

POWERING AHEAD

HNB | FINANCE

HNB FINANCE LIMITED | ANNUAL REPORT 2018/19

POWERING AHEAD

It was a year in which we invested significantly in progressive change and reaped the results.

Our brand, as well as our main focus, took a strategic turn this year as we transformed from HNB Grameen to HNB Finance; a name that is more indicative of our path in the future. Backed by our strong parent company and permeated with its values and service ethics, we are excited for the new roads that lie ahead of us.

This new shift has re-energised and revolutionised every aspect of the business, from streamlined processes and workflow, to exceedingly efficient people management, introducing new products to a highly-researched target market and making a significant impact through rebranding as well as investments in technology and innovation.

A metamorphosis of epic proportions, we are powering ahead to take the financial industry by storm.

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POWERING AHEAD WITH A NEW IDENTITY

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About our Annual Report

Report Profile

This integrated annual report has been prepared with the aim of providing material information to any stakeholder who wishes to make an informed assessment of the Company's ability to maximise the value shared with customers, employees and the broader community.

Scope, Materiality and Reporting Frameworks

This report provides a comprehensive review of the strategy and business model, risks and opportunities and governance aspects of HNB Finance Ltd (HNBFI), for the financial year ended 31st March 2019.

Taking an integrated approach, the 2018/19 Annual Report aims to highlight HNBFI's contribution to our various stakeholders by providing both financial and non-financial information.

Materiality

The materiality analysis provides insight into the choices that have been made in developing the content shown in the Annual Report. This is illustrated in a materiality matrix, which shows the topics that have substantial impact on stakeholders and on the Company. Information on the process of determining materiality and the boundaries of the topics are provided on page 39 of this report.

Key Frameworks, Guidelines, Policies and Compliance

Financial Reporting	☛	Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs)
	☛	Sri Lanka Accounting Standards (LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka
	☛	Companies Act No. 07 of 2007
	☛	Finance Business Act No. 42 of 2011
	☛	Finance Leasing Act No. 56 of 2000
	☛	Direction, rules, determination, notices and guidelines issued by Central Bank of Sri Lanka applicable to licensed finance companies
	☛	Inland Revenue Act No. 24 of 2017 (as amended)
Sustainability Reporting	☛	Global Reporting Initiative (GRI)
	☛	UNGC Principles and Sustainable Development Goals
	☛	International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework
	☛	"A Preparer's Guide to Integrated Corporate Reporting", published by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
Corporate Governance and Risk Management	☛	Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Central Bank of Sri Lanka
	☛	Direction, rules, determination, notices and guidelines issued by the Central Bank of Sri Lanka applicable to licensed finance companies
Assurance	☛	Sri Lanka Auditing Standards (SLAuSs)
	☛	Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka

Assurance

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

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

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

The Company's external auditors; Ernst & Young have provided an independent assurance regarding HNBFI's financial statements for the year ending 31st March 2019. This report is shown on page 126.

Forward-Looking Statements

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

Feedback and Queries

Any feedback and/or queries regarding this annual report should be directed to;

W. S. P. Arangala
Chief Operating Officer
HNB Finance Ltd.
No. 168, Nawala Road, Nugegoda
arangala@hnbfinance.lk

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

About HNB Finance



Fitch Rating
'A (Ika)'

19 Years of Excellence



Awards 2018/19

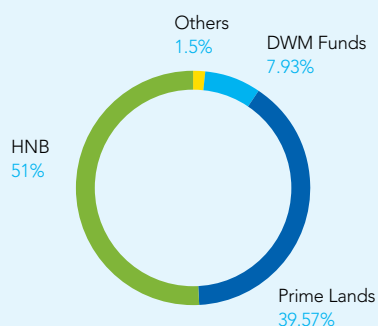
- Listed as one of 25 Great Place to Work Sri Lanka and Silver award under the Extra Large category 2018
- National Business Excellence Award 2018
- Asia's 25 Best Workplaces 2019



Income

Rs. 8,292 Mn

Shareholding Structure (%)



About us



CRIB Rating
A++



GIIRS Rating
"Platinum" for the second consecutive year



Branches and Service Centres

48 Branches
21 Service Centres



Customers
480,000



New Products
Divi Saru
Gold Loans



Employees
1,961

Business Segments



Microfinance

Diriya, Sahana, Divi Saru



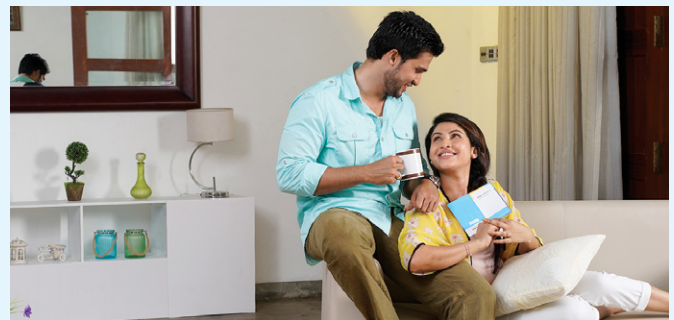
Small-Scale Enterprise

Easy, Abilasha, Swashakthi



Small and Medium-Sized Enterprise

Saviya, Relax, Nivahana



Savings

Miyulasi, Yalu, General Savings



Leasing



Gold Loans

Milestones

1999

- ⌚ Launched as a limited liability company with the objective of offering Microfinancing facilities

2012

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

2009

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

2000

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

2010

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

2008

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

2011

- ⌚ Prime Lands Group acquired ownership of the Company and paved 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.

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 was renamed as HNB Grameen Finance Ltd.

- 🔌 Diversified the portfolio with the launch of three new products Abilasha, Easy and Swashakthi loans to cater to a new segment of Small-Scale Enterprises

2017

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

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 and Saviya loan schemes for Small and Medium Enterprises

2018

- 🔌 Reached an asset base of Rs. 25 Bn as at 31st March 2018
- 🔌 Re-branded from HNB Grameen Finance to HNB Finance Ltd.
- 🔌 Introduced two new products to the market - Gold Loans and Divi Saru
- 🔌 Runner-up at the National Business Excellence Award 2018 under Non-Banking and Financial Services sector
- 🔌 HNBG was amongst the "25 Great Places to Work in Sri Lanka" for the second consecutive year and was also awarded Silver under the Extra Large category

2019

- 🔌 HNBF has been awarded "Best Workplaces in Asia 2019"
- 🔌 Savings Deposit reached Rs. 3 Bn

Board of Directors



Left to Right

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

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

Mrs. Crysanthi Thambiah - Executive Director (Resigned w.e.f. 31st May 2019)

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



Left to Right

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

Mrs. Rose Cooray - Non-Independent Non-Executive Director (Resigned w.e.f. 23rd May 2019)

Dr. Udan Fernando - Independent Non-Executive Director

Mr. Hasitha Wijesundara - Independent Non-Executive Director

Mr. Anushka Wijesinha - Independent Non-Executive Director

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

Board of Directors

Mr. Jonathan Alles

Chairman

Non-Independent Non-Executive Director

Mr. Jonathan Alles was appointed as the Chairman of HNB Finance Ltd. in the year 2014. He also holds the position of Managing Director/Chief Executive Officer of Hatton National Bank PLC and counts over 32 years of banking experience having served several international banks including HSBC (Dubai), Saudi British Bank (Riyadh), HSBC (Sri Lanka) and National Bank (Abu Dhabi).

Mr. Alles is also the Chairman of Acuity Partners (Pvt) Ltd. and is the immediate past Chairman/Director of Lanka Financial Services Bureau Ltd, Lanka Ventures PLC and LVL Energy Fund. 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 is the Vice Chairman of the Banking, Financial and Insurance Services Group of the Employers' Federation of Ceylon and also is a Member of the Main Committee of the Ceylon Chamber of Commerce and the Sri Lanka Institute of Directors. Mr. Alles was recently appointed as Chairman of Asian Bankers Association for the period 2018-2020. He is a former member of the Advisory Committee of Sri Lanka Business and Biodiversity Platform.

Mr. Premalal Brahmanage

Deputy Chairman

Non-Independent Non-Executive Director

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

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

He was conferred with the prestigious UCD Entrepreneur of the Year in 2011 considering his vast experience in the real estate industry and exposure to many other industries as an entrepreneur. Mr. Brahmanage was honoured

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

Mr. B. M. D. C. Prabhath

Managing Director/CEO

Executive Director

Mr. Chaminda 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 a Member of the Chartered Institute of Marketing (MCIM) and an Associate Member of the Chartered Institute of Management Accountants [ACMA (UK), CGMA]. 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

(Resigned w.e.f. 31st May 2019)

Mrs. Crysanthi Thambiah is a veteran banker with 45 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 Finance Ltd. as an Independent Director in 2013. Thereafter, she was appointed as a Senior Director of the Company at the end 2014 and as an Executive Director in March 2016.

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

Mrs. Rose Cooray

Non-Independent Non-Executive Director

(Resigned w.e.f. 23rd May 2019)

Mrs. Rose Cooray is the Chairperson of HNB Assurance PLC, HNB General Insurance 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 Finance Ltd. and Guardian Group of Companies. 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 the past 10 years. After her retirement from the Central Bank, she served the Hatton National Bank as a Director on the Board for nine years and retired in February, 2019.

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., the Export Development Board, and the National Housing Development Authority.

Mrs. Cooray has extensive experience in policy making and implementing projects and

programmes 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.

Mr. Anushka Wijesinha

Independent Non-Executive Director

Mr. Anushka 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 an 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 previous 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 Bachelor's in Economics from the University College London, UK.

Dr. Udan Fernando

Independent Non-Executive Director

Dr. Udan Fernando is the Executive Director of Centre for Poverty Analysis (CEPA), a Colombo-based Think Tank. He has also held leadership positions in the Sri Lankan

development organisations and also served as a Guest Researcher at University of Amsterdam, Senior Consultant of Context International, Netherlands. Dr. Fernando, who focuses on areas of development cooperation and aid policy, has worked in Sri Lanka, Europe, East and West Africa and South East Asia. Dr. Fernando is also a visiting academic at the Open University of Sri Lanka. He holds a PhD in International Development Cooperation from the University of Amsterdam. His specialisation at Bachelor's and Master's level has been Law, Economics, Management and Labour Studies.

Mr. Rajive Dissanayake

Non-Independent Non-Executive Director

Mr. Rajive Dissanayake counts nearly two decades of experience covering banking sector and capital markets. He currently serves as the Chief Strategy Officer of Hatton National Bank PLC. In addition to being on the Board of HNB Finance Ltd., Mr. Dissanayake is also a Director of Acuity Partners (Pvt) Ltd. He chairs the Board Audit Committee and is also a member of Strategy & Investment Review Committee of the Company.

Mr. Dissanayake is a CFA Charter holder, a Fellow Member of the Chartered Institute of Management Accountants (UK) and a Chartered Global Management Accountant. He also holds a Bachelor's degree in Business Administration from the University of Colombo.

Mr. Hasitha Wijesundara

Independent Non-Executive Director

Mr. Hasitha Wijesundara is an Advisor to GIZ SME Sector Development Programme. He is a development expert attached to German Development Cooperation (GIZ) and counts over a decade of experience in microfinance and SME finance, 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's degree in Law and Bachelor's degree in Science. He also has fellowships with several local and international professional bodies. He is an Attorney-at-Law of the Supreme Court of Sri

Lanka since 2009 and is currently reading for the Master of Laws degree at the University of Colombo. Mr. Wijesundara is an accredited trainer of microfinance and SME finance with reputed 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 Programme (SREGIP) in Indonesia and the Promotion of Green Economic Development (ProGED) Programme in the Philippines, he contributed to the project design and shaping up. He is conversant with the financial systems in India, Bangladesh, Myanmar, Cambodia, Malaysia and Pakistan and involved in numerous assignments.

Mr. Mahinda Perera

Non-Independent Non-Executive Director

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

He is a qualified Management Accountant [FCMA (UK), CGMA] and has an MBA from the Postgraduate Institute of Management, Sri Jayewardenepura University, and counts over 25 years of professional experience in the commercial sector as a Director/Chief Executive Officer of listed and unlisted companies before he moved into the legal field. At present, Mr. Perera is an Independent Director of Prime Finance PLC. He was appointed to the Board in September 2017.

Corporate Management



Left to Right

W. S. P. Arangala - Chief Operating Officer | B. M. D. C. Prabhath - Managing Director/CEO | L. L. C. C. Thambiah - Executive Director



Left to Right

B. S. Seneviratne - Deputy General Manager - Liability Sales, Fixed Deposits | W. B. A. Fernando - Deputy General Manager - Branch Network | S. A. R. Fernando - Deputy General Manager - HR & Administration/CHRO | R. M. P. Dayawansa - Deputy General Manager - SME & Leasing



Left to Right

M. P. S. Cooray - Assistant General Manager - Branch Network | R. K. M. Priyanga - Assistant General Manager - Branch Network |
R. M. Mahindathissa - Assistant General Manager - Branch Network | K. D. D. Prabath - Assistant General Manager - Branch Network



Left to Right

Pradeepa Dias - Assistant General Manager - ICT/CIO | J. M. R. Fonseka - Assistant General Manager - Compliance | Bhanu Wijayaratne - Assistant General
Manager - Risk

Corporate Management



Left to Right

Luxman Eray - Head of Small Scale Enterprises | D. M. K. Munasinghe - Head of Business Systems & Development | H. D. S. C. Gunasekara - Chief Accountant | Harshana Prasad Kulathilaka - Head of Corporate Planning | Anura Udawatta - Head of Training



Left to Right

Sujith Kumara - Chief Manager Recoveries | Chamara Tharanga - Chief Manager Legal | Lakshman Ranasinghe - Chief Manager Gold Loans | Dammike Dissanayake - Chief Manager SME & Personal Loans

POWERING AHEAD WITH A BROADER VISION

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Financial Highlights

Financial Performance

Income

8,292 2018/19
Rs. Mn 11%

7,483 2017/18
Rs. Mn

Total Operating Expenses

2,728 2018/19
Rs. Mn 20%

2,276 2017/18
Rs. Mn

Net Fee and Commission Income

625 2018/19
Rs. Mn 8%

581 2017/18
Rs. Mn

Taxes (VAT, NBT & DRL)

935 2018/19
Rs. Mn -8%

1,015 2017/18
Rs. Mn

Net Interest Income

4,427 2018/19
Rs. Mn 6%

4,164 2017/18
Rs. Mn

Net Profit Before Tax

1,766 2018/19
Rs. Mn -13%

2,027 2017/18
Rs. Mn

Total Operating Income

5,337 2018/19
Rs. Mn 7%

4,989 2017/18
Rs. Mn

Net Profit After Tax

831 2018/19
Rs. Mn -18%

1,012 2017/18
Rs. Mn

Financial Position

Shareholders' Funds

4,629 2018/19
Rs. Mn 12%

4,130 2017/18
Rs. Mn

Lending Portfolio

25,471 2018/19
Rs. Mn 34%

19,045 2017/18
Rs. Mn

Lease and Hire Purchases

8,073 2018/19
Rs. Mn 81%

4,455 2017/18
Rs. Mn

Total Assets

32,929 2018/19
Rs. Mn 30%

25,339 2017/18
Rs. Mn

Deposits from Customers

22,632 2018/19
Rs. Mn 20%

18,821 2017/18
Rs. Mn

Fixed Deposits

19,669 2018/19
Rs. Mn 22%

16,103 2017/18
Rs. Mn

Savings

2,964 2018/19
Rs. Mn 9%

2,718 2017/18
Rs. Mn

Total Liabilities

28,300 2018/19
Rs. Mn 33%

21,208 2017/18
Rs. Mn

Ratios

Return on Assets

2.85 2018/19
%

4.51 2017/18
%

Return on Equity

18.96 2018/19
%

26.91 2017/18
%

Cost to Income

51.12 2018/19
%

46.76 2017/18
%

Net Interest Margin

17.35 2018/19
%

21.42 2017/18
%

Core Capital to Risk Weighted Assets (Tier 1)

8.35 2018/19
%

15.71 2017/18
%

Earnings per Share

0.48 2018/19
Rs.

0.59 2017/18
Rs.

Total Risk Weighted Capital (Tier I & II)

10.10 2018/19
%

15.63 2017/18
%

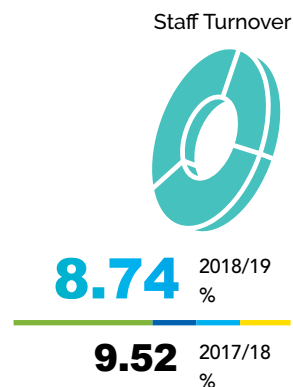
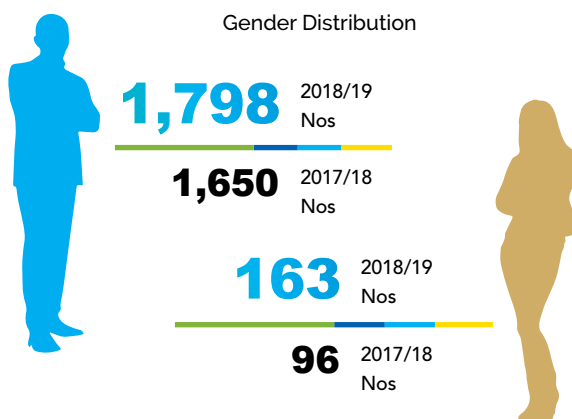
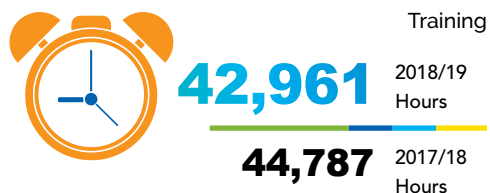
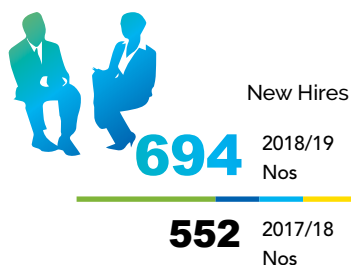
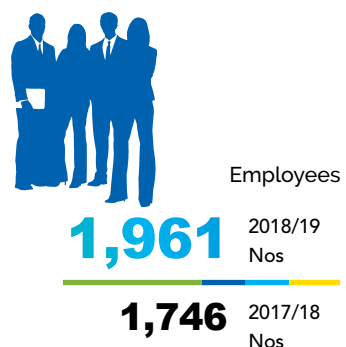
Non-Performing Accommodations (NPA)

8.85 2018/19
%

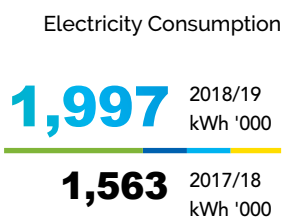
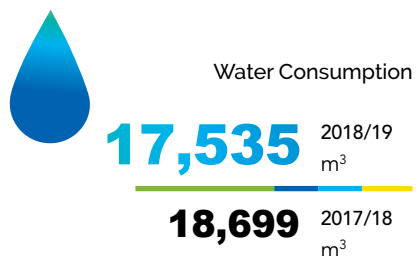
3.79 2017/18
%

Non-Financial Highlights

Human Capital



Intellectual and Natural Capital



Manufactured Capital



Total Branches and Service Centres

69 2018/19
Nos

69 2017/18
Nos



Property, Plant and Equipment

1,420 2018/19
Rs. Mn

1,150 2017/18
Rs. Mn



Leasing Units

30 2018/19
Nos

20 2017/18
Nos



Meeting Centres

10,750 2018/19
Nos

9,800 2017/18
Nos

Social and Relationship Capital



Women Empowered

217,246 2018/19
Nos

213,425 2017/18
Nos



Total Loans Disbursed

30 2018/19
Rs. Bn

26 2017/18
Rs. Bn



Customer Trainings

11,170 2018/19
Hours

15,947 2017/18
Hours



Investments in CSR

2,421 2018/19
Rs.'000

2,007 2017/18
Rs.'000



Houses Built

01 2018/19
Nos

02 2017/18
Nos

Chairman's Message



Jonathan Alles
Chairman

www.hnbfinance.lk/about-us/board-of-directors/



Dear Stakeholders,

I take pleasure in presenting to you the Annual Report and Financial Statements as at 31st March 2019.

Reflecting back on the past year, I must admit it has been one of the most challenging times for our country in recent. GDP growth slipped to 3.2% amidst a deceleration in industrial activities, low domestic consumption levels and from the poor performance in the agriculture sector over the past two years. To add to this, the trade gap continued to widen and surpassed US\$ 10 billion for the first time as imports yet again outpaced exports. The situation was further exacerbated following the depreciation of the Sri Lankan Rupee against the US dollar by nearly 16.4% in 2018. In the political front, the upheaval in October 2018 proved to have far reaching consequences for the country. Investor confidence took a hit as did the tourism industry and the country's sovereign rating was downgraded by three major international rating agencies. The IMF bailout programme was also suspended.

Notwithstanding the challenging external environment, the financial services sector tabled a moderate performance, albeit growth being low compared to previous years. This was despite negative headwinds experienced in the form of high interest rates, extreme weather conditions and severe debt collection difficulties encountered by construction and other

industries that caused a deterioration in asset quality. It is quite disconcerting to see that the unethical behaviour of some players continue to sully the good name of the industry. Personally I believe the only way to resolve the issue is for the authorities to introduce specific regulatory controls to maintain greater standardisation that would ensure a level playing field and create a firm foundation to take the industry forward.

Moving on to the Company performance for the year under review, I wish to announce that despite the challenges faced by the Company and industry, HNB Finance Ltd. (HNBF) secured a profit of Rs. 831 Mn. for the year ending 31st March 2019.

A new Vision

I believe our performance is the result of sound business strategies that have supported HNBF's measured migration from being a purely Microfinance organisation towards the positioning a fully fledged financial services institution, a process that we began in 2015. You may perhaps recollect the fact being highlighted in my previous year's statement as well.

Having tested the market in the intervening years through various approaches aimed at making inroads into the Small Scale Enterprises (SSE) and Small and Medium Scale Enterprises (SME), we felt it was

Quick Snap

Economic Situation

- ⚡ GDP growth reduced to 3.2% amidst deceleration in industrial activities, consumption levels and the poor performance in the agricultural sector.
- ⚡ High interest rates, adverse weather conditions, debt collection difficulties led to a low performance in the financial sector compared to the last year.

New Vision, Governance and Stewardship

- ⚡ Re-branding exercise to position as a fully fledged financial services institution.
- ⚡ Strong risk management and governance structure backed by strong board sub committees.

Powering Ahead

- ⚡ Gain further traction in SSE and SME markets while solidifying our position in existing markets.
- ⚡ Focus on technology-driven innovations and build a dynamic team that embodies the HNBF promise of excellence.

Powering Ahead to shape our Company into a fully fledged financial service organisation

"I believe our performance is the result of sound business strategies that have supported HNBF's measured migration from being a purely Microfinance organisation towards the positioning a fully fledged financial services institution, a process that we began in 2015."



Chairman's Message

" HNB has progressed remarkably in its journey and, I eagerly look forward to the future. I believe the next few years will be an exciting time for HNB as we continue to implement a transformational new business strategy. "

now time to firm up our position as a fully fledged financial services institution which was spearheaded by a massive re-branding exercise to formally position our Company as HNB Finance Ltd. In reinventing ourselves as HNB we are seeking to go beyond a mere superficial change and rethink the way we work, essentially seeking a new business blueprint that would project the Company as a benchmark financial services organisation with the capability to meet the needs of the entire gamut of customers in Sri Lanka.

As a first step, we sought the services of an external consultant to do a deep dive into our existing processes and help us map our next moves. Stemming from this, a strategic plan was drawn up outlining the seven strategic pillars that would underpin our growth journey over the next three to five years. We expect these strategic pillars to underscore the direction we will take regarding new business opportunities, products and client segments, digitalisation, alternate channels and process re-engineering; as well as addressing asset quality, and strengthening risk and governance frameworks, and most importantly building a strong team who can bring to life HNB's vision "To be the recognised leader in providing innovative, technology-driven financial solutions with a human touch for all".

While it is obvious that this process would have a profound impact across

our business, I would like to state with absolute certainty that through it all, we will remain firmly anchored to HNB's core values which are further strengthened by our connection to our parent company – Hatton National Bank PLC.

Governance and Stewardship

Over the years, I have seen a great deal of change in the corporate governance landscape and a significant increase in legislation and regulation. The Company's apex body, the HNB's Board in collaboration with the respective Board-appointed sub committees, continue to provide direction and oversight to assist in the interpretation and adoption of these changes across the business. In the year under review, the Board and the Board Audit Committee devoted a considerable amount of time to manage the complex process of implementing the new SLFRS 09 Standards for the reporting of Financial Instruments.

Meanwhile, the Board and I, together with the Board Integrated Risk Management Committee also made several important decisions to comply with the Financial Customer Protection Framework introduced by the CBSL in early 2018 which states minimum standards for customer protection in the areas of disclosure and transparency, financial education and awareness, responsible business conduct, complaint handling and redress, equitable and fair treatment and protection of customer data and privacy.

Another key area of focus was the adoption of the new Capital Adequacy Framework for Licensed Finance Companies issued by the CBSL in June 2018. Extensive discussions were held between the Board, the Board Integrated Risk Committee and the Asset and Liability Committee to determine a suitable course of action to address the risk factors involved in adopting the minimum capital adequacy ratio.

Some new structural changes were also made to further strengthen HNB's Governance Framework. The Nominations / Human Resource Committee was split and set up as two independent committees with effect from 10th December 2018. Mr. Hasitha Wijesundera was appointed to Chair the Human Resources and Remuneration Committee and Mr. Udan Fernando as the Chair of the Nominations Committee. Mr. Rajive Dissanayake was appointed as the Chair of the Integrated Risk Management Committee w.e.f. 30th May 2019.

Powering Ahead

HNB has progressed remarkably in its journey and, I eagerly look forward to the future. I believe the next few years will be an exciting time for HNB as we continue to implement a transformational business strategy.

Powering Ahead to shape our Company into a fully fledged financial services organisation we will extensively focus on opportunities to gain further traction in new markets such as the SSE and SME segments, while solidifying our position in existing stronghold markets. To drive our ambitions, we will seek to leverage on technology-driven innovations and build a dynamic team that embodies the HNB promise of excellence. It goes without saying that a solid capital position and healthy balance sheet will be critical and

will be the key underpinning factors that will define our ability to generate and sustain value for the benefit of all our stakeholders in the years to come.

Appreciations

I would like to express my sincere appreciation to my colleagues on the Board for their unstinted support extended to me at all times. Mrs. Rose Cooray and Mrs. Crysanthi Thambiah retired from their services, and I wish to place on record my gratitude for their invaluable support. I take this opportunity to thank the Managing Director, the Management and all Employees for their loyalty and dedication towards delivering results as well as the enthusiasm shown towards our strategic transformation agenda.

My grateful thanks also to the officials at the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, for their valuable support.

In closing, I wish to thank the shareholders and all other stakeholders of HNB Finance for their trust and confidence. I humbly request you to stay with us and share in our journey as we power ahead with renewed focus and a new vision.



Jonathan Alles
Chairman

11 July 2019

Managing Director's Review



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

www.hnbfinance.lk/about-us/board-of-directors/

Dear Stakeholder,

Welcome to our third Integrated Annual report.

This has been an important year for the Company as we powered ahead to reach out new customers in line with our mission "To provide customer centric, well diversified products and services, responsibly and sustainably, while creating stakeholder value through our passionate team".

To lay the foundation for this new journey, we felt it was important to revise our name and branding to make it more relevant to the new customer segments that we are seeking to reach. Our new identity as HNB

Finance, we believe captures the essence of what we now are - a fully fledged financial services institution with the capacity to cater to the mainstream market. I see this change is a timely move that would help the Company to evolve in response to the challenges in the increasingly complex operating environment. Let me recap the progress we have made in the year under review, which will give you a better idea on how HNBF is gradually transforming into a fully fledged financial services institution.

Seeking New Markets

Our main priority for the year was to deepen the penetration into the Small Scale Enterprises (SSE) and the Small

and Medium Scale Enterprises (SME) segments, which we see as the natural next step in increasing our bandwidth in the NBFI sector. Leveraging on our extensive portfolio of products designed specifically for each target segment, we worked doubly hard throughout the year to promote both HNBF's lending and savings propositions.

I am pleased to see that in the SSE market our Abilasha lending product continues to gain traction as does Swashakthi, a savings-based loan product. Both products are designed in varying degrees to cater to the SSE market, which has enabled us to broaden our reach across the segment.

Quick Snap

Our New Identity

- Our new identity as HNB Finance Ltd., a fully fledged financial services institution with the capacity to cater to the mainline market.

Seeking out New Markets

- Deepen the penetration into the SSE and SME segments.
- Microfinance operation came under pressure due to several factors.
- Launch of new products; Divi Saru and Gold Loans.

Consolidating Our Footprint

- Focus mainly on increasing the ground presence in key hub towns and cities.

Improving Operational Efficiencies

- A deep dive into our existing process architecture.

Strengthening Our Team

- Expanded our hiring model.
- Great Place to Work 2018.
- Asia's Best Workplaces 2019.

Investing in Technology

- Series of strategic investments to strengthen our core IT systems infrastructure across multiple aspects of our business.

Commitment to the UN SDGs

- We are in a position to make significant contributions to the SDGs through our core business model.

Financial Results

- Interest income Rs. 7,229 Mn.
- Profit after tax Rs. 831 Mn.
- The change in the accounting standard to SLFRS 09.
- Growth in Loan book and Asset base.
- Interest income and revenue grew by 11% whilst NII grew by 6%.

Awards and Accolades

- Runner-up at the National Business Excellence Award 2018.

Outlook for the Future

- I believe HNBF is now geared to embark on the next phase of its growth journey where we will continue to focus on helping small businesses to grow and thrive while assisting individuals to invest for the future.

We are excited for the new roads that lie ahead of us

"Our main priority for the year was to deepen the penetration into the SSE and the SME segments, which we see as the natural next step in increasing our bandwidth in the NBFIs sector."



Managing Director's Review

"We did however begin putting in place the building blocks to support these ambitious plans. We commissioned a leading business process reengineering expert to take a deep dive into our existing process architecture and recommend necessary improvements to drive front end operational efficiencies across our branch operations. "

Our product range for the SME segment – the Saviya business loan scheme, the Relax loan, and Nivahana a mortgage-backed housing loan proposition, also gained ground. To further augment our sales efforts in the SME segment, we took steps to increase our island wide field force by 150%.

In the Microfinance segment which has been our core business since inception, our group-loan based Diriya and Sahana products continue to make a significant contribution in developing the country's micro entrepreneurs. However, in the year under review, HNBF's Microfinance operation came under pressure due to several factors, most significantly, the economic slowdown and downturn in the agriculture sector caused by prolonged bad weather which together led to a sharp increase in NPLs. NPLs further increased following the Government announcement of a debt relief scheme to write off Microfinance loans granted to customers in 12 drought-hit districts. To add to this, the introduction of a interest rate CAP in December 2018 for Microfinance loans proved to be a severe blow to our efforts to canvass new business. Amidst mounting challenges, we focused more on recoveries and took a prudent approach to Microfinance lending, and began pursuing lending opportunities only on a selective basis. To support these efforts, we launched Divi Saru in late 2018. Divi Saru is a hybrid product designed for long-standing

Diriya customers who have built up stable credit profile to upgrade to an individual loan based on the strength of their own creditworthiness. We see it as a transitional product to assist Microfinance customers to expand their horizons and migrate to the SSE or SME segments. Moreover, as Divi Saru gains traction in the market, we expect it would help HNBF to gradually reduce the dependency on the group loan-based products.

Signalling our intention to further increase our presence in the NBFI sector, we made a well timed entry into the Gold Loan market in late 2018. I must admit that the timing was near perfect. Breaking into the market when world gold prices were on the rise provided an excellent opportunity to cement our position in this domain.

Meanwhile with our mainstream leasing business under stress due to the ongoing Loan To Value (LTV) pressure, higher vehicle imports duties and a sharp depreciation of the rupee, we took a strategic decision to temporarily curtail financing high risk asset categories and instead focus on promoting lower risk asset categories, mainly commercial vehicles where the LTV regulations and duty structures were not so severe. Furthermore, with the leasing segment also affected by the external macroeconomic environment, we tightened our recovery protocols in a bid to minimise NPLs.

In parallel to the focus on lending activities, we stepped up the focus on the savings segment as well. The savings portfolio was further enhanced with the launch of Sureki, a new mainstream savings product that targets small savers in the Microfinance and SSE segments.

Consolidating Our Footprint

Stemming from our Grameen-based operating model, in the past most of our branches were typically set up in remote regions of the country. This was done primarily with the intention of facilitating easy access to our grass root level Microfinance customers in these areas. While this strategy served us well under the previous operating model, we realised a wider tactical approach is now needed in order to reorganise HNBF's physical presence across the country to support our new business agenda. Following a series of market studies to gain deeper insight into the population demographics in specific areas and also to evaluate the demand for certain products in a particular region, we began working on a new branch strategy to sharpen the profile of branches and make them more responsive to their target markets.

Under this new plan we will focus mainly on strengthening our ground presence in key hub towns and cities across the country, a strategy we believe will serve us better in reaching out to the new customer segments that we are now targeting. Accordingly, we are looking at setting up new branches/leasing centres and perhaps even relocating existing branches to areas where we see high growth potential in the SSE and SME segments. At the same time, we expect to continue to maintain service centres in rural areas, to service our Microfinance customers in these regions.

These plans are still only taking shape with more work required to clearly identify the areas where growth potential is evident, before finalising definite action plans.

Improving Operational Efficiency

We did however begin putting in place the building blocks to support these ambitious plans. We commissioned a leading business process re-engineering expert to take a deep dive into our existing process architecture and recommend necessary improvements to drive front end operational efficiencies across our branch operations. The main aim behind the exercise was streamlining internal operations in order to help staff to better manage their day-to-day workload, which in turn would increase overall efficiency while also ensuring all employees benefit from a better work-life balance.

The first phase of the programme was run at our City branch as a pilot project for five months. Following the successful conclusion of the pilot project, we are now in the process of making further refinements to the programme ahead of the proposed roll out across the entire branch network in the upcoming financial year. In parallel, we will also move ahead with the next phase of the programme where we expect to focus on improving backend efficiencies at every level of the business.

Strengthening Our Team

We readily accept that our people are critical to achieving our objectives. In the year under review, we made some major changes in our people development agenda with the aim of building a strong team that works cohesively towards achieving the Company's new purpose. We revisited every one of our HR processes to identify and improve areas that will enhance HNB's overall employee value

proposition. We expanded our hiring model with the introduction of a new entry level recruitment programme targeting to recruit and train school leavers for our SSE and SME sales force. This was coupled with a new on-boarding model that seeks to create an environment where employees can align their goals with the HNB value culture and vision, right from the very first day they join the Company. Further, we also continued to invest in their training. Another notable development for the year was the roll out of the 9-box template to streamline our succession planning programme and underpin our efforts to build a strong leadership pipeline for the future.

I am extremely pleased to see that these efforts continue to be well received by our employees as evidenced by the rating HNB received through the GPTW (Great Place to Work) survey in 2018. It is also very encouraging to note that HNB was also selected as one of 'Asia's Best Workplaces 2019' under the Large category.

Investing in Technology

To support the widespread changes taking place across our business, we continued to increase our investment in technology. In the year under review we made a series of strategic investments to strengthen our core IT systems infrastructure across multiple aspects of our business. For example, the new CRM has streamlined our complaints handling process, while the new delinquency management system has greatly improved the efficiency of our recovery management model. Meanwhile, the fully integrated Gold Loan software gives HNB first mover advantage, being the only fully automated end-to-end solution in the market. Similarly, the new document management system for the leasing segment has halved the time between client acquisition to disbursement of the facility.

Commitment to the UN Sustainability Development Goals (SDGs)

As a financial services institution, we realise that we are in a position to make significant contribution to the SDGs through our core business model. Our Microfinance and other lending activities have been conceptualised to empower underserved communities especially women, which helps HNB to execute its commitment to Goal 1: No Poverty, Goal 5: Gender Equality and Goal 10: Reduced Inequalities. Testifying to this commitment, in the year under review, we reached out to nearly 231,000 micro and small scale entrepreneurs, of whom 94% were women.

In addition, ongoing efforts to strengthen HNB's employee value proposition, I believe reflects the commitment to Goal 8: Decent Work and Economic Growth, while the increased investment in technology systems in turn demonstrates the Company's alignment to Goal 9: Industry Innovation and Infrastructure.

Financial Results

Despite challenging industry conditions that stifled demand for credit in turn pegging back revenue growth prospects, our Loan book recorded a growth of 34% while our total asset base expanded by 30% to reach Rs. 32,929 Mn as at 31st March 2019. Owing to our aggressive deposit mobilisation activities the fixed deposit portfolio recorded a growth of 22% year-on-year.

Interest income increased by 11% year on year enabling HNB to record a creditable gross revenue growth of Rs. 809 Mn and a commendable net interest income growth of 6% in the year under review.

Despite these results however, the Company's profit targets were not met as several external factors affected the bottom

Managing Director's Review

line, among them the higher impairment charges due to the change in accounting standards from LKAS 39 to SLFRS 9 that came into effect during the year. The changeover caused impairment charges to increase to Rs. 843 Mn in the year under review. As a result, HNBF posted only a modest pre-tax profit of Rs. 1,766 Mn, compared to Rs. 2,027 Mn in the previous financial year.

Meanwhile the new tax directive introducing a Debt Repayment Levy (DRL) of 7% with effect from 01st October 2018 had a notable impact on post-tax profits, which meant the Company was able to report a profit after tax of Rs. 831 Mn for 2018/19 compared to Rs. 1,012 Mn in the previous financial year.

Awards and Accolades

I am also very pleased to announce that HNB Finance was honoured with runner-up in the Non-Banking Financial Services category at the National Business Excellence Awards (NBEA) 2018, in recognition of our ability to continuously improve the value created for our stakeholders over time and the consistent contribution to economic growth of the nation.

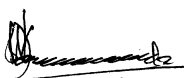
Outlook for the Future

Having spent much of the year readying ourselves for our new journey, I believe HNBF is now fully geared to embark on the next phase of its growth where we will continue to focus on helping small businesses to grow and thrive while assisting individuals to invest for the future. In doing so, we remain firmly committed to deliver better value to our customers by being competitive across all our products. Moreover, in a fast-changing world, our customers' needs will always stay at the forefront of our planning and will be the basis on which we undertake to invest in the business, in our people and our brand.

Having served the market for the past 19 years we have earned the trust of customers across Sri Lanka. This is the legacy we want to carry forward as HNBF powers ahead towards becoming a key player in Sri Lanka's NBFI sector.

Appreciations

I would like to extend my sincere thanks and deep appreciation to the Chairman, Deputy Chairman and my colleagues on the Board for their leadership and guidance that has been instrumental in expediting HNBF's transformation towards a fully fledged financial services institution. I would also like to thank the entire HNBF team for embracing the change and working tirelessly to bring to life to our new vision. I also extend my appreciation to the Governor of the Central Bank of Sri Lanka and the Director and the Officials of the Department of Supervision of Non-Bank Financial Institutions, for their timely advice. And finally, my sincere gratitude to HNBF's shareholders and all other stakeholders for their support in this transformational journey. I request your continued support in the years ahead as well.



