shall review the adequacy and effectiveness of relevant management level Committees in order to address specific risks and also to manage such risks, within quantitative and qualitative risk limits, as specified by the Committee.
- The Committee shall take prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies and regulatory cum supervisory requirements.
- The Committee shall establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.
- The Committee shall take appropriate action against the officers responsible for breaches, violations of regulation and laid down procedures, including risk mitigating controls.

The Year in Prospect

The Committee, at its meetings, through reviews of Risk Reports presented by the Risk Division assessed the quality of the loan book, non-performing advances, portfolio quality indicators, risk coverage ratios, etc.

Also the Committee reviewed the operational risk faced by the Company. The productivity ratios, liquidity ratios and efficiency ratios were also reviewed by the Committee with a focus on the strategic risk as well.

The Committee also paid attention on the supervisory concerns on the CBSL onsite examination report 2016 and directed the management to comply with the relevant regulatory requirements.

M.A.R.C Cooray
Chairperson

Board Integrated Risk Management Committee

26 June 2018
Colombo

Report of the Related Party Transactions Review Committee

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

Composition of the Committee

The Committee, as at 31st March 2018 comprised the following members:

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

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

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

Mr Ramesh Fonseka - Assistant General Manager - Compliance

Ms. M. Bakmedeniya - Head of Legal (Resigned w.e.f 13th June 2018)

Mr. Sameera Chandranath - Chief Accountant - Secretary to the Committee

Purpose of the Committee

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

Scope of the Committee:

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

Policies and Procedures

The Company has in place a comprehensive Related Party Transactions (RPT) policy whereby the categories of persons who will be considered as 'related parties' have been identified. This was further updated to be in full compliance with the rules and regulations applicable to related party transactions as set out in the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended) and the Listing Rules. The Company has developed a mechanism which enables to obtain, monitor and report transactions with identified related parties.

Meetings

The Committee met once during the twelve months' period ended 31st March 2018.

Review of Transactions for the Financial Period ended 31st March 2018

During the twelve-month period ended 31st March 2018, there were no non-recurrent or recurrent related party transactions which exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange. Further, all the related party transactions which occurred during the year are disclosed in the Audited Financial Statements. Please refer pages 149 to 152 for RPTs published in the Note 39 to the Financial Statements.

A.S Wijesinha
Chairman

Board-Related Party Transactions Review Committee

26 June 2018
Colombo

Our business strategy is focused on creating long-term value

Annual Report of the Board of Directors

General

Directors of HNB Grameen Finance Ltd (HNBG) have pleasure in presenting to shareholders this report together with Audited Financial Statements of the Company for the period ended 31st March 2018 together with the Auditor's Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Leasing Act No. 56 of 2000 and amendments thereto and the Directions issued on the same. The details set out herein provide appropriate information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and subsequent amendments thereto and recommended best practices on Corporate Governance and Finance Companies – (Corporate Governance) Direction No. 03 of 2008. This Report was approved by the Board of Directors on 26 June 2018.

Overview of the Company

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

Fitch Ratings Lanka Limited has assigned 'A (lka)'; Outlook Stable rating to the Company.

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

Vision, Mission and Corporate Conduct

The Company's Vision, Mission are given on page 04 of this Annual Report. In achieving its set goals and objectives all Directors, management and employees conduct their activities to highest level of ethical standards and integrity as set out in the Code of Ethics.

Principal Activities

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

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

Future Development

An overview of the future development of the Company is given in the Chairman's Review on page 12, Managing Director's Review on page 16 and the Management Discussion and Analysis on page 28 to 64.

Financial Statements

The Financial Statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Finance Leasing Act No. 56 of 2000.

Consequent to the Audit Committee's recommendations, Financial Statements were reviewed and approved by the Board of Directors on 26 June 2018.

The financial statements of the Company duly signed by the Chief Operating Officer and two Directors on behalf of the Board are given on pages 105 to 169 which form an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

Directors' Responsibility for Financial Reporting

The Statement of Directors' Responsibility for Financial Reporting is given on page 104 and forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

Auditor's Report

The Company's Auditor, Messrs. Ernst & Young (Chartered Accountants) performed the audit on the Financial Statements for the period ended 31st March 2018 and the Auditor's Report issued thereon is given on page 105 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

Accounting Policies and Changes During the Year

The Financial Statements for the period ended 31st March 2018 are prepared in accordance with the revised Sri Lanka Accounting Standards. The significant accounting policies adopted in the preparation of the Financial Statements of the Company is given on pages 113 to 131.

Review of Operations

A review of Company's business and its performance during the twelve-month period with comments on financial results and future developments contained in the Chairman's Review on pages 12 to 14, the Managing Director's Review on pages 16 to 19, the Management Discussion & Analysis on pages 28 to 64 present an overall appraisal of the business operations, financial performance and the overall financial position of the Company which form an integral part of this Annual Report.

Review of the Financial Performance During the Twelve-Month Period

Income

The Income of the Company for the period from 01st April 2017 to 31st March 2018 was Rs. 7,482,548,192 (From 01st April 2016 to 31st March 2017 it was Rs. 6,234,033,583). An analysis of the Income is given in Note 4 to the Financial Statements.

Financial Results and Appropriations

The net profit of the Company from 01st April 2017 to 31st March 2018 was Rs. 1,011,783,320 (Rs. 1,058,834,186 from 01st April 2017 to 31st March 2018). Details regarding the profit and appropriations of the Company are given below.

	Company	
	2017/18	2016/17
Profit Before Tax	1,582,667,778	1,626,380,875
Income Tax Expense	(570,884,458)	(567,546,689)
Net Profit	1,011,783,320	1,058,834,186
Retained Earnings Brought Forward	2,060,757,101	1,396,512,510
Profit Available for Appropriation	3,082,787,314	2,461,677,806
Appropriation		
Statutory Reserve Fund	(202,356,664)	(211,766,837)
Final Cash Dividend Paid	(326,720,318)	(189,153,868)
Balance Carried Forward	2,553,710,332	2,060,757,101

Reserves

The reserves of the Company with the movements during the period are given in note to the financial statements on page 148.

Taxation

The Income Tax rate applicable to the Company's operations at present is 28% (28% in 2016/17). It is the Company's policy to provide for Deferred Taxation on all known temporary differences under the liability method.

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15% and Nation Building Tax (NBT) on Financial Services VAT at 2% (2016/17: 2%).

Dividends on Ordinary Shares

An interim dividend of Rs 0.09 per share was paid on 23rd of March 2018 to the holders of the ordinary shares (both voting and non-voting) for the financial period from 01st April 2017 to 31st March 2018.

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

Minimum Capital Requirement

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

Capital Expenditure

The total capital expenditure on acquisition of Property, Plant & Equipment and intangible assets during the period of the Company amounted to Rs. 146 Mn (2016/2017 Company: Rs. 196 Mn Details are given in Notes 24 & 25 to the Financial Statements.

Market Value of Freehold Property

All freehold lands of the Company were revalued by a professionally qualified independent value as at 31st March 2018 and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of the freehold properties owned by the Company are given in Note 43 to the Financial Statements.

Annual Report of the Board of Directors

Stated Capital and Debentures

The stated capital of the Company as at 31st March 2018 was Rs. 223,545,481 consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000 (2016/17 - Rs. 223,545,481 consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000).

The debentures of the Company as at 31st March 2018 was Rs. 765 Mn consisting of 765 debentures at Rs. 1 Mn (2016/17 – Rs. 765 Mn).

Shareholding

The shareholding distribution is shown on pages 170 and 171 as at 31st March 2018. 100,377 voting registered shareholders and three non-voting registered shareholders were recorded.

Major Shareholders

Pages 170 to 171 indicates the shareholding analysis of the top ten voting (volume wise) and three non-voting (volume wise) shareholders of the Company, as at 31st March 2018.

The Board of Directors

The Board of Directors of the Company as at 31st March 2018, comprised of 10 Directors with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors' - Profile' on pages 22 to 25 of this Annual Report.

Names of the persons holding office as Directors of the Company as at 31st March 2018 as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below.

Name of the Director	Date of Appointment	Other Information
Mr. A.J Alles	18th November 2014	Chairman/Non-Independent Non-Executive Director
Mr. B Premalal	29th June 2011	Deputy Chairman/Non-Independent Non-Executive Director
Mr. B.M.D.C Prabhath	29th June 2011	Executive Director/Chief Executive Officer/ Managing Director
Mrs. H.K.S.R Perera **	29th June 2011	Non-Independent Non-Executive Director
Mrs. L.L.C.C Thambiah	13th June 2013	Executive Director
Mr. N.H.T.I Perera *	18th November 2014	Non-Independent Non-Executive Director
Mrs. M.A.R.C Cooray	18th November 2014	Non-Independent Non-Executive Director
Mr. A.S Wijesinha	18th June 2015	Independent Non-Executive Director
Dr. S.U.H Fernando	25th June 2015	Independent Non-Executive Director
Mr. P.A.H.D Wijesundara	27th September 2016	Independent Non-Executive Director
Mr. A.G.R Dissanayake	29th August 2017	Non-Independent Non-Executive Director
Mr. M Perera	29th September 2017	Non-Independent Non-Executive Director

Resignation of Directors

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

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

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

New Appointments During the Year

The following directors were appointed with the concurrence of CBSL in term of Article 87(a) of the article of association of the Company.

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

Mr. M Perera - Non-Independent Non-Executive Director w.e.f 29th September 2017.

Retirement and Re-election of Directors Recommended

The following Directors who were appointed during the financial period from 01st April 2017 to 31st March 2018 retired at the Annual General Meeting in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008 and offered themselves for re-election under the said Direction.

Mr. A.G.R Dissanayake – Non-Independent Non-Executive Director

Mr. M Perera - Non-Independent Non-Executive Director

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

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

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

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

Register of Directors and Secretaries

As required under Section 223 (1) of the Companies Act No. 07 of 2007 the Secretaries of the Company maintains a Register of Directors and Secretaries on behalf of the Company, which contains information of each Director and the Secretary.

Board Sub–Committees

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

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

Annual Report of the Board of Directors

Directors Meetings

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

Directors' Attendance from 01.04.2017 To 31.03.2018

Name of the Director	Board Meeting		Board Audit Committee		Board Integrated Risk Management Committee		Credit Committee		Nomination/HR & Remuneration Committee		Strategic and Investment Committee		Relented Party Transactions Review Committee	
	No of Meetings (a)	No of Meetings Attended	No of Meetings (a)	No of Meetings Attended	No of Meetings (a)	No of Meetings Attended	No of Meetings (a)	No of Meetings Attended	No of Meetings (a)	No of Meetings Attended	No of Meetings (a)	No of Meetings Attended	No of Meetings (a)	No of Meetings Attended
Mr. A. J. Alles	12	10							6	5	2	2		
Mr. B. Premalal	12	11							6	6				
Mr. B.M.D.C Prabhath *	12	12			9	9							1	1
Ms. H.K.S.R Perera (Resigned on 31.07.2017)	4	2												
Mrs. L.L.C.C Thambiah *	12	12					2	2						
Mr. N.H.T.I Perera (Resigned on 31.05.2017)	2	0												
Mrs. M.A.R. C Cooray	12	12	5	5	9	9			6	6	2	2		
Mr. A.S Wijesinha	12	9	5	4	9	8	2	2					1	1
Dr. S.U.H.Fernando	12	10												
Mr. P.A.H.D Wijesundara	12	10					2	2					1	1
Mr. A.G.R Dissanayake (Appointed on 29.08.2017)	8	6	3	3							1	1		
Mr. M. Perera ** (Appointed on 29.09.2017)	7	5	2	2	3	2								

(a) = Number of meetings held during the twelve month when the Director held office

* Mr. B.M.D.C Prabhath - MD/CEO and Mrs. L. L.C.C Thambiah attended Board Audit Committees by invitation

** Mr. M Perera was appointed to Board Audit and Board Integrated Risk Management Committee from January 2018

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

The Company maintains Directors' Interests Register in terms of the Companies Act No. 07 of 2007. Directors of the Company have made necessary declarations of their interests in contracts and proposed contracts in terms of Sections 192 (1) and 192 (2) of the Companies Act. These interests are entered in the Interests Register which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

The particulars of the Directors Interests in Contracts with the Company are given in related party disclosures to the Financial Statements on page 149 and form an integral part of this Annual Report.

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

The relevant interests of Directors in the shares of the Company as at 31st March 2018 as recorded in the Interests Register are given in this Report under Directors' Shareholding.

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

Related Party Transactions

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

Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 39 to the Financial Statements on page 149.

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 period under review, the shareholdings of the Board of Directors were listed as follows,

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

Directors' Interest in Debentures

There were no debentures registered in the name of any Director as at 31st March 2018.

Corporate Governance

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

Internal Controls

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

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 103 of the Annual Report. The Board has also obtained an assurance report from the External Auditors on Directors' Statement of Internal Control.