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

11 July 2019

POWERING AHEAD WITH A STRONG SENSE OF PURPOSE

- ⌚ Business Model | 32
- ⌚ Stakeholder Engagement | 34
- ⌚ Materiality | 39
- ⌚ Strategy and Resource Allocation | 41

Business Model

INPUT



Financial Capital (Pages 52 - 55)

- Equity capital
- Debt securities
- Reinvested cash flow generated by our operations
- Customer deposits and savings



Social and Relationship Capital (Page 72 - 78)

- Ethics and human rights
- Employee relations
- Women empowerment
- Community relations
- Diversified products and services



Intellectual Capital (Page 60 - 63)

- Digital initiatives
- Investment in IT



Manufactured Capital (Page 56 - 59)

- Touch Points
- Launch of Gold Loan Centres



Human Capital (Page 64 - 71)

- Total employees
- Male 1,798 | Female 163
- Ethics and human rights
- Investment in training and development
- Open door culture



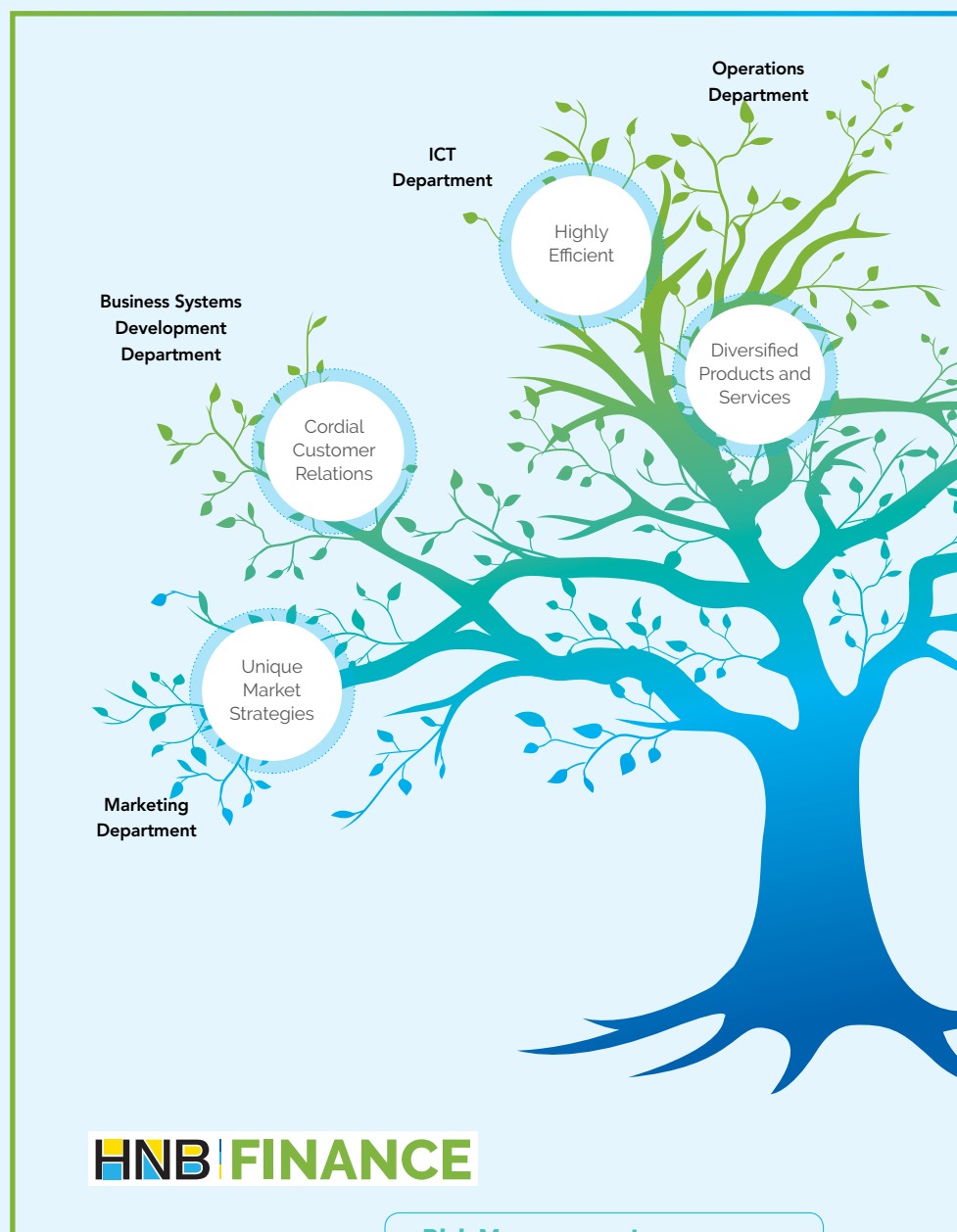
Natural Capital (Page 79 - 81)

- Natural resources
- Electricity, water and paper consumption
- Waste collection and management

1. VISION (Pages 5)

2. MISSION (Pages 5)

3. VALUES (Pages 5)



Risk Management (Page 104 - 109)

4. STRATEGY (Pages 41)

Governance (Pages 84 to 103)

Human Resources Department

High
Integrity

Strong
Leadership
Qualities

Finance Department

OUTPUT



Financial Capital

- ⌚ Return on Equity (ROE) 2.85%
- ⌚ Return on Assets (ROA) 18.96%
- ⌚ Total Risk Weighted Capital Ratio 10.10%
- ⌚ Earnings Per Share (EPS) 0.48%
- ⌚ Deposit Base Rs. 22,632 Mn



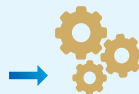
Social and Relationship Capital

- ⌚ 1,737 community members engaged through the Mehewara fund
- ⌚ 217,246 women empowered
- ⌚ 286,000 scattered customer base island wide
- ⌚ Introduction of Divi Saru and Gold Loans



Intellectual Capital

- ⌚ Reached 172,577 social media followers
- ⌚ Implementation of Document Management System for Leasing
- ⌚ Investment in CRM System
- ⌚ Investment in new Delinquency Management System
- ⌚ Accolades



Manufactured Capital

- ⌚ IT Infrastructure
- ⌚ 48 Branches and 21 Service Centres
- ⌚ 11 Gold Loan Centres



Human Capital

- ⌚ Investment in training and development Rs. 13.10 Mn
- ⌚ 694 new employment opportunities
- ⌚ Profit per employee Rs. 0.42 Mn
- ⌚ A total 54,131 hours spent on training staff and customers



Natural Capital

- ⌚ Electricity, water and paper consumption
 - ⌚ Electricity - 1,996,843 kWh
 - ⌚ Water - 17,535 m³
 - ⌚ Paper - 9,270 A4 bundles
- ⌚ Waste collection and management

OUTCOME

Employees

- ⌚ Remuneration and other benefits
- ⌚ Job security
- ⌚ Career progression
- ⌚ Training
- ⌚ Friendly culture
- ⌚ Work-life balance
- ⌚ Safe working environment

Customers

- ⌚ Customer service
- ⌚ Innovation
- ⌚ Strong relationship

Community

- ⌚ Women empowerment
- ⌚ Environmental concern
- ⌚ Strong brand presence
- ⌚ Ensuring social responsibility
- ⌚ Extensive product range

Investors

- ⌚ High ROI
- ⌚ Capital adequacy
- ⌚ Governance
- ⌚ Compliance

Suppliers

- ⌚ Being ethical
- ⌚ Uplifting local industries

Regulators

- ⌚ Compliance
- ⌚ Immediate response
- ⌚ Regular tax payments

Stakeholder Engagement

In a world that is defined by constantly changing trends, stakeholder engagement now plays an ever more important role in our business. We have discovered that staying connected to our stakeholders helps to learn and understand what they expect of us, and also provides the opportunity to demonstrate to them the actions we are taking in response to the issues that concern them. On a broader level continuous and ongoing engagement also paves the way for HNB F to stay relevant in the market and to the society as a whole.

To support our efforts, to maintain effective and meaningful dialogue with all stakeholders we follow a three-step process.

Step 1 - Stakeholder Identification

The process of identifying our stakeholders involves asking some tough questions to determine;

- ☛ Who is directly linked to the Company?
- ☛ Who is indirectly linked to the Company?
- ☛ Who gains or loses from the Company's success?

Based on the answer to these questions we have identified our stakeholders to be; Customers, Employees, Investors, Regulators and Suppliers as well as the Community.

Step 2 - Stakeholder Prioritisation

In order to derive the best possible outcomes from our engagement process, we believe it is important to allocate necessary resources to manage each stakeholder relationship effectively and efficiently. To facilitate this process, we map all our stakeholders on a priority matrix based on their interest in our business and the degree of influence they may have over our strategy and future

direction. Their position on the priority matrix defines our engagement approach and forms the basis of determining suitable engagement methodologies for each stakeholder group.



Step 3 - Stakeholder Engagement



Employees

Our employee engagement approach aims to create a motivated workforce by creating a safe and friendly workplace, at the same time offering opportunities for career development and skill building. We also continuously aim at strengthening our business operations through the input given by our employees.

Modes and Frequency of Engagement

User-friendly and comprehensive HR system	Continuous
Grievances Officer	Continuous
Company intranet	Continuous
Company newsletter	Monthly
Mehewara magazine	Quarterly
Company e-mails, memos, training	Continuous
Open-door culture	Continuous
Performance reviews	Bi-Annual

Stakeholder Concerns and Expectations

- ⌚ Attractive remuneration packages
- ⌚ Regular updates on Company performance
- ⌚ Recognition and appreciation
- ⌚ To improve their skills and experience in their respective fields
- ⌚ Communication with the Management
- ⌚ Career development and growth

Our Response

- ⌚ Ensure safety of our employees and provide them with job security, trips and social events for staff members.
- ⌚ Provide competitive salaries on par with industry.
- ⌚ Provide a monthly summary on Company performances, details on HR and other important aspects relating to the month during the monthly review meeting.
- ⌚ Quarterly update of Company events, appreciating employee performances and showcasing achievements of the staff's children.
- ⌚ Ongoing training and development programmes for all staff, diploma programme for managers within the organisation, outbound training to build close relationships.
- ⌚ The culture of the organisation is such that all employees are free to communicate all senior level Management.
- ⌚ Communication with employees about current performance, internal career opportunities and training provided for staff.

Stakeholder Engagement



Customers

Our continuous efforts at customer engagement focuses on creating and improving loyalty among our valued customer base by offering a friendly and welcoming culture for all customers.

Modes and Frequency of Engagement

Call centre, meeting centres, customer visits	Continuous
Company website, Facebook page	Continuous
Customer survey	Annual
Product development	Annual
Valuing all cultures without any discrimination	Continuous

Stakeholder Concerns and Expectations

- Details on loans, payments, interest, new product developments
- Access to Company information
- Ensure customers are treated right and are satisfied with the services provided
- Products to match with their needs
- Acceptance and no discrimination
- Satisfaction with the service provided

Our Response

- Our Loan executives conduct weekly meetings at over 10,000 meeting centres island wide to treat our customers better.
- To have a continuous relationship with customers and improve our services.
- Surveys are conducted to get a feedback and improve our strategies to meet their needs.
- We aim to provide customer-centric and well-diversified products and services to our customers.
- We respect our customers and show compassion towards them while being professional.



Community

Our Company is geared to empower the community while improving their well-being in order to create a better environment for all.

Modes and Frequency of Engagement

Microfinance loans for female customers	Continuous
Community projects	Continuous
Conscious discussions about the environment	Continuous
Information published on Company website, Facebook and other social media	Continuous

Stakeholder Concerns and Expectations

- Obtaining loans to develop their businesses
- Support in carrying out day-to-day activities
- To ensure that the Company is not harming the environment

Our Response

- Microfinance is part of our main services to female customers in the community. Providing these facilities empowers women island wide and enhances their living standards.
- We work in the best interest of our customers. The Mehewara Fund is utilised to improve the well-being of community members who are also our customers.
- Loans are not provided for projects harming the environment. Further, paper saving projects take place within the Company.



Investors

Investor engagement approach of HNBF is aimed at enhancing value creation allowing transparency in business operations while enabling review of Company performance.

Modes and Frequency of Engagement

Annual Reports	Annual
Annual General Meeting	Annual
Interim Financial Statements	Bi-Annual
Company website	Continuous
Press and media releases	Ad-Hoc

Stakeholder Concerns and Expectations

- ⌚ Sustainability of business operation
- ⌚ Sound risk management methodologies
- ⌚ Ensure proper governance mechanisms are upheld
- ⌚ On time dividend payments

Our Response

- ⌚ Being compliant with all regulations and ensuring highest ROI for investors.
- ⌚ We undertake continuous risk assessment exercises to identify risks faced by the Company and to identify actions needed.
- ⌚ The Company ensures that all corporate governance requirements are adhered to.



Suppliers

Engagement with suppliers is directed towards maintaining sound relationships to ensure timely delivery of high quality products and services.

Modes and Frequency of Engagement

Regular meetings	Ad-Hoc
Telephone calls, letters and e-mails	Continuous

Stakeholder Concerns and Expectations

- ⌚ Support given to local small-scale suppliers
- ⌚ On time payments

Our Response

- ⌚ The Company mostly sources from local suppliers to support upliftment of local industries.
- ⌚ We ensure that ethical procurement practices are upheld within the organisation.

Stakeholder Engagement



Regulators

Through regular engagement with regulators we intend to provide clarity and transparency in policies and practices of the Company.

Modes and Frequency of Engagement

Audits and other reviews by CBSL and other regulatory bodies	Annual
Report submission	Ad-Hoc
Press releases	Ad-Hoc
Discussions and meetings by senior management	Ad-Hoc
Directives and circulars	Continuous

Stakeholder Concerns and Expectations

- ⚡ Compliance to regulations
- ⚡ Responsible and sustainable business practices
- ⚡ On time responses

Our Response

- ⚡ The Company ensures that sound internal controls are in place and undertakes regular reviews to ensure compliance at all levels of organisation.
- ⚡ Immediate responses to queries raised.

Materiality

Materiality analysis provides insights into future trends and business risks and opportunities that influence our ability to create value and is thus a crucial part of HNBF's strategic planning and reporting processes. Each year we review and prioritise material issues identified via stakeholder engagement activities and through our annual risk assessment programme which considers the issues arising from the immediate operating environment. Our materiality process is also further guided by the GRI reporting standards for Defining Report Content and Integrated Reporting Principles.

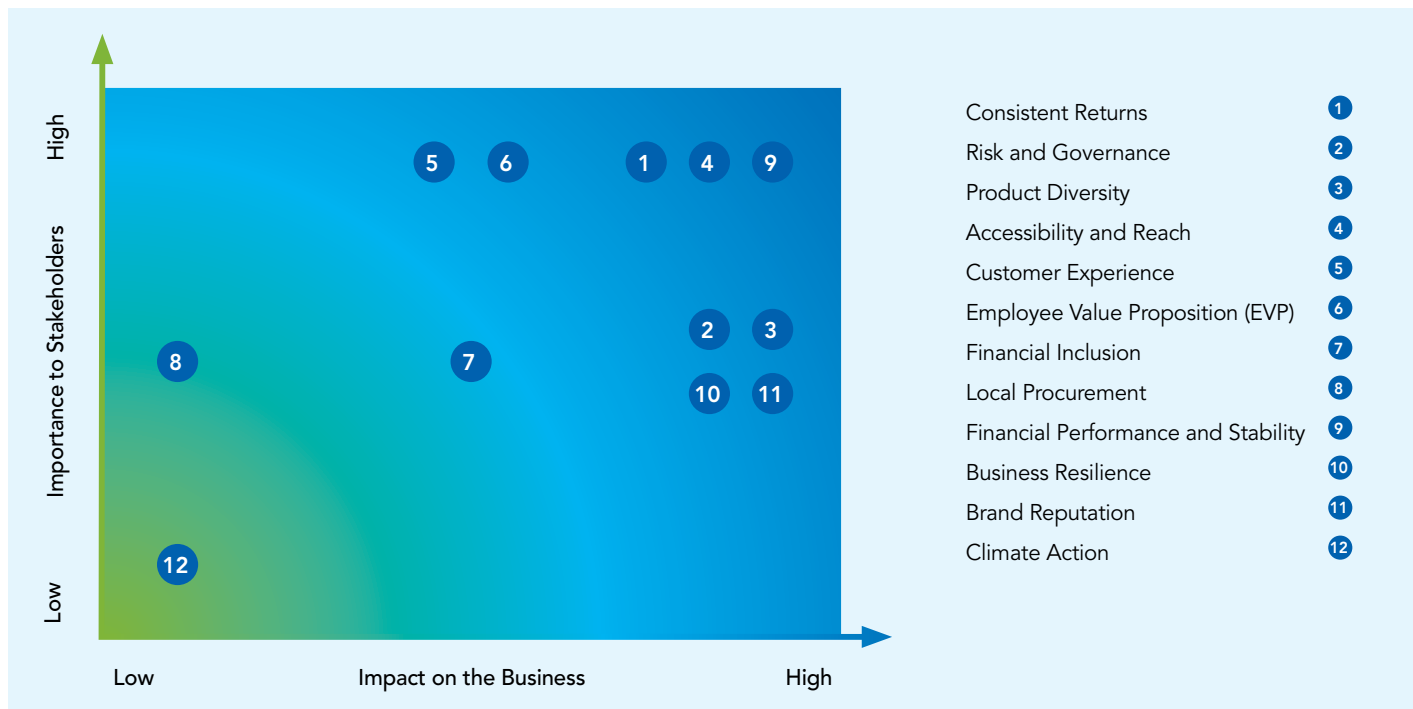
The outcome of materiality analysis helps us review our management approach on the topics and assess areas that require further improvement.

	Material Topic	Topic Boundary	GRI Relevance	Reason for Materiality	Management Approach
Topics identified through the stakeholder engagement process	Consistent Returns	External (Investors)		Investors expect consistent returns from their investment in order to retain their trust in the Company	
	Risk and Governance	External (Investors)		Stable risk and governance frameworks support the effective execution of corporate strategy and thereby strengthen investor confidence in HNBF	Comply with all applicable regulations and submit to voluntary compliance of industry best practices
	Product Diversity	External (Customers)	GRI 416 - 1 GRI 416 - 2	A diverse product range of financing and investment solutions will enhance HNBF's capacity to serve multiple market segments	Leverage on new emerging opportunities in the market to widen the product suite
	Accessibility and Reach	External (Customers)		Island wide access will enable the Company to increase its range and reach more customers across the country	Continue to invest in providing ever more convenient channels for the customer to connect with the Company
	Customer Experience	External (Customers)	GRI 417 - 1 GRI 417 - 2 GRI 418 - 1	A superior customer experience will give HNBF an edge over peers and strengthen customer loyalty towards the brand	Ongoing efforts to improve all aspects of the customer experience, including customer engagement, customer privacy and complaints handling
	Employee Value Proposition (EVP)	External (Employees)	GRI 402 - 2 GRI 402 - 3 GRI 404 - 1 GRI 404 - 2 GRI 404 - 3 GRI 405 - 2	Presenting a robust EVP enhances HNBF's position as an 'Employer of Choice' and in turn allows the Company to attract and retain the best in-class talent in the industry.	The Company provides competitive remuneration and benefits, invests in training and development and supports employee career progression within the Company
	Financial Inclusion	External (Community)		Presents an opportunity to contribute towards achieving women's empowerment goals set out under the rural economic development agenda	HNBF uses its Microfinance operation to extend financial assistance to women entrepreneurs in less affluent communities across the country
	Local procurement	External (Supplier)		Contribute towards the development of self sustaining communities	Establish long term relationships with local community-based suppliers to meet the procurement needs of HNBF's branch network

Materiality

	Material Topic	Topic Boundary	GRI Relevance	Reason for Materiality	Management Approach
Material Topics identified through our Risk Assessment Process	Financial Performance and Stability	Internal		Solid financial results will determine the Company's ability to reinvest in the business after meeting stakeholder obligations	Grow our business based on sound business principles combined with prudent risk management strategies and a strong governance framework
	Business Resilience	Internal		Building resilience improves the Company's ability to withstand any external pressures that may arise from changes in the immediate operating environment	Ongoing efforts to strengthen business continuity planning mechanisms, IT systems, legal frameworks, risk management practices, etc.
	Brand Reputation	Internal/ External (Customers, Investors, Employees, Community)	GRI 401 - 1 GRI 405 - 1 GRI 406 - 1 GRI 407 - 1 GRI 408 - 1 GRI 409 - 1 GRI 415 - 1 GRI 419 - 1	A strong brand reputation provides multiple advantages. It gives HNBF a competitive advantage that helps to attract more customers and new employees, enhances investor confidence and ultimately improves overall stability of the NBF sector	We strive to project our brand as a fully fledged financial service committed to maximise stakeholder value while maintaining highest standards in ethical conduct in all aspects of the business
	Climate Action	Internal/ External (Community)	GRI 301 - 1 GRI 302 - 1 GRI 302 - 4 GRI 303 - 1 GRI 303 - 3	Engaging in climate action enables the Company to improve its operational conduct and contribute towards combating the impacts of climate change	We place strong emphasis on integrating environmental concerns in the day-to-day activities of the business

Materiality Matrix



Strategy and Resource Allocation

Supporting the transition from a Grameen-based operation to a fully fledged financial services institution under the HNBF banner is the single largest undertaking in the Company's 19-year history.

The ultimate aim of the exercise is to position HNBF to be the preferred financial service provider for the mainstream financial services market. This meant formulating a whole new strategy that would underpin the

Company's progress in the short to medium terms.

To assist in this endeavour we sought the expertise of a leading financial consultancy firm specialising in corporate restructure activities.

With the insights provided by the firm it was obvious that there was much work to be done to complete our transition process. We began by taking a deep dive into our existing

operations to identify where improvements can be made to existing systems and to determine areas that need to be completely revamped and yet others that warrant additional investments. Following a comprehensive SWOT analysis and a detailed competitor analysis, we drew up the "HNBF 2020 Agenda", a three-year strategic plan outlining five core strategic objectives that would expedite HNBF's transformation towards a fully fledged financial services institution by end 2020.

Strengths

- ♻ Pioneer in Microfinance business in Sri Lanka
- ♻ Experienced staff
- ♻ Island wide branch network
- ♻ Backing of a large commercial bank
- ♻ Relatively large customer base
- ♻ Well-diversified product portfolio
- ♻ Strong corporate governance practices
- ♻ Customer centric services
- ♻ Strong brand perception among the community

Weaknesses

- ♻ High staff turnover
- ♻ Lack of unique/customised savings propositions
- ♻ Drawbacks in technology infrastructure

Opportunities

- ♻ Expansion through cross selling to the existing customer base
- ♻ Leverage on the parent HNB brand to unlock potential synergies
- ♻ Expand outreach through new technology solutions as well as a large sales force
- ♻ Ability to expand outreach through diversification
- ♻ Being appealing to a wider audience through the change of corporate identity and branding

Threats

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



Strategy and Resource Allocation

Strategic Objective #1

Develop and retain high quality human resources

Strategic Drivers	Progress for 2018/19	Status		Targets for 2019/20 and beyond
Improve human resource retention rate and control staff attrition	Initiated the entry-level recruitment programme to recruit school leavers for the sales force and graduates/qualified professionals to fill executive vacancies	●	Human Capital	Introduced a structured approach to succession planning
Develop Human Capital development policies and procedures	Introduction of a new two day on-boarding process followed by an induction programme conducted through the e-learning platform	●	Human Capital	Extend the e-learning platform to other areas in order to promote continuous learning
Restructure human resources in line with the needs of the Company	Roll out of the 9-box performance appraisal mechanism for SSE and Savings segments	●	Human Capital	Extend the 9-box performance appraisal mechanism to all business segments

Material Matters

Financial performance and stability

EVP
Consistent returns

Risk and Governance

Strategic Objective #2

Develop/modify products to improve the customer-centricity of the portfolio

Strategic Drivers	Progress for 2018/19	Status		Targets for 2019/20 and beyond
Rationalise existing product offerings	Focus on promoting low-risk asset categories	●	Business Reviews	Keep on monitoring the performance of existing products for further improvement
Develop new product lines	Launch of Gold Loans	●	Business Reviews/ Social and Relationship Capital (Customer)	Explore the possibility of introducing fee based activities
Develop low-cost savings products	Launch of "Sureki" savings for Microfinance and SSE customers	●	Business Reviews/ Social and Relationship Capital (Customer)	Focus on cross-selling to improve savings base

Material Matters

Financial performance and stability

Product diversity
Consistent returns

Financial inclusion

● Completed ● Ongoing ● Not undertaken

Strategic Objective #3

🔗 Create a multi-channel environment to support the delivery of products and services

Strategic Drivers	Progress for 2018/19	Status		Targets for 2019/20 and beyond
Consolidate the branch network	Commissioned a study to understand population demographics and map customer preferences in different regions	●	Manufactured Capital	Tactically grow the network of touch points in order to optimise HNBF's island wide outreach
Develop alternate digital channels	Discussions were held with several tech partners to engage them in digital channels.	●	Manufactured Capital	Invest in developing digital channels (internet and mobile platforms, agency banking, tab-banking, etc.) that would enable the Company to widen its reach at a faster pace and do so in a more cost effective and efficient manner

Material Matters

🔗 Accessibility and reach

🔗 Customer experience

🔗 Financial inclusion

Strategic Objective #4

🔗 Leverage on technology to drive growth

Strategic Drivers	Progress for 2018/19	Status		Targets for 2019/20 and beyond
Invest in upgrading IT infrastructure to drive internal process efficiency	Implemented CRM system to provide better customer service. Commissioned Gold Loan solution to provide required support for Company to launch Gold Loan facilities for customers.	●	Intellectual Capital	Invest in upgrading ICT infrastructure capacities to provide resources for business growth, enable business continuity, improve information security, enhance efficiencies and reduce cost.

Material Matters

🔗 Financial performance and stability

🔗 Business resilience
🔗 Customer experience

🔗 Product diversity
🔗 Climate action

● Completed ● Ongoing ● Not undertaken

Strategy and Resource Allocation

Strategic Objective #5

⚡ Realign the branding and marketing strategy

Strategic Drivers	Progress for 2018/19	Status	Targets for 2019/20 and beyond
Corporate rebranding	Developing brand guidelines	●	Increase brand coverage and visibility to position HNBF as a holistic financial services Company which is product centric and customer service driven
	Product re-branding and communications	●	
	Awareness building campaigns to reinforce brand identity	●	
Leverage on digital and social media to increase customer engagement	Appointed a dedicated social media marketing agency to monitor customer feedback through social media channels	●	Launch of HNBF's trilingual website
	Strengthened social media presence and conducted several focused campaigns to encourage higher digital engagement among the existing customers as well as to increase new customer acquisitions	●	Invest in developing social media platforms to drive the brand message by engaging a wider cross section of the digital community. Create positive sentiment towards the brand vis-a-vis SEO, content marketing, search display as well as social media advertising and social media communications.

Material Matters

⚡ Brand reputation

⚡ Customer experience

● Completed ● Ongoing ● Not undertaken

POWERING AHEAD WITH RENEWED FOCUS

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Operating Environment

Global Economy

Global economic growth moderated to an estimated 2.9% in 2018, falling below previous forecasts of 3%+ growth. This is thought to be the result of weakening global trade activities across both advanced and emerging economies. The softening of global goods trade comes against the backdrop of ongoing US-China trade tensions, which impacted around 2.5% of the global goods trade in 2018.

For the most part, growth in advanced economies remained subdued in 2018. In the Euro area GDP growth slowed, as was the case in Japan and China. The one exception was the US economy, which registered GDP growth of 2.9% in 2018, fuelled by robust domestic demand as well as ongoing fiscal stimulus programme and still-accommodative monetary policy framework of the US government.

Growth in emerging economies also edged downward to an estimated 4.2% in 2018 as number of countries with elevated current account deficits continued to experience substantial financial market pressures causing a slowdown in economic activity.

Outlook

Global economic growth is expected to further moderate in 2019 as global trade activity continues to soften and tighter financing conditions will result in a more challenging external environment for emerging economies. Escalating trade tensions between advanced economies too will remain another major downside risk to the global outlook in 2019.

Source: *Global Economic Prospects 2019*

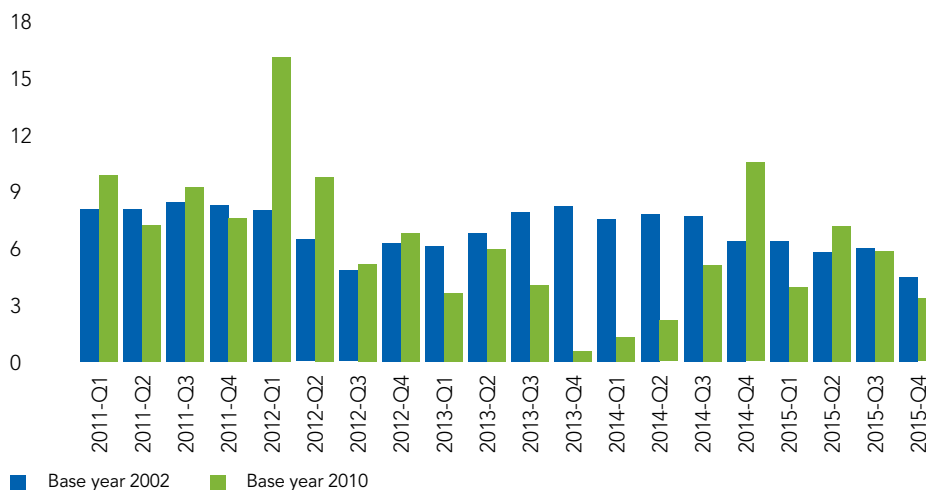
Overview of Sri Lanka's Economic Performance

The Sri Lankan economy grew moderately by 3.2% in 2018, falling short of previous forecasts, showing a decline from the GDP growth of 3.4% recorded in 2017.

In 2018, the country's agriculture sector rebounded strongly growing by 4.8% after recovering from the effects of extreme weather

experienced in the previous two years. The growth momentum in industry activities however moderated considerably during the year to 0.9% from 4.1% in the previous year, with the slowdown attributed primarily to the contraction in the construction sector. The services sector recorded strong growth, expanding by 4.7% in 2018 compared to only 3.6% in 2017. Within the services sector, financial services remained the main contributor to economic expansion.

Quarterly Real GDP Growth (Year-on-Year) (%)



Source: *Department of Census and Statistics*

Inflation

Inflation remained broadly on a downward trend in 2018. Following a temporary spike in mid-2018, inflation decelerated significantly during the latter part of the year and reached levels even lower than the desired mid single digit levels, believed to be the result of low food prices. Accordingly, year-on-year headline inflation based on CCPI declined to 2.8% by end 2018 from 7.1% at end 2017, while, year-on-year core inflation based on CCPI decelerated to 3.1% by end 2018 from 4.3% recorded at end 2017.

External Sector

The country's export earnings, continued to grow throughout the year, to reach US\$ 11,890 Mn in 2018, up 4.7% from US\$ 11,360 Mn in 2017. On the other hand, import expenditure grew by 6% to US\$ 22,233 Mn in 2018, in comparison to US\$ 20,980 Mn in 2017 and with import expenditures continuing to grow at a faster pace than the export income, the trade deficit expanded to US\$ 10,343 Mn in 2018 from US\$ 9,619 Mn in 2017.

Exchange Rate

After appearing to be relatively stable in the first four months of 2018, the Sri Lankan Rupee came under pressure due to both domestic and external factors, prompting the CBSL to allow greater flexibility in the determination of exchange rate. Immediately following the decision, the Sri Lankan Rupee depreciated by 16.4% against the US dollar in 2018 compared to only 2% in 2017.

Interest Rates

Favourable developments in inflation, as well as subpar performance of the economy encouraged the CBSL to reduce its policy rates which saw the Standing Lending Facility Rate (SLFR) reduced by 25 basis points to 8.50% in April 2018. While maintaining a neutral stance thereafter until November 2018, the CBSL once again stepped in to reduce the Statutory

Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50% to 6.00% in mid-November 2018. Meanwhile, in an effort to neutralise the impact of the SRR reduction, the Standing Deposit Facility Rate (SDFR) and the SLFR were increased by 75 basis points and 50 basis points respectively in November 2018. Following these developments, the Average Weighted Deposit Rate (AWDR) decreased to 8.81% by end 2018 from 9.07% recorded at end 2017, while the Average Weighted Lending Rate (AWLR) increased to 14.40% by end 2018 from 13.88% at end 2017.

Source: CBSL AR 2018

Outlook

While there are apparent signs to indicate economic growth rebounded in 1Q 2019, backed by a recovery in the tourism sector as well as a strong pick up in industrial activity, the April 21 terror attacks are predicted to have a cataclysmic impact on the country's economy. Going forward, all sectors are likely to be affected, while the hit to the tourism sector is likely to deprive the country of critical foreign reserves inflows for an extended period of time. Moreover, attracting foreign direct investments will also prove to be a challenge as investor confidence in the economy declines over the next few months.

Overview of the NBFI Sector Performance

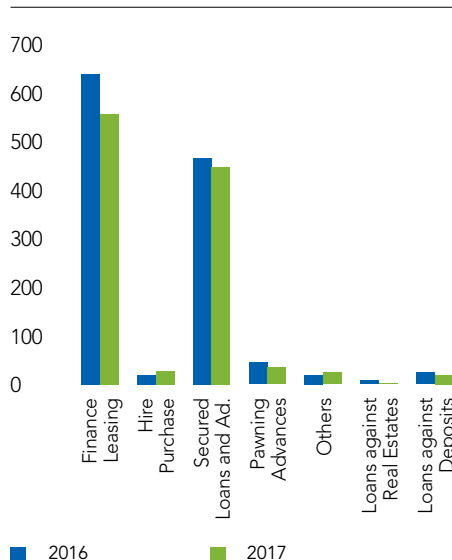
The performance of the NBFI sector moderated in 2018 as the sector's core lending model came under pressure amidst ongoing policy measures aimed at curtailing importation of motor vehicles and restricting credit granted for purchasing motor vehicles. Given these constraints the sector appeared to be gradually moving away from vehicle financing to other secured lending activities

Assets

Marked by low credit demand, industry-wide asset growth continued to slow for the second consecutive year. The industry-wide asset base expanded by 5.6% compared to 11.8% in 2017 and 21.7% in 2016. Accounting for 79.4% of the assets, loans and advances remained the key driver for the year. Finance leases accounted for 52.8% of loans and

advances followed by other secured loans which accounted for 38%.

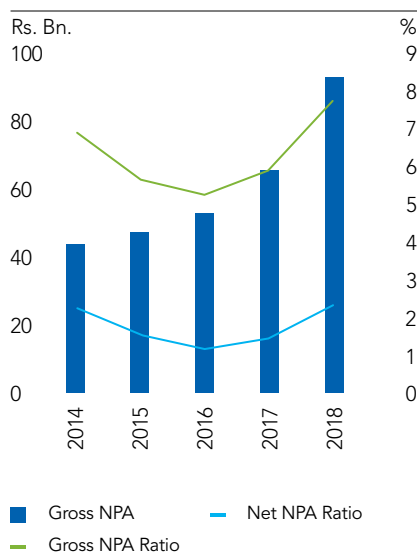
Total Loans and Advances (Gross) by Product for LFCs and SLCs Sector (Rs. Bn.)



Asset Quality

The gross non-performing advances (NPAs) ratio of the NBFI sector increased sharply from 5.9% in 2017 to 7.7% in 2018, the highest recorded since February 2015. The rise in NPAs is attributed to a number of factors, among them; the unfavourable weather conditions during 2017 and slowing down in economic activities in 2018.

NPA Growth



Liabilities

The sector continued to be funded mainly through customer deposits, which accounted for 50.1% of the total liabilities of the sector. However, there appeared to be a shift in the sector-wide funding mix with a greater skew towards borrowings. Consequently, deposit growth slowed down to 4.4%, compared with the growth of 29.4% in 2017. On the other hand, borrowings grew by 17.1%, moving up from negative territory recorded in the year 2017.

Profitability

Net interest income, the key revenue indicator for the NBFI sector increased at a slower rate than in 2017, growing by only 6% year-on-year as net interest margin grew at a slower pace than the year before. This was largely the result of passive growth in interest income coupled with higher interest expenses.

Sector-wide profitability was further affected by increased provisioning costs due to the loan loss provisions made in response to the rising NPAs. The spillover effect of the debt relief programme that was introduced by the Ministry of Finance and Mass Media in August 2018 as well as the implementation of SLFRS 9 standards were some of the other notable factors that led to higher provisioning costs.

Consequently, sector-wide ROA also decreased to 2.7%, while and ROE declined to 12.1% pointing to signs of stress in sector-wide profitability.

Liquidity and Capitalisation

The sector remained well capitalised while continuing to adhere to regulatory minimum capital requirements throughout the year, in turn demonstrating strong resilience to any perceived adverse shocks. In fact, total regulatory capital levels improved by Rs. 15.5 Bn in 2018 compared to the figures reported in 2017 in line with the new regulatory minimum of Rs. 1 Bn stipulated by the Central Bank with effect from 01 January 2018.

Source: CBSL

Operating Context - Performance of Business Units

Microfinance

Overview

As a Grameen-based operation for the past 19 years, grass root level Microfinance lending has been the mainstay of the Company's operating model since the inception and even today accounts for the majority of the lending portfolio.

The Company's Microfinance business is driven by two key products; Diriya and Sahana, while the newly introduced Divi Saru, product is also expected to contribute significantly towards growth, during the next financial year. Diriya is conceptualised as a business loan, that targets economically disadvantaged female entrepreneurs who lack the credentials to access traditional forms of financial services, while Sahana is a distress loan made available primarily for Diriya customers to meet urgent consumption needs. Both Diriya and Sahana are typical Grameen-based products that depend on the group loan model, where the shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals.

Strategy and Focus

Amidst a contentious operating environment marked by inconsistent demand and regulatory pressures, the main strategic thrust for HNB's Microfinance business was two-pronged;

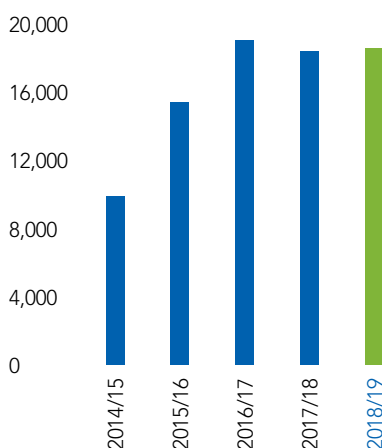
- 1) Maintain stable portfolio growth by deepening the penetration into HNB's stronghold markets across the country. The strategy was however, met with some resistance as the largely agriculture-based Micro segment remained under stress due to persistent bad weather, with HNB having to contend with tapering demand for a good part of the year. Encouragingly the trend was seen reversing towards early 2019 prompting the Company to take swift action to grow Diriya volumes. Meanwhile, to reduce the dependency on the traditional group loan based Microfinance model, Divi Saru was launched in late 2018. Divi Saru

is a hybrid product designed for long-standing Diriya customers who have built-up stable credit profiles to upgrade to an individual loan based on the strength of their own creditworthiness. The product also targets new customers, in particular individual male customers engaged in small businesses.

- 2) Focus on recoveries as part of a broader effort to contain NPAs and maintain overall asset quality. The weekly collection process was reinforced with field staff required to maintain proactive follow up through mandatory centre visits. At the same time internal credit evaluation protocols were tightened with several additional safeguards being introduced to verify customer credentials and thereby ensure good quality loans. Strong emphasis was also placed on educating the customer regarding basic credit management principles and highlighting how overexposure can be detrimental to their creditworthiness.

Performance against Strategy

Micro Loan Disbursement (Rs. Mn.)



Future Outlook

As was the case in the year under review, the focus for the immediate future would be to develop the existing customer base to a more sustainable source that would support business growth in the years ahead. The key priority in this regard would be to further tighten credit evaluation and customer vetting

procedures coupled with increased customer education in order to build a creditworthy customer base. Stemming from this, the next step would be to increase customer migration away from the group loan concept towards the individual loan model via the Divi Saru loan scheme.

Small-Scale Enterprise

Overview

The Small Scale Enterprise (SSE) segment was launched to enable Micro clients to be upgraded from Microfinance. This category of borrowers are individual clients unlike the micro group model.

To facilitate this process, HNB launched three products namely Easy, Abilasha and Swashakthi. Easy loan was designed for short working capital needs. The client is required to have a current account in a commercial bank with a good track record to qualify for this loan. Today, this product has given the opportunity for the Company to cross sell our other product categories. Abilasha product is a hybrid product which was introduced to upgrade from Micro loans. Swashakthi is a savings based product which enables customers who have savings accounts and businesses to borrow for their working capital needs.

Strategy and Focus

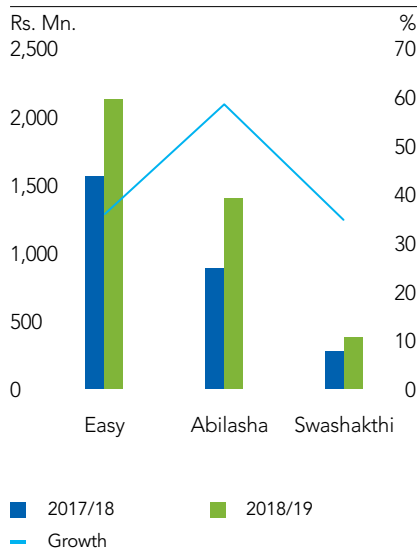
The main priority for the SSE unit in the year under review was to capitalise on the existing clients to upgrade and to meet the demand of the three products. Easy loans are marketed in areas with progressive economies and where clients are doing profitable businesses. The client base comprises of over 1,400 customers all of whom have mortgage facilities with leading commercial banks for various reasons. Thereby, our Company is able to provide them with their working capital needs which commercial banks are unable to provide. These client loans are priced at fine rates whose risk is low. We are also looking at the next level of clients who are profitable with certain risks. Such customers are evaluated on credit scoring method to choose the right client. The clients

who don't meet the criteria of Easy loans are passed on to the Abilasha loans. The Abilasha loans take 10% to 15% of the loan amount as savings and encourage direct payments to be made to ensure the loan is taken for the right purpose. With Swashakthi, we work with a high savings balance which is kept as a lien and this product has the lowest NPA.

Further, we have worked on speedy delivery for this segment where the service is preferred in comparison to the interest rates.

Performance against Strategy

SSE - Portfolio



Future Outlook

With the SSE product showing great growth, the focus for the forthcoming year would be to increase HNBF's bandwidth further in this segment. While the overarching priority will be to strengthen the Company's market share by pursuing low risk high potential clients, we will also expand our reach to the next level of clients which has medium risk with moderate potential.

We consider the profitability in this segment as satisfying as the interest rates are competitive and we have built a savings base to supplement and mitigate the risk of the product. The new client base that has been procured will be an ideal opportunity for cross

selling to enhance business in other areas and also to graduate some clients from the SSE division to the SME division.

Small and Medium-sized Enterprises

Overview

Having entered the Small and Medium-sized Enterprises (SME) market three years ago, HNBF has since been serving the needs of the mid-segment SME's via three main products; the Saviya business loan scheme which allows entrepreneurs to obtain a financial assistance on the strength of an asset, the Relax loan designed to cater to salaried employees in the private sector as well as the state sector, and Nivahana a mortgage-backed housing loan proposition.

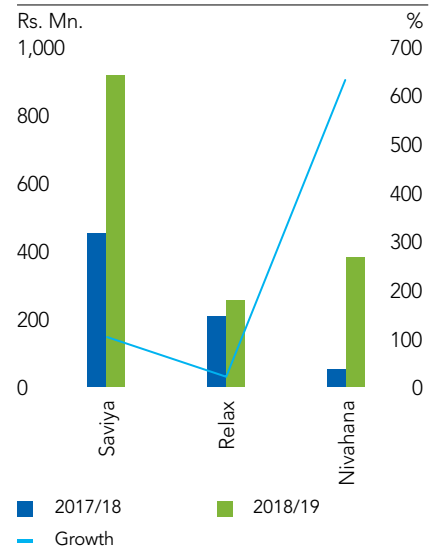
Strategy and Focus

Being a relatively new business line, gaining traction in the market remained the key priority for the HNBF's SME operation in the year under review. Accordingly, much of the focus for the year was centered on further fine tuning the product models to enhance their market responsiveness. Steps were also taken to recruit additional manpower to enable HNBF to widen its bandwidth across the country. With the majority of these recruitments being school leavers, additional investments were made in training to improve product knowledge and sharpen their credit evaluation skills. This was followed by a target-driven campaign to encourage sales teams to grow volumes in all three product categories.