Environmental Protection

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

Human Resources

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

Compliance with Laws and Regulations

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

Auditors

The Financial Statements for the period ended 31st March 2018, have been audited by Messrs Ernst & Young, (Chartered Accountants) who offer themselves for reappointment. The retiring Auditors Messer's Ernst & Young, (Chartered Accountants) have signified their willingness to continue in office and a resolution relating to their reappointment and authorising Directors to fix their remuneration as recommended by the Board, will be proposed at the forthcoming Annual General Meeting.

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

The Auditors have been paid a fee of Rs. 4,205,000 as audit fee for the period ended 31st March 2018, which has been approved by the Board. The Directors recommend their reappointment.

Annual General Meeting

The 08th 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 28th August 2018 at 10.00 a.m. The notice of the 8th Annual General Meeting is given on page 178 and 179 for and on behalf of the Board.

Acknowledgements of the Contents of the Report

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

Signed in accordance with the resolution adopted by the Directors.

By Order of the Board,

A.J Alles
Chairman

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

SSP CORPORATE SERVICES (PVT) LIMITED
Company Secretary

26 June 2018
Colombo

Directors Responsibility Statement on Internal Control and Financial Reporting

Responsibility

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

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

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

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

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

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

Confirmation

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

Review of the Statement by External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls and financial reporting for the twelve months ended 31st March 2018.

By order of the Board,

A.G.R Dissanayake
Audit Committee
Chairman

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

W.S.P Arangala
Chief Operating Officer

26 June 2018
Colombo

Directors' Responsibility for Financial Reporting

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

The responsibility of the External Auditor in relation to Financial Statements is set out in the Report of the Auditors given on page 105 of the Annual Report.

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

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

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

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

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

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

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

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

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

By Order of the Board,

A.J Alles
Chairman

B.M.D.C Prabhath
Managing Director

26 June 2018
Colombo

Independent Auditor's Report

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

Tel : +94 11 2463500
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eysl@lk.ey.com
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of HNB Grameen Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

26 June 2018
Colombo

Statement of Comprehensive Income

Year ended 31 March 2018	Notes	2018 LKR	2017 LKR
Gross Income	4	7,482,548,192	6,234,033,583
Interest income		6,537,663,310	5,327,018,057
Interest expenses		(2,373,460,579)	(1,465,618,208)
Net Interest Income	5	4,164,202,731	3,861,399,849
Fee and commission income		702,441,739	670,219,063
Fee and commission expenses		(110,385,743)	(98,395,049)
Net Fee and Commission Income	6	592,055,996	571,824,014
Net Interest, Fee and Commission Income		4,756,258,727	4,433,223,863
Other operating income		242,443,143	236,796,463
Net mark to market valuation gain		1,103,040	81,840
Total Operating Income	7	4,999,804,910	4,670,102,166
Impairment charges for loans and other losses	8	(685,269,932)	(707,508,300)
Net Operating Income		4,314,534,978	3,962,593,866
Personnel expenses	9	(1,108,124,495)	(943,611,008)
Other expenses	10	(1,179,177,418)	(1,011,929,349)
Total Operating Expenses		(2,287,301,913)	(1,955,540,357)
Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		2,027,233,064	2,007,053,509
Value Added Tax (VAT) on financial services	11	(392,263,488)	(331,394,045)
Nation Building Tax (NBT) on financial services	12	(52,301,798)	(49,278,589)
Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		1,582,667,778	1,626,380,875
Income tax expenses	13	(570,884,458)	(567,546,689)
Profit for the Year		1,011,783,320	1,058,834,186
Basic earnings per share	14	0.59	0.62

The Accounting Policies and Notes on pages 113 through 169 form an integral part of the Financial Statements.

Statement of Other Comprehensive Income

Year ended 31 March 2018	Notes	2018 LKR	2017 LKR
Profit for the Year		1,011,783,320	1,058,834,186
Other Comprehensive Income for the Year, Net of Tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(losses) on defined benefit plans	32	14,231,796	8,793,209
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	26	(3,984,903)	(2,462,099)
Revaluation Reserve of free hold Lands & Buildings	25	62,197,447	166,240,013
Deferred tax effect on revaluation on Buildings	26	(17,415,285)	(44,069,830)
Other Comprehensive Income for the Year, Net of Tax		55,029,055	128,501,293
Total Comprehensive Income for the Year		1,066,812,375	1,187,335,479

The Accounting Policies and Notes on pages 113 through 169 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March 2018	Notes	2018 LKR	2017 LKR
ASSETS			
Cash and cash equivalents	15	905,159,755	1,204,483,946
Financial assets held for trading	16	16,128,000	15,024,960
Loans and Advances to members	17	18,465,081,481	13,260,731,825
Loans and Advances to others	18	579,593,110	503,034,338
Financial investment - Loan & Receivable	19	307,112,770	307,112,770
Financial investments - Available-For-Sale	20	12,430,283	12,430,283
Financial investments - Held-To-Maturity	21	2,215,317,581	1,743,275,943
Other assets	22	242,603,911	210,611,575
Investment properties	23	1,180,150,000	1,049,600,000
Intangible assets	24	131,533,753	127,078,155
Property, plant & equipment	25	1,158,835,158	1,119,409,029
Deferred tax Assets	26	124,848,966	-
Total Assets		25,338,794,768	19,552,792,824
LIABILITIES			
Due to customers	27	18,821,363,686	14,040,245,231
Debt issued and other borrowed funds	28	1,178,231,116	1,333,380,268
Income Tax payable	29	203,496,098	353,447,803
Value Added Tax payable	30	(25,379,290)	(6,263,276)
Other liabilities	31	849,770,227	268,153,945
Retiring benefit obligation	32	181,016,637	157,508,878
Deferred tax liability	26	-	16,115,738
Total Liabilities		21,208,498,474	16,162,588,587
SHAREHOLDERS' FUND			
Stated capital	33	223,545,481	223,545,481
General reserve	34	82,897,989	82,897,989
Statutory reserve fund	35	840,876,301	638,519,637
Revaluation reserve		429,266,191	384,484,029
Retained earnings		2,553,710,332	2,060,757,101
Total Equity and Liabilities		25,338,794,768	19,552,792,824

These financial statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007.

W.S.P. Arangala
Chief Operating Officer

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

A.J. Alles
Chairman

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

The Accounting Policies and Notes on pages 113 through 169 from an integral part of the Financial Statements.

26 June 2018
Colombo

Statement of Changes in Equity

Year ended 31 March 2018	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 2016	223,545,481	82,897,989	426,752,800	-	262,313,846	1,396,512,510	2,392,022,626
Profit for the year	-	-	-	-	-	1,058,834,186	1,058,834,186
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						8,793,209	8,793,209
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(2,462,099)	(2,462,099)
Revaluation Reserve of free hold Lands & Buildings	-	-	-	-	166,240,013	-	166,240,013
Deferred tax effect on revaluation on Buildings	-	-	-	-	(44,069,830)	-	(44,069,830)
Total comprehensive income for the year	-	-	-	-	122,170,183	1,065,165,296	1,187,335,479
Transactions recorded directly in equity							
Transfer to statutory reserve fund	-	-	211,766,837	-	-	(211,766,837)	-
Dividend paid	-	-	-	-	-	(189,153,868)	(189,153,868)
Balance as at 31 March 2017	223,545,481	82,897,989	638,519,637	-	384,484,029	2,060,757,101	3,390,204,237
Profit for the year	-	-	-	-	-	1,011,783,320	1,011,783,320
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						14,231,796	14,231,796
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-		(3,984,903)	(3,984,903)
Revaluation Reserve of free hold Lands & Buildings	-	-	-	-	62,197,447	-	62,197,447
Deferred tax effect on revaluation on Buildings	-	-	-	-	(17,415,285)	-	(17,415,285)
Total comprehensive income for the year	-	-	-	-	44,782,162	1,022,030,213	1,066,812,375
Transactions recorded directly in equity							
Transferred to statutory reserve fund	-	-	202,356,664	-	-	(202,356,664)	-
Dividend paid	-	-	-	-	-	(326,720,318)	(326,720,318)
Balance as at 31 March 2018	223,545,481	82,897,989	840,876,301	-	429,266,191	2,553,710,332	4,130,296,294

The Accounting Policies and Notes on pages 113 through 169 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 March 2018	Notes	2018 LKR	2017 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before Tax		1,582,667,778	1,626,380,875
Adjustments			
Interest expenses on borrowings	5.2	60,979,110	24,503,761
Interest expenses on debentures	5.2	89,057,578	89,328,560
Interest income from financial investments held to maturity	5.1	(366,540,884)	(143,357,077)
Interest income on treasury bond	5.1	(1,600,000)	(1,600,000)
Dividend income	7.1	(200,000)	(65,000)
Profit/(loss) on disposal of property, plant & equipment	7.1	(325,359)	754,272
Fair value gain on investment property	7.1	(130,550,000)	(149,300,000)
Impairment charge/(reversal) for loans and other assets	8	685,269,932	712,008,300
Provision for value added tax	30	392,263,488	331,394,045
Crop insurance levy	10	10,480,000	11,601,542
Provision for nation building tax	12	52,301,798	49,278,589
Ammortization on intangible assests	24	37,783,276	23,738,355
Depreciation - on property, plant & equipment	25	126,830,182	110,572,370
Gratuity provision	9	41,780,547	35,619,133
(Gain)/loss on mark to market valuation of treasury bond	7	(1,103,040)	(81,840)
Provision for amount payable under sip saviya scheme	31.1	1,200,000	1,200,000
Staff loan fair value adjustment	18.1	-	(4,500,000)
Operating profit/(loss) before changes in operating assets and liabilities		2,580,294,407	2,717,475,885
(Increase)/decrease in operating assets			
Loans & advances to members	17	(5,804,588,669)	(4,688,005,502)
Loans & advances to others	18	(83,949,832)	(119,076,674)
Other assets	22	(31,992,336)	(13,944,921)
Increase/(decrease) in operating liabilities			
Due to customers	27	4,781,118,455	3,558,442,443
Other liabilities	30	581,616,282	117,293,001
Cash flow from operating activities		2,022,498,307	1,572,184,232
Gratuity paid	32	(4,040,992)	(3,700,400)
VAT paid	30	(411,379,502)	(378,963,036)
Income Tax paid	29	(806,451,351)	(530,294,140)
WHT paid	31	(21,249,698)	(11,090,158)
Notional Tax		(8,968,077)	(9,489,647)
NBT paid		(58,595,217)	(55,193,347)
Crop Insurance Levy paid		(8,939,266)	(13,037,934)
ESC paid		(38,976,427)	(22,880,212)
Dividend paid		(326,720,318)	(189,153,868)
Net Cash Flow from Operating Activities		337,177,459	358,381,490

Statement of Cash Flows

Year ended 31 March 2018	Notes	2018 LKR	2017 LKR
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	25	(104,281,973)	(113,828,308)
Purchase of intangible asset	24	(42,238,874)	(83,009,468)
Investment properties purchased/disposal	23	-	4,200,000
Proceeds from sale of property, plant & equipment		522,815	824,939
Net of investment in government security	20.1	(994,021,638)	440,069,336
Net investment in fixed deposits	20	521,980,000	(290,000,000)
Fixed deposit interest received	20	213,564,250	40,242,123
Treasury bill interest received	20.1	46,682,993	47,888,930
Treasury bond Interest received	21	1,440,000	1,440,000
Dividend income	7.1	200,000	65,000
Debentures interest received		-	16,875,000
Net Cash Flow from Investing Activities		(356,152,427)	64,767,552
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid	29	(1,785,454)	(5,363,379)
Interest payments on debentures	6	(82,997,333)	(88,771,246)
Interest payments on borrowings	29	(60,979,110)	(24,503,761)
Borrowings during the year	29	-	500,000,000
Loans repayments during the year	29	(134,587,326)	(51,250,000)
Net Cash Flow from Financing Activities		(280,349,223)	330,111,614
Net increase/(decrease) in cash and cash equivalents		(299,324,191)	753,260,656
Cash and cash equivalents at the beginning of the year	15	1,204,483,946	451,223,290
Cash and Cash Equivalents at the end of the year	15	905,159,755	1,204,483,946

The Accounting Policies and Notes on pages 113 through 169 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Corporate Information

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

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

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

The name of the Company was changed from Prime Grameen Microfinance 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. 07 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 26th June 2018.

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

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

2.1.2 Basis of Measurement

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

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

2.1.3 Presentation of Financial Statements

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

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

Each material class of similar items is presented separately in the financial statements. Items of dissimilar 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 43 to the financial statements.

2.2.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when 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 the estimation of the circumstances necessitate to do so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.6 Fair Value of Property, Plant and Equipment

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

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

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

2.2.8 Classification of Investment Property

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

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

2.2.9 Taxation

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

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

2.2.10 Deferred Tax Assets

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

2.2.11 Defined Benefit Obligation

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

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

2.2.12 Provisions for Liabilities and Contingencies

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

2.3 Summary of Significant Accounting Policies

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

2.3.1 Foreign Currency Transactions and Balances

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

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

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

2.3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

2.3.2.1 Non-Derivative Financial Assets

Initial Recognition of Financial Assets

Date of recognition

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

Initial measurement of financial assets

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

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

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

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

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

Classification of financial assets

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

(a) financial assets at fair value through profit or loss;

(b) held-to-maturity financial assets;

(c) loans and receivables; and

(d) available-for-sale financial assets.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the

Company's investment strategy. Attributable transaction costs are recognised in Statement of profit or loss as incurred.

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

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

Held-to-maturity financial assets

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

Subsequent to initial recognition held to-maturity financial assets are measured at 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 the Statement of comprehensive income. The losses arising from impairment are recognised as impairment cost in the Statement of profit or loss and the Statement of comprehensive income.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at 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 recognised. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the Statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

(c) Advances and other loans to customers

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

Available-for-sale financial assets

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

2.3.2.2 Non-Derivative Financial Liabilities

Classification and Subsequent Measurement of Financial Liabilities

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

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

Bank overdrafts

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

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

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

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

2.3.2.3 Reclassification of Financial Assets and Liabilities

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

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

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

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

No reclassifications of financial instruments were done during the year

2.3.2.4 Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

(a) The Company has transferred substantially all the risks and rewards of the asset, or

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

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

(a) The consideration received (including any new asset obtained less any new liability assumed), and

(b) Any cumulative gain or loss that had been recognised in comprehensive income is recognised in profit or loss.

Financial liabilities

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

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

2.3.2.5 Offsetting of Financial Instruments

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

2.3.2.8 Fair value Measurement

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

(a) In the principal market for the asset or liability, or

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 recognised in profit or loss and reflected in an impairment allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

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

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

Reversal of Impairment

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

Write Off of Financial Assets Carried at 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 recognised in finance cost in the Statement of profit or loss.

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

Finance leases – Company as a lessor

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

2.3.4.2 Operating Leases

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

Operating leases – Company as a lessee

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

Operating leases – Company as a lessor

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

2.3.5 Property and equipment

2.3.5.1 Basis of Recognition

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

2.3.5.2 Measurement

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

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

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

Cost Model

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

Revaluation Model

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

2.3.5.3 Subsequent Costs

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

2.3.5.4 Depreciation

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

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

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

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

2.3.5.5 De-recognition

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

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

2.3.5.6 Capital Work-in-Progress

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

2.3.6 Intangible assets

2.3.6.1 Basis of recognition

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

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 of for both, but not for sale in the ordinary course of business, use in the production or supply of goods or service or for administrative purposes.

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

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

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

2.3.8 Impairment of non–financial assets

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

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

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

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

2.3.9 Retirement benefits

2.3.9.1 Short-Term Employee Benefits

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

2.3.9.2 Defined Contribution Plans

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

2.3.9.3 Defined Benefit Plans

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

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

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

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

2.3.10 Provisions

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

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

2.3.11 Income Tax Expense

2.3.11.1 Current Tax Expense

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

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

2.3.11.2 Deferred Taxation

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

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be 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. Unrecognised deferred tax assets are reassessed at each reporting date and are Recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are 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 15% as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

2.3.11.4 Economic Service Charge (ESC)

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

2.3.11.5 Crop Insurance Levy

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

2.3.11.6 Nation Building Tax (NBT)

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

2.3.12 Revenue Recognition

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

2.3.12.1 Interest Income and Expense

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

2.3.12.2 Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Such income is recognised as revenue when the services are provided.

2.3.12.3 Dividend Income

Dividend income is recognised when the Company's right to receive the payment is established.

2.3.12.4 Rent Income

Rent income is recognised on an accrual basis.

2.3.12.5 Other Income

Other income is recognised on an accrual basis.

3. SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single lessee accounting model for lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:

Recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS -16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

3.1 Sri Lanka Accounting Standards Effective from January 2018

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are effective from 01st January 2018. The Company intends to adopt these standards, if applicable, when they become effective.

SLFRS 15 -Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and interpretations.

The Company carried out an initial impact analysis with the assistance of an external consultant during the year ended 31st March 2018.

According to the above analysis, the Company does not have any material impact from the adoption of SLFRS 15 in the Financial Year 2017/2018.

SLFRS 9 –Financial Instruments

Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" will replace Sri Lanka Accounting Standard - LKAS 39 "Financial Instruments - Recognition and Measurement" for annual periods beginning on or after 1st January 2018 with early adoption permitted.

The initial assessment and analysis stage was completed for impairment in 2017, and the classification and measurement phase is being finalized.

The Company performed the diagnostic phase (Preliminary Impact Assessment exercise) and implementation phase (solution development) on SLFRS 9 Financial Instruments.

The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business Model Assessment

Company determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Company's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios in to account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectation, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash flow Characteristic Test

As the second test of the classification process, the Company assesses the contractual terms of the financial assets to identify whether they meet Solely the Payment of Principle & Interest (SPPI).

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Company applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than demonisms exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL.

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date.

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL.Stage 1 loans also includes the facilities where the credit risk has improved and the loans have been reclassified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed.

Stage 3: Loan considered to be credit Impaired/ contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individually/Collectively

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have a significant increase in credit risk when either the facility exceeds 30 days past due or at the point of reschedulement.

Individually Significant Assessment and Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

While establishing significant credit deterioration Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated

- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument

- Other Information related to the borrower, such as changes in the price of a borrower's debt/ equity instrument

- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally

- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet its obligation

- An Actual or expected significant change in the operating results of the borrower in relating to actual/ expected decline in revenue, Increase in operating risk, working capital deficiency, Decrease in Asset quality, Increase in gearing, liquidity management problems

- Significant increase in credit risk on other financial instruments of the same borrower

- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation

Grouping financial assets measured on a collective basis

As explained above, the Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an Individual basis includes All Individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

Company groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

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

- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.

- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In its ECL model Company relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

Transition process of the Company

The Company is in the process of finalising the quantification of impairment performed as of 31st March 2017 based on the requirements of SLFRS 09.

Year ended 31 March 2018		2018	2017
		LKR	LKR
4. GROSS INCOME			
Interest Income		6,537,663,310	5,327,018,057
Fee and commission income		702,441,739	670,219,063
Other Income		242,443,143	236,796,463
Total Income		7,482,548,192	6,234,033,583
5. NET INTEREST INCOME			
Interest Income	5.1	6,537,663,310	5,327,018,057
Interest Expense	5.2	(2,373,460,579)	(1,465,618,208)
Net Interest Income		4,164,202,731	3,861,399,849

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

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

Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to 8.97 Mn.

Year ended 31 March 2018		2018	2017
		LKR	LKR
5.1 Interest Income			
Loans and advances given to members		5,449,581,653	4,917,689,948
Loans and advances given to non members		69,541,968	55,683,105
Financial Investments - Held to Maturity		366,540,884	143,357,077
Financial Investments - Held for Trading		1,600,000	1,600,000
Savings Deposits		73,725,905	71,869,994
Finance Leases		576,672,900	136,817,933
Net interest income		6,537,663,310	5,327,018,057
5.2 Interest Expense			
Deposits from Customers		2,223,423,891	1,351,785,887
Debentures		89,057,578	89,328,560
Other Borrowings		60,979,110	24,503,761
		2,373,460,579	1,465,618,208
6. NET FEE AND COMMISION INCOME			
Trade related Documentation charges		702,441,739	670,219,063
Fee and Commission expenses		(110,385,743)	(98,395,049)
		592,055,996	571,824,014
7. OTHER INCOME			
Other Operating Income	7.1	242,443,143	236,796,463
Net Mark to Market Valuation Gain		1,103,040	81,840
		243,546,183	236,878,303

Year ended 31 March 2018		2018	2017
		LKR	LKR
7. OTHER INCOME (Contd...)			
7.1 Other Operating Income			
Rent Income		45,975,462	45,044,775
Recovery of Loan Balance Written-off		13,564,008	17,440,711
Revaluation of Investment Properties		130,550,000	149,300,000
Sundry Income		51,828,314	25,700,249
Profit from Disposal of Property, Plant & Equipment		325,359	(754,272)
Dividend Income		200,000	65,000
		242,443,143	236,796,463
8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES			
Loans and Receivable from Members	8.1	592,067,772	245,704,462
Loans and Receivable from Lease	8.2	85,811,100	324,926
Other Assets	8.3	7,391,060	(4,500,000)
Impairment Losses from Financial Investments-Loans & receivables	8.4	-	465,978,912
		685,269,932	707,508,300
8.1 Loans and Advances to Members			
Collective Impairment Losses		592,067,772	245,704,462
		592,067,772	245,704,462
8.2 Loans and Receivable from Lease			
Collective Impairment Losses		85,811,100	324,926
		85,811,100	324,926
8.3 Other Assets			
Other Impairment		7,391,060	(4,500,000)
		7,391,060	(4,500,000)
8.4 Financial Investments-Loans and Receivables			
Impairment Losses from Financial Investments-Loans & receivables		-	465,978,912
		-	465,978,912
9. PERSONNEL COST			
Salaries and Bonus		898,233,149	765,801,913
Other Personnel Cost		59,086,519	54,535,719
Employer's Contribution to Employees' Provident Fund		87,215,608	70,123,394
Employer's Contribution to Employees' Trust Fund		21,808,672	17,530,849
Retirement Benefit Cost		41,780,547	35,619,133
Total		1,108,124,495	943,611,008

	Year ended 31 March 2018	2018	2017
		LKR	LKR
10.	**OTHER EXPENSES**		
	Other Operating Expenses, among others Include the following:		
	Depreciation on Property, Plant & Equipment	126,830,183	110,572,371
	Advertising & Publications	44,207,143	45,687,622
	Repairs & Maintenance	94,655,608	80,192,643
	Crop Insurance levy	10,480,000	11,601,542
	Amortisation of intangible assets	37,783,277	23,738,354
	Directors remuneration	21,385,000	15,505,000
	Auditors' Remuneration	4,205,000	4,175,000
	Legal charges	13,719,131	10,082,325
	Donation	134,874	3,288,237
11.	**PROVISION FOR VALUE ADDED TAX**		
	Value Added Tax for the year		
	Financial Services	392,263,488	331,394,045
		392,263,488	331,394,045

Value Added Tax

Company's total value addition is subjected to Value added tax at 15% as per section 25A of the value added tax Act No. 14 of 2002 and amendments thereto.

12.	**PROVISION FOR NATION BUILDING TAX**		
	Nation building tax for the year		
	Financial services	52,301,798	49,278,589
		52,301,798	49,278,589
13.	**INCOME TAX**		
	Current Income Tax		
	Current income tax charge	681,369,313	665,720,164
	Over/Under provision during previous year	5,348,108	(18,731,103)
	Pre. Year adjustment		
	Deferred Income Tax		
	Deferred taxation charge / (reversal)	(115,832,963)	(79,442,372)
	Income tax expense reported in the statement of profit or loss	570,884,458	567,546,689

Year ended 31 March 2018	2018	2017
	LKR	LKR

13.1 Reconcilation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate

Accounting profit before tax	1,582,667,778	1,626,380,875
At the statutory income tax rate of 28% (2016: 28%)	443,146,978	455,386,645
Tax Effect on;		
Income exempt from tax	-	(18,200)
Non deductible expenses	658,209,746	432,190,639
Deductible expenses	(419,987,411)	(221,838,920)
Current tax on profits for the year	681,369,313	665,720,164
Tax effect on utilized tax losses	-	-
Current income tax charge	681,369,313	665,720,164
Over/Under provision during previous year	5,348,108	(18,731,103)
Deferred taxation charge	(115,832,963)	(79,442,372)
Income tax expense at the effective income tax rate of 36.07% (2015: 34.9%)	570,884,458	567,546,689
Tax Losses Brought Forward and Utilised during the Year		
Balance at the beginning of the year	179,835,622	-
Tax losses utilised during the year	253,885,202	-
Tax losses not utilised and carried forward	433,720,824	-

14. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Year ended 31 March 2018	2018	2017
	LKR	LKR
Net profit for the period	1,011,783,320	1,058,834,186
Profit attributable to ordinary shareholders	1,011,783,320	1,058,834,186

	2018	2017
	Number	Number
Weighted average number of ordinary shares in issue	1,719,580,624	1,719,580,624
	1,719,580,624	1,719,580,624
Basic earnings per ordinary share (LKR)	0.59	0.62

Year ended 31 March 2018		2018	2017
		LKR	LKR
15. CASH AND CASH EQUIVALENTS			
Cash in hand		102,342,270	39,107,948
Balances with banks		802,817,485	1,165,375,998
Total		905,159,755	1,204,483,946
16. FINANCIAL ASSETS HELD FOR TRADING			
Cost of treasury bond investment		16,250,272	16,250,272
Interest receivable		480,000	480,000
		16,730,272	16,730,272
Less: Loss from mark to market valuation		(602,272)	(1,705,312)
		16,128,000	15,024,960