Meanwhile, with some key sectors such as agriculture, tourism and construction coming under stress on the back of weak economic conditions, currency volatility and inflationary pressures, the focus on recoveries was also intensified. The Central Recoveries unit was provided with additional manpower, while a trained recovery officer was assigned to oversee branch level recoveries. At the same time several focused strategies were employed in a bid to reduce NPLs and ensure high levels of credit quality.

Performance against Strategy

SME - Portfolio



Future Outlook

With the manpower requirements and skills now in place, the focus for the future would be to deepen the penetration into the country's mid-segment SME market. Going forward, HNBF will also seek to benefit from Group synergies to widen its island wide reach in this target market.

Leasing

Overview

HNBF's leasing product which was launched in December 2015 is designed as a flexible solution to serve a broader spectrum of the market. Being one of the most dynamic offerings catering to several market segments, the product continues to gather momentum and market share.



Strategy and Focus

In a challenging year marked by ongoing LTV pressure, higher vehicle import duties and a sharp depreciation of the rupee, HNBF's leasing revisited its core leasing strategy in a bid to derive a more sustainable product mix that would make a consistent contribution to the Company's bottom line. Consequently,

Operating Context - Performance of Business Units

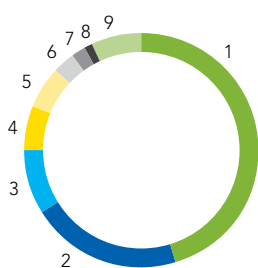
a decision was made to temporarily curtail financing high risk asset categories and instead focus on promoting lower risk asset categories such as cars, vans, etc.

In line with this strategy, ground-level promotional efforts were intensified with additional manpower being deployed to deepen the penetration in high potential areas. Strong emphasis was also placed on strengthening relationships with leading vehicle importers of the country.

Meanwhile, with some key sectors under stress due to weak economic conditions, recovery efforts were also stepped up with the call centre resources further reinforced along with several tactical measures to ensure proactive monitoring of recoveries. Additional initiatives were also taken to further streamline the collection process by increasing the number of payment options available to customers. Most notably, the completion of the new savings integration process has made it possible for HNBF's customers to place standing orders to pay the lease rentals to be retrieved directly from the savings accounts they maintain with the Company. In yet another new development, it was made possible for HNBF customers to make their lease payments at any HNB branch or any HNB ATM across the island, a move that continues to yield positive results.

Performance against Strategy

Leasing Mix (%)



1. Motor Car	46%
2. Dual Purpose vehicles	21%
3. Motor Lorry	9%
4. Three wheelers	6%
5. Motor Cycle	6%
6. Mini Truck	3%
7. Motor Coach	2%
8. Tractors	1%
9. Others	7%

Future Outlook

While the strategy going forward would largely depend on there being a stable demand far from traditional market segments, HNBF will remain focused on leveraging on potential opportunities to scale up the leasing operation by making inroads into new market segments across the country. This would mean continuously sensitising the product basket in line with market demand.

Savings and Fixed Deposits

Overview

Savings

HNBF's savings propositions cater to several different segments of the market, with each product ideally complementing the needs of its target segment. For instance, the Miyulasi savings product is offered to HNBF's female borrowers, especially our Diriya customers, to encourage them to put aside part of their profits on a regular basis, while Yalu is a minor savings account which comes with an attractive range of gifts to encourage to save throughout their childhood.

The general savings product - HNB Finance Savings, is a mainstream offering made available to all customers. Uniquely, all HNBF's savings products come with the doorstep collection option that allow customers to make even a regular contribution, however small, towards their savings.

HNBF's savings customers are entitled to a number of value added services, including an ATM card that allows them to access their accounts through the network of 480 HNB ATMs across the country.

Fixed Deposits (FD)

HNBF offers a range of FD options at very competitive rates with tenures ranging from six, 12 and 18 months up to a maximum of five years.

Strategy and Focus

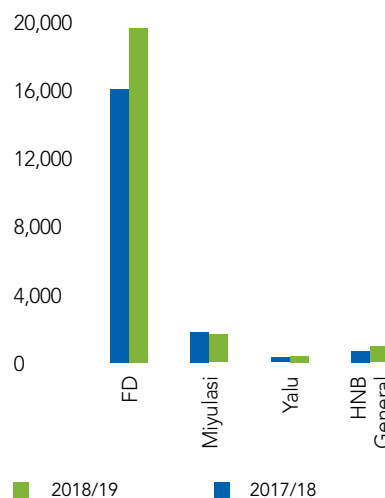
Given the relatively stable interest rates that prevailed throughout the year, marketing and promotional activities were increased to mobilise savings, especially in the general savings and minor savings categories.

To complement these efforts, a new product Sureki was also launched to the market in early 2019. Sureki is a versatile product which rewards depositors for the habit of consistently saving a minimum of Rs. 50 per week. The main aim was to build a stable customer base by offering a standalone savings product which will allow customers to save for their future.

Meanwhile, in the FD segment, deposit mobilisation activities were not aggressively pursued given the obvious high cost of funds involved in a rising rate environment. However, a concerted effort was made to maintain a healthy retention ratio among the existing customer base, with special emphasis on retaining FD with a tenure of 12 months or more.

Performance against Strategy

Savings & Fixed Deposits (Rs. Mn)



Future Outlook

While the Company's well-positioned deposit mobilisation strategies are expected to yield positive results, the focus for the future would be to further improve market share. This calls for a combined strategy involving cross selling activities to widen the Company's reach in all core markets while retaining existing customers by offering them value enhancements and more convenient digital solutions.

Gold Loans

Overview

As part of its plans to introduce customer-centric products to the market, HNB Finance marked its entry to the Gold Loan market in November 2018, with the launch of the Gold Loan product. From the inception, the product was positioned as one of the most versatile Gold Loan schemes in the market, with a number of additional features including premium customer service levels that differentiate the product from peer offerings.



Strategy and Focus

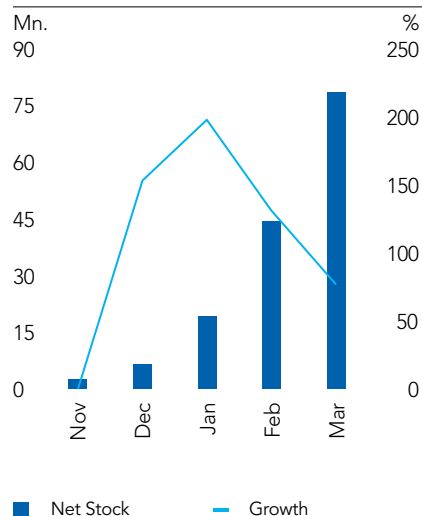
Being a new business proposition, all efforts during the year were centered on operationalising the Gold Loan business and establishing HNB Finance's presence in the market. A central Gold Loan unit was set up at the Company's Head Office in August 2018, while staff recruitments and training activities were expedited. Additional investments were

also made to commission a fully fledged Gold Loan application software to automate the entire gamut of activities from customer on-boarding and issuing to backend support including interest calculation, computation of dues, settlement accounting, etc.

A total of 11 Gold Loan centres were set up at selected HNB Finance branches across the island and were equipped with the latest state-of-the-art gold testing equipment as well as built-in safety and security features corresponding to industry standards. Coinciding with the launch of each branch, a series of localised campaigns including door-to-door awareness building initiatives were carried out, by a dedicated team appointed specifically for the purpose.

Performance against Strategy

Net Stock Growth



Future Outlook

The main objective for HNB Finance's Gold Loan business is to strengthen the Company's island wide presence especially in identified high potential areas. It is expected that over 50 new Gold Loan centres would be opened within HNB Finance's existing network branches and service centres during the course of the next financial year.

Microfinance

HNB FINANCE
Diriya

HNB FINANCE
Sahana

HNB FINANCE
Divi Saru

SSE

HNB FINANCE
Easy Loan

HNB FINANCE
Abilasha

HNB FINANCE
Swashakthi

SME

HNB FINANCE
Saviya

HNB FINANCE
Relax

HNB FINANCE
Nivahana

Savings

HNB FINANCE
Savings

HNB FINANCE
Miyulasi

HNB FINANCE
Yalu

HNB FINANCE
Sureki

HNB FINANCE
Gold Loan

HNB FINANCE
Leasing

Financial Capital



The financial capital of the Company consists of funds available for business operations and strategic growth. In spite of the challenging conditions faced by HNBFI in the financial year 2018/19, the Company recorded a profit after tax of Rs. 831 Mn with a total asset growth of 30%.

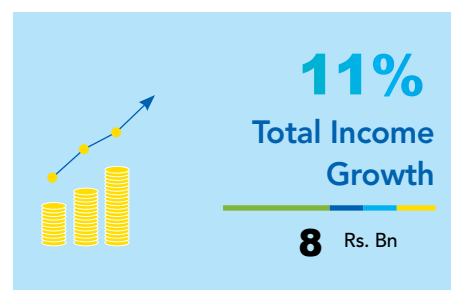
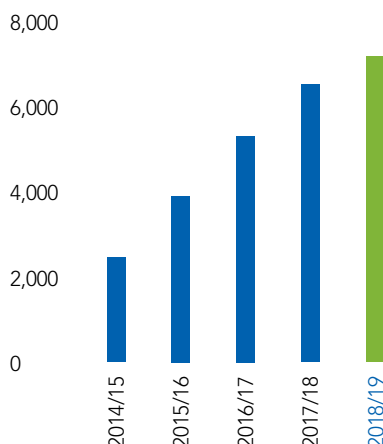
Interest Income

The interest income consists of 87% of the total income with a year-on-year growth of 11%.

The lending portfolio growth of 34% supported interest income growth by contributing Rs. 7,229 Mn during the financial year. The largest contributors to interest income continued to be Microfinance and Leasing products. Further, the interest rate CAP imposed by CBSL in the third quarter curtailed the growth of interest income.

Progress for 2018/19

Interest Income (Rs. Mn)



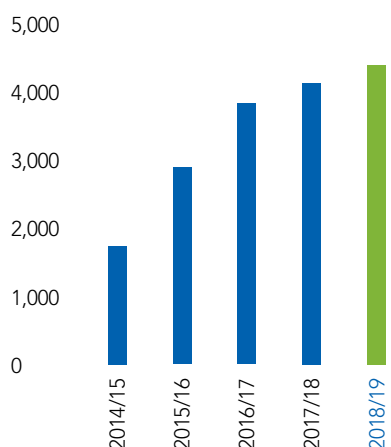
Net Interest Income

Net interest income has risen to Rs. 4,427 Mn during the financial year 2018/19 which is a year-on-year growth of 6% supported by the growth in interest income.

Progress for 2018/19

Net Interest (Rs. Mn)

Interest expenses increased by 18% in the year under review. The two main contributors to the increase in the interest expenses were fixed deposits and Savings which grew by 20% and the increase in borrowings by 258%.



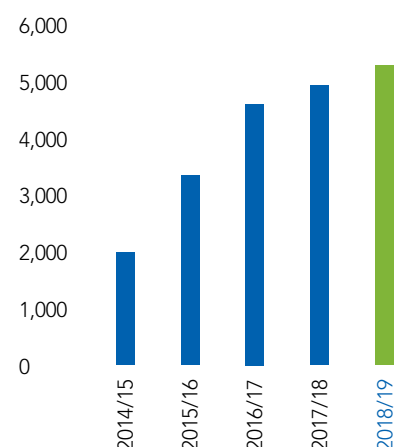
Operating Income

Operating income mainly consists of net interest income, fee and commission income along with other income. This has shown a growth of 7% while recording Rs. 5,337 Mn in the year under review in comparison to the previous year.

Progress for 2018/19

Operating Income (Rs. Mn)

The growth in loan disbursements was the main contributor to the interest income which contributed to the growth in operating income.

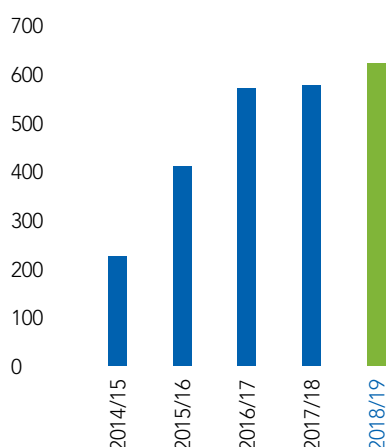


Net Fee and Commission Income

Net fee and Commission Income contributes heavily to the income generation in HNBFI and amounted to Rs. 625 Mn in the financial year 2018/19 which is a 8% growth compared to the previous financial year. Increase in the loans and lease disbursement resulted in this growth.

Progress for 2018/19

Net Fee and Commission Income (Rs. Mn)

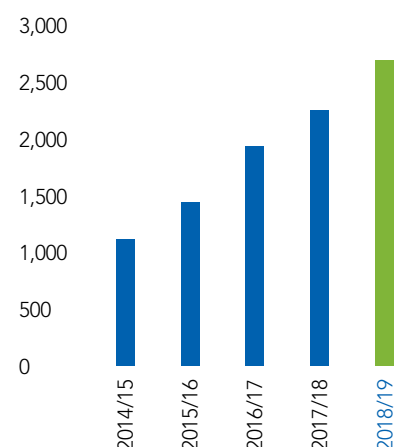


Operating Expenses

The growth in the operating expenses of 20% which stems from the increase in loan disbursements, personnel costs due to the increase in employee cadre and the increase in withholding tax (WHT). The operating expenses amounted to Rs. 2,728 Mn. Establishment costs increased compared to the corresponding period of 2017/18 mainly due to the WHT incurred. Growth in intangible assets by 32% also caused the asset impairment/ depreciation to rise during the year.

Progress for 2018/19

Operating Expenses (Rs. Mn)



Financial Capital

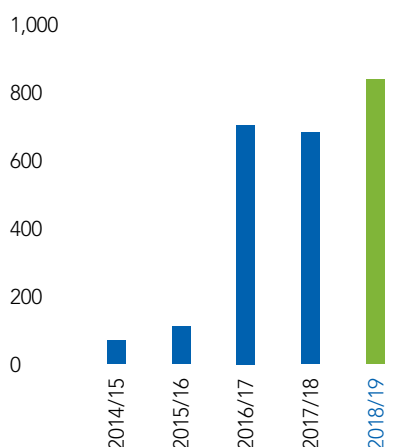
Impairment

This was a challenging year as many factors including the economic and market conditions came under pressure. HNBF began to experience a growth in non-performing advances to 8.85% during the financial year. The adaptation of SLFRS 09 standards for the first time in the year under review also had a significant impact on the Company's impairment methodology.

As a result of these factors, the impairment charges for the year amounted to Rs. 843 Mn.

Progress for 2018/19

Impairment (Rs. Mn)

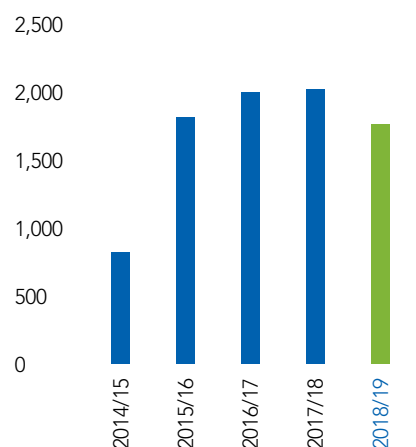


Profit Before Tax

Profit before tax recorded Rs. 1,766 Mn during the FY 2018/19. This shows a slight decline compared to the last FY. The main reasons were the increase in impairment and the growth in operating expenses as discussed above.

Progress for 2018/19

Profit Before Tax (Rs. Mn)

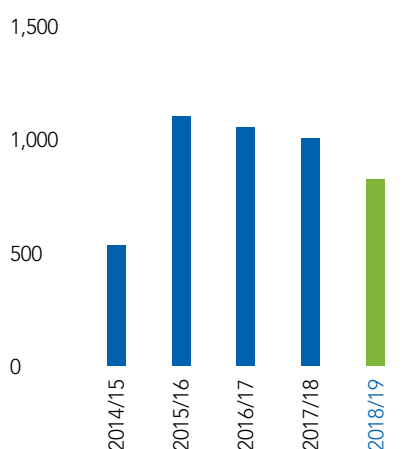


Profit After Tax

Profit after tax reported at Rs. 831 Mn. The imposition of the Debt Recovery Levy, which was introduced in the third quarter, significantly impacted the profit after tax. Further, the change in the accounting policy in line with SLFRS 09 standards increased the impairment charges during the year whilst the interest rate CAP also affected adversely on the profitability of the Company.

Progress for 2018/19

Profit After Tax (Rs. Mn)



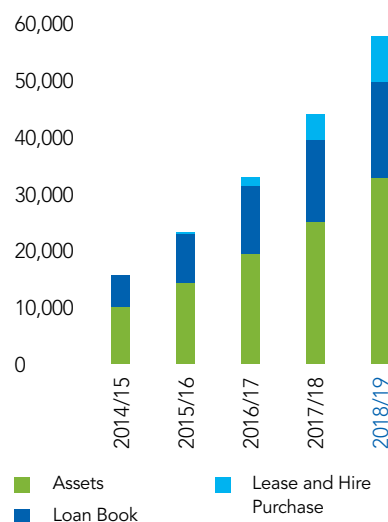
Total Assets

The total asset base stood at Rs. 32,929 Mn as at 31st March 2019 compared to Rs. 25,339 Mn in the previous year, showing a year-on-year growth of 30%.

The growth was mainly supported by:

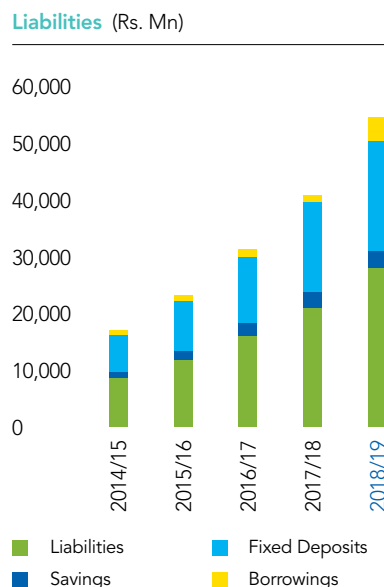
- Loan book growth of 34% in comparison to the previous year.
- Lease and Hire purchase growth of 81% during the year.

Total Assets (Rs. Mn)



Total Liabilities

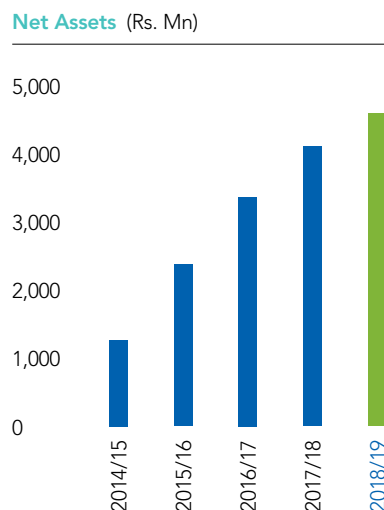
Total liabilities recorded, Rs. 28,300 Mn, depicting a growth of 33% during the year. This was mainly driven by the growth in Fixed Deposits by 22% and a 9% growth in savings deposits in the year under review. Other borrowings have also impacted the increase in total liabilities.



Net Assets

Net assets of the Company stood at Rs. 4,629 Mn as at 31st March 2019. This component shows an upward growth trend over the past years and recorded a 12% growth during the year under review compared to the last year.

This is mainly due to the better performance in HNBF and the growth in the total Loan book.



Ratios

Capital Ratios

Tier I and Tier II ratios stood at 8.35% and 10.10% respectively, which remain well above the regulatory requirements of 6% and 10% and will be discussed in detail under the Risk Management Report on page 111.

Return on Assets (ROA) and Return on Equity (ROE)

ROA and ROE reported at 2.85% and 18.96% respectively, which is comparatively low compared to the previous year. This is mainly due to the increase in asset and liability base in the year under review.

Economic Value Generated & Distributed (EVG&D)

Economic value generated & distributed aims to provide a value creation and distribution analysis of the Company to our key stakeholders. During the year under review, The EVG&D of HNBF has improved by 11% in comparison to the previous year.

	2018/19 Rs. Mn	2017/18 Rs. Mn	2016/17 Rs. Mn
Direct Economic Value Generated			
Interest Income	7,229.17	6,537.66	5,327.02
Fee and Commission Income	777.76	702.44	670.22
Other Operating Income	284.73	242.45	236.88
Value Generated (a)	8,291.66	7,482.55	6,234.12
Value Distributed (b)	7,377.90	6,916.43	5,347.13
Employee Wages and Benefits			
Salaries and other Benefits	1,235.85	1,108.12	943.61
Community Investments			
CSR Projects	2.42	2.01	1.65
Donations	0.04	0.13	3.29
Payment to Providers of Capital			
Dividends	-	326.72	189.15
Interest to Deposit Holders	2,454.33	2,223.42	1,351.79
Interest on Borrowings	347.76	150.04	113.83
Payment to Government			
Income Tax	345.86	686.72	646.99
VAT and NBT	408.09	444.57	380.67
Other Taxes and Levies	104.03	10.48	11.60
Operating Costs			
Depreciation and Amortisation	181.86	164.61	134.31
Impairment for Loans and other Losses	842.91	685.27	707.51
Other Operating Costs	1,454.75	1,114.33	862.73
Economic Value Retained (a-b)	913.65	567.22	886.98

Manufactured Capital



For a financial institution such as HNBF, our manufactured capital fundamentally defines our presence in the market, allows us to differentiate ourselves from peers, and in doing so, promote our Unique Selling Proposition (USP) to our customers. In recent years, our manufactured capital has expanded in tandem with our transition from a purely Grameen-based organisation to a fully fledged financial services institution and now consists of all major touch points inclining the network of branches, service centres and specialised leasing centres across the island.

Given the fact that our journey as a holistic NBF has only just begun, our manufactured capital continues to play a pivotal role in reinforcing our presence in the industry.

The commitment to develop manufactured capital therefore, remains fundamental to our medium term strategy. Our main thrust in this regard is to:

Strategically Improve Market Reach Touch points

Stemming from our Grameen-based operating model, some of our branches were typically set up in remote regions of the country to facilitate easy access to our grass root level customers in these areas. While this strategy served us well under the previous operating model, it is now evident that a wider tactical approach is needed to optimise HNBF's physical presence across the country. Taking the first step in this regard a series of market studies were commissioned

to gain deeper insight into the population demographics in specific areas and to evaluate the demand for certain products in a particular region.

The findings of these studies help to identify the need to set up new branches, relocate existing branches, set up leasing centres in key cities and hub towns or continue to maintain service centres in rural areas, thus sharpening the profile of our touch points to make them more responsive to their target markets.

Progress Made in 2018/19 against Key Strategies

	2018/19	2017/18	2016/17
Total Branches	48	48	48
Total Service Centres (S.C.)	21	21	21
Total Leasing Units	30	20	15
Gold Loans Branches/S.C.	11	-	-

Priorities for the Future

Going forward, the investments in manufactured capital will be two-fold:

- ❖ Tactically grow the network of touch points in order to optimise HNB's island wide outreach.
- ❖ Invest in developing digital channels (internet and mobile platforms, agency banking, tab-banking, etc.) to enable the Company to widen its reach at a faster pace and do so in a more cost effective and efficient manner aligned to the needs of today's customers.

Highlights on Relocated Branches



City Branch relocated to Kirulapona, Company owned building



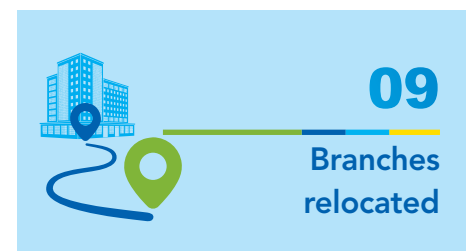
Dehiattakandiya Service Centre relocation



Dambulla Branch relocation



Matara Branch relocation



Manufactured Capital

Branch Network

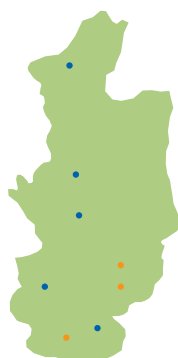
Head Office

No. 168, Nawala Road,
Nugegoda

Tel : +94 11 217 6262
Fax : +94 11 217 6263
E-mail : info@hnbfinance.lk



Central Province



Branches

Dambulla
Matale
Kandy
Nawalapitiya
Nuwara Eliya

Service Centres

Rikillagaskada
Walapane
Hatton

Eastern Province



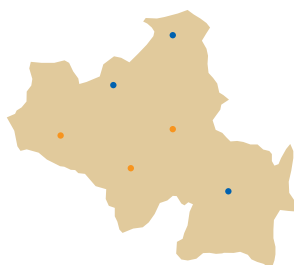
Branches

Trincomalee
Kantale
Batticaloa
Ampara

Service Centres

Dehiattakandiya
Kalmunai
Pottuvil

North Central Province



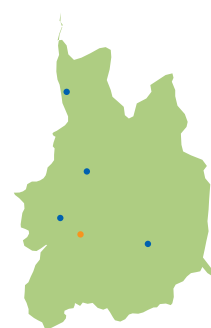
Branches

Padaviya
Medawachchiya
Polonnaruwa
Anuradhapura

Service Centres

Nochchiyagama
Kekirawa
Galenbidunuwewa

Uva Province

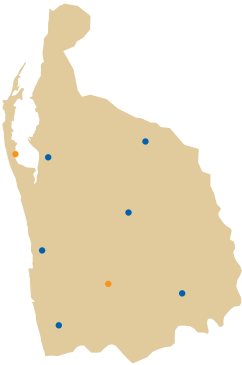


Branches

Mahiyanganaya
Badulla
Welimada
Monaragala

Service Centre

Bandarawela

North Western Province**Branches**

Puttalam
Galgamuwa
Wennappuwa
Chilaw
Kurunegala
Nikaweratiya

Service Centres

Norochcholai
Kuliyaipitiya

Western Province

Head Office

Branches

Negombo
Nittambuwa
Ja-Ela
Gampaha
City
Kalutara
Wattala

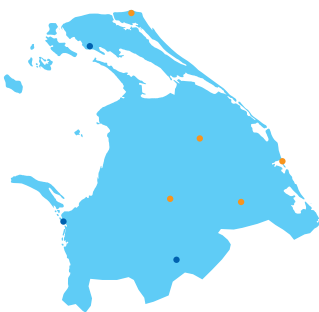
Kaduwela
Homagama
Moratuwa
Bandaragama
Mathugama
Horana
Avisawella

Sabaragamuwa Province**Branches**

Kegalle
Ratnapura
Embilipitiya

Service Centre

Balangoda

Northern Province**Branches**

Mannar
Vavuniya
Jaffna

Service Centres

Nelliyady
Kilinochchi
Mallavi
Mullaitivu
Nedunkerni

Southern Province**Branches**

Ambalangoda
Galle
Matara
Beliatta
Hambantota

Service Centres

Pitigala
Morawaka
Tissamaharamaya

[www.hnbfinance.lk/
branch-network/](http://www.hnbfinance.lk/branch-network/)



Intellectual Capital



We believe our intellectual capital to be a key enabler of our competitive edge in the market. Developing our intellectual capital therefore, goes hand in hand with our growth strategy. We remain fully committed to invest in our intellectual capital on a continuous and ongoing basis and in doing so have adopted a forward-looking approach to differentiate HNBF from peers.

Building a Unique Identity Brand

Having completed the transition from a purely Grameen-based lending institution to a fully fledged financial service organisation, our overarching priority is to create a new brand identity that would support our efforts to gain traction in Sri Lanka's non-bank financial services sector. Essentially, we are seeking to reinvent ourselves as a holistic financial institution under the HNBF brand. We want

our brand to encapsulate our core values; Integrity, Social-consciousness, Professionalism, Innovation, Respect, Relevance and Empathy. In short, the values that "InSPIRRE" the HNBF mission "to provide customer centric, well diversified products and services, responsibly and sustainably, while creating stakeholder value through our passionate team".

Meanwhile, referencing our connection to the iconic HNB name in our branding, brings greater context to our identity, enabling HNBF to leverage on the strength and stability associated with the HNB Group.

In the year under review, we increased the intensity of our brand building efforts in order to fast track the achievement of our goals.

Progress Made in 2018/19 against Key Strategies

Improving Brand Awareness and Recognition

A major rebranding exercise was undertaken during the financial year under review as part of a broader effort to improve brand recognition in the market. The key initiative in this regard was the rebranding of all touch points. Accordingly, the internal branch layout was standardised to reflect the same unique and unparalleled customer experience across the network, while all internal and external corporate branding was realigned to the new theme. Special emphasis was also placed on training all staff to assist them to manage the transition and increase their capacity to support the new role of a holistic financial services company. This was coupled with a focused ATL campaign to reinforce the HNBF presence in the market and followed up

by a series of BTL initiatives to raise awareness among target customer segments regarding the Company transition to a fully fledged financial services organisation, while special BTL initiatives were carried out to raise awareness regarding HNBF's Leasing, Gold Loans, SSE and Liability Sales product categories.

Moreover, outdoor visibility was strengthened through special location branding at shops, vehicle dealers, etc., while a special campaign to promote customer success stories was also launched.

Brand Perception Study

In preparation for the launch of our new brand identity, we conducted a perception study with the following aims;

- ❖ Identifying overall perception towards HNBF
- ❖ Identifying current brand positioning vis-à-vis selected competitors
- ❖ Understanding the effectiveness of communication channels
- ❖ Evaluating the opinions towards the brand change

The study sample comprised of individual customers as well as Microfinance and SME customers to determine the perception towards the brand change. In parallel, a general perception study was also conducted among households using finance companies to gauge their perception towards HNBF's current brand positioning vis-à-vis selected competition. The study also focused on assessing the effectiveness of current communication channels. The findings of these studies are expected to direct our future branding strategy.

Developing Brand Guidelines

Given the widespread changes taking place in our brand, we took the initiative to develop a set of brand guidelines to ensure the proper stewardship of our brand and safeguard the integrity of our core brand architecture. Further, the brand guidelines will enable greater consistency to be maintained in all brand communication activities in the years to come.

Investing in Social Media and Digital Marketing

Given the increasing relevance of social media in the everyday lives of people, a concerted effort was made to strengthen the Company's

new identity within this space, with all HNBF social media handles revamped and a dedicated agency appointed to manage the Company's social media presence. A new social media policy was also rolled out to educate employees on how they should handle themselves on social media. Work also began on developing a new trilingual website which is due to be launched in the forthcoming financial year.

Strengthening Institutional Capital Ethics and Integrity

At HNBF, we believe ethics and integrity to be the cornerstone of the way we do business. Underpinned by this belief we remain fully committed to abide by the laws and regulations applicable to our Company. We adhere to industry best practices in the day-to-day operations of our business and do not engage in anti-competitive behaviour. We conduct all our business activities in an honest and ethical manner and take a zero-tolerance approach to bribery and corruption. Furthermore, we are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, and implementing and enforcing effective systems to counter bribery.

The Board of Directors takes the lead in promoting a suitable culture and follow a top-down approach to set the tone, which is then cascaded down across the Company through a series of proprietary policies and procedures which provide the framework for employees to conduct themselves in line with our core values and business principles. These policies and procedures include;

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

The policy framework is supported by a comprehensive governance and oversight structure headed by the Board of Directors, with direction and guidance provided by the seven Board-appointed sub committees and several other management-level committees.

Progress Made in 2018/19 against Key Strategies

Compliance Leadership

Compliance being a key pillar of our ethics and integrity framework, we strive to maintain leadership in complying with existing and new regulations that come into effect from time to time. There were several regulatory changes that came into effect in the year under review, with the Company taking necessary action towards maintaining compliance. The following were the main compliance requirements which affected the Company the financial year 2018/19;

- ❖ Financial Customer Protection Framework, introduced by the Monetary Board of the CBSL
- ❖ Directive by the Ministry of Finance to introduce a debt relief scheme for women micro entrepreneurs in drought-stricken areas
- ❖ Interest Rate CAP of 35% on Microfinance lending

Strengthen the Assurance Framework

At present, the Company's Assurance Framework is made up of the routine internal processes, the annual external audit and the CBSL audit also conducted annually. To further strengthen the assurance framework over and above this, we engaged the services of a third party expert to set up a dedicated audit team specifically for the purpose of conducting routine branch audits with the expectation of covering the entire network at least once every year.

Improve the Culture

Special training activities were conducted for the Microfinance field force across the branch network to apprise them of the latest regulatory developments and related compliance requirements.

In addition, a new on-boarding process was introduced to integrate all new recruits within the corporate culture as well as to reinforce the Company's stance on ethics and integrity right from the beginning.

Benchmarking Best Practices

In 2017, HNBF became the only financial services institution in Sri Lanka to be awarded the GIIRS (Global Impact Investment Survey) Platinum rating, in recognition of the Company's efforts to promote socially-responsible lending through its Microfinance business.

Intellectual Capital

Moreover, we also received the highest ranking by the Credit Information Bureau of Sri Lanka under the disclosure and transparency of information category categorisation.

These ratings are seen as further testimony of our commitment to uphold the principles of ethics and integrity across all aspects of our business.

In the year under review;

- ❖ The Company did not make political contributions directly or indirectly, financially or any other way.
- ❖ There were no fines or non-monetary sanctions imposed on the Company for non-compliance with laws and regulations.

Business Continuity Planning

Reflecting our commitment to improve company-wide resilience in the event of emergency, we have put in place a Business Continuity Plan (BCP) to ensure that we can regain operational capability and continue to deliver our critical products and services with minimum downtime. To ensure these conditions are met, the overall stewardship of the BCP lies with the risk department and IT department, while individual department heads are required to take ownership for the execution of the BCP under their area, in the event of an incident.

Typically, the BCP is reviewed at least annually in line with globally accepted best practices with all revisions made available to all employees, stakeholders and interested parties once approved by the Board.

Progress Made in 2018/19 against Key Strategies

BCP Live Drill

During the year under review, there were few key steps taken to ensure business continuity and availability of services to customers.

In September 2018, HNBF transferred its main data centre to Level 3 certified SLT IDC data centre, which greatly reduces the operational risk of having the main data centre located at the Head Office and provides the assurance of 100% service availability under severe distress conditions.

Further, in April 2018, HNBF conducted a DR Drill on key applications. The main aim of this DR Drill was to provide an assurance that

the business can be reinstated with minimum downtime following a contingent event. This process was audited independently to verify the stability of underlying infrastructure and to review whether procedures were followed proper and appropriate to address such a situation.

With all these initiatives, HNBF assures its customers and all stakeholders that the Company is well geared to provide continuous services to its customers and safeguard interest of all stakeholders.

Legal Framework

In recent times, the Company's legal department has been called upon to play an increasingly proactive role, especially in terms of offering support for the recovery effort. In this context, the legal department performs an advisory role to assist the top Management as well Microfinance customers subject to legal action by the Company.

Progress Made in 2018/19 against Key Strategies

Streamlining Departmental Activities

Given its growing involvement in the day-to-day activities and to support the Company's growth strategy, the activities of the legal department was streamlined under four separate pillars; conveyance, SSE, SME and corporate. This new set-up supports a more focused approach and seeks to achieve two primary goals; strengthening the delinquency management programme and improving overall customer service delivery. Meanwhile, to further support the legal department's recovery efforts, a new delinquency management system was also commissioned in August 2018.

Technology Systems

Operating in a highly-competitive industry, we readily accept that advanced technology systems are a key catalyst that determines our ability to stay ahead of peers. Again, we have adopted a forward-looking approach to ensure that our technology systems are geared and ready not only to support our transition from a Grameen-based operation to a holistic financial services provider, but also to spearhead

the Company's future growth trajectory as a fully fledged financial service organisation and safeguard our systems from external threats.

Progress Made in 2018/19 against Key Strategies

Investment in a Customer Relationship Management (CRM) System

The new CRM system rolled out in mid 2018 is primarily aimed at managing the customer complaints mechanism from end-to-end. Greatly enhancing our ability to accurately record complaints received, the advanced functionality of the new CRM system also facilitates immediate escalation to relevant owners along with proactive follow up tools to ensure effective resolution of complaints within the stipulated time limit.

In the reporting period, there were no reported incidents of loss of customer data or leakage of information.

Roll out of Gold Loan Application Software

To support HNBF's efforts to diversify into the Gold Loan market, the Company invested in fully fledged Gold Loan Application Software to maintain seamless integration between frontend activities including customer on-boarding and issuing and backend support systems such as interest calculation, computation of dues, settlement accounting, etc.

Implementation of the Document Management System for Leasing

The new Document Management System (DMS) commissioned in December 2018 significantly improves the efficiency of the Company's many operational areas. The new DMS is equipped with the latest digital reading technology that allows documents to be scanned and uploaded for immediate assessment, while the automated workflow systems support quick and efficient approval of the facility within the shortest possible time.

Investment in a new Delinquency Management System

The new Delinquency Management System replaces the manual system maintained by the legal department. Being fully automated, the system has advanced MIS reporting tools that greatly enhances the capacity of the legal department.



Relocation of the Data Centre

The Company's data centre was relocated to SLT's dedicated Tier III Data Centre in Pitipana, Homagama. Following the move made in mid-2018, all systems are now hosted there. Being a specialised facility maintained in line with international standards, the operational support provided by this high-tech data centre comes with an assurance of 99.99% system availability at all times.

SLIIPS and CEFTS Integration

In the year under review, we completed the SLIPS and CEFT integration facilitated through the Lanka Pay online payment platform. This has enabled direct transfers to be made to customers' accounts largely eliminating the need for cheque payments.

Strengthening the Cyber Security Framework

With financial institutions becoming increasingly vulnerable to cyber security threats, we redirected our focus for the year towards safeguarding our systems against a potential breach. Key efforts in this regard included the implementation of additional web application firewalls mainly to protect against unauthorised access of internal applications that can otherwise be remotely accessed by authorised company personnel. To further improve our resilience, we also commissioned an independent expert to conduct a bi-annual cyber security audit to verify the effectiveness of our protocols. The first such audit commenced in March 2019 and planned phases were ongoing as at 31st March 2019.

Improving Customer Privacy Protocols

Prompted by recent incidents highlighting the need for stricter governance of internal information, including customer data, we implemented a new Data Leakage Prevention system to track and record the information shared by employees of our Company. We believe, promoting greater accountability of data sharing is the first step towards protecting the digital assets of HNB.

Reinstating the IT Steering Committee

Given the growing emphasis on technology-based systems, the IT steering committee was reinstated and tasked with providing oversight for all IT related matters. The new committee is headed by the CEO and comprises a multifunctional team drawn from various disciplines across the Company, including the CIO and representatives from Finance, Risk, and Marketing.

Accolades



HNB F was selected as one of the '25 Great Places to Work' for the second consecutive year



Runner-up at the National Business Excellence Award 2018 under Non-Banking and Financial Services Sector



HNB F is the only finance company in Sri Lanka under the Large Category to be Amongst the Top 25 Companies at Asia's Best Workplaces 2019

Priorities for the Future

In the coming years, we will look to further strengthen our intellectual capital with special emphasis on;

- ❏ Building brand equity by deepening the coverage across the country to reinforce our credentials as a holistic financial services organisation.
- ❏ Work towards introducing a structured environmental and social governance framework to improve customer due diligence processes in order to expand ethical lending to all business lines.
- ❏ Increase the investment in technology-based systems, with a stronger focus on developing solutions to support business growth.

Human Capital



Being a service organisation, we rely heavily on our people, for it is our human capital that delivers our value proposition to the market and drives our strategy for the benefit of all stakeholders of HNBFI. It is why we are striving to create a diverse and inclusive environment for our employees, where they can find the opportunity for personal and professional growth to allow them to reach their potential.

Our first priority is to be fully compliant with all applicable labour laws in Sri Lanka as well as to uphold the UNGC principles on labour.

We respect the individual's right to be a part of an association or group as long as such a membership does not violate the fundamental rights of any other individual or group. At present there are no collective

bargaining agreements in effect at HNBFI, mainly due to the Company's commitment to foster strong relationships with employees based on mutual trust and respect.

We believe employment should be at the free will of the employee and no individual is forced to remain in employment should they not wish to do so. We encourage managers to maintain ongoing dialogue with their teams in order to obtain feedback regarding employee satisfaction levels.

Child labour is strictly prohibited at HNBFI and only those who meet the minimum legal age requirements are permitted to work in the Company. As a strict rule, we do not recruit employees below the age of 18 for any of our operations.

We advocate equal opportunity at every stage of the employment life cycle and maintain a non-discriminatory approach throughout the employment process including recruitment, selection, evaluation, promotion and training and development of all employees. We value all our employees and offer equal pay for both men and women in comparable roles and ensure that all HNBFI employees receive equal opportunities for growth and development regardless of age, gender or other factors. If an employee makes a complaint regarding any type of discrimination, an inquiry will be held with every effort made to rectify the situation effectively. There were no reported incidents of discrimination during the reporting period.



Gender Distribution

	2018/19	2017/18	2016/17
Male	1,798	1,650	1,521
Female	163	96	73
Total	1,961	1,746	1,594

Governance

A centralised HR function provides oversight for the governance of human capital activities. The central HR function is tasked with establishing, administering and effectively communicating corporate values, policies and practices that treat employees with dignity and equality, in compliance with employment and labour laws, corporate directives and labour agreements. A broad-based policy framework underpins the human capital development activities undertaken by the HR function.