As at 31 March 2018	Year of Maturity	Cost of Investment	Face Value	Carrying Value
		LKR	LKR	LKR
Treasury bond	01 May 2021	16,250,272	16,000,000	16,128,000
		16,250,272	16,000,000	16,128,000

Year ended 31 March 2018		2018	2017
		LKR	LKR
17. LOANS AND ADVANCES TO MEMBERS			
At amortised cost:			
Loans and advances to members		19,434,224,612	13,629,635,943
Less: Allowance for Impairment losses		(969,143,131)	(368,904,118)
		18,465,081,481	13,260,731,825
17.1 Product-Wise Analysis of Loans And Advances To Members			
Loans		14,398,193,066	11,486,285,715
Leases	17.1.1	4,541,443,899	1,703,990,476
Saving advance	17.1.2	50,399,155	209,717,224
Loan against deposits	17.1.3	444,188,492	229,642,528
		19,434,224,612	13,629,635,943

Year ended 31 March 2018		2018	2017
		LKR	LKR
17.1.1	**Lease Receivables**		
	Rentals receivable	6,256,047,684	2,421,338,589
	Unearned lease income	(1,854,334,251)	(752,609,150)
	Rental in Arrears - Lease	139,730,466	35,585,963
	Gross lease rental receivable	4,541,443,899	1,704,315,402
	Collective Impairment allowance for lease receivables	(86,136,026)	(324,926)
	Net receivables	4,455,307,873	1,703,990,476
	Net receivables within one year	1,129,850,617	402,127,483
	Net receivables from one to five years	3,319,266,548	1,298,611,428
	Net receivables after five years	6,190,708	3,251,565
		4,455,307,873	1,703,990,476
17.1.2	**Saving Advance**		
	Saving advance	50,399,155	209,717,224
		50,399,155	209,717,224
17.1	**Product-Wise Analysis of Loans And Advances To Members**		
17.1.3	**Loan against Deposits**		
	Loan against deposits	435,748,349	225,547,198
	Interest receivable on loan against deposits	8,440,143	4,095,330
		444,188,492	229,642,528

		Notes	Impairment	Total
			LKR	LKR
17.2	**Allowance For Impairment Losses**			
	Balanceas at 01 April 2016		154,678,950	154,678,950
	Charge for the year-Loans		246,029,388	246,029,388
	Written off during the year		(31,479,294)	(31,479,294)
	Balance as at 31 March 2017		369,229,044	369,229,044
	Amount written off		(77,964,785)	(77,964,785)
	Charge for the year-Loans	8.1	592,067,772	592,067,772
	Charge for the year Lease	8.2	85,811,100	85,811,100
	Balance as at 31 March 2018		969,143,131	969,143,131

	Year ended 31 March 2018		2018	2017
			LKR	LKR
18.	**LOANS AND ADVANCES TO OTHERS**			
	Staff loans	18.1	357,473,118	331,890,240
	Mortgage loan		233,100,687	174,733,733
			590,573,805	506,623,973
	Less: Allowance for impairment losses	18.2	(10,980,695)	(3,589,635)
			579,593,110	503,034,338
18.1	**Staff Loans**			
	At the beginning of the year		331,890,240	261,184,797
	Loan granted during the year		152,248,000	217,584,000
	Recovered during the year		(126,665,122)	(146,878,557)
			357,473,118	331,890,240

	Balance as at 31 March 2017	Balance as at 01 April 2016	Provision made during the year	Written Off during the year	Balance as at 31 March 2017
18.2	**Allowance for impairment losses**				
	Staff loan	34,052	-	(7,083)	26,969
	Mortgage Loan	3,562,666	-	-	3,562,666
		3,596,718	-	(7,083)	3,589,635

Balance as at 31 March 2018	Balance as at 01 April 2017	Provision made during the year	Written Off during the year	Balance as at 31 March 2018
Staff loans	26,969	7,391,060	-	7,418,029
Loan mortgage	3,562,666	-	-	3,562,666
	3,589,635	7,391,060	-	10,980,695

	Year ended 31 March 2018		2018	2017
			LKR	LKR
19.	**FINANCIAL INVESTMENT - LOANS & RECEIVABLES**			
	Other loan & Receivable		773,091,682	773,091,682
	Impairment losses Financial Investments-Loans & Receivables		(465,978,912)	(465,978,912)
			307,112,770	307,112,770
20.	**FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE**			
	Unquoted equity securities	20.1	12,430,283	12,430,283
			12,430,283	12,430,283

These investments are unquoted and has no active market from which a reliable fair value could be obtained. The different valuation methods used did not provide a reasonable range of values. As a result these investments are carried at cost since the fair value cannot be determined reliably.

Year ended 31 March 2018	2018		2017	
	Number of Shares	Cost LKR	Number of Shares	Cost LKR
20.1 Investments In Non Quoted Shares				
Credit information bureau of sri lanka	100	234,000	100	234,000
Standard credit lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd	1,742,326	12,196,283	1,742,326	12,196,283
		50,888,757		50,888,757
Less: Allowance for impairment losses		(38,458,474)		(38,458,474)
		12,430,283		12,430,283

Year ended 31 March 2018		2018 LKR	2017 LKR
21. FINANCIAL INVESTMENTS - HELD-TO-MATURITY			
Fixed deposits		773,125,342	1,295,105,342
Debentures		166,875,000	150,000,000
Sri lanka government securities	21.1	1,275,317,239	298,170,601
		2,215,317,581	1,743,275,943
21.1 Sri Lanka Government Securities			
Treasury bills		1,275,317,239	285,140,500
		1,275,317,239	285,140,500
Interest receivable		-	13,030,101
		1,275,317,239	298,170,601

	Year ended 31 March 2018		2018	2017
			LKR	LKR
22.	**OTHER ASSETS**			
	Other financial assets		90,934,128	94,051,090
	Other non financial assets	22.1	151,669,783	116,560,485
			242,603,911	210,611,575
22.1	**Other Non Financial Assets**			
	Other receivables		152,344,913	117,235,615
	Less: Allowance for impairment losses		(675,130)	(675,130)
			151,669,783	116,560,485
23.	**INVESTMENTS PROPERTIES**			
	Land			
	Balance at the beginning of the year		398,174,753	334,155,169
	Additions / disposal during the year		-	(4,200,000)
	Fair value adjustment for the period		68,635,884	68,219,584
	Balance at the end of the year		466,810,637	398,174,753
	Building			
	Balance at the beginning of the year		651,425,247	570,344,831
	fair value adjustment for the period		61,914,116	81,080,416
	Balance at the end of the year		713,339,363	651,425,247
	Net Book Value		1,180,150,000	1,049,600,000

The Company carries investment properties at fair value. valuations of the above investment properties were carried out as at 31st March 2018 by R. S. Wijesuriya, Professional independent valuer. Company earned LKR 38.92 Mn as rental income for the financial year.

Year ended 31 March 2018	2018	2017
	LKR	LKR

24. INTANGIBLE ASSETS

	2018 LKR	2017 LKR
Cost		
Balance at the beginning of the year	175,537,394	92,527,926
Additions during the year	42,238,874	83,009,468
Balance at the end of the year	217,776,268	175,537,394
Amortization and Impairment		
Balance at the beginning of the year	48,459,239	24,720,884
Charge for the year	37,783,276	23,738,355
Balance at the end of the year	86,242,515	48,459,239
Net Book Value	131,533,753	127,078,155

24.1 Intangible Assets by Class

	Cost	Accumulated Amortization	Net Book Value
Balance as at 31 March 2017			
Software	119,321,847	41,474,342	77,847,505
License	56,215,547	6,984,897	49,230,651
	175,537,394	48,459,239	127,078,156
Balance as at 31 March 2018			
Software	122,021,847	62,083,678	59,938,169
License	95,754,421	24,158,837	71,595,584
	217,776,268	86,242,515	131,533,753

Notes to the Financial Statements

25. PROPERTY, PLANT & EQUIPMENT

25.1 Carried at cost/Valuation

25.1.1 Cost/Fair Value

	As at 01 April 2016	Additions during the year	Transfers during the year	Disposals during the year
Land	183,654,358	-	8,847,764	-
Building	500,945,642	-	122,952,237	-
Furniture & fittings - (free hold)	50,800,914	12,835,917	-	(2,890,968)
Office equipment - (free hold)	105,568,820	71,294,611	-	(348,439)
Computer - (free hold)	130,076,872	10,141,734	-	(10,363,917)
Computer - (lease hold)	12,642,000	-	-	(184,900)
Motor cycles - (free hold)	450,000	-	-	(450,000)
Motor vehicles	7,000,000	-	-	-
Motor vehicles - (lease)	12,300,000	-	-	-
Machinery & equipment	2,638,601	-	-	-
Fixtures & fittings	65,004,785	10,470,089	-	(526,900)
Network accessories	97,701,736	9,085,957	-	(970,564)
	1,168,783,728	113,828,308	131,800,001	(15,735,688)

25.1.2 Accumulated Depreciation and Impairment

	As at 01 April 2016	Additions during the year	Transfers during the year	Disposals during the year
Building	25,047,282	13,292,093	(34,440,013)	-
Furniture & fittings - (free hold)	32,763,193	6,291,776	-	(2,877,851)
Office equipment - (free hold)	37,899,148	30,433,784	-	(326,388)
Computer - (free hold)	49,934,390	20,741,693	-	(10,344,006)
Computer - (lease hold)	7,710,868	2,522,545	-	(148,247)
Motor cycles - (free hold)	450,000	-	-	(450,000)
Motor vehicles	1,633,333	1,400,000	-	-
Motor vehicles - (lease)	6,253,333	2,460,000	-	-
Machinery & equipment	2,610,134	28,467	-	-
Fixtures & fittings	26,949,767	13,541,457	-	(375,557)
Network accessories	27,090,727	19,860,555	-	(685,163)
	218,342,175	110,572,370	(34,440,013)	(15,207,212)

	As at 31 March 2017	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2018
	192,502,122	-	-	10,595,431	-	**203,097,553**
	623,897,879	-	-	36,004,570	-	**659,902,449**
	60,745,863	-	14,178,567	-	(2,695,062)	**72,229,367**
	176,514,992	-	28,958,115	-	(215,384)	**205,257,723**
	129,854,689	12,457,100	35,348,970	-	(2,539,893)	**175,120,866**
	12,457,100	(12,457,100)	-	-	-	**-**
	-		-	-	-	**-**
	7,000,000	12,300,000	-	-	-	**19,300,000**
	12,300,000	(12,300,000)	-	-	-	**-**
	2,638,601	-	-	-	-	**2,638,601**
	74,947,974	-	17,577,986	-	(5,368,205)	**87,157,755**
	105,817,129	-	8,218,336	-	-	**114,035,465**
	1,398,676,349	-	104,281,973	46,600,001	(10,818,545)	**1,538,739,779**

	As at 31 March 2017	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2018
	3,899,362	-	15,822,475	(15,597,447)		**4,124,390**
	36,177,118	-	8,727,990	-	(2,604,489)	**42,300,619**
	68,006,544	-	36,414,883	-	(215,380)	**104,206,047**
	60,332,077	11,042,613	24,451,495	-	(2,423,797)	**93,402,388**
	10,085,166	(11,042,613)	957,448	-	-	**-**
	-	-	-	-	-	**-**
	3,033,333	9,533,333	3,040,000	-	-	**15,606,666**
	8,713,333	(9,533,333)	820,000	-	-	**-**
	2,638,601	-	-	-	-	**2,638,601**
	40,115,667	-	14,893,054	-	(5,351,769)	**49,656,952**
	46,266,119	-	21,702,838	-	-	**67,968,957**
	279,267,320	-	126,830,182	(15,597,447)	(10,595,435)	**379,904,621**

Year ended 31 March 2018		As at 2018 LKR	As at 2017 LKR
25.	**PROPERTY, PLANT & EQUIPMENT (CONTD...)**		
25.1	**Carried at cost/Valuation**		
25.1.2	**Written Down Value**		
	Land	203,097,553	192,502,122
	Building	655,778,059	619,998,517
	Furniture & fittings - (free hold)	29,928,748	24,568,745
	Office equipment - (free hold)	101,051,676	108,508,448
	Computer - (free hold)	81,718,478	69,522,612
	Computer - (lease hold)	-	2,371,934
	Motor vehicles	3,693,334	3,966,667
	Motor vehicles - (lease)	-	3,586,667
	Fixtures & fittings	37,500,802	34,832,307
	Network accessories	46,066,508	59,551,010
		1,158,835,158	1,119,409,029

Year ended 31 March 2018		2018 LKR	2017 LKR
26.	**DEFERRED TAX LIABILITY/(ASSET)**		
	Balance at the beginning of the period	16,115,738	49,026,181
	Transfer from / (to) income statement	(115,832,963)	(79,442,372)
	Transfer from / (to) other comprehensive income	(25,131,741)	46,531,929
	Balance at the end of the year	(124,848,966)	16,115,738
	Deferred tax assets, liabilities relates to the following		
	Deferred tax liabilities		
	Accelerated depreciation for tax purposes	185,724,335	158,128,264
	Revaluation gain on buildings Investment Property	78,358,000	22,702,516
	Finance leases	122,505,065	54,210,433
	Other Comprehensive Income		
	Revaluation surplus on buildings	17,415,285	44,069,830
	Deferred tax effect on actuarial gains/(loss) on defined benefit plans	3,984,903	2,462,099
	Deferred tax assets		
	Retirement benefit obligation	(50,684,658)	(44,102,486)
	Unutilised tax losses	(117,086,279)	(50,420,518)
	Impairment losses for loans & other losses	(365,065,617)	(170,934,400)
	Net deferred tax liabilities	(124,848,966)	16,115,738

Year ended 31 March 2018		2018	2017
		LKR	LKR
27. DUE TO CUSTOMERS			
Fixed deposits		15,681,956,464	11,515,325,320
Deferred transaction cost		(86,633,446)	(59,789,075)
Interest payable on fixed deposits		508,051,368	318,180,703
		16,103,374,386	11,773,716,948
Savings deposits		2,717,989,300	2,266,528,283
		18,821,363,686	14,040,245,231
28. DEBT ISSUED AND OTHER BORROWED FUNDS			
Redeemable debentures	28.1	770,454,221	771,099,781
Borrowings		399,155,676	533,743,002
Finance leases		8,621,219	28,537,485
		1,178,231,116	1,333,380,268
28.1 Redeemable Debentures			
Balance at the beginning of the year		765,000,000	765,000,000
Interest payable to debenture holders		5,454,221	6,099,781
		770,454,221	771,099,781

28.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2018	Outstanding as at 31 March 2017
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 (Pvt) 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 (Pvt) limited.