HR Strategy

The ongoing transformation of our business from a Microfinance based organisation to a fully fledged financial services institution has required us to reorient towards a new HR paradigm, one that will produce a high quality workforce with the capacity to drive operational success and take ownership for the long term sustainability of our organisation. Hence, our new strategic thrust is essentially two-fold;

Recruit and Retain High Quality Talent Human Resource Planning

The Human Resource Planning process lays the foundation for our talent management efforts. The planning process starts with the annual manpower plan prepared by the HR department based on the inputs received from different departments and branches. The manpower plan also takes into consideration the following;

- The strategic plan of the organisation
- Employee movement (promotions, transfers, etc.)
- Retirements
- Employees taking maternity leave
- Intimated resignations

While the main purpose of the manpower plan is to ensure that all departments/branches are adequately staffed, it also assists in identifying which units are under or over staffed in comparison to the cadre requirement, prompting appropriate rebalancing strategies. The manpower plan is subjected to the approval of the HNB Board.

Recruitment

All recruitments take place as per the approved manpower plan. Our policy is to recruit the most appropriate candidates who are always open to learning and developing and who are also the best fit for the HNB value culture. If and when certain selected designations fall vacant, they are first announced internally to give existing employees the opportunity to apply through the HRIS, and thereafter, made public, with all CVs screened and high-scoring candidates being called for an initial interview to help determine the applicants' skills, experience, knowledge and attitude. If the applicant is successful in the first interview, they then progress on to the final interview. This is a crucial part of the selection process where we determine how well the candidate fits with our organisation's culture. As such, the final interview is an interactive discussion aimed at bringing out the candidates' key personality traits.

Local Hiring

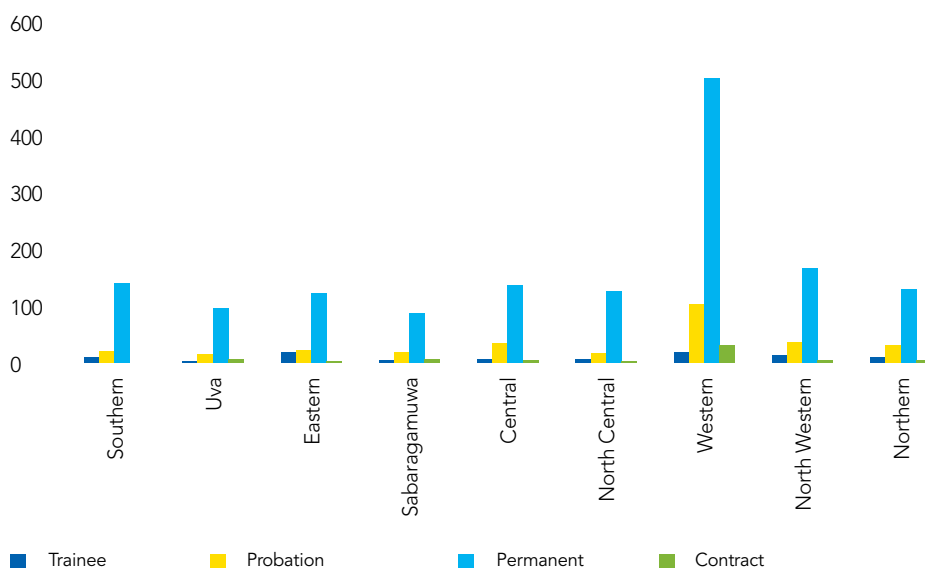
Local hiring is a key pillar in our recruitment process. As a policy we strive to ensure that 90% of our branch staff live within a 5km radius.



Proportion of Senior Management Hired from the Local Community

Province	Number of Senior Management Hired	Number of Senior Management from same Province
Western	43	42
Southern	1	-
Northern	2	2
Eastern	3	2
North Western	7	1
North Central	2	2
Sabaragamuwa	1	-
Uva	1	-
Central	3	1
Overall	63	50

Employee Category Province Wise (No.)



Human Capital

Progress for 2018/19

Entry-level Recruitment Programme

Entry-level recruitment is a key part of our manpower plan. Several recruitment methods are used to facilitate our entry-level recruitment programme. This includes newspaper advertisements, e-media, LinkedIn, Facebook, recruitment agency referrals, etc.

(1) Recruitment of School Leavers

Each year we recruit a large number of school leavers to meet the manpower requirements of our sales force. These school leavers join the Company at entry level. We then invest in their growth and enable them to develop as future leaders of our Company.

To gain access to the pool of eligible school leavers, regular employer branding programmes are carried out at schools across the island, which also reflects our commitment to adhere to our local hiring policy. In the year under review, several such programmes were conducted in schools around the country. A special campaign to attract more women into the workforce was also conducted at leading examination centres on the last day of the 2017 and 2018 GCE Advanced Level examination. The programme generated a large number of responses enabling the Company to achieve recruitment targets for the year.

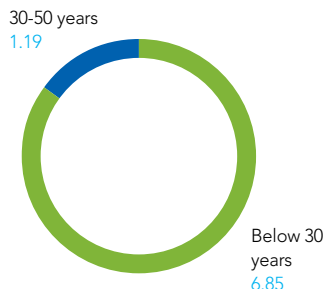
(2) Recruitment of University Graduates/Qualified Professionals

University graduates/qualified professionals are recruited to fulfil our requirements for executive positions. Targeted employer branding initiatives conducted in this regard saw the Company participate in several job fairs in 2018. To further improve our reach, we also partnered with leading social media recruitment sites.

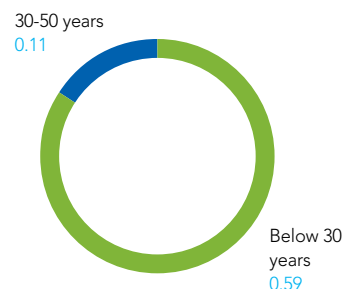
Total Number of Employees during the Reporting Period by Age and Gender

Employee Type	Below 30 Years	30-50 Years	Over 50 Years
Male	1,073	708	17
Female	141	19	3

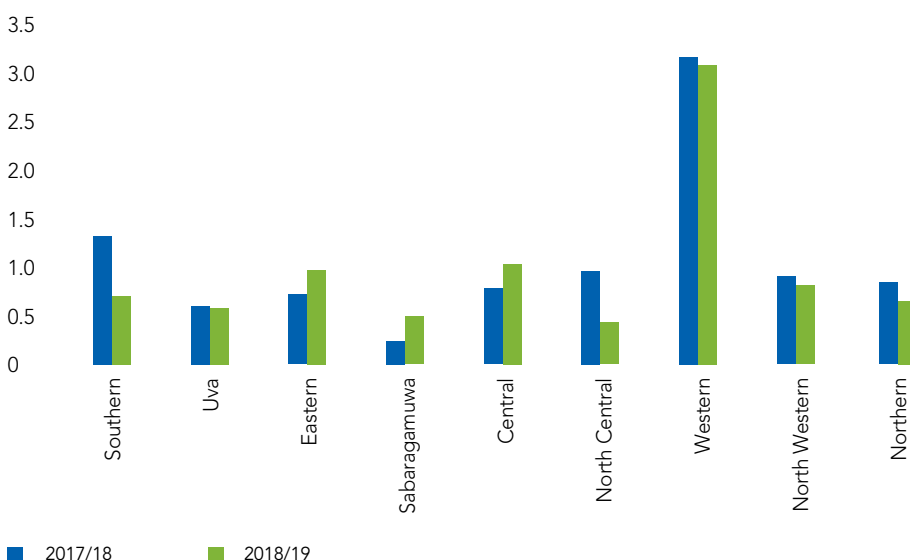
Age Wise Employee Turnover - Male (%)



Age Wise Employee Turnover - Female (%)



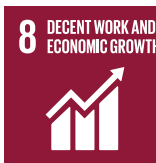
Employee Turnover - Province Wise (%)



Compensation and Rewards

We offer competitive remuneration and benefits to all employees in line with industry standards and comply with the statutory labour laws of the country. In addition to their basic salary, all our employees are entitled to the following benefits;

- Performance-based incentives
- Travelling, vehicle or motorcycle, rent expenses reimbursement
- Medical insurance cover for the employee and his/her immediate family members
- Life and personal accident insurance cover for employees
- Personal/mortgage/educational, festival and vehicle loans or leasing facilities
- Other benefits provided by the Welfare Society (monetary contributions for child birth, wedding, funeral, scholarship, etc.)
- Mobile phone allowance covering data and voice packages



Progress for 2018/19

Target-driven Monthly Incentive Scheme for Sales Teams Involved in Microfinance, SSE and Savings Products

A new scheme, (based on the performance management system outlined below) was introduced to incentivise sales staff involved in the Microfinance, SSE and Savings products on a monthly basis for the achievement of their monthly targets.

Return to Work and Retention Rates after Parental Leave

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

Employee Well-being and Safety

We acknowledge and accept that it is our duty to ensure the health, safety and welfare of all HNBF employees.

Accordingly all our branches are equipped with all mandatory safeguards in compliance with national building safety regulations.



While HNBF employees are not exposed to any significant occupational health and safety hazards, given the nature of our business, our employees may face a certain amount of risk when operating in the field/conducting field visits mainly due to use of motor

cycles for travel purposes. As such, we have made it mandatory that all our field staff are outfitted with necessary protective clothing and conduct regular maintenance to ensure proper functioning of their bikes.

Moreover, we aim to establish a positive well-being and safety culture that is a combination of awareness and understanding, effective processes, and positive behaviour by staff at all levels.

Progress for 2018/19

Safety Training

We consider the safety of our employees to be of paramount importance and have put in place a comprehensive programme that includes, regular fire drills, fire training and awareness to ensure all employees remain vigilant and stay proactive in adhering to the Company's safety protocols. A half day training session was conducted in January 2019 with the participation of 45 employees.

Welfare Fund

The Company maintains an employee welfare fund for the benefit of all HNBF employees. Built through voluntary monthly contributions by employees, the fund is mandated to provide financial assistance to employees in times of personal need or under special circumstances such as a wedding, the birth of a child, funeral, hospitalisation, operation, etc.

The fund is held under the stewardship of the CEO and managed by a dedicated committee appointed every two years. It is the responsibility of the committee to ensure relevant guidelines are adhered to in the disbursement of funds. An independent audit is conducted annually with the findings submitted to the CEO.

In the year under review, a total of Rs. 6.6 Mn was disbursed to 254 employees.

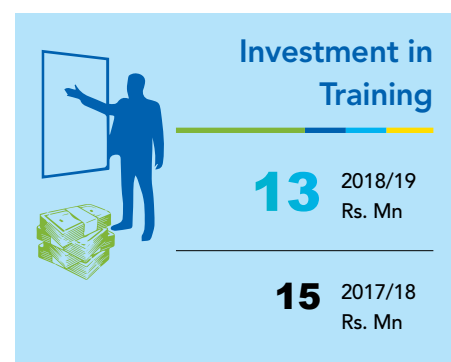
Develop Human Capital as Strategic Business Partners

Performance Management

The performance management procedure is an integral part of our efforts to develop human capital as strategic business partners. The purpose of the procedure is to ensure fair and consistent treatment of all employees and equally importantly to provide managers with a framework and the necessary guidance to enable them to clearly communicate the standard of work expected and to ensure the standards are met. The performance of all HNBF employees is measured annually using both quantitative and qualitative metrics, based on the Management by Objective (MBO) approach which determines the progress made by the employee during the annual review cycle vis-a-vis five core areas – Goals, Competencies, KRA, Values and Additional Accomplishment

Training and Development

We recognise that effective training and development benefits both the individual employee and our business, and ultimately contributes to the achievements of our Company's short term business objectives as well as to deliver on our long term strategy. An annual training plan and budget, which is prepared by combining the training requirements of all business units/departments, provides the basis for all training activities conducted during the year.



Human Capital

Progress for 2018/19

On-boarding Process

A new on-boarding process was introduced to enable new recruits to properly integrate within the corporate culture. In line with the new on-boarding process, all new recruits are required to spend their first day at the HNB Head Office, where they are formally welcomed by the HR department and presented with their welcome kit. At the conclusion of the first day's programme, all new recruits are informed of their assigned branches/department where they are required to report to from the second day onwards. The on-boarding process continues on the second day under the supervision of the respective branch/department heads.

Orientation and Induction

For new employees who join the Company, a formal orientation and induction is also typically carried out within a few weeks of them joining the Company. The main purpose of conducting an orientation and induction programme is to ensure that all our employees have an understanding of the Company's philosophies, goals and objectives, policies, procedures, rules and regulations and other practices. Stemming from this, the induction programme focuses on four key areas - the Company, the branch/department, the job and the human aspect.

For every new recruit, the induction programme is now done through a new e-learning platform, which has enabled new recruits to participate in the programme from their assigned branch. All new inductees are required to complete a knowledge assessment form within the e-learning module, which helps the HR department to assess their adaptability to the corporate culture, their ability to absorb the Company's history and their basic product knowledge.

Employee Requisitioned Training

In striving to create a culture of learning where individuals accept responsibility for their own growth and development in line with the Company's strategic objectives, we introduced

a special initiative to promote employee-requisitioned training. Under this initiative, employees can present a request for specific training. Employees are required to present a request through their immediate supervisor, together with the result of their performance management review. All such requests are reviewed on a case-by-case basis by the HR department.

Additional Training for Poor Performers

To assist underperforming sales staff, we conduct a special training programme which focuses on selling skills as well as some customised programmes targeting the weak areas of employees.

Our Training Partners

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

Gender wise Training

Type	No. of Employees	Duration	Total Hours
Male	3,506	1,350	41,809
Female	144	45	1,152

Employee Category wise Training

	No. of Employees	Duration	Total Hours
Senior Corporate Management	80	48	832
Managerial	1,703	387	14,470
Officer	1,373	276	8,887
Trainee	494	684	18,772
Total	3,650	1,395	42,961

Programmes to Upgrade Employee Skills

Management Diploma with University Lecturers

Management skills can be defined as certain attributes or abilities that an executive should possess in order to fulfil specific tasks in an organisation. Management skills can be developed through learning. Corporate division also pursues opportunities that leverage the value of the Company's business platform.

Focus Team - Head office, Regional Level Managers and Branch Managers

No. of Participants - 104

Objective

- How to manage people and give crucial foundational skills to shift from being an individual contributor to a well-respected manager who can achieve team success and drive bottom-line performance.

Redefine Myself programme for Top and Middle Management Employees

Our corporate culture is built around HNBF's core values - empowerment, experience and empathy. We want to empower our team to do their best work and make sure they have a great experience in the office. As we deal with small and medium sized businesses related to our Company every day, we believe such a programme helps us to empathise with our customers and helps to develop products and services thereby ensuring employees' loyalty towards HNBF.

Focus Team - Corporate Management/Senior Managers/Regional Level Managers

No. of Participants - 81

Objectives

- ☛ Define performance management
- ☛ Understand how performance management works and the tools to make it work
- ☛ Discuss effective goal setting
- ☛ Recognise the importance of motivation

Professional Course

Professional Course	No. of Participants	Institution
Certificate of Business English	25	Saegis Campus
Training on Fundamentals of Coaching	48	Glenmore Global Resources

Outbound Training Programme

- ☛ This training team achieves their tasks with great success based on their specific experiences and long term professional expertise.
- ☛ Teams are assigned with some challenging tasks or activities that needs to be completed by them within a given time frame.

The learning begins with the experience followed by reflection, discussion, analysis and evaluation of the experience.

Focus Team - Regional Staff

No. of Participants - 266

Objectives

- ☛ The main focus of the outbound training approach is to impart learning on organisational needs such as leadership, strategic thinking, conflict management, team building, effective communication, quality improvement, mentoring and skill development.

Staff Training

	No. of Training Programmes	Duration	Total Hours
In-house	65	1,063	27,628
External	37	316	15,333

Customer-oriented Training

	No. of Trainings	Duration	Total Hours
In-house	12	39	7,401
External	20	80	3,769

Product wise Training

Product	No. of Employees	Duration	Total Hours
Saving and FD	171	39	1,370
Microfinance	1,001	322	6,405
SME	155	29	1,234
Gold Loan	37	13	257

Employee Movement

To make certain that our employees grow with the Company, we continue to work towards providing them with a range of opportunities for both vertical and horizontal career mobility.

To date, the Management by Objectives (MBO) based annual performance appraisal has been the main source for identifying high performing employees and promoting them into higher positions. However, the introduction of the 9-box mechanism (described below) is seen as the first step towards developing a more structured platform for employees to begin planning their careers within the Company.

Progress for 2018/19

9-Box Model for Succession Planning

The 9-box model was introduced to facilitate career growth of all employees. Operationalised with effect from 2019, the 9-box model is based on the annual PMS setting and review process. By measuring the performance of each employee against their potential, the 9-box methodology provides insight to career promotion and also serves as a structured methodology to facilitate

Human Capital

succession. To support this initiative, the HRIS was enhanced to enable employees in these segments to keep tabs on their performance in real time and make necessary improvements as needed. All employees were assessed under the 9-box appraisal mechanism.

Rewards and Recognition

Apart from promotions and internal transfers, the Company has a range of other mechanism to recognise high achievers.

Progress for 2018/19

HNBF Night of Stars

This is a highlight of the year which is attended by employees representing every branch. Apart from various performances by employees, they are also awarded on several categories such as 'Best Executive', 'Company's Best Performer' and other annual employee recognition awards. The selected employees receive certificates and trophies together with cash awards. These high performing employees also receive the chance to travel overseas with other selected colleagues for the annual overseas travel trip.



HNBF Night of Stars

Best Branch – Puttalam

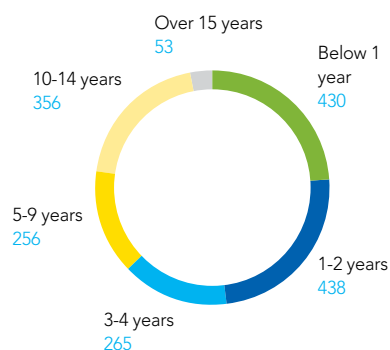
Length of Service/Anniversary Awards

We celebrate every employee's work anniversary by giving them a token of

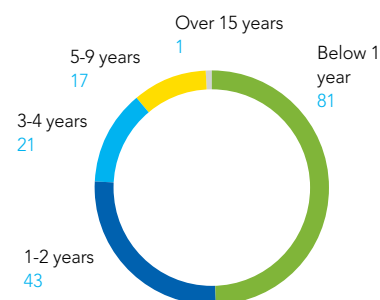
appreciation to show our gratitude for their years of service with the Company. For the Annual Star Night of 2018 we awarded 73 employees who had completed 10 years and two employees for 15 years of service.

Service Analysis of Employees for the FY 2018/19

Service Analysis - Male (No.)



Service Analysis - Female (No.)



Employee Relations

The strength of the relationships we have with our employees fundamentally defines our ability to engage them as strategic business partners. Premised on this, our open door policy ensures that all HNBF employees have access to the top management at any given time, while our management teams are encouraged to use all possible opportunities to engage with their staff on a regular basis.

Over and above this, we have appointed a dedicated employee engagement officer who serves as a liaison between employees and the management. Handling employee grievances also comes under the purview of the employee engagement officer.

Meanwhile, routine corporate information is shared among employees via the intranet and SMS as well as through the Mehevara magazine, while specific information is communicated through special circulars or email campaigns conducted from time to time.

Progress for 2018/19

Great Place to Work (GPTW) Survey

In 2018 the Company participated in the GPTW survey, as part of an independent study to compare the feedback provided by our employees against globally accepted benchmarks. Approximately 32% of our employees participated in this GPTW survey conducted in 2018.

Employee Motivation

Based on the understanding that a highly motivated workforce is the key to sustaining our growth momentum in the long term, we arrange for regular motivational activities for our staff. These take the form of both formal and informal activities that seek to encourage teams to work together in the spirit of camaraderie and goodwill.

Progress for 2018/19

Activities Based on the Kaizen Framework

An ongoing initiative tied to the continuous improvement process advocated by the Kaizen Framework, we have installed a 'Kaizen Board' in every branch to capture new ideas, To Do tasks, ongoing efforts and done or completed initiatives. A monthly competition is held where employees at all levels are encouraged to participate. The HR department collects all the "Done" ideas every month and the best concept is selected by a panel of judges comprising of the Chief Operating Officer, DGM-HR & Administration/CHRO, DGM-Branch Network and DGM-Marketing. This idea will then be conveyed to all branches. The winners (usually one employee per month) will be rewarded with special gifts.



IQ Master Quiz Competition

HNB Finance IQ Master Quiz Competition

An interactive quiz competition where a correct answer earns the contestant a guaranteed sum of money. The aim of our IQ Master programme is to build a pool of 'knowledge workers' by identifying and rewarding talented employees within the Company. The competition consists of three rounds. Certificates are given to all participants while the best 100 and best 16 receive additional awards, certificates, cash rewards, while the winner of the competition receives the coveted 'IQ Master' trophy, a cash award and a foreign tour.

Annual Sports Day

The annual sports day is another event which serves as a key platform towards building team spirit among employees whilst promoting friendly competition. A winner from each region will proceed to



the final round. Special awards given out include; 'Champions', 'Runner-up', 'Man of the Match', 'Player of the Tournament', 'Best Bowler' among others. Certificates and cash prizes are given as well. In addition, we select the HNB Finance Fastest Man and Woman and HNB Finance Prince and Princess as well.

Monthly Facebook Photo Contest

Each month we announce a theme on our Facebook page, usually based on current trends. Any HNB Finance branch can participate by sending in their original photographs that best represent the theme for the month. Towards the end of each month all photographs are uploaded to our Facebook page so that all employees can like and share the photograph of their preferred choice. The branch with the most likes and shares will receive a cash prize. Additionally, the most creative, theme-based photograph is also given an award based on the decision made by a selection panel.

Priorities for the Future

Going forward, our aim is to further strengthen our human capital through the implementation of the following initiatives;

- ❖ Extend the 9-box performance appraisal mechanism to cover all HNB Finance employees
- ❖ Maintain a structured approach towards succession planning supported by individual employee development plans
- ❖ Increase the investment in e-learning in order to reinforce a culture of continuous learning
- ❖ Implement the e-recruitment portal



Annual Sports Day



Social and Relationship Capital



"Being a service organisation, relationship capital is one of HNBF's key strengths. In fact, we see our relationships with customers, suppliers and society as an essential component of our strategic progress. It is why we work to foster relationships that are built on trust. Our aim is to develop collaborative partnerships for mutual benefit"



Customer



The relationships we maintain with our customers is one of our most valuable assets. We believe it is the basis on which our business can grow sustainably in the long term. To earn their trust, we focus on creating a holistic experience for our customers – one that combines value to customers with responsible financial practices which in turn would ensure HNB remains their No. 1 choice.

A Diverse Range of Offerings Product Range

We maintain a diverse range of business lines to cater to the financing, leasing and investing needs of customers within our target markets. As a responsible financial institution we are committed to ensure that our financial services support and enhance the lives of our customers. As such all our financial services are designed and developed in strict conformity with legal and regulatory frameworks applicable to the NBF sector, thus providing the assurance that they are not in any way detrimental towards the interest of our customers. To further emphasise our commitment in this regard, we take proactive action to refine our product models to make sure they remain relevant and responsive to the needs of the market. Moreover, we continuously study market trends and use this as the basis to strengthen our existing product

range or introduce new financial services to cater to the evolving needs of customers.

In the year under review, there were no reported incidents of non-compliance with regulations and/or voluntary codes concerning the health and safety impacts of products and services.

Financing

HNB's lending products offer the best in-class solutions to meet the needs of individuals and businesses, ranging from grass root level entrepreneurs to SME sector operating in the country.

Microfinance Segment

Diriya – HNB's flagship product is also the most trusted Microfinance solution in the market. The product targets economically disadvantaged female entrepreneurs, whose access to traditional forms of financial services is limited due to their lack of financial resources and social distinction.

Sahana – an interim loan facility granted to active members of Diriya loans to financially meet their urgent consumption requirements.

Small Scale Enterprises (SSE) Segment

Easy – small businesses with a current account at licensed commercial banks can avail themselves of the Easy loan facility ranging from Rs. 100,000 to Rs. 5 Mn to fund their working capital requirements.

Abilasha – accessible to both male and female individual entrepreneurs, the scheme offers greater flexibility and prolonged repayment periods.

Swashakthi – designed to offer financial assistance to HNB's savings customer base depending on their savings habit.

SME Segment

Relax – for salaried employees attached to either state institutions or private sector organisations.

Saviya – for all SME's who are seeking support to take their businesses to the next level.

Nivahana – accessible to professionals and entrepreneurs who have a stable income stream as well as existing HNB customers who have a proven track record with the Company.

Leasing

HNB offers a broad spectrum of leasing solutions ranging from micro-leasing to vehicle leasing, for both existing and new customers.

Investing

HNB's customers have a range of investment options.

Savings

HNB Finance Savings Account – HNB's mainstream savings product that can be opened with a minimum deposit. All HNB Finance Savings Accounts come with an ATM card that enables the customers to access their funds through HNB's island wide ATM network.

Miyulasi – a savings product that is designed specifically for women entrepreneurs under the Diriya Microfinance scheme.

Yalu – a savings proposition which encourage the savings habit of children with an attractive range of gifts.

Term Deposits

With HNB's long-standing stability and trust, customers can have long term fixed deposit with higher interest and assured guarantee of their funds.



Social and Relationship Capital

Progress for 2018/19

New Products added to the Existing Range Microfinance Segment

Divi Saru – a hybrid product designed specifically for long-standing Diriya customers who have built up a stable credit profile to upgrade to an individual loan based on the strength of their own creditworthiness.

Savings Products

Sureki – a versatile product which rewards depositors for the habit of consistently saving a minimum of Rs. 50 per week.

New Business Lines

Gold Loans

With effect from November 2018, HNBF began offering Gold Loans which has the following key differentiating factors;

- ⚙ Higher advance (Up to 60% of Gold Value)
- ⚙ Greater flexibility allowed through one, three, six or 12-month repayment plans as opposed to most peer offering which are conditioned to a one month settlement limit
- ⚙ Ability to make part payments

Access and Reach

Having first started out as a Grameen-based Microfinance operation, our outreach model has been largely based on providing access to grass root level customers. Accordingly, our branch network spread across the country to serve economically disadvantaged people. Apart from this, we maintain 21 service centres across the island especially to service our grass root level Microfinance customers.

However, following our recent decision to transform into a fully fledged financial services company, we are now in the process of broadening our traditional outreach framework in tandem with our growing business. The first phase of this effort kicked off in 2015 where we began setting up leasing centres within our existing branches to facilitate the needs of our leasing customers. The second phase which commenced in 2018 saw Gold Loan centres being set up at selected branches.

In striving to offer our customers the best in-class facilities, we have partnered with our parent – HNB, to enable our savings customers to use their ATM card to access their accounts from any one of the HNB ATMs across the country.

Managing the Customer Experience Customer Engagement

Customer engagement is a concept that goes hand in hand with our business. In fact, our core business of Microfinance is largely dependent on maintaining very close relationships with our customers. HNBF staff assigned to Microfinance service centres are required to maintain regular contact with their customers. They act in an advisory capacity to support customers in achieving their financial objectives. This includes providing timely, accurate and relevant information to help customers find solutions to the financial issues they face.

In doing so all employees are required to maintain the highest level of ethics and integrity in line with HNBF's core values. We support our employees in this respect by providing clear customer communication guidelines. Moreover, to enable the customer to make an informed decision regarding our products and services we ensure that our marketing and promotional materials contain all relevant information in compliance with all regulatory requirements applicable to the NBF sector.

Progress for 2018/19

Compliance with the Customer Protection Framework

In the year under review we took steps to comply with directives set out under the Customer Protection Framework which led to the introduction of an offer letter for all lending customers, including Microfinance customers on the group lending model. The new offer letter is issued in all three languages and serves to inform the customer of the general terms and conditions including the contractual obligation of both parties.

Accordingly, in the year under review, there were no reported incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labelling.

Customer Privacy

We recognise the importance our customers place on the privacy and security of their personal and financial information and have developed strict policies and procedures to safeguard their interest. To maintain the confidentiality of personal and financial information, we restrict employee access on a 'need to know' basis and take appropriate disciplinary measures to enforce employees' responsibility on privacy and confidentiality.

We have established training programmes to educate our employees about the importance of customer privacy and to help ensure compliance with our policy requirements.

Furthermore, we have implemented strong physical, digital and procedural controls to protect against unauthorised access to customer information. We have taken various measures to protect our computer systems from various threats. Firewalls and intrusion prevention systems are also in place to block unauthorised access by individuals or networks. In addition, we continually monitor technological advances and upgrade our systems to protect customers' personal and financial information from getting in to wrong hands.

Complaint Handling

As stated in our business principles, HNBF welcomes feedback and comments from all customers. To make it easier, we have established several additional channels for customers to lodge a complaint or provide feedback. These include;

- ⚙ Our call centre which accepts complaints in all three languages
- ⚙ The corporate website

Regardless of the channel, we remain committed to ensure all such complaints are handled fairly, consistently and promptly. We have in place

transparent and effective mechanism for complaint handling to ensure our customers are provided with best possible satisfactory solutions or answers to their concerns.

- Improve customer convenience by expanding the network of touch points.
- Increase customer engagement through social media.
- Strengthen the Cyber Security Framework.
- Leverage on CRM technology to improve the responsiveness of core products.

Progress for 2018/19

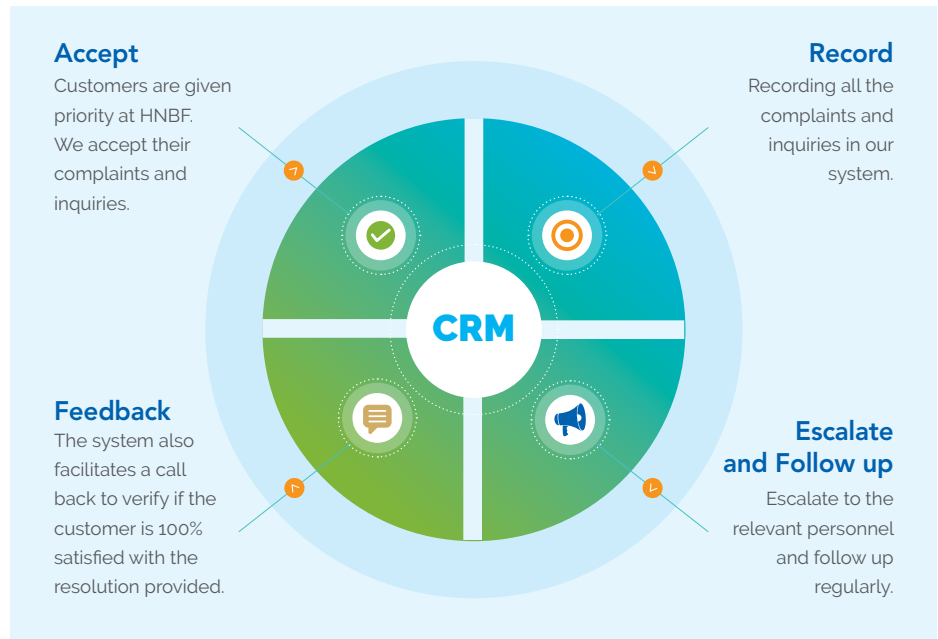
Commissioned a CRM System

To streamline our complaints handling and improve overall efficiency of the process, a fully fledged CRM system was commissioned in mid 2018. The new system provides a systematic framework to accept, record, escalate and follow up on complaints to ensure they are resolved within the stipulated timelines. As a final step, the system also prompts a call back to verify if the customer is 100% satisfied with the resolution provided.

Priorities for the Future

Several key focus areas have been identified as medium term priorities. These include;

- Investing in digital technology to develop faster and more cost effective channels to reach new customers and make inroads into new customer segments.



Supplier



Our suppliers are integral to how we fulfil our customers needs. As such we work closely with our suppliers to ensure a reliable supply of consistent quality of goods and services. We do this by adopting clear guidelines to build mutually beneficial relationships based on trust.

Best Practices

Fair and Equitable Procurement

As part of our fair and equitable procurement practices, we call for a minimum of three quotations for all purchases, which are then evaluated by the in-house procurement management team in line with the Company's pre-determined benchmarks for cost, quality and delivery.



To support their decision, the procurement management team also conducts additional background checks to verify the business credentials and financial track record of potential suppliers. This procedure is strictly followed for all purchases above Rs.100,000. However, the procurement of IT hardware and software is handled by the IT division, with the support of the IT steering committee offering support and technical input.

Local Sourcing

We maintain a decentralised procurement approach for all routine items, such as stationery, building maintenance, janitorial and tea services which are procured from local suppliers located in close proximity to our branches, which further reflects the Company's commitment to support the growth of these local economies.

Social and Relationship Capital

Progress for 2018/19

	2018/19	2017/18
Total value distributed to suppliers (Rs. Mn)	190	250
No. of suppliers	39	38
Percentage of local suppliers (%)	100	97
Value distributed to local suppliers (Rs. Mn)	190	241

Priorities for the Future

- ❖ Maintain a supplier database as the basis of developing long term relationships with suppliers
- ❖ Develop a structured supplier development programme to on-board suppliers to the Company's Ethics and Integrity Framework

Community



Starting off with a Grameen-based operation, our business model has from inception been premised on Microfinance activities that aims to promote financial inclusion across Sri Lanka. Therefore, for HNBF, community ties are not a mere obligatory response but rather an integral part of our DNA.

These deep connections we have built with grass root level communities over the years have also provided the opportunity for HNBF to address community needs more holistically

and in an impactful manner in order to create lasting value for the future.

Women Empowerment Group Lending

Our Microfinance operation, which has been the mainstay of our business for the past 19 years is based on the Company's thematic undertaking to support Women's Empowerment. Accordingly, HNBF's flagship "Diriya" product aims to reach out to female micro entrepreneurs around Sri Lanka, whose access to traditional forms of financial services is limited due to their lack of resources and social distinction. Structured using the Grameen 'trust group' concept, Diriya brings together three to five women who will support each other and ensure the loan commitment is met on time.



Progress for 2018/19

Women Empowered

Region	Nos
Ampara	15,058
Anuradhapura	15,585
Badulla	15,327
Colombo	11,016
Dambulla	15,485
Galle	13,378
Gampaha	8,423
Hambantota	12,570
Jaffna	20,161
Kalutara	10,390
Kandy	16,821
Kurunegala	9,886
Puttalam	13,630
Ratnapura	12,585
Trincomalee	17,529
Wattala	9,402
Grand Total	217,246

Skills Development

YouLead Project

YouLead is a USAID-funded programme implemented by the International Executive Services Corps (IESC) to improve technical and vocational education and training in a bid to increase youth employability in Sri Lanka. The main aim of the project is to develop and empower Sri Lanka's talented young women and men to take charge of their own career prospects and economic future. The project is operationalised through a series of seminars and workshops which provide valuable technical and financial knowledge on how to create, sustain and develop a business successfully. HNBF's partnership with YouLead, will enable our Microfinance customers to benefit from these workshops which will help them to grow their businesses and eventually mentor and lead other budding entrepreneurs to kick-start their own businesses.

Following the official agreement, our own credit executives also participated in several workshops and seminars to sharpen their skills in guiding customers to reach their financial goals.



on condition that they are able to fulfil all key eligibility criteria. The committee is entrusted with screening all potential claims and taking appropriate action to provide the requisitioned assistance in line with the fund guidelines. As a policy, no direct monetary disbursements are made to customers.

Progress for 2018/19

The staff from Matale branch saw the need to help this family while visiting their home. The customer has one child in grade 10 who stopped going to school due to the difficulties faced and one disabled brother.

The Company was able to help build a home and provide them with necessary items for their daily living. The staff also took the initiative to talk to the principal of the school to ensure that the child attends schools.



Progress for 2018/19

Community Support

Mehewara Fund

The Mehewara Fund is maintained for the purpose of providing emergency aid for our Diriya customers. Resourced through voluntary contributions made by employees, the fund is held under the stewardship of HNBF's CEO and managed by a dedicated committee consisting of corporate management members.

All active Diriya customers are entitled to receive support through the Mehewara Fund

Social and Relationship Capital

Mehewara Fund Details for 2018/19

No. of Beneficiaries	Purpose	Amount Granted (Rs.)
29	For Medicine	328,000
13	Operations	250,000
5	House renovation and Business Place	759,440
24	Accident	270,000
2	Cancer	20,000
5	Wheel Chair and Other Equipment's	113,795
3	Medicine for Kidney related Diseases	30,000
3	Medicine for Eye and Ear difficulties	37,000
3	Other	35,000
1,650	Flood Donation	578,000
1,737	Total	2,421,235

Special Projects

Aside from the above commitments, we have more recently increased our investment in the community by undertaking special projects that come to our attention due mainly to our work with grass root level communities.



Progress for 2018/19

Commissioning of a Reverse Osmosis (RO) Plant in Mohoththuara, Kalpitya

Mohoththuara, a tiny village located with less than 130 inhabitants, is located in an extremely remote island in the outskirts of Kalpitiya in the Puttalam District. It was brought to our attention through our networks in the area that the village lacks many basic amenities including access to clean drinking water, which led HNBF to commission a RO plant at the village school for the benefit of 50 students, teachers and other residents in the area. The project was completed and handed over to the school in March 2019. In addition, with the Company making the initial contribution, Yalu minor savings accounts were opened for all students of the school.

Priorities for the Future

Several key focus areas have been identified as medium term priorities. This includes;

- ☛ Increase investment in the community through special projects focusing mainly on community healthcare.



Natural Capital



Being a financial services institution, our activities have only a limited impact on the environment, and HNBFI is therefore, considered to be a low contributor to overall GHG emissions. We do however, accept that this does not in any way diminish our responsibility towards the environment and remain proactive on seeking ways to minimise the loss of natural capital.

Moreover, as part of our rebranding exercise we are also seeking to position HNBFI as a 'green company'. Our efforts in this regard is driven by a broad-ranging Environmental Management Framework with two main aims;

Reduce HNBFI's own Carbon Footprint Green Branch Programme

Following the change in our identity as a holistic financial services company, we have increased our focus on creating green branches. The effort is spearheaded by the Green Branch programme which was launched in 2018 with three clear objectives;



- 1) Reducing day-to-day energy usage by
 - i. Investing solar power for branches located in Company-owned buildings with the view of increasing HNBFI's renewable energy footprint.

- ii. Conducting regular maintenance to ensure optimal functioning of electrical equipment.
- 2) Promote the conservation of water resources by.
 - i. Introducing rainwater harvesting and water purification systems to reduce HNBFI's water footprint.
- 3) Benchmark globally accepted best practices for sustainable construction.
 - i. Ensure branches constructed on Company-owned premises are done in line with globally accepted green building practices.

Natural Capital

Progress for 2018/19

Green Branch Programme

As part of the first phase of the Green Branch programme, development work on the Puttalam and Anuradhapura branches commenced, with both buildings designed to maximise the use of natural light. Additional investments are also planned to introduce eco-friendly air-conditioning systems. Moreover, reflecting our commitment to increase HNB's renewable energy footprint, further investments were made to commission rooftop solar panels to meet 100% of the energy requirements of each building.

Controlling Energy Usage

While our energy consumption has continued to increase in recent years in tandem with our growing business, we have continued to maintain a strict policy on conserving electricity, the primary source of energy for the Company's needs. As part of this commitment energy efficient lighting has been installed across the island wide branch network.

Fuel, Water, Electricity Consumption

Energy	2018/19 Units	2017/18 Units
Fuel (Litres – Company vehicles only)	23,860	-
Water (m ³)	17,535	18,699
Electricity (kWh)	1,996,843	1,563,175

Progress for 2018/19

Energy Reduction Targets

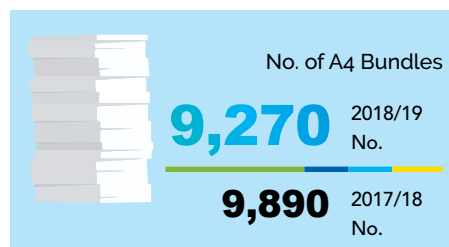
In 2019, a bid to encourage branch teams to take ownership for their usage, all branches were issued with specific electricity reduction targets which were also included as part of the monthly KPIs. This was accompanied by an internal campaign to highlight key action points and provide energy reduction tips.

Energy Conservation and Health tips for Staff

In order to reduce electricity consumption at the Head Office, a campaign was launched to encourage employees to use the staircase instead of elevator. Apart from the energy savings the campaign also seeks to encourage employees to make healthy lifestyle choices like using the stairs rather than the elevator.

Reducing the use of Paper

Given the expansion in our business activities in the past year, special emphasis is now placed on reducing paper consumption across the Company. Consequently, we have increased our investment in technology driven system automation that would lead to a significant reduction in paper use in the day-to-day operations. Moreover, we have installed studio printers that can prevent unnecessary printouts by using the 'Cancel' option. Printouts taken by each employee are monitored through the printer as employees are required to use their ID/Punch Cards to access the printer. In addition, all internal communications are done through email.

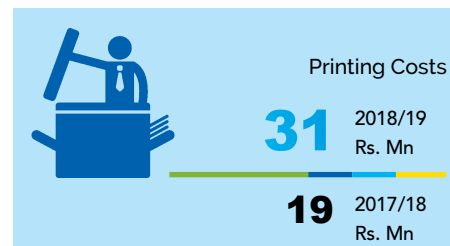


Progress for 2018/19

Process Automation

The Company invested in a new Document Management System in a bid to reduce the large volumes of paper used in all operations of the business. Equipped with the latest digital reading technology that allows documents to be scanned and uploaded, the new Document

Management System has helped to eliminate the need for large volumes of photocopies of the customer's physical documents. With the new system, printing of paper forms is also minimised as the inbuilt automated workflow systems enable relevant authorities to complete the approval process within the system itself.