Year ended 31 March 2018			2018	2017
			LKR	LKR
29.	**PROVISION FOR INCOME TAX**			
	Balance at the beginning of the year		353,447,803	278,240,026
	Provision for the year		681,369,313	665,720,164
	Over/Under provision during previous year		5,348,108	(18,731,104)
			1,040,165,224	925,229,086
	Payment made during the year		(806,451,351)	(530,294,140)
	WHT paid		(21,249,698)	(11,090,158)
	Notional tax		(8,968,077)	(9,489,646)
	ESC receivables		-	(20,907,339)
	Balance at the end of the year		203,496,098	353,447,803
30.	**VALUE ADDED TAX PAYABLE**			
	Balance at the beginning of the year		(6,263,276)	41,305,715
	Provision made VAT on financial services		392,263,488	331,394,045
			386,000,212	372,699,760
	Payment made during the year		(411,379,502)	(378,963,036)
			(25,379,290)	(6,263,276)
31.	**OTHER LIABILITIES**			
	Other financial liabilities	31.1	809,883,196	236,020,182
	Other non financial liabilities	31.2	39,887,031	32,133,763
			849,770,227	268,153,945
31.1	**Other Finanacial Liabilities**			
	Other payables		809,883,196	236,020,182
			809,883,196	236,020,182
31.2	**Other Non Financial Liabilities**			
	NBT payable		1,504,899	(739,435)
	WHT payable		1,766,463	1,901,413
	Other payables		36,615,669	30,971,785
			39,887,031	32,133,763
32.	**RETIRING BENEFIT OBLIGATION**			
	Movements in present value of the the retirement benefit obligation are as follows.			
	Balance at the beginning of the year		157,508,878	134,383,355
	Add : Retiring gratuity expenses	32.1	27,548,751	26,825,923
			185,057,629	161,209,278
	Less : Benefits paid during the year		(4,040,992)	(3,700,400)
	Balance at the end of the year		181,016,637	157,508,878

Year ended 31 March 2018		2018	2017
		LKR	LKR
32.1	**Retiring Gratuity Expense**		
	Current service cost	23,667,026	21,508,880
	Interest cost	18,113,521	14,110,252
		41,780,547	35,619,132
	Actuarial (gain) / loss	(14,231,796)	(8,793,209)
		27,548,751	26,825,923

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st March 2018 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:

	2018	2017
Long term interest rate	10.15%	11.5%
Retirement age	55 years	55 years
Future salary increase rate	9.0%	10.0%

Assumptions regarding future mortality is based on 1967-70 mortality table issued by the institute of actuaries, London. The define benefit obligation is not externally funded. actuarial gain on defined benefit plan is recognised in other comprehensive income.

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis for all employees assuming the above is as follows;

Discount rate	Present value of defined benefit obligation
1% Less	193,518,802
1% More	169,935,946

Salary escalation rate	Present value of defined benefit obligation
1% Less	170,284,273
1% More	192,909,991

Year ended 31 March 2018	2018		2017
	Issued and Fully Paid Voting Ordinary Shares	Issued and Fully Paid Non Voting Ordinary Shares	Total
	Number	Number	Number
33. STATED CAPITAL			
Balance on 01 April 2016	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	-	-	-
Balance on 31 March 2017	1,421,380,624	298,200,000	1,719,580,624
Share issued during the year	-	-	-
Balance on 31 March 2018	1,421,380,624	298,200,000	1,719,580,624
	LKR	LKR	LKR
Balance on 01 April 2016	184,779,481	38,766,000	223,545,451
Share issued during the year	-	-	-
Balance on 31 March 2017	184,779,481	38,766,000	223,545,481
Share issued during the year	-	-	-
Balance on 31 March 2018	184,779,481	38,766,000	223,545,481

	2018	2017
	LKR	LKR
34. GENERAL RESERVE		
Balance at the beginning of the year	82,897,989	82,897,989
Balance at the end of the year	82,897,989	82,897,989

	Statutory Reserve Fund	Total
35. OTHER STATUTORY RESERVES		
Balance on 01 April 2016	426,752,800	426,752,800
Transferred during the year	211,766,837	211,766,837
Balance on 31 March 2017	638,519,637	638,519,637
Transferred during the year	202,356,664	202,356,664
Balance on 31 March 2018	840,876,301	840,876,301

35.1 Statutory Reserve Fund

20% of the net profits for the year is transferred to the reserve fund as required by direction (No. 01 of 2003 capital fund) issued by the central bank of Sri lanka.

36. CAPITAL COMMITMENTS

36.1 At the year end, no capital expenditure approved by the board and contracted for which no provision has been made in these Financial Statements.

		2018	2017
		LKR	LKR
36.2	**Operating Leases**		
	Leases as lessee		
	Non-cancellable operating lease rentals payables as follows.		
	Future Commitments on operating leases		
	Less than one year	49,078,122	49,343,406
	Between one and five years	100,183,157	119,950,841
	More than five years	42,412,659	35,927,801
	Total opearting lease commitments	191,673,938	205,222,047

The Company leases a number of offices under operating leases. These leases typically run for a three to seven years, with an option to renew the lease after that date.

37. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these financial statements.

38. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2018.

39. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties " in Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures. The Terms and Conditions of such transactions are disclosed under 39.1 and 39.2.

39.1 Transactions With Parent Company and Related Companies

During the year ended 31 March 2018 and March 2017, the Company has carried out transactions with it's related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

		2018 LKR	2017 LKR
39.1.1	**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	16,875,000	16,875,000
	Interest income - Savings deposits	34,912,611	43,023,335
	Interest income - Fixed deposits	95,942,181	34,760,274
	Interest expense - Other borrowings	60,982,257	24,020,871
	Other expenses - Bank Charges	4,469,863	1,164,216
	Statement of Financial Position		
	Cash And Cash Equivalents - Balances with banks	498,993,961	600,548,285
	Financial Investments - Held-To-Maturity - Fixed Deposits	300,000,000	750,000,000
	Financial Investments - Held-To-Maturity - Debentures	150,000,000	150,000,000
	Debt Issued And Other Borrowed Funds - Borrowings	399,155,676	533,743,002
	Debt Issued And Other Borrowed Funds - Finance leases	-	-

		2018 LKR	2017 LKR
	Transactions with Related Companies		
39.1.2	**Transactions with Prime Lands (Pvt) Ltd**		
	Statement of Profit or Loss		
	Other Operating Income - Rent income	547,500	-
	Interest expense - Debentures	17,000,000	17,000,000
	Fixed Deposit interest expenses	420,307	2,244,510
	Other expenses - Vehicle rent	2,100,000	2,358,790
	Statement of Financial Position		
	Debt Issued and other borrowed funds - Redeemable debentures	100,000,000	100,000,000
	Due to customers - Fixed deposits	3,360,986	3,360,986
	Debt issued and other borrowed funds - Other borrowings	-	-

		2018 LKR	2017 LKR
39.1.3	**Transactions with HNB Assurance**		
	Statement of Profit or Loss		
	Commission Income	2,126,302	8,278,958
	Interest Expense-Fixed Deposits	6,863,014	
	Claim Received	67,478,881	
	HNB Assurance Premium	7,424,998	
	Statement of Financial Position		
	Commission Receivable	-	2,089,631
	Claim Receivable	-	12,310,082
	HNB Assurance Premium	-	7,039,058
	Due to Customers -Fixed Deposits	50,000,000	-
39.1.4	**Transactions with Government of Sri Lanka**		
	Statement of Profit or Loss		
	Balance with Central Bank of Sri lanka	89,680,772	94,896,474
	Statement of Financial Position		
	Balance with Central Bank of Sri lanka	1,291,445,239	313,195,561
	Reverse Repurchase Agreements	401,627,212	386,545,841

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

According to Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Key Management personnel of the Company are the members of its Board of Directors and that of its Parent.

		2018 LKR	2017 LKR
39.2.1	**Compensation Paid To Key Management Personnel of the Company**		
	The following represents the compensation paid to Key Management Personnel of the company		
	Short-term Benefits	21,385,000	17,915,000
		21,385,000	17,915,000

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

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the 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 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.

	2018	2017
	LKR	LKR
Statement OF Profit or Loss		
Interest expense - Deposits from customers	28,729,038	18,407,200
Statement OF Financial Position		
Due to customers - Saving & Fixed deposits	205,384,579	259,696,440
Due to customers - Interest payable	13,314,937	8,594,485

40. PLEDGED ASSETS

		Carrying Amount Pledged		
Nature of Assets	Nature of Liability	2018	2017	Included under
		LKR	LKR	
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties
Leased Assets	Charged over leased assets on finance lease liabilities	-	5,958,602	Property, Plant & Equipment

41. FINANCIAL RISK MANAGEMENT

41.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

41.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

41.3 Credit Risk

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

a) Allowances for Impairment

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

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

b) Write-off Policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

Microfinance 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 2018 (2017: no collaterals held).

c) Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

2. Establishing the 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.

As at 31 March 2018	Current LKR	Overdue LKR	Impaired LKR	Total LKR
41.3.1 Credit Quality by Class of Financial Assets				
Cash and cash equivalents	905,159,755	-	-	905,159,755
Financial Assets Held for Trading	16,128,000	-	-	16,128,000
Loans and advances to members	14,921,671,857	4,512,552,758	(969,143,131)	18,465,081,484
Loans and advances to others	573,994,765	16,579,040	(10,980,695)	579,593,110
Financial investment - Loan & Receivable	773,091,682	-	(465,978,912)	307,112,770
Financial investments - Available-For-Sale	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,215,317,581	-	-	2,215,317,581
Other financial assets	90,934,128	-	-	90,934,128
Total financial assets	19,508,728,051	4,529,131,798	(1,446,102,738)	22,591,757,111

As at 31 March 2018	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	1,365,186,196	1,097,496,187	437,516,071	1,612,354,303	4,512,552,758
Loans and advances to others	-	2,911,137	2,137,819	11,530,082	16,579,040
	1,365,186,196	1,100,407,324	439,653,890	1,623,884,386	4,529,131,798

As at 31 March 2017	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,204,483,946	-	-	1,204,483,946
Financial Assets Held for Trading	15,024,960	-	-	15,024,960
Loans and advances to members	13,002,226,475	627,734,394	(369,229,044)	13,260,731,825
Loans and advances to others	502,900,627	3,723,346	(3,589,635)	503,034,338
Financial investment - Loan & Receivable	773,091,682	-	(465,978,912)	307,112,770
Financial investments - Available-For-Sale	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	1,743,275,943	-	-	1,743,275,943
Other financial assets	94,051,089	-	-	94,051,089
Total financial assets	17,347,485,005	631,457,740	(838,797,591)	17,140,145,154

As at 31 March 2017	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	353,516,352	56,101,985	37,865,032	180,251,025	627,734,394
Loans and advances to others	124,320	137,676	2,893,555	567,794	3,723,346
	353,640,672	56,239,661	40,758,587	180,818,819	631,457,740

As at 31 March 2018	Gross carrying amount (Net of provision)	Net exposure
41.3.2 Maximum Exposure Disclosure of Financial Assets		
Cash and cash equivalents	905,159,755	905,159,755
Financial Assets Held for Trading	16,128,000	-
Loans and advances to members	18,465,081,484	12,923,058,652
Loans and advances to others	579,593,110	357,794,094
Financial investment - Loans & Receivables	307,112,770	307,112,770
Financial Investments - Available-For-Sale	12,430,283	-
Financial Investments - Held-To-Maturity	2,215,317,581	-
Other financial assets	90,934,128	90,934,128
Total financial assets	22,591,757,111	14,584,059,399