SLIPS and CEFTS Integration

The SLIPS and CEFT integration has enabled direct transfers to be made to customers' accounts and largely eliminated the need for physical cheque-based payments.

Conserving Water

Being a financial services institution, our usage of water is limited to utility purposes of our staff across the branch network. Nonetheless, every effort is made to ensure usage is well managed and wastage is minimised.

Water Consumption

Water Source	2018/19 Units	2017/18 Units
Municipal water supplies	538	385
Water Board	16,997	18,314
Other sources	-	-
Total water consumption	17,535	18,699

Support the Creation of an Environmentally Conscious Society

Employee Awareness

Our efforts to support an environmentally conscientious in society begins with our employees. We provide continuous and ongoing training to raise awareness and imbue a go-green mindset among our employees. In addition, we encourage employees to submit innovative ideas to help the Company's efforts to minimise its carbon footprint.

Progress for 2018/19

Polythene Ban

The polythene ban introduced in the previous year continued to be strictly enforced across the Company. Thanks to active support of all employees we were able to neutralise the use of polythene enabling HNB Finance to be declared a 'No Polythene Zone' with effect from 2018.

To assist employees in complying with the polythene ban, the Company presented each employee with a reusable metal lunch container which they can use to pack their lunch. In addition, an employee who purchases his/her lunch from a nearby food outlet which may be using polythene is expected to take the metal container and get the lunch filled into that box. The purpose of this exercise is to raise awareness and encourage each employee to contribute towards HNB Finance's commitment to reduce the use of non-recyclable materials within Company premises.

Waste Management

All waste used at our Head Office and branches are segregated and handed over to the Municipal waste disposal unit. At our Head Office all daily food waste is weighed with information displayed in the canteen. This information is intended to create awareness and remind ourselves to minimise

excesses and waste by being more mindful to serve an appropriate quantity.

Responsible Lending

With our business now focusing on a broader spectrum of lending activities, we have adopted a triple bottom line approach to integrate environmental concerns into our day-to-day business activities. Accordingly, environmental screening has been included as part of our SME lending model with customers evaluated based on the availability of valid permits, licenses and approvals that confirm their eligibility to conduct environmentally sensitive businesses.

Priorities for the Future

The focus for the future would mainly be centered on;

- ❖ Expediting the Green Branch programme to integrate green concepts into all aspects of branch operations.
- ❖ Increase the investment in process digitisation to improve efficiency and thereby reduce the use of paper.
- ❖ Technology-based solutions to cultivate environmental consciousness among customers.

Capital Trade-offs

In our strategic and tactical business decisions, we are often required to prioritise some resources and some stakeholder outcomes above others, which means having to make trade-offs between the various capitals. Given below are some of the trade-offs that were made in 2018/19 in pursuit of our strategic objectives;

Strategic Objective



Develop and retain high quality human resources

The introduction of a target-driven monthly incentive scheme for sales teams involved in Microfinance, SSE and Savings

The Trade-off

- Higher personnel costs negatively impacting the Company's financial capital.
- Higher business volumes generated as a consequence will contribute towards improving the Company's financial performance and thereby strengthen financial capital in the long term.

Strategic Objective



Develop and modify products to improve customer-centricity of the portfolio

The decision to venture into the Gold Loan market

The Trade-off

- Initial expenses to set up support infrastructure and manpower requirements, which affected the Company's financial capital.
- New business generated will enhance the Company's financial performance in turn improving long term financial capital. Moreover, expanding the portfolio adds value to the HNBF brand and improves customer confidence and trust, thereby positively impacting both intellectual and social and relationship capitals.

Strategic Objective



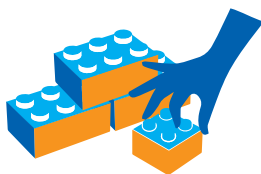
Leverage on technology to drive growth

Implementation of a new document management system for leasing

The Trade-off

- The negative impact on the financial capital due to the initial cost outlay as well as the impact on human capital during the changeover process.
- Workflow systems will be streamlined which will increase productivity and boost employee motivation. It will also greatly improve processing times thereby enabling faster service delivery to customers. As such, the Company's intellectual capital, human capital, and social and relationship capital are positively impacted.

Strategic Objective



Realign the corporate branding and marketing strategy

Improving brand awareness and recognition

The Trade-off

- The negative impact on the financial capital due to the initial cost outlay as well as the impact on human capital during the changeover process.
- Rebranding as a fully fledged financial services institution will enhance the Company's brand positioning in the market which will provide the leverage to scale up the business in the future.
- The Company's intellectual capital and financial capital will be positively impacted as a result.

POWERING AHEAD WITH SOLID FOUNDATIONS

- ⌵ Corporate Governance | [84](#)
- ⌵ Risk Management | [104](#)
- ⌵ Board Committee Reports
 - Board Audit Committee Report | [110](#)
 - Human Resources & Remuneration Committee Report | [112](#)
 - Nomination Committee Report | [113](#)
 - Board Integrated Risk Management Committee Report | [114](#)
 - Related Party Transactions Review Committee Report | [116](#)

Corporate Governance

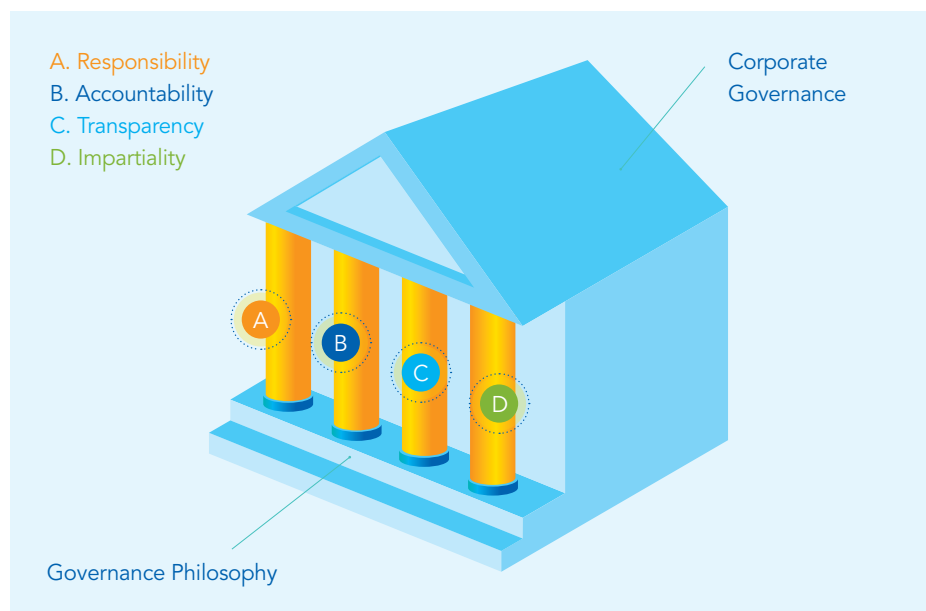
Governance Philosophy

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

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

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

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



Governance Framework

At HNBF, the ultimate responsibility to ensure that it operates within a robust and sound governance framework rests with the Board of Directors. Accordingly, the Board provides entrepreneurial leadership within a framework of prudent and effective controls enabling risks to be assessed and managed whilst setting the Company's values and standards to meet the obligations towards 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. This has resulted in a culture of good governance and

sustainability of the Company's business model.

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

A. Internal Governance Structure

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

❖ The Board of Directors

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

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

❖ Board 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 some 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 thereby ensuring independent oversight.

Board Sub Committees

Name of the Sub Committee	Responsibilities of the Sub Committee	Members
Audit Committee	Oversight of internal control and financial reporting	Mr. Rajive Dissanayake - <i>Chairman</i> Mr. Anushka Wijesinha - <i>Member</i> Mr. Hasitha Wijesundera - <i>Member</i>
Integrated Risk Management Committee	Oversight of risk management of the Company.	Mrs. Rose Cooray - <i>Chairperson</i> Mr. Anushka Wijesinha - <i>Member</i> Mr. Chaminda Prabhath - <i>Member</i> Mr. Mahinda Perera - <i>Member</i> Mr. W. S. P. Arangala - <i>COO</i> Mr. Bhanu Wijeratne - <i>AGM Risk</i>
Strategic/Investment Committee	To provide oversight in driving the Company towards achieving its strategic objectives	Mr. Jonathan Alles - <i>Chairman</i> Mr. B. Premalal - <i>Member</i> Mr. Rajive Dissanayake - <i>Member</i>
Credit Committee	Oversight of credit management	Mr. Hasitha Wijesundara - <i>Chairman</i> Mrs. L. L. C. C. Thambiah - <i>Member</i> Mr. Anushka Wijesinha - <i>Member</i>
HR/Remuneration Committee*	Recommendation of remuneration framework and review of Board succession planning	Mr. H. Wijesundera - <i>Chairman</i> Mr. Jonathan Alles - <i>Member</i> Mr. Udan Fernando - <i>Member</i>
Nomination Committee*	To fulfil 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 key management personnel	Dr. Udan Fernando - <i>Chairman</i> Mr. Jonathan Alles - <i>Member</i> Mr. B. Premalal - <i>Member</i>
Related Party Transactions Review Committee	Oversight of related party transactions and avoidance of conflict of interest	Mr. Anushka Wijesinghe - <i>Chairman</i> Mr. Hasitha Wijesundara - <i>Member</i> Mr. Chaminda Prabhath - <i>Member</i>

* The HR/Remuneration & Nomination Committee was divided in to two separate committees that are HR/Remuneration Committee and Nomination Committee from 01st January 2019. The attendance of the members of the original committee, that is, HR/Remuneration & Nomination Committee is reflected in the attendance of the committee on page 90.

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 HNBFI.

Internal Charters and Policies

The internal policies support a higher growth; best processes for governance; and management of risk, controls and compliance across the organisation. These form the 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 HNBFI comprises the laws, regulations and best practices that enable HNBFI to

operate within a sound corporate governance framework. Internal governance structure at HNBFI 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

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

A detailed HNBFI's level of compliance with Finance Companies (Corporate Governance) Directions is set out on pages 92 to 103.

C. Assurance

Different components within assurance act as the supervisory module of HNBFI'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 controls, HNBFI 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 HNBFI to monitor reporting

Corporate Governance

Recognising the importance of strengthening governance with internal controls, HNB 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.

and compliance with all mandatory reporting requirements with the intention of establishing a fully compliant corporate governance and risk mitigating culture.

Internal Audit

HNB's internal audit function which focuses on providing an independent risk based oversight to the Board Audit Committee on the processes and controls within the Company and level of compliance with laws and regulations plays a vital role in the governance structure of the Company. The internal audit function is responsible for independent, objective assurance on internal control mechanisms, in order to systematically evaluate and propose improvements for more effective internal control processes and governance. The 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 HNB. 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 HNB.

External Audit

The 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, HNB 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 HNB. In

addition to the normal audit services, the external auditors also provide certain non-audit services to the Company. All such services are provided with the approval of the Board Audit Committee and in a manner 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. Findings reported by the external auditors for the preceding year were deliberated by the Board and their recommendations for further improvements were implemented within the financial year.

HNB 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.

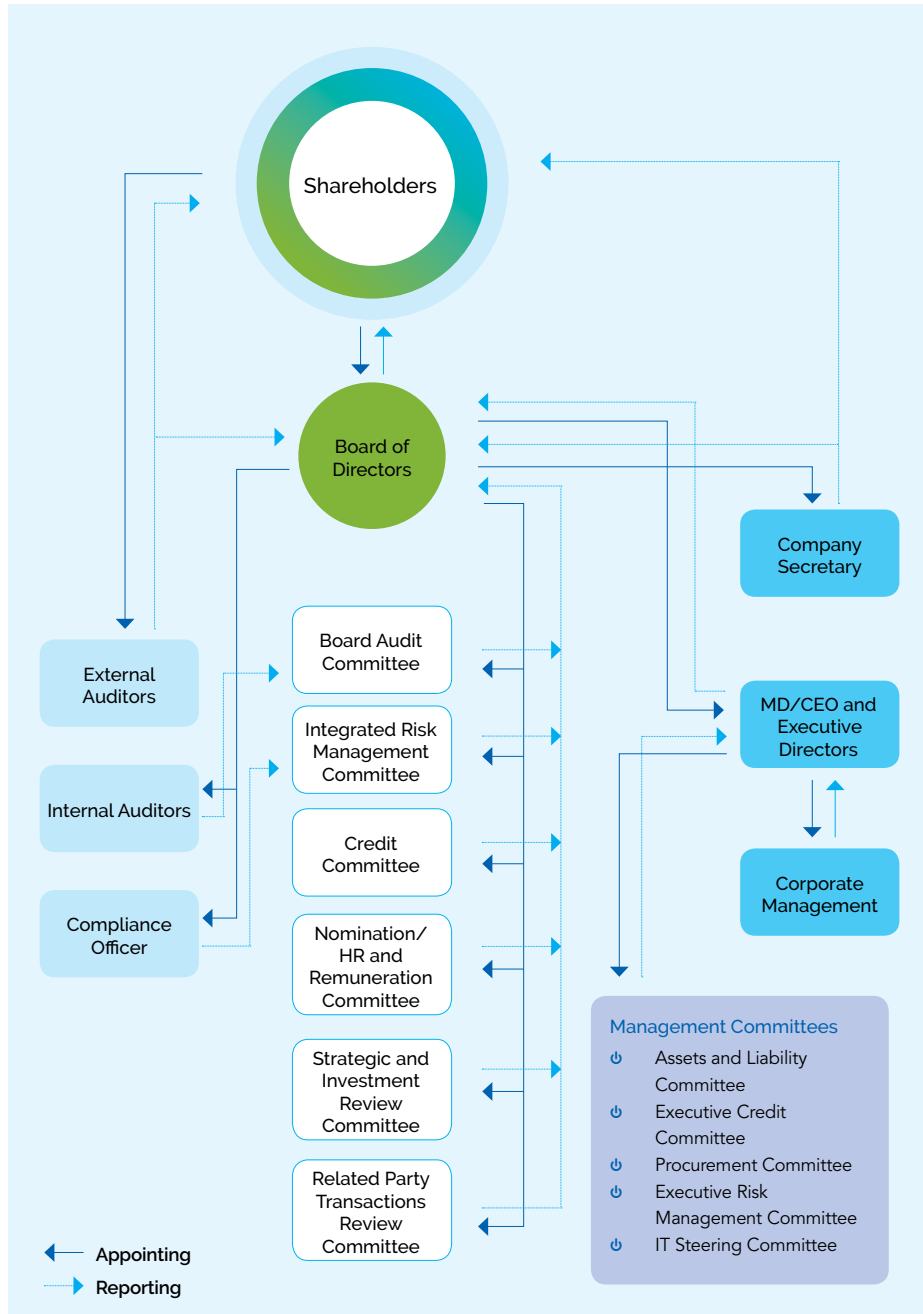
HNB operates within a clearly defined governance structure. Through this structure, the Board balances its role of providing risk oversight and strategic counsel whilst ensuring adherence to regulatory requirements and risk tolerance. The governance structure provides for delegation of authority whilst 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 chairman and minutes of all committee meetings are submitted to the Board.

The Board of Directors sets strategic objectives of HNB, 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 cascade 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's operating committee 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 appraises the Board on the operations and performance of the Company against set targets.



The Board

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

Board Responsibility

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

- reviewing and approving overall business strategy as well as organisation structure, as developed and recommended by management
- ensuring that decisions and investments are consistent with long term strategic goals
- ensuring that the Company operates in such a way as to preserve its financial integrity and in accordance with policies approved by the Board
- overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures, and internal controls; and, through the Risk Management Committee, the quality of the risk management processes and systems
- overseeing, through the Risk Management Committee, the establishment and operation of risk management system for managing risks on an enterprise-wide basis, the adequacy of the risk management function and the quality of the risk management processes and systems
- providing oversight in ensuring that the Company's risk appetite and activities are consistent with its strategic intent, the operating environment and effective internal controls as well as regulatory standards
- ensuring that the necessary human resources are in place for the Company to meet its objectives
- overseeing the related party transactions through the Related Party Transactions Review Committee

Corporate Governance

- reviewing management performance and ensuring that management formulates policies and processes to promote fair practices and high standards of business conduct by staff
- overseeing, through the Remuneration Committee, the design and operation of an appropriate remuneration framework, and ensuring that remuneration practices are aligned to and in accord with the remuneration framework
- establishing corporate values and standards, emphasising integrity, honesty and proper conduct at all times with respect to internal dealings and external transactions
- ensuring that obligations to shareholders and others are understood and met
- providing a balanced and understandable assessment of the Company's performance, position and prospects, including interim and other price-sensitive public reports as well as reports to regulators
- maintaining records of all meetings of the Board and Board committees, particularly records of discussion on key deliberations and decisions taken

- identifying the key stakeholder groups, recognising that perceptions affect the Company's reputation

Board Composition

As at 31st March 2019, the Board comprises 10 Directors of whom two are Executive Directors, eight are Non-Executive Directors, out of Non-Executive Directors, three are independent and have sufficient knowledge of the finance industry's operations among them on a collective basis facilitating their active participation. Directors profiles are given on pages 12 to 13 of this annual report. The MD/CEO is an Executive Director, who is an experienced professional with extensive industry expertise. Non-Executive Directors are eminent professionals in their respective fields. The Board is balanced in age, experience, expertise and tenure and is of appropriate composition and size for the Company. All Directors possess financial acumen and knowledge through experience gained from leading large private and public enterprises together with their academic and professional background.

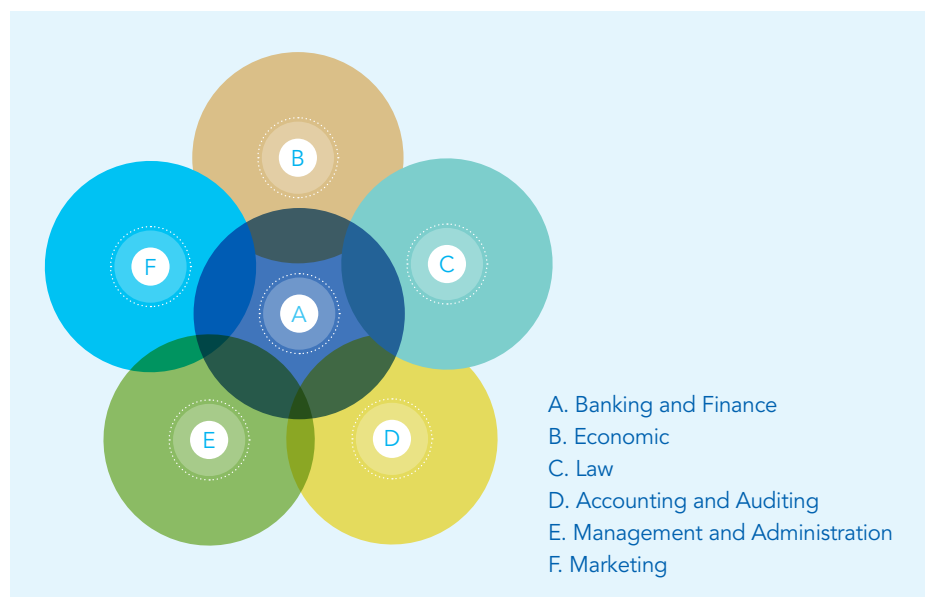
Appointment of a Senior Independent Director has been considered as the Chairman is a Non-Executive Director and the roles of the Chairman and Chief Executive Officer are clearly segregated.

• Chairman (Non-Executive Director)	- 01
• Independent Non-Executive Directors (including Senior Director)	- 03
• Non-Executive Directors	- 04
• Executive Director	- 02

No.	Name of the Director	Date of Appointment	Board Composition	Period of Service up to 31st March 2019
1	Mr. A. J. Alles	18th November 2014	Chairman - Non-Independent Non-Executive Director	4 years and 4 months
2	Mr. B. Premalal	29th June 2011	Deputy Chairman - Non-Independent Non-Executive Director	7 years and 9 months
3	Mr. B. M. D. C. Prabhath	29th June 2011	Executive Director/Chief Executive Officer/Managing Director	7 years and 9 months
4	Mrs. L. L. C. C. Thambiah	13th June 2013	Executive Director	5 years and 9 months
5	Mrs. M. A. R. C. Cooray	18th November 2014	Non-Independent Non-Executive Director	4 years and 4 months
6	Mr. A. S. Wijesinha	18th June 2015	Independent Non-Executive Director (Senior Director)	3 years and 9 months
7	Dr. S. U. H. Fernando	25th June 2015	Independent Non-Executive Director	3 years and 9 months
8	Mr. P. A. H. D. Wijesundara	27th September 2016	Independent Non-Executive Director	2 years and 6 months
9	Mr. A. G. R. Dissanayake	29th August 2017	Non-Independent Non-Executive Director	1 year and 7 months
10	Mr. M. Perera	29th September 2017	Non-Independent Non-Executive Director	1 year and 6 months

Skills, Expertise and Experience

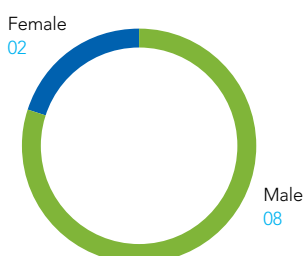
The Board having the optimal mix of skills, expertise and experience, is paramount to ensure that the Board as a collective is equipped to guide the business and strategy of the Company.



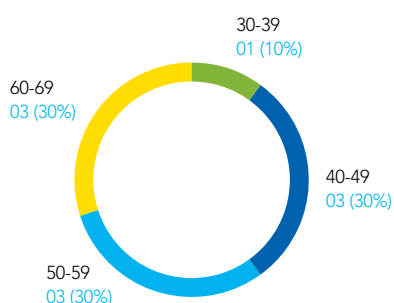
Gender and Age

These elements are some of the most emphasised forms of diversity in the Boardroom. The HNBF Board and shareholders have recognised the benefits of having a gender-balanced Boardroom. Age diversity is an often overlooked element in the HNBF Boardroom.

Distribution of Directors by Gender (No.)



Distribution of Directors by Age (No.)

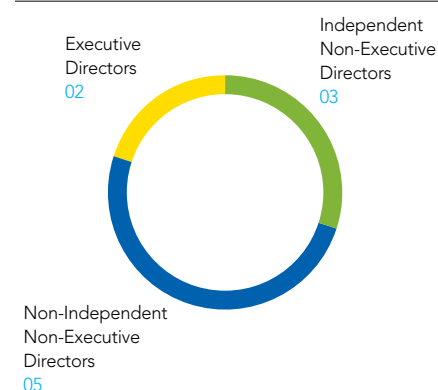


Independence

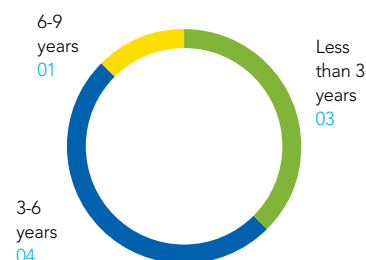
Directors are required to carry out an annual assessment of their independence, in compliance with the criteria set out in the Finance Companies (Corporate Governance) Directions, by completing a self-declaration. This assessment takes into account the member's business relationship with the Group, relationships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

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

Independent, Non-Independent and Executive Directors (No. of Directors)



Non-Executive Director Tenure (No. of Directors)



Board Meeting

The Board calendar with tentative dates for Board and sub committee meetings for the following year is sent to all members approximately one month before the end of the current year. The agenda and board papers for meetings are generally sent seven days before the meeting, allowing members sufficient time to review the same. Urgent board papers are included on an exceptional basis. The Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO. The agenda is prioritised and timed to ensure sufficient time for discussion. During the year, the Board held 12 meetings.

Corporate Governance

Attendance at Meetings

No.	Name of the Director	Date of Appointment	Board	Board Audit Committee	Board Integrated Risk Management Committee	Nomination Committee	HR & Remuneration Committee	Board Credit Committee	Related Party Transactions Review Committee	Strategy & Investment Review Committee
No. of Meetings Held			12	05	12	2	2	2	1	3
1	Mr. A. J. Alles	18th November 2014	12/12			2/2	2/2			3/3
2	Mr. B. Premalal	29th June 2011	10/12			1/2	1/2			1/3
3	Mr. B. M. D. C. Prabhath	29th June 2011	12/12		12/12				1/1	
4	Mrs. L. L. C. C. Thambiah	13th June 2013	12/12					2/2		
5	Mrs. M. A. R. C. Cooray	18th November 2014	12/12	4/4	12/12	2/2	2/2			
6	Mr. A. S. Wijesinha	18th June 2015	9/12	2/5	7/12			2/2	1/1	
7	Dr. S. U. H. Fernando	25th June 2015	12/12							
8	Mr. P. A. H. D. Wijesundara	27th September 2016	11/12					2/2	1/1	
9	Mr. A. G. R. Dissanayake	29th August 2017	12/12	5/5						3/3
10	Mr. M. Perera	29th September 2017	9/12	3/4	11/12					

Note: Board Audit Committee was reconstituted from January 2019 with Mr. P. A. H. D. Wijesundara joining the committee while Mrs. M. A. R. C. Cooray and Mr. M. Perera exited the committee.

Directors Training and Development

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

Supply of and Access to Information

The Board pack generally circulated seven days in advance, provides comprehensive qualitative and quantitative information on issues to be raised at the Board Meeting. Further, executive management and external experts make regular presentations regarding the business environment and in relation to operations of the Company. Directors also have unrestricted access to

bank management, organisation information, and resources to facilitate discharge of their duties. They may seek independent professional advice, coordinated through the Company Secretary, at the Company's expense and copies of such advice obtained are circulated to other Directors who request for it.

Board Evaluation

Goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year by the members. Further, each member of the Board carries out a self-assessment of his/her own effectiveness as an individual as well as effectiveness of the Board as a team. The outcome of the assessment carried out in 2018/19 was tabled at the Board meeting.

Appraisal of MD/CEO

The Board assesses the performance of the MD/CEO annually. Assessment criteria is aligned to the short, medium and long term objectives of the Company, is agreed with the MD/CEO at the beginning of the year.

Performance is reviewed at the end of the financial year against the backdrop of the operating environment. The evaluation is discussed by the Chairman with MD/CEO and responses documented prior to approval by the Board as a whole. The HR and remuneration committee assists the Board in the above evaluation process

The Related Party Transactions

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

Whistleblower Protection

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

Communication with Shareholders

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

Conduct of Shareholder Meetings

The Annual General Meeting (AGM) provides shareholders with the opportunity to share their views and to meet the Board, including the chairpersons of the Board committees and members of key management personnel. Our external auditor is available to answer shareholders' queries. At the AGM, HNBF's financial performance for the preceding year is presented to shareholders. At general meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, Board members and the management. HNBF encourages

and values shareholder participation at its general meetings. In accordance with the recommendations contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the Company's general meetings unless they are closely related and are more appropriately tabled together.

Statement of Compliance

The Company's compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by Finance Companies (Corporate Governance) Direction No. 04 of 2008 and No. 06 of 2013 issued by the Central Bank of Sri Lanka ("Corporate Governance Directions").

The Monetary Board of the Central Bank of Sri Lanka has issued the above 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	HNBF's Level of Compliance
2. Responsibilities of the Board of Directors		
2(1)	Strengthening the safety and soundness of the Company	
(a)	Approve, oversee and communicate strategic objectives and corporate values	The Company's strategic objectives and corporate values are determined by the Board and 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 2019 to 2021. The Risk Management Policy was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and was approved by the Board.
(c)	Identifying and managing risk	The Board appointed Board Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying and overseeing management of the overall risk of the Company. The Risk Management Report in this annual report provides further details in this regard.
(d)	Communication policy with all stakeholders	The Board-approved Communication Policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.
(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	HNB'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, DGMs, AGMs, Head of Finance, Head of Internal Audit and Head of Legal.
(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 practice	<p>According to the Company's Article, Board has delegated functions of selection and nomination of Directors and key management personnel to the Board Nomination Committee.</p> <p>The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of this has been submitted to the Board Chairman by the Company Secretary for further recommendations.</p>
(j)	Succession plan of key management personnel	The succession plan of key management personnel of the Company has to be approved by the Board.
(k)	Regular meeting with the key management personnel	The key managerial personnel regularly make presentations and participate in discussions on their areas of responsibility at 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 Directors' and CEO's forums arranged by the Central Bank of Sri Lanka and the management personnel of the Company maintain dialogue on an ongoing basis.
(m)	Hiring and oversight of external auditors	The Board Audit Committee is responsible for hiring and oversight of the external auditors and on the recommendation of the Board. External auditors are appointed by the shareholders of the Company, at the AGM. External auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with external audit.
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities	<p>The Chairman and the Chief Executive Officer are appointed by the Board and their functions and responsibilities are separated and further defined and approved by the Board of Directors.</p> <p>The Chairman is a Non-Independent Non-Executive Director. The Chief Executive Officer is in charge of the overall management of the Company.</p>
2 (3)	Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense	Directors are able to obtain independent professional advice as and when necessary at Company expense and a Board approved procedure is in place.

Statement of Compliance

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
2(4)	Avoidance of conflict of interest	<p>The Board is conscious of its obligations to ensure that Directors avoid conflict of interest (both real and implied) between their duty to HNBF and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his/her interest and unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings.</p> <p>We confirm that such a situation has not arisen during the financial year under review.</p>
2(5)	Availability of a formal schedule of matters specifically reserved to the Board for 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 reporting period.
2(7)	Inclusion of an annual corporate governance report on compliance with the Corporate Governance Directions in the Annual Report	This report addresses this 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 12 times a financial year at monthly intervals.	The Board has met 12 times for the financial period under review, which is 12 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.
3 (3)	Notice of Meetings	Directors are given adequate time, at least seven days of notice, for regular Board meetings. For all other meetings a time period as set out in the respective Terms of Reference (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 2018 to 31st March 2019.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	SSP Corporate Services (Private) Limited, a company registered with the Registrar General of Companies as a qualified secretary, handles secretarial services for the Board and shareholder meetings and carry out other functions specified in related laws and regulations.
3 (6)	Preparation of agenda for a Board meeting by the Company Secretary	The Company Secretary prepares the agenda which is approved by the Chairman of the Board.
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 this direction.

Rule Reference	Corporate Governance Principle	HNB's Level of Compliance
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 Board Chairman.
4. Composition of the Board		
4 (1)	Number of Directors	As at 31st March 2019, Board comprised of 10 Directors with five of them being Non-Independent Non-Executive, three being Independent Non-Executive, and two being 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 and number of Executive Directors shall not exceed one half of the number of Directors in the Board	As at 31st March 2019 there are two Executive Directors including Chief Executive Officer out of 10 Directors who are within the requirement of Central Bank of Sri Lanka (CBSL). The number of Executive Directors has not exceeded one half of the number of Directors of the Board.
4 (4)	Independent Non-Executive Directors	As at 31st March 2019, three out of 10 Directors are Independent Non-Executive Directors. The Board evaluates Independence of the Directors annually based on the Directors self-declaration.
4 (5)	Appointment of Alternative Director	This has not arisen during the financial period from 01st April 2018 to 31st March 2019.
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)	Express 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 are based on the recommendations made by the Board Nomination Committee and there is a procedure in place for the appointments to the Board. After complying with this procedure names are referred to the CBSL for approval prior to appointment.
4(10)	Directors appointed to fill a casual vacancy to be re-elected at first General Meeting after their appointment	All Directors appointed to the Board are subject to a re-election by the shareholders at the first Annual General Meeting after their appointments and there were no casual vacancies during the year.

Statement of Compliance

Rule Reference	Corporate Governance Principle	HNB's Level of Compliance
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	<p>Resignation of Directors has been informed to the Director Non-Bank Supervision including reasons for such resignation.</p> <p>Following Directors resigned from the Board and details are as follows,</p> <ul style="list-style-type: none"> ➤ Mrs. Rose Cooray (Non-Independent Non-Executive Director) with effect from 23rd May 2019. ➤ Mrs. Crysanthi Thambiah (Executive Director) with effect from 31st May 2019.
5. Criteria to Assess the Fitness and Property of Directors		
5 (1)	The age of a Director shall not exceed 70 years	There are no Directors who are over 70 years of age.
5 (2)	Holding in office as Director of more than 20 companies/entities/institutions including associate and subsidiary companies	There are no Directors who hold office as a Director of more than 20 companies.
6. Delegation of Functions		
6(1)	Delegation of Board functions	By Article 113, Board is empowered to delegate its powers to a Committee of Directors or to any other person as it deems fit.
6(2)	Periodical evaluation of the delegation process	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.
7. The Chairman and 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;	The Chairman provides leadership to the Board as required.
	(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	
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 meetings.

Rule Reference	Corporate Governance Principle	HNB's Level of Compliance
7(7)	Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company	All Directors actively participate in Board affairs.
7(8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Non-Executive and Executive Directors work together with the best interests of the Company. Non-Executive Directors participate in Board sub committees to provide further opportunities for active participation.
7 (9)	Avoidance of engaging in activities involving direct supervision of key management personnel or any other executive duties by the Chairman	The Chairman is a Non-Executive Director who does not directly get involved in any of the executive duties of the Company.
7(10)	Maintain effective communication with shareholders	Company maintains effective communication with shareholders at the AGM of the Company and views of shareholders are communicated to the Board.
7(11)	MD/Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses	As per the Company's organisation structure, the CEO/MD functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.
8. Board Appointed Committees		
8 (1)	Establishing Board committees, their functions and reporting	<p>The following Board sub committees have been appointed by the Board and each such committee is required to report to the Board:</p> <ol style="list-style-type: none"> 1. Credit Committee 2. Board Integrated Risk Management Committee 3. Nomination Committee 4. Human Resource and Remuneration Committee 5. Audit Committee 6. Related Party Transactions Review Committee 7. Strategic and Investment Committee <p>Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings.</p> <p>The Company has presented a report on the performance, duties and functions of each committee in the annual report.</p>
8(2)	Audit Committee	
(a)	The Chairman to be a Non-Executive Director with relevant qualifications and experience	The Chairman of the Audit Committee Mr. A. G. R. Dissanayake is a Non-Executive Director, a Chartered Financial Analyst and a Certified Global Management Accountant. He is also a fellow member of the Chartered Institute of Management Accountants of UK. Qualifications and experiences are disclosed on page 13 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:	The Board Audit Committee (BAC) has, at its meetings recommended,
i.	The appointment of the external auditor	that M/s Ernst & Young, Chartered Accountants be reappointed as the external auditors of the Company for the financial period from 01st April 2018 to 31st March 2019;
ii.	The implementation of the Central Bank guidelines	BAC has reviewed and implemented the Central Bank guidelines issued to Auditors from time to time;

Statement of Compliance

Rule Reference	Corporate Governance Principle	HNB's Level of Compliance
iii.	The application of the relevant accounting standards; and	The application of International Financial Reporting Standards; (SLFRS) is compiled;
iv.	The service period, audit fee and any resignation or dismissal of the auditor;	No resignation or dismissal of the auditors has taken place during the period 01st April 2018 to 31st March 2019. The term of engagement of the present audit partner who was appointed during the financial year 2015/16, does not exceed five years. BAC has recommended the audit fee for the financial period 01st April 2018 to 31st March 2019.
(d)	Review and monitor the external auditors' independence, objectivity and the effectiveness of the audit processes	The Board Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. External auditors directly report to the Board Audit Committee.
(e)	Develop and implement a policy on the engagement of an external auditor to provide non-audit services	The Board-approved policy is in place. When such services are obtained from the external auditor, prior approval is obtained from the Audit Committee as per the above policy.
(f)	Responsibility of the Audit Committee to discuss and finalise with the external auditors the nature and scope of the audit	The Board Audit Committee meets with the external auditors to discuss their audit plan, nature and the scope of the audit before the commencement of an audit. Accordingly, the Board Audit Committee met the external auditor's M/S Ernst & Young, Chartered Accountants during the year under review to discuss and finalise the scope of the audit.
(g)	<p>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:</p> <ul style="list-style-type: none"> (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	Quarterly and bi-annual financial statements as well as year end financial statements are submitted to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements take place and obtain required clarifications in respect of all areas, before the Audit Committee makes its recommendations for Board 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	HNB'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 2017/18 and the management's responses thereto.
(j)	<p>Review of the internal audit function</p> <ul style="list-style-type: none"> ☛ the adequacy of the scope, functions and resources of the internal audit department; ☛ internal audit programme and results of the internal audit process; ☛ review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; ☛ recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; ☛ 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; ☛ ensure that the internal audit function is independent of the activities it audits 	<p>The committee reviewed the scope, functions and the resources of the internal auditors.</p> <p>Committee has reviewed and approved the Internal Audit Plan for the financial period 01st April 2018 to 31st March 2019 presented by the internal auditors prepared on overall risk assessment and the significant observations made during the previous year.</p> <p>This does not apply to the Company as the internal audit function is outsourced as at 31st March 2019.</p> <p>No such situation has arisen during the period from 01st April 2018 to 31st March 2019. BAC has recommended the appointment of a Head of Internal Audit for the HNBF in-house internal audit function in terms of the new direction No. 07 of 2018 – Outsourcing of Business Operations. He assumed his duties from May 2019.</p> <p>No such situation has arisen during the period from 01st April 2018 to 31st March 2019.</p> <p>Internal audit function is independent as it is outsourced to KPMG. They present final reports directly to the Board Audit Committee. The new in-house internal audit function of HNBF is independent as the Internal Audit Department reports directly to the Board Audit Committee.</p>
(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 2018 to 31st March 2019.
(l)	Participants at the Audit Committee meetings and the need to meet with the external auditors without the presence of the Executive Directors	<p>The Committee met twice with the external auditors without the presence of Executive Directors.</p> <p>The Managing Director, Executive Directors, Chief Operating Officer, AGM–Risk and 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.</p>

Statement of Compliance

Rule Reference	Corporate Governance Principle	HNB's Level of Compliance
(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.
(o)	Disclosure of activities of the Audit Committee and attendance of members at meetings thereof in the annual report	The Report of the Audit Committee is on pages 110 to 111 and includes the detail activities, meetings held during the year and Directors attendance at the meetings of 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 raise concerns in confidence about the malpractices of the Company.
8(3)	Integrated Risk Management Committee	
(a)	Composition of the Integrated Risk Management Committee and the duty of the committee to work with key management personnel closely and make decisions on behalf of the Board within the framework of authority	The Integrated Risk Management Committee comprises three Non-Executive Directors including the Chairperson to the committee, Chief Executive Officer (MD/CEO), Chief Operating Officer(COO), and AGM Risk supervising broad risk categories such as credit, market, liquidity, operational and strategic risk. DGM–Risk (HNB PLC), AGM–Compliance and Manager–Risk attend meetings by invitation.
(b)	The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	BIRMC has a process to assess risks, i.e., credit, market, liquidity and operational risks of the Company on a regular basis through appropriate risk indicators. The Company will continue to strengthen the assessment process by adding more risk indicators and causality variables.

Rule Reference	Corporate Governance Principle	HNB's Level of Compliance
(c)	Responsibility of the Integrated Risk Management Committee to review the adequacy and effectiveness of all management level committees	Assets and Liabilities Committee (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. The 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 BIRMC.
(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 12 times during the financial year 2018/2019.
(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 are 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	<p>The Company's compliance with laws and regulations were monitored by the Compliance Officer (AGM-Compliance).</p> <p>The Company has established a process to assess the compliance with internal controls and approved policies pertaining to all areas of business operations.</p>

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	<p>The Related Party Transactions Policy is in place which describes the related parties, types of related party transactions and the favourable treatment granted to the said parties and stipulate that Board members should avoid any conflicts of interest that may arise from any transactions with the Company.</p> <p>Transactions carried out with related parties in the normal course of business are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 42.</p>
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Statement of Compliance

Rule Reference	Corporate Governance Principle	HNBF's Level of Compliance
9(3)	Nature of transactions with related parties to which the Corporate Governance Directions apply	Board-approved process is in place to identify the related party transactions
9(4)	Monitoring of related party transactions defined as more favourable treatment	The Board Related Party Transactions Review Committee ensures that the Company does not engage any transaction with related parties in a manner that would grant such party 'more favourable treatment'. This process will be strengthened to implement RPT transaction monitoring to avoid granting more favourable transaction
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 2018 to 31st March 2019 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 125.
(b)	A report by the Board on the finance company's internal control mechanism	Directors' Statement on Internal Control System over Financial Reporting is given on page 124.
(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 2019, HNBF has not granted any accommodation to related parties.

Rule Reference	Corporate Governance Principle	HNB'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 Board of Directors are disclosed under Note 42.2 to Financial Statements on page 173. However, company will initiate actions to disclose the aggregate values of remuneration paid and aggregate value of transaction of other key management personnels for future reporting.
(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 the 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 the 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

Key Initiatives taken by the Risk Division

1. Establishment of an Integrated Risk Management (IRM) Framework in order to facilitate effective risk governance.
2. Commencement of Loan Review Mechanism Function (LRM) and driving initiatives towards credit risk mitigation.
3. Involving in revamping of the Business Continuity Management Process (BCM) towards successful implementation.
4. Driving initiatives towards mitigating IT related risks which include establishment of the IT Steering Committee (ITSC), Network Security Vulnerability Assessment and introduction of a Change Management Procedure.
5. Commenced effective driving of the risk function in terms of the specifications of the TOR for BIRMC, which was established in January 2018.
6. Intensified actions as per the Risk Management Policy, Systems and Procedures and driving initiatives to develop a risk culture within the organisation.
7. Development of a Risk Appetite Statement (RAS).
8. Intensified actions under the Executive Risk Management Committee (ERMC) by creating an effective forum at management level for discussion of identified risks towards appropriate risk mitigation.
9. Development of a comprehensive Risk Dashboard/updates and presenting same to ERMC and BIRMC.
10. Risk identification, assessment and measurement covering credit, operational, strategic, financial and liquidity risks including the risks related to IT operations.
11. Intensified the operational risk management function which include;
 - I. Capturing of operational losses and near misses on a periodic basis.
 - II. Implementation of Risk and Control Self-Assessment (RCSA) process and refinement of Key Risk Indicators (KRI).

12. Independent Credit Risk Monitoring and Management;
 - I. Introduction of improved credit appraisal formats for SME and SSE product lines.
 - II. Introduction of Credit Risk Rating Models for SME and SSE product lines.
 - III. Assessment of all credit facilities above Rs. 5 Mn and providing recommendations for risk mitigation and/or clearance.
13. Carrying out appropriate stress testing and a scenario analysis.
14. Carrying out risk assessment for new products/modification of existing product and contributing towards appropriate value additions.
15. Conducting training programmes to improve the awareness, knowledge, skills and expertise in credit evaluation and credit risk management, for all AGMs - Branch Network, Senior Managers - Branch Network, Regional Managers, Branch Managers and Branch Recovery Officers. In addition to the above, similar training programmes were conducted for 28 branches covering seven regions.
16. Development of a Risk Heat Map and driving appropriate action towards risk mitigation.

The Risk Heat Map refers to a two dimensional graphical representation of data using colours to indicate the level of importance of activities and provide immediate visual summary of information.

The Heat map of HNBF is developed based on the Key Risk Indicators (KRIs) identified. The KRIs have been identified based on the Risk and Control Self-Assessment (RCSA) process which was carried out during the year under review.

Each of the key risks identified, have been plotted on the Risk Heat Map depicting the possible impact and the likelihood or probability of occurrence.

Priorities for year 2019/20

1. Formulate Credit Risk Policies as appropriate with requisite independence and timely review of same, together with obtaining required approval from relevant authorities.
2. Formulate Operational Risk Policy and Operational Risk Reviews across the branch network and Head Office departments.
3. Preparation of management information using thematic reviews based on the Loan Review Mechanism (LRM) findings and liaising with the relevant stakeholders to mitigate the identified risks and avoid repetition.
4. Improve risk related MIS for risk performance across business segments.
5. Drive portfolio risk management techniques to improve asset quality.
6. Drive new initiatives to improve and upgrade Risk Management/Governance Framework of the Company.
7. Ensure the Business Continuity Management (BCM) Framework is effectively executed across the Company, in liaison with IT division.
8. Key Operational Risk Controls (KORCs) are to be documented, complied and revised in a timely manner.

Risk Governance Framework



Board Integrated Risk Management Committee (BIRMC)

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

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

The committee consists of three Non-Executive Directors, Chief Executive Officer, Chief Operating Officer and AGM-Risk. The Chief Operating Officer represents the relevant Key Management Personnel (KMP) supervising broad risk categories such as credit, operational, liquidity and strategic risks at the BIRMC meetings. AGM-Compliance and Manager-Risk of the Company and DGM-Risk of HNB attended the meetings as regular invitees.

The Committee has summoned DGM-SME and Leasing and AGM-ICT of the Company for several BIRMC meetings as deemed necessary.

The AGM-Risk functioned as the secretary to the Committee.

Duties and Responsibilities of the BIRMC

The main responsibilities of the BIRMC are as follows;

- ☛ The committee shall ensure that the risk division assesses on a monthly basis, all relevant risks such as, credit, operational, liquidity, strategic, etc., faced by the Company, through appropriate risk indicators and management information.
- ☛ The committee shall review the adequacy and effectiveness of relevant management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- ☛ The committee shall take prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels determined by the committee, on the basis of the Company's policies and regulatory and supervisory requirements.
- ☛ The committee shall direct management to take appropriate action against the officers responsible for breaches, violations of regulations and laid down procedures including risk mitigating controls. Prompt corrective action shall be initiated by the management as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- ☛ The committee shall establish a compliance function to assess the Company's compliance with laws,

Risk Management

regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from key management personnel, shall carry out the compliance function and report to the committee periodically.

- The committee shall update the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and/or any other specific directives. Further, the approved minutes of the BIRMC shall be submitted to the BOD at the next immediate Board meeting, held after the adoption of such minutes by BIRMC.

Executive Risk Management Committee

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

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

Risk Division

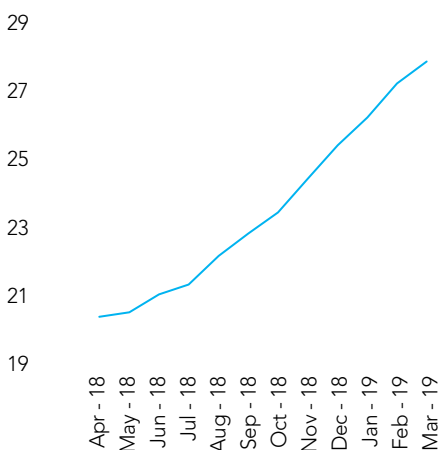
The key role of the risk division is to ensure that the Governance, Risk, Compliance and Control Frameworks of the Company are operating effectively within the defined risk levels.

Duties and Responsibilities of the Risk Division

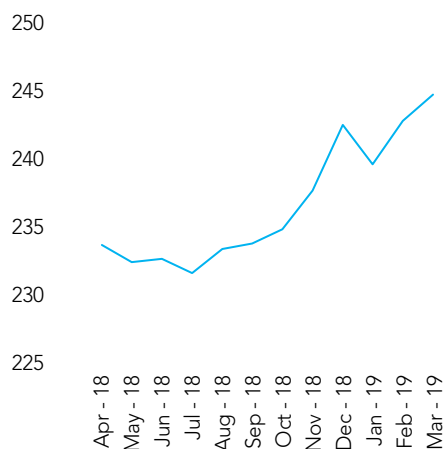
- Establishing of a Risk Governance Framework for the Company.
- Developing of a Risk Appetite Statement (RAS).
- Establishing risk tolerance, formulating risk related strategies and policies, overseeing adherence to policy requirements and the effectiveness of the risk framework.
- Designing and implementing policies, systems and procedures with a view to developing an effective preventative Risk Management Culture and ensuring that the Company adheres to Board defined risk mandate for credit, operations, market, legal, liquidity and other relevant risks.
- Driving best-in-class risk management systems in line with regulatory norms
- Risk identification, assessment and measurement including identification of emerging trends that may present new regulatory, fraud or money laundering risks, which also include the risks associated with products and services, customer types, geographies and delivery channels.

Credit Risk

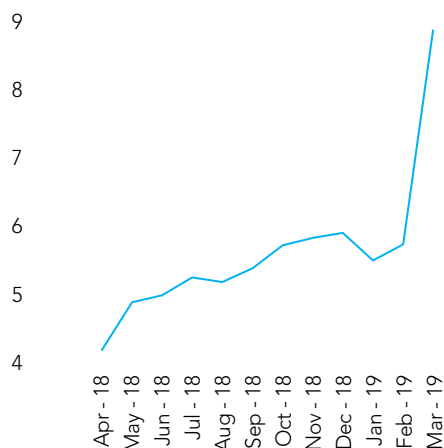
Gross Loan Portfolio Growth (Rs. Bn)



Total Active Clients (No. '000)



NPL (%)



Special Functions of Credit Risk Management

- ❖ Drive watch-listing initiatives
- ❖ Carry out independent credit reviews which include concentration risk on industry, products, geographies and any other factor that could adversely affect the credit quality of the portfolio of the Company.
- ❖ Drive portfolio risk management techniques to improve asset quality.
- ❖ Carry out stress testing and scenario analysis and periodic review results of such actions at ERM and BIRMC meeting.
- ❖ Develop an effective risk culture through provision of trainings, introduction of credit risk rating models, robust evaluation formats, etc.
- ❖ Conduct staff training programmes to improve awareness and knowledge with regard to credit evaluation and risk management.
- ❖ Carry out a robust loan review mechanism to provide guidance and independent assessment of credit function, which include, credit evaluation, credit granting and disbursement, credit administration, credit monitoring and post credit monitoring.

Loan Review Mechanism (LRM)

LRM is an effective tool for constantly evaluating the quality of the Loan book and bringing about qualitative improvements in credit evaluation and credit administration.

- ❖ Reviews of high value loans were undertaken, usually within three months of sanction/renewal, or more frequently when factors indicate a trend for deterioration in the credit quality.
- ❖ At least 30% - 40% of the loan portfolio is subject to LRM each year to provide reasonable assurance, that all major credit risks are effectively monitored.
- ❖ Loan reviews are focused on the approval process, accuracy of credit ratings assigned by loan officers, adherence to internal policies, procedures, applicable laws/regulations, compliance with loan covenants, post-sanction follow-ups, loan

documentation, portfolio quality, timelines in delivery and maintenance of required credit norms and standards, etc., based on which recommendations for improving portfolio quality are made.

Risk Clearance at Approval Level

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

Operational Risk

Operational risk is the risk of probable losses resulting from inadequate or failed internal processes, systems, people and external events. Operational risk is inherent to all business activities and if same is not managed well, it could bring unexpected losses, damages to the business resulting in direct or indirect losses, brand or reputational damages, customer dissatisfaction and litigations, etc. Managing operational risk therefore, is critically important in to ensure uninterrupted business operations.

Accordingly, efficient and timely risk identification, assessment and mitigations are vital aspects of operational risk management.

Special Functions of Operational Risk Management

- ❖ Carrying out operational risk reviews across the network of branches and Head Office departments
- ❖ Implementation of Risk and Control Self-Assessment (RCSA) process and develop Key Risk Indicators (KRI) library
- ❖ Establishing a robust Business Continuity Management (BCM) framework
- ❖ Initiating conduction of fire drills
- ❖ Timely preparation of Operational Risk Dashboards for ERM/BIRMC

Risk Identification

Risk identification involves identification of specific events and conditions that could result in materialising operational risks.

Risk Assessment

Risk assessment involves analysing, profiling and consolidating of Company risks in an effective manner.

Risk Assessment includes;

- ❖ Gathering and analysing of external and internal frauds to identify underlying reasons and integrity levels of the staff
- ❖ Regular review of operational processes to identify operational gaps
- ❖ Analysing and reviewing IT system failures, power outages, CCTV and alarm system failures
- ❖ Review of ever-changing market conditions that might have an impact on the Company
- ❖ Ensure the reliability of the IT system by evaluating physical controls, access controls and network vulnerabilities

Risk Mitigation

Risk mitigation is considered as initiatives and steps taken to reduce the adverse effects to the operations of the Company. The following risk mitigating strategies were adopted during the year under review.

Risk Management

The followings are the operational risk categories that have been identified and managed in order to ensure smooth operation of the business.

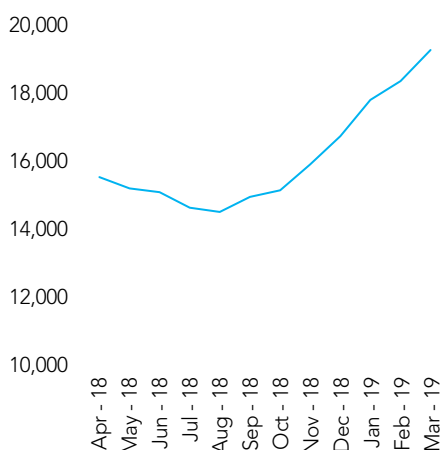
Identified Risk Category	Risk Management Strategy	Risk Management Objective
Possibility of fraud	Clearly segregated duties, application of dual control, use of operational manuals, conducting internal audit examinations	Prevention
Inefficiencies in operational processes	Conducting staff training programmes, clearly defined procedures and manuals, employee empowerment	Prevention
Physical damages to properties/ employees	Company properties as well as employees were insured as appropriate	Transfer
Unauthorised access	Physical access controls for important areas were implemented. Further system access controls were also implemented based on relevant user categories	Prevention
Losses due to fire	Staff were trained and successfully conducted a fire drill process at HNBF Head Office	Mitigation
Threat for network security	Network security vulnerability assessment is initiated	Prevention
Possibility of operational deficiencies	Recruitment of an Operational Risk Manager to oversee the operational risk function more effectively	Prevention
Interruption of business operation	Disaster recovery and business continuity planning	Mitigation
Unusual trends	Use of data analytics for detection of unusual trends	Prevention

Liquidity Risk

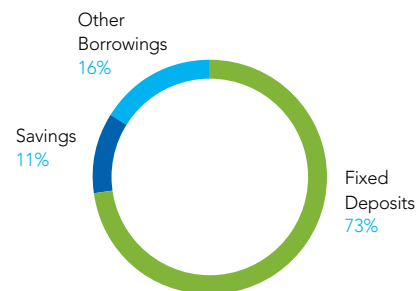
The liquid assets of the Company stood at Rs. 3,526 Mn, well above the minimum regulatory requirement of Rs. 2,770 Mn, depicting a buffer of Rs. 756 Mn. The liquid assets are maintained in Government securities and deposits with banks and other financial institutions, in order to optimise returns to the Company, while minimising liquidity risk.

Further the Company has been able to maintain Government securities balance of Rs. 1,760 Mn as against the regulatory requirement of Rs. 1,710 Mn.

Fixed Deposit Movement (Rs. Mn.)



Funding Mix as at March 2019 (%)

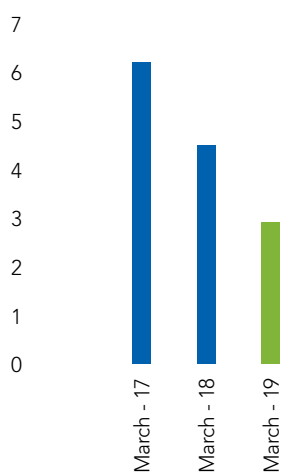


Regulatory Liquidity Requirement	Minimum Required Amount Rs. Mn as at 31st March 2019	Available Amount Rs. Mn as at 31st March 2019	Surplus %
Liquid Assets	2,770.00	3,526.00	21.44%
Government Securities	1,710.00	1,760.00	2.84%

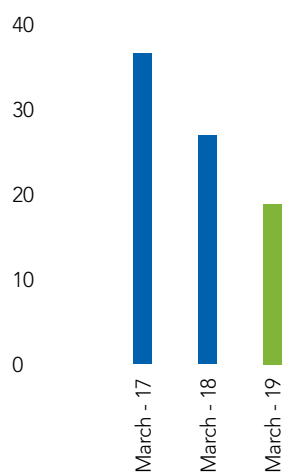
Financial Risk

Risk Parameter	1Q	2Q	3Q	4Q
	Jun-18	Sep-18	Dec-18	Mar-19
ROA	3.65%	3.61%	3.30%	2.85%
ROE	21.93%	21.72%	20.48%	18.96%
Cost to Income Ratio	51.66%	52.55%	53.21%	51.12%
Operational Self Sufficiency Ratio	131.55%	130.88%	129.85%	127.06%

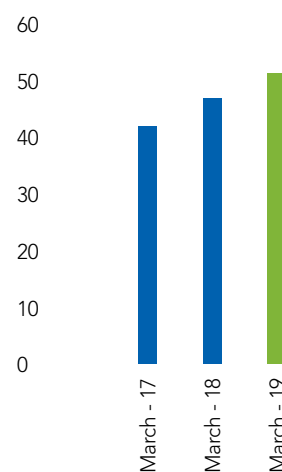
ROA (%)



ROE (%)



Cost to Income Ratio (%)



Capital Requirement	Minimum Capital Adequacy Requirements	Actual Ratio as at 31st March 2019
Tier - I Capital	6.00%	8.35%
Total Capital	10.00%	10.10%

As per the CBSL Regulations, the Company needs to maintain a minimum of Tier-I Capital ratio of 6% and Total Capital ratio of 10%. The Company was able to maintain a healthy Tier-I Capital ratio of 8.35% and Total Capital ratio of 10.10%, which are well above the minimum regulatory requirement.

Board Audit Committee Report

Composition of the Committee

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

Committee

Name of the Member	Directorship Status	Membership Status
Mr. A. G. R. Dissanayake	Non-Independent Non-Executive Director	Chairman
Mr. A. S. Wijesinha	Independent Non-Executive Director	Member
Mr. P. A. H. D. Wijesundera	Independent Non-Executive Director	Member (appointed to the committee on 10th December 2018)
Mrs. M. S. R. C. Cooray	Non-Independent Non-Executive Director	Member (resigned w.e.f 10th December 2018)
Mr. M. Perera	Non-Independent Non-Executive Director	Member (resigned w.e.f 10th December 2018)

Invitees

- ♣ Mr. Chaminda Prabath – MD/CEO
- ♣ Mr. W. S. P. Arangala – COO
- ♣ Internal/External Auditors
- ♣ Mr. J. M. R. Fonseka – AGM (Compliance)
- ♣ Mr. C. B. Wijayaratne – AGM (Risk)
- ♣ Mr. Sameera Gunasekara – Chief Accountant
- ♣ Board Secretary – Secretary to the Committee

Terms of Reference

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

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

Authority

Committee is empowered to;

- ♣ Investigate into any matter within its terms of reference.
- ♣ Seek any information it requires from the Management and staff (all of whom are directed to 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;

- ☛ Reviewed the internal audit programme 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

11 July 2019
Colombo

Human Resources & Remuneration Committee Report

Composition of the Committee

The Human Resource & Remuneration Committee is appointed by the Board of Directors of the Company. As at 31st March 2019, the Committee comprised the following Directors.

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

The Policy

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

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

Committee Responsibilities

Human Resources & Remuneration Related:

The Committee is vested with powers to;

- ☛ Determine the remuneration policies (salaries, allowances and other incentives) relating to Directors, Managing Director and Key Management Personnel (KMP) of the Company.
- ☛ Determine and recommend to the Board of Directors, annual increments, bonuses and incentives for the Managing Director and the Senior Management team including KMPs and all employees, based on corporate and individual performance against set targets and goals.
- ☛ Make recommendations from time to time to the Board of Directors, on the additional/new expertise required by the Company.
- ☛ Interview applicants and support the selection process for Senior Management positions based on recommendations by the Managing Director/CEO, taking into account their performance and achievements. Also, decide on new recruitments, extensions and terminations after evaluating criteria for same.
- ☛ Make recommendations, decisions and directions pertaining to the statutory payments made by the Company on behalf of its employees (EPF, ETF, Terminal benefits, etc.) ensuring the effective fulfilment of all commitments arising from the employer employee relationship.
- ☛ Recommend/decide/provide directions on disciplinary matters, concerning key management personnel which have caused a significant financial and integrity loss to the Company and otherwise.

Actions Taken

The undermentioned Sub Committees were reconstituted at the meeting held on 10.12.2018.

- ☛ Board Audit Committee
- ☛ Board Nomination Committee
- ☛ Board HR & Remuneration Committee

Meetings of the Committee

The Committee met twice during the year in reference. The attendance of the members at these meetings are given on page 90.

Fees

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

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.



Mr. Hasitha Wijesundara
Chairperson - Human Resources & Remuneration Committee

11 July 2019
Colombo

Nomination Committee Report

Composition of the Committee

The Nomination Committee is appointed by the Board of Directors of the Company. As at 31st March 2019, the Committee comprised the following Directors.

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

The Policy

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

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

Committee Responsibilities

Nomination Related:

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

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

Meetings of the Committee

The Committee met twice during the year in reference. The attendance of the members at these meetings are given in page 90.

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.



Dr. Udan Fernando

Chairperson - Nomination Committee

11 July 2019
Colombo

Board Integrated Risk Management Committee Report

Composition

The Board Integrated Risk Management Committee (BIRMC) was comprised as follows during 2018/19.

Members

Name of the Member	Status	Membership Status
Mrs. M. A. R. C. Cooray	Non-Independent/Non-Executive Director	Chairperson
Mr. B. M. D. C. Prabhath	Managing Director/CEO	Member
Mr. A. S. Wijesinha	Independent/Non-Executive Director	Member
Mr. M. Perera	Non-Independent/Non-Executive Director	Member
Mr. W. S. P. Arangala	Chief Operating Officer	Member
Mr. C. B Wijayaratne	AGM Risk	Secretary to BIRMC/ Member

Regular Invitees

- ☛ Mr. Damith Pallewatte - DGM Risk - HNB PLC
- ☛ Mr. Ramesh Fonseka - AGM Compliance
- ☛ Mr. S. N. Kothalawala - Manager Risk

Meetings

The BIRMC met 12 times during the subject period under review, (i.e from 01st April 2018 to 31st March 2019) for the purpose of discharging the duties assigned to the Committee. During the subject period, the BIRMC reviewed the Integrated Risk Management Framework, Risk Appetite Statement, Key Risk Indicators (KRIs), Loan Review Mechanism (LRM) Findings and quarterly Heat Maps presented by the Risk Division. Also the BIRMC assessed, reviewed and monitored the risks faced by the company, using the risk reports and dashboards presented by the Risk Division.

The attendance at the BIRMC meetings are indicated elsewhere in this report under Annual Report of the Board of Directors.

At the Board Meetings, the Chairperson kept the Directors apprised of the key findings and issues highlighted in the risk reports, which merited the attention of the Board of Directors. In addition, the minutes and the dashboard 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 HNB, includes the followings.

- ☛ The Committee shall ensure that the 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 and management information.

- ☛ The Committee shall review the adequacy and effectiveness of relevant management level Committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- ☛ The Committee shall take prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies, regulatory and supervisory requirements.
- ☛ The Committee shall take appropriate action against the officers responsible for breaches, violation of regulations and laid down procedures, including risk mitigating controls. Prompt corrective action should be initiated by the management as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- ☛ The Committee shall establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel, shall carry out the compliance function and report to the Committee periodically.
- ☛ The Committee shall submit periodic reports to the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and / or any other specific directives. Further, the approved minutes of the BIRMC shall be submitted to the BOD at the next immediate Board Meeting held after the adoption of such minutes by BIRMC.

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 risks faced by the company. The Risk Control Self-Assessment (RCSAs), Key Risk Indicators (KRIs), Heat Maps, 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 its attention to the LRM findings and directed the management to initiate action as appropriate.



M. A. R. C. Cooray
*Chairperson - Board Integrated Risk
Management Committee*

11 July 2019
Colombo

Related Party Transactions Review Committee Report

The Related Party Transactions Review Committee was established by the HNBF 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 2019 comprised the following members:

Committee

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

Invitees

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

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

Policies and Procedures

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

Meetings

The Committee met once during the 12 month period ended 31st March 2019.

Review of Transactions for the Financial Period ended 31st March 2019

During the 12 month period ended 31st March 2019, 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 171 to 173 for RPTs published in the Note 42 to the Financial Statements.

During the year under review, the Committee guided the development of new systems and measures to govern related party transactions. Also the necessity to have a separate conflict of interest policy according to the requirement of the CBSL is being prepared.



A. S. Wijesinha

Chairman - Board-Related Party Transactions Review Committee

11 July 2019
Colombo

POWERING AHEAD OF THE COMPETITION

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Annual Report of the Board of Directors

General

Directors of H N B Finance Ltd (H N B F) have pleasure in presenting to shareholders this report together with Audited Financial Statements of the Company for the period ended 31st March 2019 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 11 July 2019.

Overview of the Company

The H N B Finance Ltd (H N B F) is a licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and was incorporated as a public limited liability Company on 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 Finance 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 and Mission are given on page 5 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, gold loans, Islamic finance, 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 22, Managing Director's Review on page 26 and the Management Discussion and analysis on page 32 to 82.

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 10 July 2019.

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 128 to 130, 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 125 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 2019 and the Auditor's Report issued thereon is given on page 126 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 2019 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 134 to 148.

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 22 to 25 the Managing Director's Review on pages 26 to 29 the Management Discussion on pages 32 to 82

present an overall appraisal of the business operations, financial performance and the overall financial position of the Company which form an integral part of this report.

Review of the Financial Performance During the Twelve-month period

Income

The Income of the Company for the period from 01st April 2018 to 31st March 2019 was Rs 8,291,663,723 (From 01st April 2017 to 31st March 2018 it was Rs 7,482,548,192). An analysis of the income is given in Note No. 4 to the Financial Statements.

Financial Results and Appropriations

The net profit of the Company from 01st April 2018 to 31st March 2019 was Rs. 831 Mn (Rs. 1,012 Mn from 01st April 2017 to 31st March 2018). Details regarding the profit and appropriations of the Company are given below.

	Company	
	2018/19	2017/18
Profit Before Tax	1,261,931,494	1,582,667,778
Income Tax Expense	431,335,672	570,884,458
Net Profit	830,595,822	1,011,783,320
Retained Earnings Brought Forward	2,553,710,332	2,060,757,101
Impact of adopting SLFRS 9 – “Financial Instruments” (Transition date)	500,939,901	
Profit Available for Appropriation	2,883,366,253	3,072,540,421
Appropriation		
Statutory Reserve Fund	166,119,164	202,356,664
Re measurement of Define Benefit Liability	7,067,184	10,246,893
Dividend Paid	-	326,720,318
Balance Carried Forward	2,724,314,273	2,553,710,332

Reserves

The reserves of the Company with the movements during the period are given in note to the Financial Statements on page 170.

Taxation

The Income Tax rate applicable to the Company's operations at present is 28 percent (28 percent 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 percent and Nation Building Tax (NBT) on Financial Services VAT at 2 percent (2016/17: 2 percent).

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 and Equipment and intangible assets during the period of the Company amounted to Rs. 229 Mn. (2017/2018 Company: Rs. 147 Mn. Details are given in Note 26 to the Financial Statements.

Market Value of Freehold Property

All freehold lands of the Company were revalued by a professionally qualified independent valuer as at 31st March 2019 and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of the freehold properties owned by the Company are given in Note 26 to the Financial Statements.

Stated Capital and Debentures

The stated capital of the Company as at 31st March 2019 was Rs. 223,545,481/- consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000 (2017/18 - 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 2019 was Rs. 665 Mn consisting of 665 Mn debentures at Rs. 1 Mn (2016/17 – Rs. 765 Mn).

Annual Report of the Board of Directors

Share Holding

The shareholding distribution is reflected on page 190 and 191 as at 31st March 2019. 100,376 voting registered shareholders and 3 non-voting registered shareholders were recorded.

Major Shareholders

Page 190 indicates the shareholding analysis of the top ten voting (volume wise) and 03 non-voting (volume wise) shareholders of the Company, as at 31st March 2019.

The Board of Directors

The Board of Directors of the Company as at 31st March 2019, 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 12 to 13 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. L. L. C. C. Thambiah	13th June 2013	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

Retirement and Re- election of Directors Recommended

There were no Directors who were appointed during the financial period from 01st April 2018 to 31st March 2019 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.

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

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. 7 of 2007 the Secretaries of the Company maintains a Register of Directors and Secretaries on behalf of the Company, which contains information of each Director and the Secretary.

Board Sub –Committees

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

Board Sub Committee Composition

Committee	Members/Directors
Audit Committee	<ul style="list-style-type: none"> Mr. A. G. R. Dissanayake - Non Independent Non-Executive Director (Chairman) Mr. A. S. Wijesinha - Independent Non-Executive Director Mr. P. A. H. D. Wijesundara - Independent Non-Executive Director
Integrated Risk Management Committee	<ul style="list-style-type: none"> Ms. M. A. R. C. Cooray - Non Independent Non-Executive Director (Chairman) Mr. B. M. D. C. Prabhath - Executive Director – Managing Director/ CEO Mr. A. S. Wijesinha - Independent Non-Executive Director Mr. M. Perera - Non Independent Non-Executive Director
Credit Committee	<ul style="list-style-type: none"> Mr. P. A. H. D. Wijesundara - Independent Non- Executive Director (Chairman) Mr. A. S. Wijesinha - Independent Non-Executive Director Ms. L. L. C. C. Thambiah - Executive Director
Human Resources & Remuneration Committee	<ul style="list-style-type: none"> Mr. P. A. H. D. Wijesundara - Independent Non- Executive Director (Chairman) Mr. A. J. Alles - Non Independent Non-Executive Director Mr. Udan Fernando Independent Non-Executive Director
Nomination Committee	<ul style="list-style-type: none"> Mr. Udan Fernando Independent Non-Executive Director (Chairman) Mr. A. J. Alles - Non Independent Non-Executive Director Mr. B. Premalal - Non Independent Non-Executive Director
Related Party Transaction Review Committee	<ul style="list-style-type: none"> Mr. A. S. Wijesinha - Independent Non-Executive Director (Chairman) Mr. B. M. D. C. Prabhath - Executive Director – Managing Director/ CEO Mr. P. A. H. D. Wijesundara- Independent Non- Executive Director
Strategic/Investment Committee	<ul style="list-style-type: none"> Mr. A. J. Alles - Non Independent Non-Executive Director (Chairman) Mr. B. Premalal- Non Independent Non-Executive Director Mr. A. G. R. Dissanayake - Non Independent Non-Executive Director

Directors Meetings

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

No.	Name of the Director	Date of Appointment	Board	Board Audit Committee	Board Integrated Risk Management Committee	Nomination Committee	HR & Remuneration Committee	Board Credit Committee	Related Party Transactions review Committee	Strategy & Investment Review Committee
No of Meeting Held			12	05	12	2	2	2	1	3
1	Mr. A. J. Alles	18th November 2014	12/12			2/2	2/2			3/3
2	Mr. B. Premalal	29th June 2011	10/12			1/2	1/2			1/3
3	Mr. B. M. D. C. Prabhath	29th June 2011	12/12		12/12				1/1	
4	Mrs. L. L. C. C. Thambiah	13th June 2013	12/12					2/2		
5	Mrs. M. A. R. C. Cooray	18th November 2014	12/12	4/4	12/12	2/2	2/2			
6	Mr. A. S. Wijesinha	18th June 2015	9/12	2/5	7/12			2/2	1/1	
7	Dr. S. U. H. Fernando	25th June 2015	12/12							
8	Mr. P. A. H. D. Wijesundara	27th September 2016	11/12					2/2	1/1	
9	Mr. A. G. R. Dissanayake	29th August 2017	12/12	5/5						3/3
10	Mr. M. Perera	29th September 2017	9/12	3/4	11/12					

Note : Board Audit Committee was reconstituted from January 2019 with Mr. P. A. H. D. Wijesundara joining the committee while Mrs. M. A. R. C. Cooray and Mr. M. Perera exited the committee.

Annual Report of the Board of Directors

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

The Company maintains Directors' Interests Register in terms of the Companies Act No. 07 of 2007. Directors 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 173 and form an integral part of this Annual Report.

The remuneration paid to the Directors during the period under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under "Directors' Remuneration" on page 151.

The relevant interests of Directors in the shares of the Company as at 31st March 2019 as recorded in the Interest's register are given in this Report under Directors' shareholding.

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

Related Party Transactions

Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures', which is adopted in preparation of the Financial Statements. This Disclosure is given in Note 42 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 10 to the Financial Statements on page 151.

Directors' Interest in Shares

In compliance with Section 200 of the Companies Act, the Board of Directors of H N B 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 2019.

Corporate Governance

The significance of maintaining an effective corporate governance practice in relation to the management and operations of the company was reiterated by the Directors. As such with the purpose of enhancing risk management measures while improving accountability and transparency of the Company, systems and structures were implemented for continuous improvement of all such practices. The corporate governance report is given on from pages from 84 to 103 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 124 and 125 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. 4.48 Mn as audit fee for the period ended 31st March 2019, which has been approved by the Board. The Directors recommend their reappointment.

Annual General Meeting

The 9th Annual General Meeting of the Company will be held at the Auditorium on Level 6 of "HNB Finance Building" at No. 168, Nawala Road, Nugegoda, on 27th August 2019 at 10.00 a.m. The notice of the 9th Annual General Meeting is given on page 202 and 203 for and on behalf of the Board.

Acknowledgement of the Contents of the Report

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



SSP Corporate Services (Pvt) Ltd
Company Secretaries

11 July 2019
Colombo

Directors' Responsibility Statement on Internal Control over Financial Reporting

Responsibility

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

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

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

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

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

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

Confirmation

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

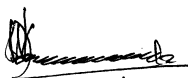
Review of the Statement by External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting for twelve months ended 31st March 2019.

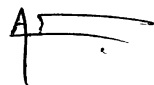
By order of the Board,



A. G. R. Dissanayake
Chairman - Audit Committee



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



W. S. P. Arangala
Chief Operating Officer

11 July 2019
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

11 July 2019
Colombo

Independent Auditor's Report



Ernst & Young
Chartered Accountants
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Colombo 10
Sri Lanka

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TO THE SHAREHOLDERS OF HNB FINANCE LIMITED (FORMALLY KNOWN AS HNB GRAMEEN FINANCE LIMITED)

Report on the Audit of the Financial Statements

We have audited the Financial Statements of HNB Finance Limited ("the Company"), which comprise the Statement of Financial Position as at 31 March 2019, and the Statement of Comprehensive Income, the Statement of Other 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.

Opinion

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Company as at 31 March 2019 and of its financial performance and its 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

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

A member firm of Ernst & Young Global Limited



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.

11 July 2019
Colombo

Statement of Comprehensive Income

Year ended 31 March	Note	2019 LKR	2018 LKR
Gross Income	4	8,291,663,723	7,482,548,192
Interest income		7,229,168,801	6,537,663,310
Interest expenses		(2,802,086,025)	(2,373,460,579)
Net Interest Income	5	4,427,082,776	4,164,202,731
Fee and commission income		777,756,571	702,441,739
Fee and commission expenses		(152,804,593)	(121,654,558)
Net Fee and Commission Income	6	624,951,978	580,787,181
Net Interest, Fee and Commission Income		5,052,034,754	4,744,989,912
Other operating income	7	284,738,350	242,443,143
Net mark to market valuation gain	7	(113,600)	1,103,040
Total Operating Income		5,336,659,505	4,988,536,095
Impairment charges for loans and other losses	8	(842,911,063)	(685,269,932)
Net Operating Income		4,493,748,442	4,303,266,163
Personnel expenses	9	(1,235,850,374)	(1,108,124,495)
Other expenses	10	(1,492,214,080)	(1,167,908,603)
Total Operating Expenses		(2,728,064,454)	(2,276,033,098)
Operating Profit before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services		1,765,683,988	2,027,233,064
Value Added Tax (VAT) and Debt Recovery Levy (DRL) on financial services	11	(455,741,371)	(392,263,488)
Nation Building Tax (NBT) on financial services	12	(48,011,123)	(52,301,798)
Operating Profit after Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services		1,261,931,494	1,582,667,778
Income tax expenses	13	(431,335,672)	(570,884,458)
Profit for the Year		830,595,822	1,011,783,320
Basic earnings per share	14	0.48	0.59

The Accounting Policies and Notes on pages 134 through 189 from an integral part of the Financial Statements.

Statement of Other Comprehensive Income

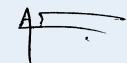
Year ended 31 March	Note	2019 LKR	2018 LKR
Profit for the Year		830,595,822	1,011,783,320
Other Comprehensive Income for the Year, Net of Tax			
<u>Other comprehensive income to be reclassified to profit or loss in subsequent periods</u>			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(losses) on defined benefit plans	33.1	9,815,534	14,231,796
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	27	(2,748,350)	(3,984,903)
Revaluation Reserve of free hold lands and buildings	26	225,621,952	62,197,447
Deferred tax effect on revaluation on free hold lands and buildings	27	(63,174,146)	(17,415,285)
Other Comprehensive Income for the Year, Net of Tax		169,514,990	55,029,055
Total Comprehensive Income for the Year		1,000,110,812	1,066,812,375

The Accounting Policies and Notes on pages 134 through 189 from an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March	Note	2019 LKR	2018 LKR
Assets			
Cash and cash equivalents	16	1,371,096,372	905,159,755
Financial assets measured at fair value through profit or loss/ Financial assets held for trading	17	16,014,400	16,128,000
Financial assets at amortised cost -Loans and advances to customers/members	18	16,755,608,663	14,009,773,608
Financial assets at amortised cost -Lease rentals receivables and stock out on hire	19	8,073,389,558	4,455,307,873
Financial assets at amortised cost - Loans and advances to others	20	641,712,440	579,593,110
Financial assets measured at fair value through other comprehensive income/Financial investments - Available-For-Sale	21	12,430,283	12,430,283
Financial assets at amortised cost - Debt and other instruments/Financial investments - Held-To-Maturity and loans and receivables	22	2,487,353,578	2,522,430,351
Other assets	23	492,794,672	242,603,911
Investment properties	24	1,295,000,001	1,180,150,000
Intangible assets	25	173,541,897	131,533,753
Property, plant and equipment	26	1,420,476,897	1,158,835,158
Deferred tax assets	27	189,768,514	124,848,966
Total Assets		32,929,187,275	25,338,794,768
Liabilities			
Financial Liabilities at Amortised cost - Due to Customers	28	22,632,141,889	18,821,363,686
Financial Liabilities at Amortised cost -Debt issued and other borrowed funds	29	4,217,579,835	1,178,231,116
Income tax payable	30	80,353,556	203,496,098
Value Added Tax payable	31	49,704,847	(25,379,290)
Other liabilities	32	1,112,137,121	849,770,227
Retiring benefit obligation	33	207,802,822	181,016,637
Total Liabilities		28,299,720,070	21,208,498,474
Shareholders' Fund			
Stated capital	34	223,545,481	223,545,481
General reserve	35	82,897,989	82,897,989
Statutory reserve fund	36	1,006,995,465	840,876,301
Revaluation reserve	37	591,713,996	429,266,191
Retained earnings	38	2,724,314,273	2,553,710,332
Total Equity and Liabilities		32,929,187,275	25,338,794,768

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

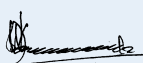


W. S. P. Arangala
Chief Operating Officer

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 134 through 189 from an integral part of the Financial Statements.

11 July 2019
Colombo

Statement of Changes in Equity

Year ended 31 March 2019	Note	Stated Capital LKR	General Reserves LKR	Statutory Reserve LKR	Revaluation Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 01 April 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 and buildings - Net of Differed Tax	37	-	-	-	44,782,162	-	44,782,162
Total comprehensive income for the year		-	-	-	44,782,162	1,022,030,213	1,066,812,375
Transactions recorded directly in equity							
Transfer 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
Impact of application of SLFRS 9							
- Net of Differed Tax	15	-	-	-	-	(500,939,901)	(500,939,901)
Restated Balance as at 31 March 2018 under SLFRS 9		223,545,481	82,897,989	840,876,301	429,266,191	2,052,770,431	3,629,356,393
Profit for the year		-	-	-	-	830,595,822	830,595,822
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans		-	-	-	-	9,815,534	9,815,534
Deferred tax effect on actuarial gain on defined benefit plans		-	-	-	-	(2,748,350)	(2,748,350)
Revaluation Reserve of free hold lands and buildings - Net of Differed Tax	37	-	-	-	162,447,806	-	162,447,806
		-	-	-	162,447,806	837,663,006	1,000,110,812
Transactions recorded directly in equity							
Transferred to statutory reserve fund		-	-	166,119,164	-	(166,119,164)	-
Balance as at 31 March 2019		223,545,481	82,897,989	1,006,995,465	591,713,996	2,724,314,273	4,629,467,205

The Accounting Policies and Notes on pages 134 through 189 from an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 March	Note	2019 LKR	2018 LKR
Cash Flow from Operating Activities			
Profit before Tax		1,261,931,494	1,582,667,778
Adjustments			
Interest expenses on borrowings	5.2	276,280,016	60,979,110
Interest expenses on debentures	5.2	71,480,904	89,057,578
Interest income from financial assets at amortised cost - Debt and other instruments	5.1	(167,411,299)	(366,540,884)
Interest income on financial assets measured at fair value through profit or loss	5.1	(1,440,000)	(1,600,000)
Dividend income	7.1	(240,000)	(200,000)
Profit/(loss) on disposal of Property, Plant and Equipment	7.1	(657,287)	(325,359)
Fair value gain on investment property	7.1	(114,850,000)	(130,550,000)
Impairment charge/(reversal) for loans and other assets	8	842,911,063	685,269,932
Provision for Value Added Tax	31	360,083,419	392,263,488
Provision for Debt Recovery Levy		96,275,024	-
Crop Insurance Levy	10	8,370,000	10,480,000
Provision for Nation Building Tax	12	48,011,123	52,301,798
Amortisation on intangible assets	25	49,539,886	37,783,276
Depreciation - on Property, Plant and Equipment	26	132,321,898	126,830,182
Gratuity provision	9	42,355,344	41,780,547
(Gain)/loss on mark to market valuation of financial assets measured at fair value through profit or loss	7	113,600	(1,103,040)
Provision for amount payable under Sip Saviya scheme		1,200,000	1,200,000
Operating profit/(loss) before changes in operating assets and liabilities		2,906,275,184	2,580,294,407
(Increase)/Decrease in Operating Assets			
Financial assets at amortised cost -Loans and advances to customers	18	(7,890,947,316)	(5,804,588,669)
Financial assets at amortised cost - Loans and advances to others	20	(51,165,604)	(83,949,832)
Other assets	23	(250,190,761)	(31,992,336)
Due to customers	28	3,762,708,507	4,781,118,455
Other liabilities	32	217,067,143	581,616,282
Cash flow from operating activities		(1,306,252,847)	2,022,498,307
Gratuity paid	33	(5,753,625)	(4,040,992)
VAT paid	31	(284,999,282)	(411,379,502)
Income Tax paid	30	(443,187,546)	(806,451,351)
WHT paid	30	(7,167,948)	(21,249,698)
Notional Tax		-	(8,968,077)
NBT paid		(33,941,759)	(58,595,217)
Crop Insurance Levy paid		(8,620,147)	(8,939,266)
ESC paid	30	(18,646,296)	(38,976,427)
Debt Recovery Levy Paid		(67,830,030)	-
Dividend paid		-	(326,720,318)
Net Cash Flow from Operating Activities		(2,176,399,479)	337,177,459

Year ended 31 March	Note	2019 LKR	2018 LKR
Cash Flow from Investing Activities			
Purchase of Property, Plant and Equipment	26	(136,968,171)	(104,281,973)
Purchase of intangible asset	25	(91,548,030)	(42,238,874)
Proceeds from sale of Property, Plant and Equipment		577,286	522,815
Net of investment in financial assets at amortised cost - Government securities	22.1	(490,082,349)	(994,021,638)
Net investment in financial assets at amortised cost - Fixed deposits	22	462,933,835	521,980,000
Financial assets at amortised cost - Fixed deposit interest received		36,432,055	213,564,250
Financial assets at amortised cost - Treasury bill interest received	22.1	137,847,227	46,682,993
Financial assets measured at fair value through profit or loss Interest received		1,440,000	1,440,000
Dividend income	7.1	240,000	200,000
Financial assets at amortised cost - Debentures interest received		16,875,000	-
Net Cash Flow from Investing Activities		(62,253,146)	(356,152,427)
Cash Flow from Financing Activities			
Lease instalments paid		-	(1,785,454)
Interest payments on debentures	5.2	(65,793,423)	(82,997,333)
Interest payments on borrowings	5.2	(276,280,016)	(60,979,110)
Debenture during the year	29.1.1	100,000,000	-
Borrowings during the year	29	5,300,000,000	-
Loans repayments during the year	29	(2,153,337,318)	(134,587,326)
Net Cash Flow from Financing Activities		2,704,589,242	(280,349,223)
Net increase/(decrease) in cash and cash equivalents		466,167,996	(299,324,191)
Cash and cash equivalents at the beginning of the year	16	905,159,755	1,204,483,946
Cash and cash equivalents at the end of the year	16	1,371,096,372	905,159,755

The Accounting Policies and Notes on pages 134 through 189 from an integral part of the Financial Statements.