As at 31 March 2017	Gross carrying amount (Net of provision)	Net exposure
Cash and cash equivalents	1,204,483,946	1,204,483,946
Financial Assets Held for Trading	15,024,960	-
Loans and advances to members	13,260,731,825	12,730,379,415
Loans and advances to others	503,034,338	310,921,094
Financial investment - Loans & Receivables	307,112,770	307,112,770
Financial Investments - Available-For-Sale	12,430,283	-
Financial Investments - Held-To-Maturity	1,743,275,943	-
Other financial assets	94,051,089	94,051,089
Total financial assets	17,140,145,154	14,646,948,314

41.4 Liquidity Risk

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

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

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

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

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

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

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

41.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below,

As at 31 March 2018	Carrying amounts	Gross nominal outflow (inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	905,159,755	905,159,755	905,159,755	-	-
Financial assets held for trading	16,128,000	16,128,000	-	-	16,128,000
Loans and advances to members	18,465,081,484	23,007,700,137	7,651,261,364	9,327,319,219	6,029,119,554
Loans and advances to others	579,593,110	737,848,137	32,338,615	126,607,670	578,901,852
Financial investment - Loans & Receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,215,317,581	2,413,725,701	934,681,991	1,244,668,710	234,375,000
Other financial assets	90,934,126	90,934,126	31,429,381	29,429,059	30,075,686
	22,591,757,109	27,585,553,350	9,554,871,105	10,794,962,527	7,235,719,718
Due to customers	18,821,363,686	23,023,876,846	3,570,572,140	7,520,606,160	11,932,698,547
Debt issued and other borrowed funds	1,178,231,116	2,864,398,390	169,422,897	142,404,718	2,552,570,776
Other Financial Liabilities	809,883,195	809,883,195	776,527,489	13,827,103	19,528,603
	20,809,477,997	26,698,158,431	4,516,522,526	7,676,837,980	14,504,797,926
Liquidity gap related period	-	887,394,919	5,038,348,580	3,118,124,546	(7,269,078,207)
Liquidity gap cumulative	-	-	5,038,348,580	8,156,473,126	887,394,919

As at 31 March 2017	Carrying amounts	Gross nominal outflow (inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year

41.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below, (contd.)

	Carrying amounts	Gross nominal outflow (inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Financial assets held for trading	15,024,960	16,250,272	-	-	16,250,272
Loans and advances to members	13,260,731,825	16,204,210,818	5,854,997,336	7,865,431,530	2,483,781,952
Loans and advances to others	503,034,338	637,552,840	31,141,644	96,314,551	510,096,645
Financial investment - Loans & Receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	1,743,275,943	1,841,046,613	964,906,849	659,379,490	216,760,274
Other financial assets	94,051,089	94,051,089	35,654,899	30,476,983	27,919,207
	17,140,145,154	20,411,653,073	8,091,184,675	8,718,540,423	3,601,927,976
Due to customers	14,040,245,231	16,477,704,512	4,556,206,198	3,852,125,900	8,069,372,415
Debt issued and other borrowed funds	1,333,380,268	2,850,570,752	12,876,279	32,425,016	2,805,269,457
Other Financial Liabilities	236,020,182	236,020,182	202,866,863	15,767,987	17,385,332
	15,609,645,681	19,564,295,446	4,771,949,340	3,900,318,902	10,892,027,203
Liquidity gap related period	-	847,357,627	3,319,235,334	4,818,221,520	(7,290,099,228)
Liquidity gap cumulative	-	-	3,319,235,334	8,137,456,855	847,357,627

41.5 Market Risk

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

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

41.5.1 Sensitivity Analysis

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

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2018
Interest earning assets					
Cash and cash equivalents	905,159,755	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	16,128,000
Financial investments - Held-To-Maturity	906,427,210	1,142,015,371	166,875,000	-	2,215,317,581
Loans and advances to members (gross)	6,637,463,440	8,041,426,897	4,733,439,108	21,895,170	19,434,224,616
Loans and advances to others (gross)	28,721,111	86,317,295	399,743,615	76,882,226	591.664,247
Financial Investments - Loans & Receivables		257,697,227	515,394,455	-	773,091,681
Total interest earning assets	8,493,899,516	9,527,456,791	5,815,452,178	98,777,396	23,935,585,880
Interest bearing liabilities					
Due to customers	3,571,939,302	6,968,577,048	8,057,748,200	223,023,140	18,821,287,690
Debt issued and other borrowed funds	154,063,377	114,074,114	245,093,606	665,000,000	1,178,231,097
Total interest bearing liabilities	3,726,002,679	7,082,651,162	8,302,841,806	888,023,140	19,999,518,787
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	4,767,896,837	2,444,805,630	(2,487,389,629)	(789,245,743)	3,936,067,094
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	47,678,968	24,448,056	(24,873,896)	(7,892,457)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(47,678,968)	(24,448,056)	24,873,896	7,892,457	-

41.5.1 Sensitivity Analysis (Contd.)

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2017
Interest earning assets					
Cash and cash equivalents	1,204,483,946	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	15,024,960
Financial investments - Held-To-Maturity	942,858,918	650,417,025	150,000,000	-	1,743,275,943
Loans and advances to members (gross)	4,967,622,864	6,738,024,795	1,920,726,034	3,358,454	13,629,732,147
Loans and advances to others (gross)	22,246,782	62,580,093	352,526,618	69,499,204	506,852,697
Financial Investments - Loans & Receivables	-	128,848,614	515,394,455	128,848,613	773,091,681
Total interest earning assets	7,152,237,470	7,579,870,527	2,938,647,107	201,706,271	17,872,461,374
Interest bearing liabilities					
Due to customers	4,328,376,113	3,561,433,334	5,975,125,470	175,115,869	14,040,050,786
Debt issued and other borrowed funds	48,550,088	121,983,413	497,846,736	665,000,000	1,333,380,237
Total interest bearing liabilities	4,376,926,202	3,683,416,747	6,472,972,206	840,115,869	15,373,431,024
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,775,311,268	3,896,453,780	(3,534,325,098)	(638,409,599)	2,499,030,350
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	27,753,113	38,964,534	(35,343,251)	(6,384,096)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(27,753,113)	(38,964,534)	35,343,251	6,384,096	-

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 March 2018	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	905,159,755	-	-	-	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	-	-	-	16,128,000
Loans and advances to members	6,240,232,701	3,574,814,196	3,988,640,624	3,058,795,212	1,581,735,334	20,863,415	-	18,465,081,482
Loans and advances to others	16,449,975	26,420,846	59,896,449	248,027,162	151,716,451	76,882,226	-	579,593,109
Financial investment - Loan & Receivable	-	51,185,462	51,185,462	102,370,923	102,370,923	-	-	307,112,770
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	906,427,210	550,693,650	591,321,721	-	166,875,000	-	-	2,215,317,581
Other assets	74,336,758	40,402,363	35,361,235	15,922,598	7,155,007	8,246,131	61,179,819	242,603,911
Investment properties	-	-	-	-	-	-	1,180,150,000	1,180,150,000
Intangible assets	-	-	-	-	-	-	131,533,753	131,533,753
Property, plant & equipment	-	-	-	-	-	-	1,158,835,158	1,158,835,158
Deferred tax assets	-	-	-	-	-	-	124,848,966	124,848,966
	8,158,934,399	4,243,516,517	4,726,405,490	3,425,115,896	2,009,852,716	105,991,772	2,668,977,979	25,338,794,768
Liabilities								
Due to customers	3,572,015,298	2,732,528,821	4,236,048,227	3,437,308,443	4,620,439,757	223,023,140	-	18,821,363,686
Debt issued and other borrowed funds	154,063,386	38,024,708	76,047,416	245,093,606	-	665,000,000	-	1,178,231,116
Income Tax payable	203,496,098	-	-	-	-	-	-	203,496,098
Value Added Tax payable	(25,379,290)	-	-	-	-	-	-	(25,379,290)
Other liabilities	816,414,520	12,451,637	1,375,466	5,035,379	847,999	2,542,023	11,103,203	849,770,227
Retiring benefit obligation	-	-	-	-	-	-	181,016,637	181,016,637
Shareholder's Fund	-	-	-	-	-	-	4,130,296,294	4,130,296,294
	4,720,610,012	2,783,005,166	4,313,473,109	3,687,437,428	4,621,287,756	890,565,163	4,322,416,134	25,338,794,768

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

As at 31 March 2017	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	1,204,483,946	-	-	-	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	-	-	-	15,024,960
Loans and advances to members	4,692,417,770	3,396,649,715	3,255,843,978	1,328,133,541	584,329,793	3,357,028	-	13,260,731,825
Loans and advances to others	18,428,423	19,520,162	43,059,931	225,679,204	126,847,415	69,499,204	-	503,034,338
Financial investment - Loan & Receivable	-	-	51,185,462	102,370,923	102,370,923	51,185,462	-	307,112,770
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	1,287,937,076	205,811,382	99,527,485	-	150,000,000	-	-	1,743,275,943
Other assets	121,858,703	36,021,779	20,442,235	27,454,658	2,532,049	2,302,150	-	210,611,574
Investment properties	-	-	-	-	-	-	1,049,600,000	1,049,600,000
Intangible assets	-	-	-	-	-	-	127,078,155	127,078,155
Property, plant & equipment	-	-	-	-	-	-	1,119,409,029	1,119,409,029
	7,340,150,878	3,658,003,039	3,470,059,091	1,683,638,326	966,080,180	126,343,843	2,308,517,467	19,552,792,824
Liabilities								
Due to customers	4,328,570,558	1,069,776,415	2,491,656,919	4,504,692,330	1,470,433,140	175,115,869	-	14,040,245,231
Debt issued and other borrowed funds	48,550,119	41,697,699	80,285,713	399,115,742	98,730,994	665,000,000	-	1,333,380,268
Income Tax payable	90,162,428	263,285,375	-	-	-	-	-	353,447,803
Value Added Tax payable	(6,263,276)	-	-	-	-	-	-	(6,263,276)
Other liabilities	226,545,070	11,655,556	12,567,987	4,472,827	1,667,185	11,245,320	-	268,153,945
Retiring benefit obligation	-	-	-	-	-	-	157,508,878	157,508,878
Shareholder's Fund	-	-	-	-	-	-	3,390,204,237	3,390,204,237
Deferred tax liability	-	-	-	-	-	-	16,115,738	16,115,738
	4,687,564,899	1,386,415,045	2,584,510,619	4,908,280,899	1,570,831,319	851,361,189	3,563,828,853	19,552,792,824

43. FAIR VALUE OF ASSETS AND LIABILITIES

43.1 Assets and Liabilities Measured at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

43.1.1 Financial Investments – Available-For-Sale

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

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

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

43.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 43.3.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

43.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 43.4.1 and 43.4.2.

43.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

43.2.1 Loans and Receivables to Customers

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

43.2.2 Financial Investments Held to Maturity

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

43.2.3 Due to customers

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

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

43.2.4 Debt securities issued

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

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2018	Fair Value through Profit and Loss	Available For Sale	Amortized cost	Total carrying amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	905,159,755	905,159,755	905,159,755	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	16,128,000	-	-	16,128,000	16,128,000	-	-
- Measured at Amortized Cost	-	-	1,275,317,239	1,275,317,239	1,275,317,239	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	773,125,342	773,125,342	773,125,342	-	-
Finance Lease Receivables	-	-	4,541,443,900	4,541,443,900	3,266,992,580	(1,274,451,320)	Level II
Advances & Other Loans	-	-	14,923,432,234	14,923,432,234	16,160,505,315	1,237,073,081	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	90,934,128	90,934,128	90,934,128	-	-
Due To Customers - Fixed deposits	-	-	16,103,374,386	16,103,374,386	16,167,925,674	64,551,288	Level II
Debt issued & Other borrowed Funds	-	-	1,172,776,895	1,172,776,895	1,173,076,473	299,578	Level II
Trade & Other Payables	-	-	809,883,196	809,883,196	809,883,196	-	-

43. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2017	Fair Value through Profit and Loss	Available For Sale	Amortized cost	Total carrying amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	15,024,960	-	-	15,024,960	15,024,960	-	-
- Measured at Amortized Cost	-	-	298,170,601	298,170,601	298,170,601	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	1,295,105,342	1,295,105,342	1,295,105,342	-	-
Finance Lease Receivables	-	-	1,704,446,462	1,704,446,462	1,717,595,462	13,149,000	Level II
Advances & Other Loans	-	-	12,621,462,914	12,621,462,914	12,704,570,044	83,107,131	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	94,021,922	94,021,922	94,021,922	-	-
Due To Customers - Fixed deposits	-	-	11,773,716,948	11,773,716,948	11,900,599,594	126,882,646	Level II
Debt issued & Other borrowed Funds	-	-	1,327,326,382	1,327,326,382	1,329,333,700	2,007,318	Level II
Trade & Other Payables	-	-	236,020,182	236,020,182	236,020,182	-	-