Notes to the Financial Statements

1. Reporting Entity

1.1 Corporate Information

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

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

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

The name of the Company was changed from HNB Grameen Finance Limited to HNB Finance Limited on 02 October 2018.

1.2 Principal Activities and Nature of Operations

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

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

1.3 Parent Enterprise and Ultimate Parent Enterprise

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

1.4 Directors' Responsibility Statement

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

1.5 Date of Authorisation of Issue

The Financial Statements were authorised for issue by the Board of Directors on 11 July 2019.

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, Statement of Comprehensive Income, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with Sri Lanka Accounting Standards prefixed both SLFRS and LKAS (here after known as "SLFRSs/LKASs"), promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and comply with the requirements of the Companies Act, No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendments thereto.

2.1.2 Basis of Measurement

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

Items	Measurement basis
Financial assets measured at fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	Fair value
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation, less subsequent depreciation, of buildings
Investment property	Fair value
Net defined benefit assets/(liabilities)	Actuarially valued and recognised at the present value

2.1.3 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 45 to the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle

the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

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

2.1.4 Functional and Presentation Currency

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

2.1.5 Materiality and Aggregation

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

2.1.6 Changes in Accounting Policies and Disclosures

2.1.6.1 Sri Lanka Accounting Standard SLFRS 9 – “Financial Instruments”

The Company has applied Sri Lanka Accounting Standard SLFRS 9 - “Financial Instruments” (SLFRS 9) effective for annual periods beginning on or after 1st January 2018 for the first time with the initial application date of 1st April 2018. This standard replaced Sri Lanka Accounting Standard LKAS 39 – “Financial Instruments: Recognition and Measurement” (LKAS 39). SLFRS 9 brought about significant changes to the classification and measurement of financial instruments and impairment assessment pertaining to such instruments. These changes are discussed in Notes 2.1.6.1 (a) and 2.1.6.1 (b) to the Financial Statements.

2.1.6.1(a) Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for loan loss impairment by replacing incurred loss approach as per LKAS 39 with a forward looking expected credit loss (ECL) approach. SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the impairment will be based on the ECLs associated with the probability of default over the entire life time of the loan. Details of the Company's impairment method are disclosed in Note 2.3.3.5 to the Financial Statements.

2.1.6.1(b) Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires 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. The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and receivables - amortised cost) have been replaced by:

- ☛ Debt instruments at amortised cost
- ☛ Debt instruments measured at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- ☛ Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- ☛ Financial assets measured at FVPL

The accounting for financial liabilities remains largely the same as it was under LKAS 39. The adoption of classification principles of SLFRS

9 as at 1st April 2018 did not have a material impact on the Company. The Company's classification of its financial assets and liabilities is explained in Note 2.3.3.1 to the Financial Statements.

2.1.6.2 Sri Lanka Accounting Standard SLFRS 7R – “Financial Instruments: Disclosures”

To reflect the differences between SLFRS 9 and LKAS 39, SLFRS 7 “Financial Instruments: Disclosures” was updated and the Company has adopted it, together with SLFRS 9, for the year beginning on 1st April 2018. Changes include transition disclosures as shown in Note 15 to the Financial Statements, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 2.3.3.5 to the Financial Statements. Reconciliation from opening to closing ECL allowances are presented in Notes 18.1.2 (b), 18.2.2 (b) and 19.2 (b) to the Financial Statements.

2.1.6.3 Sri Lanka Accounting Standard SLFRS 15 – “Revenue from Contracts with Customers”

The Company has applied SLFRS 15 for the first time in these Financial Statements, which is effective for annual periods beginning on or after 1st January 2018 for the first time with the initial application date of 1st April 2018. Adoption of this standard did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Company for the year beginning 1st April 2018.

2.1.6.4 Application of Accounting Policies

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

2.1.6.5 Comparative Information

The comparative information has been reclassified where ever necessary to conform

Notes to the Financial Statements

with the current year's classification in order to provide a better presentation. However, the Company has not restated comparative information for 2017/2018 in respect of financial instruments in the scope of SLFRS 9. Therefore, the comparative information of such instruments for 2017/2018 is reported under LKAS 39 and is not comparable to the information presented for 2018/2019. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1st April 2018 and are disclosed in Note 15 to the Financial Statements.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements in conformance 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 amounts of assets or liabilities affected, in future periods.

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

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

market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2.2.1 Going Concern

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

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 46 to the Financial Statements.

2.2.3 Impairment Losses on Loans and Advances

Collective Impairment Assessment

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

Applicable prior to 1st April 2018

The collective assessment takes account of data from the loan portfolio such as number of days in arrears and judgements on the effect of concentrations of risks and economic data (including levels of GDP growth, unemployment, inflation, interest rates, effect of regulatory changes), and trends in non-performing loans.

Applicable from 1st April 2018

The measurement of impairment losses under SLFRS 9 requires judgement across all categories of financial assets, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of impairment allowances. Details of such explained in note 2.3.3.6.

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

The impairment loss on Financial assets at amortised cost -Loans and advances to customers and Financial assets at amortised cost -Lease rentals receivables and stock out on hire are disclosed in Notes 18 to 19 to the Financial Statements.

2.2.4 Impairment of Available for Sale Investments - Applicable prior to 1st April 2018

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 to customers.

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 the estimation of the

circumstances necessitate to do so. This requires cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.6 Fair Value of Property, Plant and Equipment

The land and buildings of the Company are 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 and they are disclosed in Note 46.4 to the Financial Statements.

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

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

2.2.8 Classification of Investment Property

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

A property that is held to earn rentals or for capital appreciation or both, and which generates cash flows largely independently of the other assets held by the Company is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as

Property, Plant and Equipment. The Company assess on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties.

2.2.9 Taxation

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

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

2.2.10 Deferred Tax Assets

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

2.2.11 Defined Benefit Obligation

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

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Company. Details of the key assumptions used in the estimates are contained in Note 33 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 Note 41.

2.3 Summary of Significant Accounting Policies

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

2.3.1 Foreign Currency Transactions and Balances

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

Notes to the Financial Statements

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 gains or loss on monetary items and all differences are taken to Other Operating Income in the Statement of Comprehensive Income. 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, Classification and Subsequent Measurement

(Applicable up to 31 March 2018)

2.3.2.1 Initial Recognition and Subsequent Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. The Company's financial assets include cash and cash equivalents, lease receivables, loans and advances to members and others and other financial assets.

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and other borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the

classification of its financial liabilities at initial recognition. The Company's financial liabilities include debt issued and other borrowing funds, due to customers and other financial liabilities.

a) Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the company becomes a party to the contractual provisions of the instrument. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

b) Initial Measurement of Financial Instruments

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, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

c) Subsequent Measurement of Financial Instruments

I. The subsequent measurement of financial assets depends on their classification as described below:

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 Comprehensive Income 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 Comprehensive Income.

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

Held-to-maturity Financial Assets

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

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

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

Loans and Receivables

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

Loans and receivables comprise of cash and cash equivalents, investments in REPOs, lease receivables, loans and advances to customers and others, and other receivables.

Available-for-sale Financial Investments

Available-for-sale investments include unquoted equity. Equity investments classified

as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The company has not designated any loan or receivable as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income in (Net Gain/(Loss) From Financial Investments'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the Statement of Comprehensive Income as (Net Gain/(Loss) from Financial Investments when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the available-for-sale reserve.

Available-for-sale financial instruments of which fair value is not reliably measurable are stated at cost.

Financial Assets Classified as Loans and Advances to Members, Lease Receivables, Loans and Advances to Others and Other Financial Assets

This includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ❖ Those that the company intends to sell immediately or in the near term and those that the company, upon initial recognition, designates as at fair value through profit or loss
- ❖ Those that the company, upon initial recognition, designates as available-for-sale

- ❖ Those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, Financial Assets Classified as Loans and Advances to Members, Lease Receivables, Loans and Advances to Others and Other Financial Assets are subsequently measured at amortised cost using the Effective Interest Rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortisation is included in Interest and similar income in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'Impairment charges for Loans and other Losses' and Detailed under Note 8.

II. The subsequent measurement of financial liabilities depends on their classification as described below:

Debt Issued and Other Borrowings Funds

After initial recognition, debt issued and other borrowings funds are subsequently measured at amortised cost using the effective interest rate method (EIR). Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are de-recognised as well as through the effective interest rate method (EIR) amortisation process.

Other financial liabilities comprise of bank overdrafts, borrowings, due to customers and other liabilities.

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.

Due to Customers and Borrowings - Classified as Other Financial Liabilities Carried at Amortised Cost

Due to Customers and Borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as debt issued and other borrowing funds in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition due to customers and borrowings are measured at their amortised cost using the effective interest rate method.

2.3.2.2 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.

2.3.2.3 De-recognition of Financial Assets and Liabilities

(i) Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- ❖ The rights to receive cash flows from the asset have expired
- ❖ The Company has transferred its rights

Notes to the Financial Statements

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:

- The Company has transferred substantially all the risks and rewards of the asset
- Or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. 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 de-recognition 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 the Statement of Comprehensive Income.

2.3.2.4 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations without any deduction for transaction costs. For all other financial instruments not traded in an active

market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exists, pricing models and other relevant valuation models.

2.3.2.5 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(i) Financial Assets Carried at Amortised Cost – Lease Receivables, Loans and Advances to Members and Others

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to members as well as held to maturity investments), the Company includes asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate.

- (a) For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale Financial Investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of an equity instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the Statement of Comprehensive Income; increases in the

fair value after impairment are recognised in other comprehensive income.

2.3.3 SLFRS 09 Financial Instrument (Applicable After 1 April 2018)

SLFRS 9 –Financial Instruments replaces LKAS 39 for annual periods on or after 1 January 2018. The Company has adopted SLFRS-09, Financial Instruments with an initial application date of 1 April 2018 and the company have not restated comparative information for 31 March 2018 for the financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 31 March 2018 is reported under LKAS 39 and is not comparable to the information presented for 31 March 2019. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1 April 2018 and are disclosed in Note 15.

2.3.3.1 Changes to Classification and Measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments measured at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- Financial assets measured at FVPL
- The accounting for financial liabilities remains largely the same as it was under LKAS 39.

The Company and classification of its financial assets and liabilities is explained in Notes 15 The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in the Transitional Disclosures detailed in Note 15 to these Financial Statements.

2.3.3.2 Measurement Categories of Financial Assets and Liabilities

From 1 April 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised Cost,
- Fair Value through Other Comprehensive Income (FVOCI),
- Fair Value through Profit or Loss

Before 1 April 2018, the Company classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Note 2.3.2.1.

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

2.3.3.3 Financial Assets and liabilities

2.3.3.3.1 Loans and Advances to Customers, Lease Rental Receivables and Stock Out on Hire and Loans and Advances to Others, Financial Assets Measured at Amortised Cost

Before 1 April 2018, Lease receivable and Loans and advances to members and others, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available-for-sale

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- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration

From 1 April 2018, the Company only measures Lease rentals receivables and stock out on hire, loans and advances to customers, loan and advances to others and other financial investments at amortised cost if both of the following conditions are met:

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

The classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets; rather it remains broadly the same as under LKAS 39. Financial liabilities are measured at amortised cost or fair value through profit or loss.

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

(a) Business Model Assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's Key Management Personnel

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

(b) The SPPI Test

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

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

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

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

2.3.3.3.2 Reclassification of Financial Assets and Liabilities

From 1 April 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line.

Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in year 2018/19.

2.3.3.4 De-recognition of Financial Instruments

2.3.3.4.1 Financial Assets

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

2.3.3.4.2 Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires.

2.3.3.5 Impairment of Financial Assets (Policy Applicable from 1 April 2018)

Overview of the Expected Credit Loss (ECL) Principles

As described in note 2.2.3 the adoption of SLFRS 9 has fundamentally changed the Company's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9."

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

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

The Company has established a policy to perform an assessment, at the end of each

reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

Stage 1

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

Stage 2

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

Stage 3

Loans considered credit-impaired. The Company records an allowance for the life time ECLs.

2.3.3.5.1 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs under three staging approaches to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of Default

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

Exposure at Default

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

Loss Given Default

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

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

2.3.3.5.2 The mechanics of the ECL method are summarised below:

Stage 1

The 12 months ECL is calculated as the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained

above but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3

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

Forward Looking Information

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

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

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

2.3.3.6 Significant Accounting Judgements, Estimates and Assumptions on Impairment Losses on Financial Assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their

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interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

2.3.4 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.

2.3.5 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.

2.3.5.1 Finance Leases

2.3.5.1.1 Finance Leases – Company as a Lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the

lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Statement of Comprehensive Income.

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.

2.3.5.1.2 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 "Lease rentals receivable and stock out on hire". 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.

2.3.5.2 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.

2.3.5.2.1 Operating leases – Company as a lessee

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income 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.

2.3.5.2.2 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.

2.3.6 Property, Plant and Equipment

2.3.6.1 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.

2.3.6.2 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.

2.3.6.2.1 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.

2.3.6.2.2 Revaluation Model

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

Freehold land and buildings of the Company is revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Comprehensive Income. 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 Statement of Comprehensive Income 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.

2.3.6.3 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 Statement of Comprehensive Income as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.3.6.4 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 de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

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

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

Buildings	40 years
Motor Vehicles	05 years
Furniture and Fittings	05 years
Computer and Accessories	05 years
Machinery and Equipment	05 years
Fixtures and Fittings	05 years

2.3.6.5 De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised 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 Statement of Comprehensive Income when the item is de-recognised.

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 de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

2.3.6.6 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.

2.3.7 Intangible Assets

2.3.7.1 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.

2.3.7.2 Measurement

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

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

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged against Statement of Comprehensive Income in the year in which the expenditure is incurred.

2.3.7.3 Amortisation and impairment

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the Statement of

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Comprehensive Income 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.

2.3.7.4 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.

2.3.7.5 De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from de-recognition 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 Statement of Comprehensive Income.

2.3.8 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 de-recognised 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.

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

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

2.3.10 Retirement benefits

2.3.10.1 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.

2.3.10.2 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.

2.3.10.3 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 de-recognised 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 Other Comprehensive Income (OCI) and all other expenses related to defined benefit plans are recognised as personnel expenses in Statement of Comprehensive Income. This retirement benefit obligation is not externally funded.

2.3.11 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.

2.3.12 Income Tax Expense

2.3.12.1 Current Tax Expense

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

Management has used its 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.

2.3.12.2 Deferred Taxation

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

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is

not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. De-recognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

2.3.12.3 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.

2.3.12.4 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.

2.3.12.5 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.

2.3.12.6 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

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engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

2.3.12.7 Debt Recovery Levy (DRL)

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services from every financial institution commencing from 01 October 2018 and ending 31 December 2021.

2.3.13 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.

2.3.13.1 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.

2.3.13.2 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.

2.3.13.3 Dividend Income

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

2.3.13.4 Rent Income

Rent income is recognised on an accrual basis.

2.3.13.5 Other Income

Other income is recognised on an accrual basis.

3. New Accounting Standards Not Effective as at Reporting Date

(a) 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 Statement of Comprehensive Income.

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.

4. Gross Income

Year ended 31 March	2019 LKR	2018 LKR
Interest income	7,229,168,801	6,537,663,310
Fee and commission income	777,756,571	702,441,739
Other income	284,738,350	242,443,143
Total Income	8,291,663,723	7,482,548,192

5. Net Interest Income

Year ended 31 March	Note	2019 LKR	2018 LKR
Interest income	5.1	7,229,168,801	6,537,663,310
Interest expense	5.2	(2,802,086,025)	(2,373,460,579)
Net interest income		4,427,082,776	4,164,202,731

5.1 Interest Income

Year ended 31 March	2019 LKR	2018 LKR
Financial assets at amortised cost -Loans and advances to customers/ members	5,736,304,837	5,449,581,653
Financial assets at amortised cost - Lease rentals receivables and stock out on hire	1,194,125,092	576,672,900
Financial assets at amortised cost - Loans and advances to others	81,349,328	69,541,968
Financial assets at amortised cost - debt and other instruments/ Financial investments - Held-to-maturity and loans and receivables	167,411,299	366,540,884
Financial assets measured at fair value through profit or loss/ Financial assets held for trading	1,440,000	1,600,000
Savings deposits	48,538,246	73,725,905
Net interest income	7,229,168,801	6,537,663,310

5.2 Interest expense

Deposits from customers	2,454,325,105	2,223,423,891
Debentures	71,480,904	89,057,578
Other borrowings	276,280,016	60,979,110
	2,802,086,025	2,373,460,579

6. Net Fee and Commission Income

Year ended 31 March	2019 LKR	2018 LKR
Fee and commission income	777,756,571	702,441,739
Fee and commission expenses	(152,804,593)	(121,654,558)
	624,951,978	580,787,181

Notes to the Financial Statements

7. Other Income

Year ended 31 March	Note	2019 LKR	2018 LKR
Other operating income	7.1	284,738,350	242,443,143
Net mark to market valuation gain		(113,600)	1,103,040
		284,624,750	243,546,183

7.1 Other Operating Income

Year ended 31 March	2019 LKR	2018 LKR
Rent income	37,674,941	45,975,462
Recovery of loan balance written-off	14,927,743	13,564,008
Fair valuation of investment properties	114,850,000	130,550,000
Sundry income	116,388,380	51,828,314
Profit from disposal of Property, Plant and Equipment	657,287	325,359
Dividend income	240,000	200,000
	284,738,350	242,443,143

8. Impairment Charges for Loans and Other Losses

Year ended 31 March	Note	2019 LKR	2018 LKR
Financial assets at amortised cost -Loans and advances to customers	8.1	580,479,526	592,067,772
Financial assets at amortised cost - Lease rentals receivables and stock out on hire	8.1	212,003,725	85,811,100
Financial assets at amortised cost - Loans and advances to others		(10,953,726)	7,391,060
Financial assets at amortised cost - debt and other Instruments	8.2	61,381,537	-
		842,911,063	685,269,932

8.1 Impairment Charges for Loans and Other Losses

Year ended 31 March	2019 LKR	2018 LKR
Charge/(write-back) to the Statement of Comprehensive Income		
– Impairment on collective loan portfolio	781,529,525	685,269,932
Total impairment charge	781,529,525	685,269,932

Year ended 31 March

2019

LKR

Loans and Advances to Customers

Stage 1	(173,400,189)
Stage 2	(34,512,203)
Stage 3	788,391,918
	580,479,526

Lease Rentals Receivable and Stock out on Hire

Stage 1	31,028,675
Stage 2	33,935,273
Stage 3	147,039,777
	212,003,725

8.2 Financial Assets at Amortised Cost -Debt and Other Instruments

Year ended 31 March

2019

2018

LKR

LKR

Financial assets at amortised cost - debt and other Instruments/ Financial investments -loans and receivables	61,381,537	-
	61,381,537	-

9. Personnel Cost

Year ended 31 March

2019

2018

LKR

LKR

Salaries and bonus	999,062,827	898,233,149
Other personnel cost	68,076,289	59,086,519
Employer's contribution to Employees' Provident Fund	101,084,731	87,215,608
Employer's contribution to Employees' Trust Fund	25,271,183	21,808,672
Retirement benefit cost	42,355,344	41,780,547
Total	1,235,850,374	1,108,124,495

10. Other Expenses

Year ended 31 March

2019

2018

LKR

LKR

Other Operating Expenses, among others Include the following:

Depreciation on Property, Plant and Equipment	132,321,903	126,830,183
Advertising and Publications	83,335,407	44,207,143
Repairs and Maintenance	166,791,675	94,655,608
Crop Insurance levy	8,370,000	10,480,000
Amortisation of intangible assets	49,539,886	37,783,277
Directors' remuneration	24,154,000	21,835,200
Auditors' remuneration	4,483,000	4,205,000
Legal charges	17,029,774	13,719,131
Donation	40,850	134,874

Notes to the Financial Statements

11. Value Added Tax (VAT) and Debt Recovery Levy (DRL)

Year ended 31 March	2019 LKR	2018 LKR
Value Added Tax on financial services	360,083,419	392,263,488
Debt Recovery Levy	95,657,952	-
	455,741,371	392,263,488

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.

Debt Recovery Levy (DRL)

In accordance with section 36 of finance Act no 35 of 2018, Debt Recovery Levy is charged and levied for every month commencing from October 2018 till December 2021 from every financial institution at the rate of 7% on profit or loss prior to deducting the tax payable under the said section, the Value Added Tax payable under section 25A of the Value Added Tax Act No 14 of 2002.

12. Nation Building Tax

Year ended 31 March	2019 LKR	2018 LKR
Nation Building Tax on financial services	48,011,123	52,301,798
	48,011,123	52,301,798

13. Income Tax

Year ended 31 March	2019 LKR	2018 LKR
Current Income Tax		
Current income tax charge	345,859,248	681,369,313
Over/Under provision during previous year	-	5,348,108
Deferred Income Tax		
Deferred taxation charge/(reversal)	85,476,424	(115,832,963)
Income tax expense reported in the Statement of Comprehensive Income	431,335,672	570,884,458

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

Year ended 31 March	2019 LKR	2018 LKR
Accounting profit before tax	1,261,931,494	1,582,667,778
At the statutory income tax rate of 28% (2016: 28%)	353,340,818	443,146,978
Tax Effect on;		
Non deductible expenses	696,515,124	658,209,746
Deductible expenses	(703,996,694)	(419,987,411)
Current tax on profits for the year	345,859,248	681,369,313
Current income tax charge	345,859,248	681,369,313
Over/Under provision during previous year	-	5,348,108
Deferred taxation charge	85,476,424	(115,832,963)
Income tax expense at the effective income tax rate of 34.18% (2018: 36.07%)	431,335,672	570,884,458
Tax Losses Brought Forward and Utilised during the Year		
Balance at the beginning of the year	415,440,051	179,835,622
Tax losses utilised during the year	(415,440,051)	235,604,429
Tax losses not utilised and carried forward	-	415,440,051

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	2019 LKR	2018 LKR
Net profit for the period	830,595,822	1,011,783,320
Profit attributable to ordinary shareholders	830,595,822	1,011,783,320

Year ended 31 March	2019 Number	2018 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)	0.48	0.59

Notes to the Financial Statements

15. Transition Disclosures

The impact of adopting SLFRS 9 on the balance sheet and retained earnings including the effect of replacing incurred credit loss calculations of LKAS 39 with ECL calculations of SLFRS 9 is given below.

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 April 2018 is, as follows:

Note	LKAS 39 measurement		Remeasurement			SLFRS 9	
	Category	Amount LKR	Reclassification LKR	ECL LKR	Other LKR	Amount LKR	Category
Financial Assets							
Cash and cash equivalents	L&R	905,159,755	-	-	-	905,159,755	AC
Financial assets at amortised cost							
- loans and advances and Rentals							
receivables and stock out on hire	L&R	19,044,674,591	-	(695,749,862)	-	18,348,924,729	AC
Financial assets at amortised cost							
- debt and other instruments	N/A	-	2,522,430,351	-	-	2,522,430,351	AC
From : Financial investments							
- loans and receivables		-	(307,112,770)	-	-	307,112,770	
From : Financial investments							
- held to maturity		-	(2,215,317,581)	-	-	2,215,317,581	
		-	2,522,430,351	-	-	2,522,430,351	
Financial assets measured at fair value							
through profit or loss	N/A	-	16,128,000	-	-	16,128,000	FVPL
From : Financial investments							
- held for trading		-	(16,128,000)	-	-	16,128,000	
		-	16,128,000	-	-	16,128,000	
Financial assets measured at fair value							
through other comprehensive income	N/A	-	12,430,283	-	-	12,430,283	FVOCI
From : Financial investments							
- available for sale			(12,430,283)	-	-	12,430,283	
		-	12,430,283	-	-	12,430,283	
Financial investments - held to maturity	HTM	2,215,317,581	(2,215,317,581)	-	-	-	N/A
To : Financial assets at amortised cost							
- debt and other instruments			2,215,317,581				
		2,215,317,581	(2,215,317,581)	-	-	-	
Financial investments - available for sale	AFS	12,430,283	(12,430,283)	-	-	-	N/A
To : Financial investments - fair value							
through other comprehensive income			12,430,283	-	-		
		12,430,283	(12,430,283)	-	-	-	
Financial investments - loans and receivables	L&R	307,112,770	(307,112,770)	-	-	-	N/A
To : Financial assets at amortised cost							
- debt and other instruments			307,112,770				
		307,112,770	(307,112,770)	-	-	-	
Financial Assets - held for trading	HFT	16,128,000	(16,128,000)	-	-	-	N/A
To : Financial assets measured at fair value							
through profit or loss			16,128,000				
		16,128,000	(16,128,000)	-	-	-	

Note	LKAS 39 measurement		Remeasurement			SLFRS 9	
	Category	Amount LKR	Reclassification LKR	ECL LKR	Other LKR	Amount LKR	Category
Non Financial Assets							
Other Assets	N/A	242,603,911	-	-	-	242,603,911	N/A
Investment Properties	N/A	1,180,150,000	-	-	-	1,180,150,000	N/A
Property, Plant and Equipment	N/A	1,158,835,158	-	-	-	1,158,835,158	N/A
Intangible Assets	N/A	131,533,753	-	-	-	131,533,753	N/A
Differed Tax	N/A	124,848,966	-	-	194,809,961	319,658,927	N/A
Total Assets		25,338,794,768	-	(695,749,862)	194,809,961	24,837,854,867	
Financial Liabilities							
Interest Bearing Borrowings	AC	1,178,231,116	-	-	-	1,178,231,116	AC
Due to the Customers	AC	18,821,363,686	-	-	-	18,821,363,686	AC
Other Financial Liabilities	AC	809,883,196	-	-	-	809,883,196	AC
Non Financial Liabilities							
Other Non Financial Liabilities	N/A	39,887,031	-	-	-	39,887,031	N/A
Retirement Benefit Liability	N/A	181,016,637	-	-	-	181,016,637	N/A
Current Tax Liabilities	N/A	178,116,808	-	-	-	178,116,808	N/A
Total liabilities		21,208,498,474	-	-	-	21,208,498,474	

15.1 The impact of transition to SLFRS 9 on Equity is as follows:

	Retained Earnings LKR
Balance as at 31st March 2018 (as per LKAS-39)	2,553,710,332
Impact on reclassification and remeasurement	-
Impact on Recognition of Expected Credit Losses under SLFRS 9	
Financial assets at amortised cost - loans and advances	(695,749,862)
Differed tax in relation to the above	194,809,961
Balance as at 1st April 2018 (as per SLFRS-09)	2,052,770,431

The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Loan loss Provision under LKAS 39/LKAS 37 at 31 March 2018 LKR	Re-measurement LKR	ECLs under SLFRS 9 at 1 April 2018 LKR
Impairment allowance for			
Financial assets at amortised cost - loans and advances to customers,			
lease rental receivable and stock out on hire and loans and advances to others	980,123,826	695,749,862	1,675,873,688
	980,123,826	695,749,862	1,675,873,688

Notes to the Financial Statements

16. Cash and Cash Equivalents

As at 31 March	2019 LKR	2018 LKR
Cash in hand	133,128,858	102,342,270
Balances with banks	1,237,967,514	802,817,485
Total	1,371,096,372	905,159,755

17. Financial Assets Measured at Fair Value through Profit or Loss

As at 31 March	2019 LKR	2018 LKR
Cost of treasury bond investment	16,250,272	16,250,272
Interest receivable	480,000	480,000
	16,730,272	16,730,272
Less: Loss from mark to market valuation	(715,872)	(602,272)
	16,014,400	16,128,000

As at 31 March	Year of Maturity	Cost of Investment LKR	Face Value LKR	Carrying Value LKR
Treasury bond	01 May 2021	16,250,272	16,000,000	16,014,400
		16,250,272	16,000,000	16,014,400

18. Financial Assets at Amortised Cost - Loans and Advances to Customers

As at 31 March	2019 LKR	2018 LKR
At amortised cost:		
Loans and advances to customers	18,682,625,619	14,892,780,713
Less: Allowance for Impairment losses	(1,927,016,956)	(883,007,105)
	16,755,608,663	14,009,773,608

18.1 Financial Assets at Amortised Cost - Loans and Advances to Customers Product Wise

As at 31 March	Note	2019		2018	
		Amortised Cost LKR	Impairment LKR	Amortised Cost LKR	Impairment LKR
Loans and advances to customers	18.1	18,092,749,095	1,924,739,756	14,398,193,066	883,007,105
Gold loan advances	18.2	79,204,149	2,277,200	-	-
Loans against fixed deposits	18.3	510,672,375	-	444,188,492	-
Saving advance	18.4	-	-	50,399,155	-
		18,682,625,619	1,927,016,956	14,892,780,713	883,007,105

18.1.1 Net loans and Advances to Customers

As at 31 March 2019	Gross Loans and Advances to Customers	Allowance for Impairment Losses	Net Loans and Advances to Customers
Stage - 1	14,411,334,059	474,616,798	13,936,717,261
Stage - 2	688,893,552	83,274,407	605,619,145
Stage - 3	2,992,521,484	1,366,848,551	1,625,672,933
	18,092,749,095	1,924,739,756	16,168,009,339

18.1.2 Allowance for Impairment Losses

(a) Movement in Impairment Allowance during the year

	Stage -1	Collective Stage -2	Stage -3	Total
Balance as at 01 April 2018 (LKAS 39)				883,007,105
Transition impact on adoption of SLFRS 9				519,078,406
Balance as at 01 April 2018 (SLFRS 09)	650,225,008	117,855,789	634,004,714	1,402,085,511
Charges/(Reversals) for the year	(175,608,210)	(34,581,382)	788,391,917	578,202,325
Amount written off	-	-	(55,548,080)	(55,548,080)
Balance as at 31 March 2019	474,616,798	83,274,407	1,366,848,551	1,924,739,756

(b) Movement in Impairment Allowance

	2019 LKR	2018 LKR
As at 01 April	883,007,105	372,493,753
Transition impact on adoption of SLFRS 9	519,078,406	-
Charges/(reversals) for the year	578,202,325	588,478,137
Amounts written off	(55,548,080)	(77,964,785)
As at 31 March	1,924,739,756	883,007,105
Collective impairment	1,924,739,756	883,007,105
Total	1,924,739,756	883,007,105

18.1.3 Sensitivity Analysis of Accumulated Impairment for Loan Rentals Receivable as at 31 March 2019

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase 1%	42,829,313
Probability of Default (PD)	Increase 1%	35,184,574
Economic Factor Adjustment (EFA)	Increase 1%	4,875,581

Notes to the Financial Statements

18.2 Net Rentals Receivable on Gold Loans

As at 31 March 2019	Net Rentals Receivables	Allowance for Impairment Losses	Total Net Rentals Receivable
Stage - 1	77,709,268	2,208,021	75,501,247
Stage - 2	1,494,881	69,179	1,425,702
Stage - 3	-	-	-
	79,204,149	2,277,200	76,926,949

18.2.1 Allowance for Impairment Losses

(a) Movement in impairment allowance during the year

	Stage -1	Collective Stage -2	Stage -3	Total
Balance as at 01 April 2018 (LKAS 39)				-
Transition impact on adoption of SLFRS 9				-
Balance as at 01 April 2018 (SLFRS 09)	-	-	-	-
Charges/(Reversals) for the year	2,208,021	69,179	-	2,277,200
Balance as at 31 March 2019	2,208,021	69,179	-	2,277,200

(b) Movement in Impairment Allowance

	2019 LKR	2018 LKR
As at 01 April	-	-
Transition impact on adoption of SLFRS 9	-	-
Charges/(reversals) for the year	2,277,200	-
As at 31 March	2,277,200	-
Collective impairment	2,277,200	-
Total	2,277,200	-

18.3 Loan against Fixed Deposits

As at 31 March	2019 LKR	2018 LKR
Loan against fixed deposits	501,467,033	435,748,349
Interest receivable on loan against fixed deposits	9,205,342	8,440,143
	510,672,375	444,188,492

18.4 Saving Advance

As at 31 March	2019 LKR	2018 LKR
Saving advance	-	50,399,155
	-	50,399,155

19. Lease Rentals Receivable and Stock out on Hire

As at 31 March	2019 LKR	2018 LKR
Lease rental receivable	11,681,571,403	6,395,778,150
Less : Unearned interest income	(3,236,581,943)	(1,854,334,251)
Net receivable	8,444,989,460	4,541,443,899
Less : Rental received in advance	-	-
Net rentals receivables before charging allowance for impairment losses	8,444,989,460	4,541,443,899
Less : Allowance for impairment losses	(371,599,902)	(86,136,026)
Total net rentals receivable	8,073,389,558	4,455,307,873

19.1 Lease Rentals Receivable and Stock out on Hire

As at 31 March 2019	Gross Rentals Receivables	Allowance for Impairment Losses	Net Rentals Receivable
Stage - 1	7,493,342,694	175,491,195	7,317,851,499
Stage - 2	693,979,916	91,563,760	602,416,156
Stage - 3	257,666,850	104,544,947	153,121,903
	8,444,989,460	371,599,902	8,073,389,558

19.2 Allowance for Impairment Losses**(a) Movement in Impairment Allowance during the year**

	Stage -1	Collective Stage -2	Stage -3	Total
Balance as at 01 April 2018 (LKAS 39)				86,136,026
Transition impact on adoption of SLFRS 9				176,671,457
Balance as at 01 April 2018 (SLFRS 09)	144,462,520	57,628,487	60,716,476	262,807,483
Charges/(Reversals) for the year	31,028,675	33,935,273	147,039,777	212,003,725
Amount written off	-	-	(103,211,306)	(103,211,306)
Balance as at 31 March 2019	175,491,195	91,563,760	104,544,947	371,599,902

(b) Movement in Impairment Allowance

	2019 LKR	2018 LKR
As at 01 April	86,136,026	324,926
Transition impact on adoption of SLFRS 9	176,671,457	-
Charges/(reversals) for the year	212,003,725	85,811,100
Amounts written off	(103,211,306)	-
As at 31 March	371,599,902	86,136,026
Collective impairment	371,599,902	86,136,026
Total	371,599,902	86,136,026

Notes to the Financial Statements

19.3 Sensitivity Analysis of Accumulated Impairment for Lease Rentals Receivable and Stock Out on Hire as at 31 March 2019

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase 1%	9,796,895
Probability of Default (PD)	Increase 1%	21,873,372
Economic Factor Adjustment (EFA)	Increase 1%	2,285,270

19.4 Lease Rentals Receivable and Stock out on Hire

As at 31 March 2019	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross rentals receivables	4,002,226,472	7,658,768,845	20,576,086	11,681,571,403
Less: Unearned income	(1,350,980,242)	(1,884,575,206)	(1,026,495)	(3,236,581,943)
	2,651,246,230	5,774,193,639	19,549,591	8,444,989,460
Less : Rentals received in advance				-
Less : Allowance for impairment losses				(371,599,902)
Net rentals receivable before charging allowance for impairment losses				8,073,389,558

19.5 Allowance For Impairment Losses

	Notes	Impairment LKR	Total LKR
Balances at 01 April 2017		369,229,044	369,229,044
Charge for the year - Loans and advances to members		592,067,772	592,067,772
Charge for the year Lease receivables		85,811,100	85,811,100
Written off during the year		(77,964,785)	(77,964,785)
Balance as at 31 March 2018		969,143,131	969,143,131
Amount written off		(158,759,386)	(158,759,386)
Charge for the year - Loans and advances to customers	8.1	580,479,526	580,479,526
Charge for the year - Lease rentals receivable and stock out on hire	8.2	212,003,725	212,003,725
Day 1 impact from the application of SLFRS 9		695,749,862	695,749,862
Balance as at 31 March 2019		2,298,616,859	2,298,616,859

20. Financial Assets at Amortised Cost - Loans and Advances to Others

As at 31 March	Note	2019 LKR	2018 LKR
Staff loans	20.1	344,338,944	357,473,118
Staff mortgage loans		297,400,466	233,100,687
		641,739,409	590,573,805
Less: Allowance for impairment losses	20.2	(26,969)	(10,980,695)
		641,712,440	579,593,110

20.1 Staff Loans

	2019 LKR	2018 LKR
Balance as at 1 April	357,473,118	331,890,240
Loans granted during the year	145,014,000	152,248,000
Recovered during the year	(158,148,174)	(126,665,122)
Balance as at 31 March	344,338,944	357,473,118

20.2 Allowance for Impairment Losses

	Balance as at 01 April 2017	Provision/ Reversal 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
Staff mortgage loans	3,562,666	-	-	3,562,666
	3,589,635	7,391,060	-	10,980,695

	Balance as at 01 April 2018	Provision/ Reversal made during the year	Written off during the year	Balance as at 31 March 2019
Staff loans	7,418,029	(7,391,060)	-	26,969
Staff mortgage loans	3,562,666	(3,562,666)	-	-
	10,980,695	(10,953,726)	-	26,969

21. Financial Assets Measured at Fair Value through Other Comprehensive Income

As at 31 March	Note	2019 LKR	2018 LKR
Unquoted equity securities	21.1	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.

21.1 Investments in Non Quoted Shares

As at 31 March	2019 Number of Shares	Cost LKR	2018 Number of Shares	Cost LKR
Credit Information Bureau of Sri Lanka	100	234,000	100	234,000
Standard Credit Lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd	1,742,326	12,196,283	1,742,326	12,196,283
		50,888,757		50,888,757
Less: Allowance for impairment losses		(38,458,474)		(38,458,474)
		12,430,283		12,430,283

Notes to the Financial Statements

22. Financial Assets at Amortised Cost -Debt and Other Instruments

As at 31 March	Notes	2019 LKR	2018 LKR
Fixed deposits		310,191,507	773,125,342
Debentures		166,031,250	166,875,000
Sri Lanka government securities	22.1	1,765,399,588	1,275,317,239
Reverse repurchase agreements	22.2	245,731,234	307,112,770
		2,487,353,578	2,522,430,351

22.1 Sri Lanka Government Securities

As at 31 March	2019 LKR	2018 LKR
Treasury bills	1,719,565,417	1,229,697,436
	1,719,565,417	1,229,697,436
Interest receivable - Treasury bills	45,834,171	45,619,803
	1,765,399,588	1,275,317,239

22.2 Reverse Repurchase Agreements

As at 31 March	2019 LKR	2018 LKR
Other loan and Receivable	773,091,683	773,091,682
Impairment losses financial investments-loans and receivables	(527,360,449)	(465,978,912)
	245,731,234	307,112,770

23. Other Assets

As at 31 March	Notes	2019 LKR	2018 LKR
Other financial assets		267,253,609	90,934,128
Other non financial assets	23.1	225,541,063	151,669,783
		492,794,672	242,603,911

23.1 Other Non Financial Assets

As at 31 March	2019 LKR	2018 LKR
Other receivables	225,541,063	152,344,913
Less: Allowance for impairment losses	-	(675,130)
	225,541,063	151,669,783

24. Investments Properties

As at 31 March	2019 LKR	2018 LKR
Land		
Balance at the beginning of the year	466,810,637	398,174,753
Fair value adjustment for the period	96,158,780	68,635,884
Balance at the end of the year	562,969,417	466,810,637
Building		
Balance at the beginning of the year	713,339,363	651,425,247
Fair value adjustment for the period	18,691,221	61,914,116
Balance at the end of the year	732,030,584	713,339,363
Net Book Value	1,295,000,001	1,180,150,000

The Company carries investment properties at fair value. Valuations of the above investment properties were carried out as at 31 March 2019 by R. S. Wijesuriya, Professional Independent Valuer. Company earned LKR 32.31 Mn as rental income for the financial year.