43. FAIR VALUATION (CONTD.)

43.4 Valuation of Non-Financial Assets

43.4.1 Changes in Value of Non-Financial Assets

As at 31 March 2018	Building	Extent	Cost/Carring Amount			Fair Value		
	Sq.ft	Perches	Land	Building	Total	Land	Building	Total
Property, Plant & Equipment								
No. 94 96/1, Kandy Rd, Kurunegala.	5755	7.05	20,350,515	66,449,485	86,800,000	21,100,765	68,899,235	90,000,000
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	22,062,259	55,937,741	78,000,000	22,147,114	56,152,886	78,300,000
No. 168, Nawala Rd , Nugegoda.	30887	25.9	143,483,594	490,116,406	633,600,000	153,243,921	523,456,079	676,700,000
			192,502,121	623,897,879	816,400,000	203,097,552	659,902,448	863,000,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	205,133,851	482,366,149	687,500,000	271,522,624	547,477,376	819,000,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,750,000	-	9,750,000
No. 44/1, Service Road, Puttalam.	Land	25.6	15,400,000	-	15,400,000	16,000,000	-	16,000,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20494	182.59	56,755,335	72,844,665	129,600,000	52,152,445	69,647,555	121,800,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5786	8	33,785,567	96,214,433	130,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	25,000,000	-	25,000,000	25,700,000	-	25,700,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	36,800,000	-	36,800,000	41,400,000	-	41,400,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	16,300,000	-	16,300,000	16,500,000	-	16,500,000
			398,174,753	651,425,247	1,049,600,000	466,810,637	713,339,363	1,180,150,000

43. FAIR VALUATION (CONTD.)

43.4 Valuation of Non-Financial Assets

43.4.1 Changes in Value of Non-Financial Assets

As at 31 March 2017	Building	Extent	Cost/Carring Amount			Fair Value		
	Sq.ft	Perches	Land	Building	Total	Land	Building	Total
Property, Plant & Equipment								
No. 94 96/1, Kandy Rd, Kurunegala.	5755	7.05	19,600,266	63,999,734	83,600,000	20,350,515	66,449,485	86,800,000
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	18,642,581	54,357,419	73,000,000	22,062,259	55,937,741	78,000,000
No. 168, Nawala Rd, Nugegoda.	30887	25.9	138,805,759	371,194,241	510,000,000	143,483,594	490,116,406	633,600,000
			183,654,358	500,945,642	684,600,000	192,502,121	623,897,879	816,400,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	156,474,658	407,525,342	564,000,000	205,133,851	482,366,149	687,500,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Rd, Puttalam.	Land	25.6	12,800,000	-	12,800,000	15,400,000	-	15,400,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20494	182.59	54,740,871	70,259,129	125,000,000	56,755,335	72,844,665	129,600,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5786	8	28,439,640	92,560,360	121,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7th Lane, Anuradapura.	Land	13.52	20,000,000	-	20,000,000	25,000,000	-	25,000,000
No. 10/11, Galle Rd, Katubedda, Moratuwa.	Land	23	34,500,000	-	34,500,000	36,800,000	-	36,800,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000	-	14,000,000	16,300,000	-	16,300,000
			329,955,169	570,344,831	900,300,000	398,174,753	651,425,247	1,049,600,000

43.4.2 Valuation Details 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	2,300,000	10000	300,000	-	-
No. 168, Nawala Rd, Nugegoda.	Income approach	4,750,000	12000	2,000,000	20%	-
Investment Properties						
No. 67/1, Mahinda Place, Kirulapone, Colombo-05.	Income Approach			450,000	20%	
No. 249, Stanly Thilakarathna Mw, Nugegogda.	Income Approach			2,496,787	20%	
No. 465/1, Old Police Station Rd, Kahathuduwa, Polgasovita.	Income Approach			452,540	20%	
No. 64, Abaya Place, Anuradapura.	Market Comparable method					1,900,000
No. 37, Vihara Mw, Matale.	Market Comparable method					650,000
No. 340, Galle Rd, Katubedda, Moratuwa.	Market Comparable method					1,800,000
No. 56, Sewa Mw, Puttalam.	Market Comparable method					625,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market Comparable method					22,700

44. SEGMENT REPORTING

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

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

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

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

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

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2016/17 and 2017/18 financial years.

44. SEGMENT REPORTING (CONTD.)

	Financial		Leasing		Others		Consolidated	
Year ended 31 March 2018	2018	2017	2018	2017	2018	2017	2018	2017
Net Interest Income	3,145,663,042	3,685,455,325	576,672,900	72,949,776	441,866,789	102,994,750	4,164,202,731	3,861,399,851
Net Fee and Commision Income	613,456,327	577,254,372	(21,400,331)	(5,430,358)	-	-	592,055,996	571,824,014
Net Gain /(Loss) from Trading	-	-	-	-	1,103,040	81,840	1,103,040	81,840
Net Gain /(Loss) from Financial Investments	-	-	-	-	-	-	-	-
Other operating income	17,781,785	61,731,214	47,935,897	-	176,725,462	175,065,249	242,443,144	236,796,463
Total Operating Income	3,776,901,154	4,324,440,911	603,208,466	67,519,418	619,695,291	278,141,839	4,999,804,911	4,670,102,168
Impairment charges for Loan & Other Losses	(599,458,832)	(241,204,462)	(85,811,100)	(324,926)	-	(465,978,912)	(685,269,932)	(707,508,300)
Net Operatig Income	3,177,442,322	4,083,236,449	517,397,366	67,194,492	619,695,291	(187,837,073)	4,314,534,979	3,962,593,868
Operating Profit/(Loss)	923,892,027	1,802,971,491	39,080,460	11,246,456	619,695,291	(187,837,073)	1,582,667,778	1,626,380,875
Income Tax Expenses	(422,972,592)	(563,753,094)	(14,096,322)	(3,793,595)	(133,815,544)	-	(570,884,458)	(567,546,689)
Profit/(Loss) for the Year	500,919,435	1,239,218,397	24,984,138	7,452,861	485,879,747	(187,837,073)	1,011,783,320	1,058,834,186
Total Assets	18,274,091,223	15,743,297,427	4,526,145,193	1,744,081,723	2,538,558,352	2,065,413,674	25,338,794,768	19,552,792,824
Total Liabilities	16,060,648,514	13,066,746,966	4,477,395,739	1,734,412,729	670,454,221	1,361,428,892	21,208,498,474	16,162,588,587

Share information

Ten largest Shareholders- Voting

No	Shareholder Name	31st March 2018		31st March 2017	
		No of shares	%	No of shares	%
1	Hatton National Bank PLC	724,904,118	51.00	724,904,118	51.00
2	Prime Lands (Private) Limited	562,391,533	39.57	562,391,533	39.57
3	DWM Funds S.C.A, SICAV-SIF	112,700,000	7.93	112,700,000	7.93
4	B.M.D.C Prabath	1,000,000	0.07	1,000,000	0.07
5	H.M.U Senevirathna	150,000	0.01	150,000	0.01
6	W.S.P Arangala	110,000	0.01	110,000	0.01
7	S.L.Y Liyanawatte	102,500	0.01	102,500	0.01
8	S.T.D Peiris	101,000	0.01	101,000	0.01
9	J.S.B Galagoda	101,000	0.01	101,000	0.01
10	W.B.A Fernando	100,500	0.01	100,500	0.01
	Sub Total	1,401,660,651	98.61	1,401,660,651	98.61
	Others	19,719,973	1.39	19,719,973	1.39
	Total	1,421,380,624	100.00	1,421,380,624	100.00

Largest Shareholders - Non Voting

No	Shareholder Name	31st March 2018		31st March 2017	
		No of shares	%	No of shares	%
1	Seylan Bank PLC	233,200,000	78.20	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67	37,772,148	12.67
3	Prime Grameen Class A Non-Voting Share Trust	27,227,852	9.13	27,227,852	9.13
	Total	298,200,000	100.00	298,200,000	100.00

Distribution of Shareholders - Voting

Shareholding Range	31st March 2018				31st March 2017			
	No of shareholders	%	No of Shares	%	No of shareholders	%	No of Shares	%
1 - 1,000	99,530	99.156	16,997,804	1.20	99,530	99.156	16,997,804	1.20
1,001 - 10,000	810	0.807	1,573,143	0.11	810	0.807	1,573,143	0.11
10,001 - 100,000	25	0.025	948,426	0.07	25	0.025	948,426	0.07
100,001 - 1,000,000	9	0.009	1,865,600	0.13	9	0.009	1,865,600	0.13
Over 1,000,000	3	0.003	399,995,651	98.50	3	0.003	399,995,651	98.50
Total	100,377	100.00	1,421,380,624	100.00	100,377	100.00	1,421,380,624	100.00

Analysis of Shareholding – Voting

Shareholding	31st March 2018			31st March 2017		
	No of shareholders	Total Holding	%	No of shareholders	Total Holding	%
Institution	3	1,399,995,651	98.50	3	1,399,995,651	98.50
Individual	100,374	21,384,973	1.50	100,374	21,384,973	1.50
Total	100,377	1,421,380,624	100.00	100,377	1,421,380,624	100.00

Branch and Service Center Details

	Location	Address	Contact Number	Email
1	Ambalangoda	No. 273, Main Street, Ambalangoda	+94 91 2258946	ambalangoda@hnbgrameen.lk
2	Ampara	No. 27, Nidahas Mawatha, Ampara.	+94 63 2224379	ampara@hnbgrameen.lk
3	Anuradhapura	No. 255, 1 st Floor, Maithreepala Senanayaka Mawatha, Anuradhapura.	+94 25 2235707	anuradhapura@hnbgrameen.lk
4	Avissawella	No. 117/B, Rathnapura Road, Avissawella.	+94 36 2235488	avissawella@hnbgrameen.lk
5	Badulla	No. 24/1/1, Anagarika Dharmapala Mawatha, Badulla.	+94 55 2222761	badulla@hnbgrameen.lk
6	Balangoda Service Center	No.25C, Weerasundararama Mawatha, Balangoda.	+94 45 2289370	balangoda@hnbgrameen.lk
7	Bandaragama	No 12/1/1, Panadura Road, Bandaragama	+94 38 2293039	bandaragama@hnbgrameen.lk
8	Bandarawela Service Center	No.130, Welimada Road, Bandarawela.	+94 57 2222623	bandarawela@hnbgrameen.lk
9	Batticoloa	No. 39/2, Central Road, Batticaloa	+94 65 2224894	batticaloa@hnbgrameen.lk
10	Beliattha	No. 51/1, Matara Road, Beliattha.	+94 47 2243456	beliatta@hnbgrameen.lk
11	Chilaw	No. G1/F1, New Shopping Complex, Court Road, Chilaw.	+94 32 2222975	chilaw@hnbgrameen.lk
12	City	No. 168, Ground Floor, Nawala Road, Nugegoda.	+94 11 2176262	city@hnbgrameen.lk
13	Dambulla	No.343,Matale Road, Dambulla	+94 66 2285050	dambulla@hnbgrameen.lk
14	Dehiattakandiya Service Center	No.05, New Town, Dehiattakandiya.	+94 27 2250511	dehiattakandiya@hnbgrameen.lk
15	Embilipitiya	No. 59, 2 nd Floor, Rathnaweera Building, Main Street, Pallegama, Embilipitiya.	+94 47 2261926	embilipitiya@hnbgrameen.lk
16	Galenbidunuwewa Service Center	No.87/62, Opposite Peoples Bank, Galenbindunuwewa.	+94 25 2258122	galenbidunuwewa@ hnbgrameen.lk
17	Galgamuwa	No. 351, Anuradhapura Road, Galgamuwa.	+94 37 2253720	galgamuwa@hnbgrameen.lk
18	Galle	No:48,Olcott Mawatha, Galle	+94 91 2227381	galle@hnbgrameen.lk
19	Gampaha	No. 57, Bauddhaloka Mawatha, Gampaha.	+94 33 2221041	gampaha@hnbgrameen.lk
20	Hambantota	No 21A, Jail Street, Hambantota	+94 47 2222456	hambantota@hnbgrameen.lk
21	Hatton Service Center	No 187 D, Dimbulla Rd, Hatton.	+94 51 2225674	hatton@hnbgrameen.lk
22	Homagama	No. 62/A, Highlevel Road, Homagama.	+94 11 2855266	homagama@hnbgrameen.lk
23	Horana	No. 187, Panadura Road, Horana.	+94 34 2265281	horana@hnbgrameen.lk
24	Ja-Ela	No. 71/1, Minuwangoda Road, Kanuwana, Ja-Ela.	+94 11 2228591	jaela@hnbgrameen.lk
25	Jaffna	No. 56/17, Stanly Road, Jaffna.	+94 21 2223758	jaffna@hnbgrameen.lk
26	Kaduwela	No. 155/2 A, Avissawella Road, Kaduwela.	+94 11 2548046	kaduwela@hnbgrameen.lk

	Location	Address	Contact Number	Email
27	Kalmunai Service Center	No.117/ A, Periyaneelawanai - 2, Main Road, Kalmunai	+94 67 2051960	kalmunai@hnbgrameen.lk
28	Kalutara	No. 427, "Sirisanda Building" Galle Road, Kalutara - North	+94 34 2235293	kalutara@hnbgrameen.lk
29	Kandy	No. 677, Wiliyam Gopallawa Mawatha, Kandy.	+94 81 2217444	kandy@hnbgrameen.lk
30	Kantale	No. 58/G, Agrabhodhi Mawatha, Kanthale	+94 26 2234801	kantale@hnbgrameen.lk
31	Kegalle	No. 290/28, Main Street, Kegalle.	+94 35 2222864	kegalle@hnbgrameen.lk
32	Kekirawa Service Center	No. 36/A, Yakalla Road, Kekirawa.	+94 25 2265226	kekirawa@hnbgrameen.lk
33	Kilinochchiya Service Center	No.08, Kanakapuran Road, Uthayanager- North, Kilinochchi	+94 21 2283566	kilinochchi@hnbgrameen.lk
34	Kuliyapitiya Service Center	No. 355, Madampe Road, Kuliyapitiya.	+94 37 2283826	kuliyapitiya@hnbgrameen.lk
35	Kurunegala	No.94, Kandy Road, Kurunegala.	+94 37 2231207	kurunegala@hnbgrameen.lk
36	Mahiyanganaya	No. 207, Padiyathala Road, Mahiyanganaya	+94 55 2257097	mahiyanganaya@hnbgrameen.lk
37	Mallavi Service Center	Thunukkai – Mankulam Road, Thunukkai, Mallavi	+94 21 2060027	mallavi@hnbgrameen.lk
38	Mannar	No. TV-5/1, Ward No.04, Aalamara Veethy, Mannar	+94 232223295	mannar@hnbgrameen.lk
39	Matale	No. 19, Kandy Road, Matale.	+94 66 2230476	matale@hnbgrameen.lk
40	Matara	No. 366/1/2, 2 nd Floor, Anagarika Dharmapala Mawatha, Pamburana, Matara.	+94 41 2234994	matara@hnbgrameen.lk
41	Mathugama	No. 141/2, 2 nd Floor, Agalawattha Road, Mathugama.	+94 34 2243990	mathugama@hnbgrameen.lk
42	Medawachchiya	No. 36, Kandy Road, Medawachchiya.	+94 25 2245270	medawachchiya@hnbgrameen.lk
43	Moneragala	No. 306, Ground Floor, Opposite District Court, Wellawaya Road, Monaragala.	+94 55 2276346	monaragala@hnbgrameen.lk
44	Moratuwa	No. 597, Galle Road, Rawathawatta, Moratuwa.	+94 11 2643553	moratuwa@hnbgrameen.lk
45	Morawaka Service Center	NO. 07, Nilwala Building, Morawaka	+94 41 2282510	morawaka@hnbgrameen.lk
46	Mullaitivu Service Center	P.W.D. Office Road, Mullaithivu.	+94 21 2290493	mullaitivu@hnbgrameen.lk
47	Nawalapitiya	No. 32/2, Ambagamuwa Road, Nawalapitiya.	+94 54 2224131	nawalapitiya@hnbgrameen.lk
48	Nedunkerni Service Center	Oddusudan Junction, Mullaitivu Road, Nedunkerni.	+94 24 2053090	nedunkeni@hnbgrameen.lk
49	Negombo	No. 349/1A/1, Main Street, Negombo.	+94 31 2228506	negombo@hnbgrameen.lk
50	Nellyadi Service Center	Jaffna Point Pedro Road, Nelliaydi, Karavveddi.	+94 21 2261084	nelliyadi@hnbgrameen.lk

Branch and Service Center Details

	Location	Address	Contact Number	Email
51	Nikaweratiya	No. 189, Puttalam Road, Nikaweratiya.	+94 37 2260955	nikaweratiya@hnbgrameen.lk
52	Nittambuwa	No.9, Colombo Kandy road, Nittambuwa	+94 33 2295664	nittambuwa@hnbgrameen.lk
53	Nochchiyagama Service Center	Near the Buddhist center, ,Thabuththegama road, Nochchiyagama	+94 25 2257023	Nochchiyagama@hnbgrameen.lk
54	Norochchole Service Center	Main Street, Kalpitiya Road, Norochchole.	+94 32 2268613	norochchole@hnbgrameen.lk
55	Nuwara Eliya	No. 05, Jayathilaka Mawatha, Nuwara-Eliya	+94 52 2223105	nuwaraeliya@hnbgrameen.lk
56	Padaviya	Bandaranayake Mawata, Parakramapura, Padaviya	+94 25 2253020	padaviya@hnbgrameen.lk
57	Pitigala Service Center	No.290/1A, Elpitiya Road, Pitigala.	+94 91 2290861	pitigala@hnbgrameen.lk
58	Polonnaruwa	No. 57/4, Batticoloa Road, Polonnaruwa.	+94 27 2226653	polonnaruwa@hnbgrameen.lk
59	Pothuvil Service Center	In front of Bus Stand, Main Street, Pothuvil.	+94 71 0292191	pothuvil@hnbgrameen.lk
60	Puttalam	No. 171/1, Kurunegala Road, Puttalam.	+94 32 2266157	puttalam@hnbgrameen.lk
61	Rathnapura	No. 434, Kadugala Watta, Rathnapura	+94 45 2230915	ratnapura@hnbgrameen.lk
62	Rikillagaskada Service Center	No.58, Ragala Road, Near the Bus Stand, Rikillagaskada.	+94 81 2365412	rikillagaskada@hnbgrameen.lk
63	Thissamaharamaya Service Center	No 28,Sausiri Buldin,pahala weediya,thissamaharama	+94 47 2238817	Thissamaharamaya@hnbgrameen.lk
64	Trincomalee	No. 124/2, Main Street, Trincomalee.	+94 26 2227732	trincomalee@hnbgrameen.lk
65	Vavuniya	No. 65A/1, 1st Cross Street, Vavuniya.	+94 24 2227377	vavuniya@hnbgrameen.lk
66	Walapane Service Center	No.98, Gammanpila Niwasa Road, Kandy Road, Walapone.	+94 52 2279050	walapane@hnbgrameen.lk
67	Wattala	No. 34/1/1, 1st Floor, Negombo Road, Wattala.	+94 11 2930704	wattala@hnbgrameen.lk
68	Welimada	No. 01/33, Boralandha Road, Welimada	+94 57 2244800	welimada@hnbgrameen.lk
69	Wennappuwa	No. 153/C, Chilaw Road, Dummaladeniya Mada, Wennappuwa.	+94 31 2262509	wennappuwa@hnbgrameen.lk
70	Head Office	No.168, Nawala Road, Nugegoda, Sri Lanka.	+94 11 217 6262	info@hnbgrameen.lk

Notes

Notes

Annual General Meeting

Notice is hereby given that the 08th Annual General Meeting of the shareholders of HNB Grameen Finance Limited will be held at the "Auditorium", Level 06, Head Office of HNB Grameen Finance Limited, No. 168, Nawala Road, Nugegoda, on this 28th day of August 2018, at 10 a.m. to conduct the following business:

AGENDA

1. Notice of Meeting.
2. To receive and consider the Report of the Board of Directors and the Statements of Accounts for the year ended 31st March 2018 together with Report of the Auditors' thereon.
3. To re-elect as a Director, Dr. Sampathawaduge Udan Hithesi Fernando who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.
4. To re-appoint as a Director , Mr. Aloysius Gerard Rajive Dissanayake who was appointed as a Director on 29th August 2017, in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008.
5. To re-appoint as a Director, Mr. Mahinda Perera who was appointed as a Director on 29th September 2017, in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008.
6. To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.
7. To authorize the Board of Directors to determine contributions to charities and other donations for the year 2018/2019.
8. To consider and if thought fit to approve the following Special Resolution for the proposed change of Name of the Company-

The Directors of the Company recommends to change the name of the Company from 'HNB Grameen Finance Limited' to 'HNB Finance Limited', considering the diversification of its product portfolio from Micro Finance to other sectors and considering the necessity for the Company to be perceived as a fully-fledged Finance Company at the time of listing of shares of the Company in the Colombo Stock Exchange and on approval being received from the Dept. of the Registrar of Companies and the Central Bank of Sri Lanka, to change the name of the Company from "HNB Grameen Finance Limited" to "HNB Finance Limited";

IT IS HEREBY RESOLVED AS A SPECIAL RESOLUTION THAT:

"The name of the Company be hereby changed from 'HNB Grameen Finance Limited' to 'HNB Finance Limited'".

BY ORDER OF THE BOARD OF DIRECTORS OF
HNB GRAMEEN FINANCE LIMITED

S S P CORPORATE SERVICES (PRIVATE) LIMITED
SECRETARIES

Colombo, Sri Lanka.
3rd August, 2018.

Notes:

1. A shareholder entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote his/her behalf.
2. A proxy so appointed need not be a member of the company.
3. A form of proxy accompanies this notice.

Form of Proxy

I/We*...(please indicate full name) bearing

NIC No..of .... being a member/*members

of HNB Grameen Finance Limited hereby appoint:

Mr/Ms .... (please indicate full name) bearing

NIC No. ....of .... or failing him/her

Mr. B M D C Prabhath	of Colombo or failing him
Mr. B Premalal	of Colombo or failing him
Ms. L L C C Thambiah	of Colombo or failing her
Mr. A J Alles	of Colombo or failing him
Ms. M A R C Cooray	of Colombo or failing her
Mr. A S Wijesinha	of Colombo or failing him
Dr. S U H Fernando	of Colombo or failing him
Mr. P A H D Wijesundara	of Colombo or failing him
Mr. A G R Dissanayake	of Colombo or failing him
Mr. M Perera	of Colombo

as my/*our Proxy to represent me/*us and to vote as indicated below on my/*our behalf at the Annual General Meeting of the Company to be held on the 28th August 2018 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

	For	Against
(1) To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2018 together with the Report of the Auditors thereon.		
(2) To re-elect as a Director, Dr. Sampathawaduge Udan Hithesi Fernando who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.		
(3) To re-elect as a Director, Mr. Aloysius Gerard Rajive Dissanayake who was appointed as a Director on 29th August 2017, in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008.		
(4) To re-elect as a Director, Mr. Mahinda Perera who was appointed as a Director on 29th September 2017, in terms of Finance Companies (Corporate Governance) Direction No.03 of 2008		
(5) To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.		
(6) To authorize the Board of Directors to determine contributions to charities and other donations for the year 2018/19.		
(7) To consider and if thought fit to approve Special Resolution for the proposed change of Name of the Company.		

As witness my/our hand set hereto this .... day of .... Two Thousand and Eighteen.

....

Signature

Note:
Instructions as to completion are given below. Please delete the inappropriate words, and mark ‘X’ in the appropriate cages to indicate your instructions as to voting.

A proxy need not be a member of the Company.

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, your instructions as to voting, by signing in the space provided and filling in the date of signature.

2. Please indicate with a ‘X’ in the cages provided how your proxy is to vote on the Resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.

2. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 168, Nawala Road, Nugegoda, not less than 48 hours before the time appointed for holding the meeting.

4. If the form of proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration. If such power of attorney has not already been registered with the Company.

Corporate Information

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

Nature of Business
Acceptance of Fixed Deposits and Savings Accounts; provision of Micro Finance Loans; Finance Leasing, Business Loans,Housing Loans & other 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 Registration No.
134008555-7000

SVAR Registration No.
SVAT007287

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

Registered Office & Principal Place of Business
HNB Grameen Finance Limited
No. 168, Nawala Road,
Nugegoda,
Sri Lanka.
Tel: +94 11 2176262
Fax: +94 11 2176263
Email: info@hnbgrameen.lk
Website: www.hnbgrameen.lk

Outlets
Branches- 48
Service Centers-21

Company Secretaries
SSP Corporate Services (Pvt) Ltd,
101, Inner Flower Road,
Colombo 03,
Sri, Lanka.
Tel: +94 11 2573894
Fax: +94 11 2573609
Email: sspsec@sltnet.lk

External Auditors
Ernst & Young
Chartered Accountants
201, De Saram Place,
Colombo 10,
Sri Lanka.
Tel: +94 112 463500

Internal Auditors
KPMG Sri Lanka
No. 32A,
Sir Mohamed Macan Markar Mawatha,
Colombo, Sri Lanka.
Tel: +94 11 5426426

Credit Rating Agency
'A (lka)' Outlook Stable
Fitch Ratings Lanka Ltd.
No. 15-04, East Tower,
World Trade Centre,
Colombo 01,
Sri Lanka.
Tel: +94 11 2541900
Fax: +94 11 2541903

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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