25. Intangible Assets

As at 31 March	2019 LKR	2018 LKR
Cost		
Balance at the beginning of the year	217,776,268	175,537,394
Additions during the year	91,548,030	42,238,874
Balance at the end of the year	309,324,298	217,776,268
Amortisation and Impairment		
Balance at the beginning of the year	86,242,515	48,459,239
Charge for the year	49,539,886	37,783,276
Balance at the end of the year	135,782,401	86,242,515
Net Book Value	173,541,897	131,533,753

25.1 Intangible Assets by Class

	Cost	Accumulated Amortisation	Net Book Value
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
Balance as at 31 March 2019			
Software	186,768,880	88,973,651	97,795,228
License	122,555,418	46,808,750	75,746,669
	309,324,298	135,782,401	173,541,897

Notes to the Financial Statements

26. Property, Plant and Equipment

26.1 Carried at cost/Valuation

26.1.1 Cost/Fair Value

	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	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2019
Land	192,502,122	-	-	10,595,431	-	203,097,553	-	-	50,846,485	-	253,944,038
Building	623,897,879	-	-	36,004,570	-	659,902,449	-	-	154,153,515	-	814,055,964
Furniture and fittings											
- (free hold)	60,745,863	-	14,178,567	-	(2,695,062)	72,229,367	-	18,499,480	-	(2,915,292)	87,813,555
Office equipment											
- (free hold)	176,514,992	-	28,958,115	-	(215,384)	205,257,723	(2,761,192)	43,886,744	-	(1,841,976)	244,541,298
Computer - (free hold)	129,854,689	12,457,100	35,348,970	-	(2,539,893)	175,120,866	2,189,485	31,039,307	-	(5,666,724)	202,682,934
Computer - (lease hold)	12,457,100	(12,457,100)	-	-	-	-	-	-	-	-	-
Motor cycles - (free hold)	-	-	-	-	-	-	-	-	-	-	-
Motor vehicles	7,000,000	12,300,000	-	-	-	19,300,000	-	-	-	-	19,300,000
Motor vehicles - (lease)	12,300,000	(12,300,000)	-	-	-	-	-	-	-	-	-
Machinery and equipment	2,638,601	-	-	-	-	2,638,601	-	-	-	(2,638,601)	-
Fixtures and fittings	74,947,974	-	17,577,986	-	(5,368,205)	87,157,755	-	26,985,564	-	(5,407,129)	108,736,190
Network accessories	105,817,129	-	8,218,336	-	-	114,035,465	571,707	16,557,076	-	(907,290)	130,256,958
	1,398,676,349	-	104,281,973	46,600,001	(10,818,545)	1,538,739,779	-	136,968,171	205,000,000	(19,377,012)	1,861,330,937

26.1.2 Accumulated Depreciation and Impairment

	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	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2019
Building	3,899,362	-	15,822,475	(15,597,447)	-	4,124,390	-	16,497,562	(20,621,952)	-	-
Furniture and fittings											
- (free hold)	36,177,118	-	8,727,990	-	(2,604,489)	42,300,619	-	10,723,520	-	(2,736,219)	50,287,920
Office equipment											
- (free hold)	68,006,544	-	36,414,883	-	(215,380)	104,206,047	(2,523,475)	38,272,858	-	(1,788,879)	138,166,551
Computer - (free hold)	60,332,077	11,042,613	24,451,495	-	(2,423,797)	93,402,388	1,951,769	27,943,793	-	(5,465,823)	117,832,127
Computer - (lease hold)	10,085,166	(11,042,613)	957,448	-	-	-	-	-	-	-	-
Motor cycles - (free hold)	-	-	-	-	-	-	-	-	-	-	-
Motor vehicles	3,033,333	9,533,333	3,040,000	-	-	15,606,666	-	2,526,665	-	-	18,133,331
Motor vehicles - (lease)	8,713,333	(9,533,333)	820,000	-	-	-	-	-	-	-	-
Machinery and equipment	2,638,601	-	-	-	-	2,638,601	-	-	-	(2,638,601)	-
Fixtures and fittings	40,115,667	-	14,893,054	-	(5,351,769)	49,656,952	-	14,766,517	-	(5,193,134)	59,230,335
Network accessories	46,266,119	-	21,702,838	-	-	67,968,957	571,706	21,590,983	-	(898,764)	89,232,882
	279,267,320	-	126,830,182	(15,597,447)	(10,595,435)	379,904,621	-	132,321,898	(20,621,952)	(18,721,420)	472,883,147

26.1.2 Written Down Value

As at 31 March	2019 LKR	2018 LKR
Land	253,944,038	203,097,553
Building	814,055,964	655,778,059
Furniture and fittings - (free hold)	37,525,635	29,928,748
Office equipment - (free hold)	106,374,747	101,051,676
Computer - (free hold)	84,850,807	81,718,478
Motor vehicles	1,166,669	3,693,334
Fixtures and fittings	49,505,854	37,500,802
Network accessories	41,024,076	46,066,508
Building Work in Progress	32,029,107	-
	1,420,476,897	1,158,835,158

27. Deferred Tax Liability/(Asset)

As at 31 March	2019 LKR	2018 LKR
Balance at the beginning of the period	(124,848,966)	16,115,738
Transfer from/(to) income statement	85,476,424	(115,832,963)
Transfer from/(to) other comprehensive income	44,522,308	(25,131,741)
Deferred tax effect on Day 1 impact from the application of SLFRS 9	(194,918,280)	-
Balance at the end of the year	(189,768,514)	(124,848,966)

Deferred tax assets, liabilities relates to the following;

Deferred tax liabilities

Accelerated depreciation for tax purposes	199,889,874	185,724,335
Revaluation gain on buildings investment property	110,516,000	78,358,000
Finance leases	87,381,593	122,505,065

Other Comprehensive Income

Revaluation surplus on buildings	63,174,146	17,415,285
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	2,748,350	3,984,903

Deferred tax assets

Retirement benefit obligation	(58,184,790)	(50,684,658)
Unutilised tax losses	-	(117,086,279)
Impairment losses for loans and other losses	(595,293,687)	(365,065,617)
Net deferred tax liabilities	(189,768,514)	(124,848,966)

Notes to the Financial Statements

28. Financial Liabilities at Amortised Cost - Due to Customers

As at 31 March	2019 LKR	2018 LKR
Fixed deposits	19,215,806,618	15,681,956,464
Deferred transaction cost	(38,563,751)	(86,633,446)
Interest payable on fixed deposits	491,381,681	508,051,368
	19,668,624,548	16,103,374,386
Savings deposits	2,963,517,340	2,717,989,300
	22,632,141,889	18,821,363,686

29. Financial Liabilities at Amortised Cost - Debt Issued and Other Borrowed Funds

As at 31 March	Notes	2019 LKR	2018 LKR
Redeemable debentures	29.1	670,687,481	770,454,221
Borrowings	29.2	3,545,818,358	399,155,676
Finance leases		1,073,996	8,621,219
		4,217,579,835	1,178,231,116

29.1 Financial Liabilities at Amortised Cost - Redeemable Debentures

As at 31 March	2019 LKR	2018 LKR
Balance at the beginning of the year	665,000,000	765,000,000
Interest payable to debenture holders	5,687,481	5,454,221
	670,687,481	770,454,221

29.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2019	Outstanding as at 31 March 2018
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
				665,000,000	765,000,000

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

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

29.2 Financial Liabilities at Amortised Cost - Borrowing Funds

	2019 LKR	2018 LKR
As at 01st April	399,155,676	533,743,002
Loan Obtained	5,300,000,000	-
Interest Recognised	266,962,110	56,755,556
Repayment : Capital	(2,153,337,318)	(134,587,326)
: Interest	(266,962,110)	(56,755,556)
As at 31st March	3,545,818,358	399,155,676

30. Income Tax Payable

	2019 LKR	2018 LKR
As at 31 March		
Balance at the beginning of the year	203,496,098	353,447,803
Provision for the year	345,859,248	681,369,313
Over/Under provision during previous year	-	5,348,108
	549,355,316	1,040,165,224
Payment made during the year	(443,187,546)	(806,451,351)
WHT paid	(7,167,948)	(21,249,698)
Notional tax	-	(8,968,077)
ESC receivables	(18,646,296)	-
Balance at the end of the year	80,353,556	203,496,098

31. Value Added Tax Payable

	2019 LKR	2018 LKR
As at 31 March		
Balance at the beginning of the year	(25,379,290)	(6,263,276)
Provision made		
VAT on financial services	360,083,419	392,263,488
	334,704,129	386,000,212
Payment made during the year	(284,999,282)	(411,379,502)
	49,704,847	(25,379,290)

Notes to the Financial Statements

32. Other Liabilities

As at 31 March	Notes	2019 LKR	2018 LKR
Other financial liabilities	32.1	1,026,950,339	809,883,196
Other non financial liabilities	32.2	85,186,782	39,887,031
		1,112,137,121	849,770,227

32.1 Other Financial Liabilities

Other payables	1,026,950,339	809,883,196
	1,026,950,339	809,883,196

32.2 Other Non Financial Liabilities

NBT payable	15,646,807	1,504,899
WHT payable	11,763,440	1,766,463
Other payables	57,776,535	36,615,669
	85,186,782	39,887,031

33. Retiring Benefit Obligation

Movements in present value of the retirement benefit obligation are as follows;

As at 31 March	Notes	2019 LKR	2018 LKR
Balance at the beginning of the year		181,016,637	157,508,878
Add : Retiring gratuity expenses	33.1	32,539,810	27,548,751
		213,556,447	185,057,629
Less : Benefits paid during the year		(5,753,625)	(4,040,992)
Balance at the end of the year		207,802,822	181,016,637

33.1 Retiring Gratuity Expense

Current service cost	23,982,155	23,667,026
Interest cost	18,373,189	18,113,521
	42,355,344	41,780,547
Actuarial (gain) / loss	(9,815,534)	(14,231,796)
	32,539,810	27,548,751

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31 March 2019 using "Projected Unit Credit method" as recommended by Sri Lanka Accounting Standards (LKAS 19) - Employee Benefits.

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

Long term interest rate	11.00%	10.15%
Retirement age	55 years	55 years
Future salary increase rate	9.0%	9.0%

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

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

Present Value of Defined Benefit Obligation

As at 31 March	2019 LKR	2018 LKR
Discount rate		
1% Less	221,562,710	193,518,502
1% More	195,543,090	169,935,946
Salary escalation rate		
1% Less	195,716,884	170,284,273
1% More	221,139,460	192,909,991

33.2 The Expected Benefit Payout in the Future years for Retirement Gratuity

As at 31 March	2019 LKR	2018 LKR
Maturity Profile		
Within the next 12 Months	3,448,137	3,969,869
Between 1-2years	2,687,970	-
Between 2-5years	4,904,278	5,177,485
Between 5-10years	196,762,438	171,869,283

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the company at the end of the financial year and include benefits attributable to estimated future employee service.

34. Stated Capital

	Issued and Fully Paid Voting Ordinary Shares Number	Issued and Fully Paid Non Voting Ordinary Shares Number	Total Number
Balance on 01 April 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
Share issued during the year	-	-	-
Balance on 31 March 2019	1,421,380,624	298,200,000	1,719,580,624
	LKR	LKR	LKR
Balance on 01 April 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
Share issued during the year	-	-	-
Balance on 31 March 2019	184,779,481	38,766,000	223,545,481

Notes to the Financial Statements

35. General Reserve

As at 31 March	2019 LKR	2018 LKR
Balance at the beginning of the year	82,897,989	82,897,989
Balance at the end of the year	82,897,989	82,897,989

36. Other Statutory Reserves

	Statutory Reserve Fund
Balance on 01 April 2017	638,519,637
Transferred during the year	202,356,664
Balance on 31 March 2018	840,876,301
Transferred during the year	166,119,164
Balance on 31 March 2019	1,006,995,465

36.1 Statutory Reserve Fund

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

37. Revaluation Reserve Fund

	Note	Revaluation Reserve Fund
Balance on 01 April 2017		384,484,029
Revaluation reserve of freehold lands and buildings	26	62,197,447
Deferred tax effect on revaluation reserve of freehold lands and buildings	27	(17,415,285)
Balance on 31 March 2018		429,266,191
Revaluation reserve of freehold lands and buildings	26	225,621,952
Deferred tax effect on revaluation reserve of freehold lands and buildings	27	(63,174,146)
Balance on 31 March 2019		591,713,996

38. Retained Earnings

	2019 LKR	2018 LKR
Balance on 01 April	2,553,710,332	2,060,757,101
Day 1 impact from the application of SLFRS 9	(500,939,901)	-
Profit for the year	830,595,822	1,011,783,320
Other comprehensive income for the year	7,067,184	10,246,893
Transfer to other reserves	(166,119,164)	(202,356,664)
Dividends	-	(326,720,318)
Balance on 31 March	2,724,314,273	2,553,710,332

39. Capital Commitments

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

39.2 Operating Leases

Leases as Lessee

Non-cancellable operating lease rentals payables as follows;

As at 31 March	2019 LKR	2018 LKR
Future Commitments on operating leases		
Less than one year	73,089,489	49,078,122
Between one and five years	218,899,557	100,183,157
More than five years	100,634,449	42,412,659
Total operating lease commitments	392,623,495	191,673,938

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.

40. Events After the Reporting Date

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

41. Contingent Liabilities

There are no contingent liabilities as at 31st March 2019.

42. Related Party Transactions

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties " in Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures. The Terms and Conditions of such transactions are disclosed under 42.1 and 42.2

42.1 Transactions with Parent Company and Related Companies

During the year ended 31 March 2019 and March 2018, 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.

Notes to the Financial Statements

42.1 Transactions with the Parent Company

Hatton National Bank PLC is the parent and the ultimate controlling party of the company.

As at 31 March	2019 LKR	2018 LKR
Statement of Comprehensive Income		
Interest income - Financial assets at amortised cost - Debt and other instruments - Debentures	16,875,000	16,875,000
Interest income - Savings deposits	34,223,369	34,912,611
Interest income - Financial assets at amortised cost - Debt and other instruments - Fixed deposits	4,068,493	95,942,181
Interest expense - Debt issued and other borrowed funds - Borrowings	241,303,576	60,982,257
Interest expense - Debt issued and other borrowed funds - Bank overdraft	9,317,906	-
Other expenses - Bank charges	1,223,890	4,469,863
Statement of Financial Position		
Cash and cash equivalents - Balances with banks	264,973,747	498,993,961
Financial assets at amortised cost - Debt and other instruments - Fixed deposits	-	300,000,000
Financial assets at amortised cost - Debt and other instruments - Debentures	150,000,000	150,000,000
Debt issued and other borrowed funds - Borrowings	2,587,485,028	399,155,676
Other liabilities	346,701,578	386,089,008

Transactions with Related Companies

42.1.2 Transactions with Prime Lands (Pvt) Ltd

Year ended 31 March	2019 LKR	2018 LKR
Statement of Comprehensive Income		
Other Operating Income - Rent income	577,500	547,500
Interest expense - Debt issued and other borrowed funds - Borrowings	4,284,932	17,000,000
Interest expense - Financial Liabilities at Amortised cost - Due to Customers - Fixed deposits	354,607	420,307
Other expenses - Vehicle rent	175,000	2,100,000
Statement of Financial Position		
Debt Issued and other borrowed funds - Redeemable debentures	-	100,000,000
Financial Liabilities at Amortised cost - Due to Customers - Fixed deposits	3,383,316	3,360,986

42.1.3 Transactions with HNB Assurance

Year ended 31 March	2019 LKR	2018 LKR
Statement of Comprehensive Income		
Other operating income - Sundry income	-	2,126,302
Interest expense - Financial Liabilities at Amortised cost - Due to Customers - Fixed deposits	7,500,000	6,863,014
Claim received	-	67,478,881
HNB assurance premium	-	7,424,998
Other expenses - General insurance expense	3,605,501	-
Statement of Financial Position		
Financial Liabilities at Amortised cost - Due to Customers - Fixed deposits	50,613,014	50,000,000

42.1.4 Transactions with Government of Sri Lanka

As at 31 March	2019 LKR	2018 LKR
Statement of Comprehensive Income		
Financial assets at amortised cost - Debt and other instruments/Financial investment held-to-maturity	138,478,079	89,680,772
Statement of Financial Position		
Sri Lanka government securities and treasury bonds	1,781,649,860	1,291,445,239
Reverse Repurchase Agreements (net of impairment)	401,627,212	401,627,212

42.2 Transactions with the Key Management Personnel of the Company or their Close Family Members

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

42.2.1 Compensation Paid to Key Management Personnel of the Company

The following represents the compensation paid to Key Management Personnel of the company.

As at 31 March	2019 LKR	2018 LKR
Short-term benefits	24,154,000	21,835,200
	24,154,000	21,835,200

42.2.2 Transactions with the Key Management Personnel of the Company or their Close Family Members

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family members of Key Management Personnel in the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions didn't involve more than the normal risk of repayment or present other unfavourable features.

As at 31 March	2019 LKR	2018 LKR
Statement of Profit or Loss		
Interest expense - Deposits from customers	26,207,369	28,729,038
Statement of Financial Position		
Due to customers - Saving and fixed deposits	217,018,478	205,384,579
Due to customers - Interest payable	5,936,318	13,314,937

Notes to the Financial Statements

43. Pledged Assets

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2019	2018	
		LKR	LKR	
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties

44. Financial Risk Management

44.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- ☐ Credit risk
- ☐ Liquidity risk
- ☐ Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

44.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

44.3 Credit Risk

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

a) Allowances for Impairment

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

The Company establishes an allowance for impairment that represents its estimate of expected credit losses in respect of customer receivables.

The Company policy on impairment consists of allowance for individual impairment that is identified based on a specific loss event and a collective impairment is established for similar receivables in terms of their Credit risks on product basis where the loss event has incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

b) Write-off Policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Micro Finance Concept works with the Group Peer Pressure where members being pressurised by the other members to pay instalments without any defaults. Some loans and advances 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 Abilasha. Other Securities such as personal guarantees are taken for Diriya and Swashakthi Loan facilities. In this context group members will be cross-guaranteeing each other by which they are pressurised to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2019 (2018: no collaterals held).

c) Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Committee which consists of two directors.
3. Reviewing and assessing credit risk. Company credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned.
4. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

44.3.1 Credit Quality by Class of Financial Assets

As at 31 March 2019	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,371,096,372	-	-	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-	-	16,014,400
Financial assets at amortised cost -Loans and advances to customers	13,227,249,630	5,455,375,988	(1,927,016,956)	16,755,608,663
Financial assets at amortised cost -Rentals receivables and stock out on hire	3,604,450,883	4,840,538,578	(371,599,903)	8,073,389,558
Financial assets at amortised cost -Loans and advances to others	613,302,280	28,437,129	(26,969)	641,712,440
Financial assets measured at fair value through other comprehensive income	12,430,283	-	-	12,430,283
Financial assets at amortised cost -Debt and other instruments	3,014,714,027	-	(527,360,449)	2,487,353,578
Other financial assets	267,253,609	-	-	267,253,609
Total financial assets	22,126,511,484	10,324,351,695	(2,826,004,277)	29,624,858,902

As at 31 March 2019	Overdue				Total
	Less than 30 Days LKR	30 to 60 Days LKR	60 to 90 Days LKR	More than 90 Days LKR	LKR
Financial assets at amortised cost					
-Loans and advances to customers	1,099,964,538	416,980,707	426,968,004	3,511,462,740	5,455,375,989
Financial assets at amortised cost					
-Rentals receivables and stock out on hire	2,031,278,640	1,292,857,513	695,718,206	820,684,218	4,840,538,577
Financial assets at amortised cost					
-Loans and advances to others	17,716,205	1,137,860	2,590,195	6,992,869	28,437,129
	3,148,959,383	1,710,976,080	1,125,276,405	4,339,139,827	10,324,351,695

Notes to the Financial Statements

As at 31 March 2018	Current LKR	Overdue LKR	Impaired LKR	Total LKR
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 and 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 LKR
	Less than 30 Days LKR	30 to 60 Days LKR	60 to 90 Days LKR	More than 90 Days LKR	
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

44.3.2 Maximum Exposure Disclosure of Financial Assets

	Gross Carrying Amount (Net of Provision) LKR	Net Exposure LKR
As at 31 March 2019		
Cash and cash equivalents	1,371,096,372	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-
Financial assets at amortised cost - Loans and advances to customers	16,755,608,663	14,861,345,464
Financial assets at amortised cost - Rentals receivables and stock out on hire	8,073,389,558	416,327,793
Financial assets at amortised cost - Loans and advances to others	641,712,440	299,294,764
Financial assets measured at fair value through other comprehensive income	12,430,283	-
Financial assets at amortised cost - Debt and other instruments	2,487,353,578	245,731,234
Other financial assets	267,253,609	267,253,609
Total financial assets	29,624,858,902	17,097,641,513

As at 31 March 2018		
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 and 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

44.4 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 facilities by banks as their main primary sources of funding. Company actively manages this risk through maintaining competitive pricing and constant adaptation.

44.4.1 Concentration of Credit Risk

The company monitors concentration of credit risk by sector and by geographic location.

Concentration by Location

Concentration of loans and advances by location is given below.

As at 31st March	2019		2018	
	LKR	%	LKR	%
Western	9,198,502,927	33	6,576,491,405	33
Southern	2,296,016,223	8	1,767,043,633	9
Uva	1,583,317,152	6	1,292,552,851	6
North Central	2,237,663,717	8	1,250,962,403	6
North Western	4,121,733,162	15	2,592,254,128	13
Eastern	2,169,985,510	8	1,727,810,931	9
Nothern	2,005,907,550	7	1,590,146,619	8
Sabaragamuwa	1,616,543,545	6	1,158,369,401	6
Central	2,539,684,709	9	2,069,167,049	10
	27,769,354,495	100	20,024,798,420	100

Notes to the Financial Statements

44.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below.

As at 31st March 2019	Carrying Amounts LKR	Gross Nominal Outflow/(Inflow) LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Cash and cash equivalents	1,371,096,372	1,371,096,372	1,371,096,372	-	-
Financial assets measured at fair value through profit or loss	16,014,400	16,014,400	-	-	16,014,400
Financial assets at amortised cost					
-Loans and advances to customers	16,755,608,663	21,231,705,819	11,704,454,216	8,528,475,299	998,776,303
Financial Assets at amortised cost					
-Rentals receivables and stock out on hire	8,073,389,558	11,340,915,060	1,001,287,537	2,660,282,593	7,679,344,931
Financial Assets at amortised cost					
-Loans and advances to others	641,712,440	825,583,329	44,809,952	139,721,130	641,052,247
Financial assets measured at fair value through other comprehensive income/ Financial investments - Available-for-sale	12,430,283	12,430,283	-	-	12,430,283
Financial assets at amortised cost					
-debt and other instruments	2,487,353,578	2,334,226,311	906,427,210	1,188,392,647	239,406,454
Other financial assets	267,253,609	267,253,609	72,711,103	151,856,436	42,686,069
	29,624,858,903	37,399,225,183	15,100,786,390	12,668,728,105	9,629,710,688
Financial liabilities at amortised cost					
- due to customers	22,632,141,889	27,202,850,589	4,770,957,506	8,122,974,368	14,308,918,714
Financial liabilities at amortised cost					
-debt issued and other borrowed funds	4,217,579,835	6,038,755,488	1,154,953,993	946,807,484	3,936,994,011
Other financial liabilities	1,026,950,339	1,026,950,339	1,007,640,653	680,426	18,629,260
	27,876,672,062	34,268,556,416	6,933,552,152	9,070,462,278	18,264,541,986
Liquidity gap related period	-	3,130,668,767	8,167,234,238	3,598,265,827	(8,634,831,299)
Liquidity gap cumulative	-	-	8,167,234,238	11,765,500,065	3,130,668,766
As at 31st March 2018	Carrying Amounts LKR	Gross Nominal Outflow/(Inflow) LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Cash and cash equivalents	905,159,755	905,159,755	905,159,755	-	-
Financial assets 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 and 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	27,585,553,351	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

44.5 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.

44.5.1 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 LKR	4 to 12 Months LKR	1 to 5 Years LKR	More than 5 Years LKR	Total as at 31 March 2019 LKR
Interest Earning Assets					
Cash and cash equivalents	1,371,096,372	-	-	-	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-	-	-	16,014,400
Financial assets at amortised cost					
-Debt and other instruments	435,133,001	1,640,458,093	166,031,250	245,731,234	2,487,353,578
Financial assets at amortised cost					
-Loans and advances to customers (gross)	7,427,313,441	8,475,568,301	2,717,137,858	62,606,018	18,682,625,619
Financial assets at amortised cost					
-Rentals receivables and stock out on hire (gross)	881,752,130	1,769,494,100	5,793,743,230	-	8,444,989,460
Financial assets at amortised cost					
-Loans and advances to others (gross)	29,371,274	98,173,531	436,564,077	77,630,527	641,739,409
Total interest earning assets	10,160,680,619	11,983,694,025	9,113,476,416	385,967,780	31,643,818,840
Interest Bearing Liabilities					
Financial liabilities at amortised cost					
- Due to customers	4,092,228,623	6,465,279,570	11,784,735,362	289,898,334	22,632,141,889
Financial liabilities at amortised cost					
-Debt issued and other borrowed funds	1,154,953,993	946,807,484	1,450,818,361	665,000,000	4,217,579,838
Total interest bearing liabilities	5,247,182,616	7,412,087,054	13,235,553,723	954,898,334	26,849,721,727
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	4,913,498,003	4,571,606,972	(4,122,077,308)	(568,930,553)	4,794,097,114
Effect on profitability by 1% increase in interest rates					
- increase/(decrease) in profits - annualised effect	49,134,980	45,716,070	(41,220,773)	(5,689,306)	-
Effect on profitability by 1% decrease in interest rates					
- increase/(decrease) in profits - annualised effect	(49,134,980)	(45,716,070)	41,220,773	5,689,306	-

Notes to the Financial Statements

	Up to 3 Months LKR	4 to 12 Months LKR	1 to 5 Years LKR	More than 5 Years LKR	Total as at 31 March 2018 LKR
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 and 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					
- annualised 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					
- annualised effect	(47,678,968)	(24,448,056)	24,873,896	7,892,457	-

45. Maturity Analysis of Assets and Liabilities

As at 31 March 2019	Less than 3 month LKR	3-6 Months LKR	6-12 Months LKR	12-36 Months LKR	36-60 Months LKR	Over 60 Months LKR	Total LKR
Assets							
Cash and cash equivalents	1,371,096,372	-	-	-	-	-	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-	-	-	-	-	16,014,400
Financial assets at amortised cost							
-Loans and advances to customers	6,867,145,036	2,703,470,515	4,405,249,235	2,219,258,956	497,878,902	62,606,018	16,755,608,663
Financial assets at amortised cost							
-Rentals receivables and stock out on hire	614,697,175	428,975,583	1,235,973,570	5,231,826,512	561,916,718	-	8,073,389,558
Financial assets at amortised cost							
-Loans and advances to others	29,344,305	31,404,298	66,769,233	335,923,147	100,640,930	77,630,527	641,712,440
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	12,430,283	12,430,283
Financial assets at amortised cost							
-Debt and other instruments	435,133,001	583,647,125	1,056,810,968	166,031,250	-	245,731,234	2,487,353,578
Other assets	143,947,553	252,750,884	34,515,791	40,799,245	10,903,247	9,877,952	492,794,672
Investment properties	-	-	-	-	-	1,295,000,001	1,295,000,001
Intangible assets	-	-	-	-	-	173,541,897	173,541,897
Property, Plant and Equipment	-	-	-	-	-	1,420,476,897	1,420,476,897
Deferred tax assets	-	-	-	-	-	189,768,514	189,768,514
	9,477,377,842	4,000,248,406	6,799,318,796	7,993,839,110	1,171,339,797	3,487,063,323	32,929,187,275
Liabilities							
Financial liabilities at amortised cost							
-Due to customers	3,973,814,902	2,312,281,004	4,177,074,607	8,611,121,582	3,286,887,878	270,961,915	22,632,141,888
Financial liabilities at amortised cost							
-Debt issued and other borrowed funds	1,154,953,991	649,225,926	297,581,558	998,735,028	452,083,333	665,000,000	4,217,579,836
Income tax payable	80,353,556	-	-	-	-	-	80,353,556
Value Added Tax payable	49,704,847	-	-	-	-	-	49,704,847
Other liabilities	1,080,642,580	60,730	619,696	900,851	509,701	29,403,562	1,112,137,120
Retiring benefit obligation	-	-	-	-	-	207,802,822	207,802,822
Shareholder's fund	-	-	-	-	-	4,629,467,205	4,629,467,205
	6,339,469,877	2,961,567,660	4,475,275,861	9,610,757,461	3,739,480,912	5,802,635,504	32,929,187,275

Notes to the Financial Statements

As at 31 March 2018	Less than 3 month LKR	3-6 Months LKR	6-12 Months LKR	12-36 Months LKR	36-60 Months LKR	Over 60 Months LKR	Total LKR
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	16,649,975	26,420,846	59,896,449	248,027,162	151,716,451	76,882,226	579,593,109
Financial investment							
- Loan and 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	69,425,950	242,603,911
Investment properties	-	-	-	-	-	1,180,150,000	1,180,150,000
Intangible assets	-	-	-	-	-	131,533,753	131,533,753
Property, Plant and 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	2,774,969,750	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	76,049,416	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	13,645,226	849,770,227
Retiring benefit obligation	-	-	-	-	-	181,016,637	181,016,637
Shareholder's fund	-	-	-	-	-	4,130,296,294	4,130,296,294
Deferred tax liability	-	-	-	-	-	-	-
	4,720,610,012	2,783,005,166	4,313,473,109	3,687,437,428	4,621,287,756	5,212,981,297	25,338,794,768

46. Fair Value of Assets and Liabilities

46.1 Assets and Liabilities Measured at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

46.1.1 Financial Assets Measured at Fair Value through Other Comprehensive Income

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

46.1.2 Financial Assets Fair Value through Profit or Loss

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

46.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 46.3.1. The independent valuers provide the fair value of the Company's freehold land and buildings at least once in every three years.

46.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 46.4.1 and 46.4.2.

46.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

46.2.1 Financial Assets at Amortised Cost - Loans and Advances to Customers

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

46.2.2 Financial Assets at Amortised Cost - Debt and Other Instruments

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

46.2.3 Financial Liabilities at Amortised Cost - Due to Customers

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

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

46.2.4 Financial Liabilities at Amortised Cost - Debt Securities Issued

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

Notes to the Financial Statements

46.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received paid on the settlement or maturity of the financial instrument.

As at 31 March 2019	Financial Assets/ Liabilities- Fair Value through Profit or Loss LKR	Financial Assets/ Liabilities- Measured at Fair Value through Other Comprehensive Income LKR	Financial Assets/ Liabilities - at Amortised Cost Debt and Other Instruments LKR	Financial Assets/ Liabilities- at Amortised Cost LKR	Total Carrying Amount LKR	Fair Value LKR	Increase/ (Decrease) in Fair Value LKR	Fair Value Hierarchy LKR
Cash and Cash Equivalents	-	-	-	1,371,096,372	1,371,096,372	1,371,096,372	-	-
Financial assets measured at fair value through profit or loss/ Financial assets held for trading	16,014,400	-	-	-	16,014,400	16,014,400	-	-
Financial assets at amortised cost - Debt and other instruments/ Financial investments - Held-To-Maturity and loans and receivables								
-Investments in Treasury bills	-	-	1,765,399,588	-	1,765,399,588	1,765,399,588	-	-
-Investments in Fixed deposits	-	-	310,191,507	-	310,191,507	310,191,507	-	-
-Investments in Reverse Repurchase Agreements	-	-	245,731,234	-	245,731,234	245,731,234	-	-
-Investments in Debentures	-	-	166,031,250	-	166,031,250	166,031,250	-	-
Financial assets measured at fair value through other comprehensive income/ Financial investments - Available-For-Sale	-	12,430,283	-	-	12,430,283	12,430,283	-	-
Financial assets at amortised cost -Loans and advances to customers/ members	-	-	-	18,682,625,619	18,682,625,619	18,954,232,337	271,606,718	Level II
Financial assets at amortised cost -Rentals receivables and stock out on hire	-	-	-	8,444,989,462	8,444,989,462	8,483,764,505	38,775,043	Level II
Financial assets at amortised cost - Loans and advances to others				641,739,409	641,739,409	553,116,463	(88,622,946)	Level II
Other Financial Assets	-	-	-	267,253,609	267,253,609	267,253,609	-	-
Financial liabilities at amortised cost - Due to customers	-	-	-	22,632,141,889	22,632,141,889	22,595,423,353	(36,718,537)	Level II
Financial liabilities at amortised cost -Debt issued and other borrowed funds	-	-	-	4,217,579,835	4,217,579,835	4,203,490,341	(14,089,487)	Level II
Other financial liabilities	-	-	-	1,026,950,339	1,026,950,339	1,026,950,339	-	-

46.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2018	Fair Value through Profit and Loss	Available For Sale	Amortised Cost	Total Carrying Amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cash and 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 Amortised 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	-	-	4,541,443,899	4,541,443,899	4,889,573,595	348,129,695	Level II
Advances and Other Loans	-	-	15,432,995,363	15,432,995,363	15,489,655,357	56,699,994	Level II
Financial investment							
- Loan and 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	-	-	18,821,363,686	18,821,363,686	18,885,914,974	64,551,288	Level II
Debt issued and							
Other borrowed Funds	-	-	1,172,776,895	1,172,776,895	1,173,076,473	299,578	Level II
Trade and Other Payables	-	-	809,883,196	809,883,196	809,883,196	-	-

Notes to the Financial Statements

46.4 Valuation of Non-Financial Assets

46.4.1 Fair value measurement of assets classified as Level 3

As at 31 March 2019

	Cost/Carrying Amount					Fair Value			
	Building Sq.ft	Extent Perches	Land LKR	Building LKR	Total LKR	Land LKR	Building LKR	Total LKR	Fair Value Hierarchy
Property, Plant and Equipment									
No. 94 96/1, Kandy Rd, Kurunegala.	5,755	7.05	21,100,765	68,899,235	90,000,000	24,186,785	65,813,215	90,000,000	Level III
No. 46/A, Thangalle Rd, Hambanthota.	2,113	9.26	6,605,752	11,394,248	18,000,000	11,666,667	13,333,333	25,000,000	Level III
No. 677, William Gopallawa Mw, Kandy.	5,400	9.26	22,147,114	56,152,886	78,300,000	24,305,250	678,214,665	702,519,914	Level III
No. 168, Nawala Rd, Nugegoda.	30,887	25.9	153,243,921	523,456,079	676,700,000	193,785,335	56,694,750	250,480,086	Level III
			203,097,552	659,902,448	863,000,000	253,944,037	814,055,963	1,068,000,000	
Investment Properties									
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24,952	39.6	271,522,624	547,477,376	819,000,000	296,503,261	543,496,739	840,000,000	Level III
Vihara Road, Rankewatte, Matale.	Land	15	9,750,000	-	9,750,000	10,500,000	-	10,500,000	Level III
No. 44/1, Service Road, Puttalam.	Land	25.6	16,000,000	-	16,000,000	31,500,000	-	31,500,000	Level III
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20,494	182.59	52,152,445	69,647,555	121,800,000	69,688,838	85,311,162	155,000,000	Level III
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8	33,785,567	96,214,433	130,000,000	40,777,318	103,222,682	144,000,000	Level III
No. 06, Abaya Place, 7 th Lane, Anuradhapura.	Land	13.52	25,700,000	-	25,700,000	50,000,000	-	50,000,000	Level III
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	41,400,000	-	41,400,000	46,000,000	-	46,000,000	Level III
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	16,500,000	-	16,500,000	18,000,000	-	18,000,000	Level III
			466,810,637	713,339,363	1,180,150,000	562,969,416	732,030,584	1,295,000,000	

As at 31 March 2018

	Cost/Carrying Amount					Fair Value			
	Building Sq.ft	Extent Perches	Land LKR	Building LKR	Total LKR	Land LKR	Building LKR	Total LKR	Fair Value Hierarchy
Property, Plant and Equipment									
No. 94 96/1, Kandy Rd, Kurunegala.	5,755	7.05	20,350,515	66,449,485	86,800,000	21,100,765	68,899,235	90,000,000	Level III
No. 46/A, Thangalle Rd, Hambanthota.	2,113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000	Level III
No. 677, William Gopallawa Mw, Kandy.	5,400	9.26	22,062,259	55,937,741	78,000,000	22,147,114	56,152,886	78,300,000	Level III
No. 168, Nawala Rd, Nugegoda.	30,887	25.9	143,483,594	490,116,406	633,600,000	153,243,921	523,456,079	676,700,000	Level III
			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.	24,952	39.6	205,133,851	482,366,149	687,500,000	271,522,624	547,477,376	819,000,000	Level III
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,750,000	-	9,750,000	Level III
No. 44/1, Service Road, Puttalam.	Land	25.6	15,400,000	-	15,400,000	16,000,000	-	16,000,000	Level III
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20,494	182.59	56,755,335	72,844,665	129,600,000	52,152,445	69,647,555	121,800,000	Level III
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8	33,785,567	96,214,433	130,000,000	33,785,567	96,214,433	130,000,000	Level III
No. 06, Abaya Place, 7 th Lane, Anuradhapura.	Land	13.52	25,000,000	-	25,000,000	25,700,000	-	25,700,000	Level III
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	36,800,000	-	36,800,000	41,400,000	-	41,400,000	Level III
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	16,300,000	-	16,300,000	16,500,000	-	16,500,000	Level III
			398,174,753	651,425,247	1,049,600,000	466,810,637	713,339,363	1,180,150,000	

Notes to the Financial Statements

Unobservable Inputs Used in Measuring Fair Value

Depreciated replacement Cost Basis/ Market Comparable Method

Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.

Investment Method

Significant increase/(decrease) in rent per sq.ft, outgoing expenses and no of years since purchase would result in a significantly higher/(lower) fair value.

46.4.2 Valuation Details of Non-financial Assets

	Range of estimates for unobservable inputs					
	Valuation	Value per	Value per	Estimated	Discount	Rate per
	Method	Perch	sq. ft.	Rent per	Rate	Perch
		(Land)	(Building)	Month		for Land
		LKR		LKR		LKR
Property, Plant and Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	Cost approach	3,000,000	10,000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	500,000	4,000	100,000	-	-
No. 677, William Gopallawa Mw, Kandy.	Cost approach	2,500,000	10,000	300,000	-	-
No. 168, Nawala Rd, Nugegoda.	Income approach	5,500,000	12,500	3,244,125	20%	-
Investment Properties						
No.67/1, Mahinda Place, Kirulapone, Colombo-05.	Income approach			500,000	20%	
No.249, Stanly Thilakarathna Mw, Nugegogda.	Income approach			2,922,250	20%	
No.465/1, Old Police Station Road, Kahathuduwa, Polgasovita.	Income approach			576,875	20%	
No.64, Abaya Place, Anuradhapura.	Market comparable method					2,500,000
No. 37, Vihara Mw, Matale.	Market comparable method					700,000
No. 340, Galle Road, Katubedda, Moratuwa.	Market comparable method					2,000,000
No.56,Sewa Mw, Puttalam.	Market comparable method					800,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market comparable method					25,000

47. Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue 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 Finance has three main segments, namely Finance, Leasing and Others, based on the business activities that each unit is engaged in for the purpose of reviewing the operating results of the Company as well as to make decisions about resource allocation.

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

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

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

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Finance Limited's total revenue in 2017/18 and 2018/19 financial years.

Year ended 31 March	Financial		Leasing		Others		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Net interest income	3,602,112,144	3,145,663,042	607,581,087	576,672,900	217,389,545	441,866,789	4,427,082,776	4,164,202,731
Net Fee and commission income	670,589,996	613,456,327	27,456,650	(21,400,331)	-	-	698,046,646	592,055,996
Net Gain /(Loss) from trading	-	-	-	-	(113,600)	1,103,040	(113,600)	1,103,040
Net Gain /(Loss) from financial investments	-	-	-	-	-	-	-	-
Other operating income	20,288,894	17,781,785	111,684,516	47,935,897	152,764,941	176,725,462	284,738,351	242,443,144
Total operating income	4,292,991,034	3,776,901,154	746,722,253	603,208,466	370,040,886	619,695,291	5,409,754,173	4,999,804,911
Impairment charges for loan and other losses	(672,737,106)	(599,458,832)	(108,792,420)	(85,811,100)	(61,381,537)	-	(842,911,063)	(685,269,932)
Net Operating Income	3,620,253,928	3,177,442,322	637,929,833	517,397,366	308,659,349	619,695,291	4,566,843,110	4,314,534,979
Operating profit/(Loss)	609,089,167	923,892,027	343,828,137	39,080,460	308,659,349	619,695,291	1,261,576,653	1,582,667,778
Income tax expenses	(227,389,732)	(422,972,592)	(117,348,543)	(14,096,322)	(86,242,556)	(133,815,544)	(430,980,831)	(570,884,458)
Profit/(Loss) for the Year	381,699,435	500,919,435	226,479,594	24,984,138	222,416,793	485,879,747	830,595,822	1,011,783,320
Total Assets	22,085,950,792	18,274,091,223	8,327,438,222	4,526,145,193	2,515,798,261	2,538,558,352	32,929,187,275	25,338,794,768
Total Liabilities	19,419,049,872	16,060,648,514	8,209,982,717	4,477,395,739	670,687,481	670,454,221	28,299,720,070	21,208,498,474

Five Year Statistical Summary

Year ended 31 March	2019 LKR	2018 LKR	2017 LKR	2016 LKR	2015 LKR
Operating Results					
Income	8,291,663,723	7,482,548,192	6,234,033,583	4,485,107,633	2,838,662,640
Interest income	7,229,168,801	6,537,663,310	5,327,018,057	3,906,231,603	2,467,538,240
Interest expense	2,802,086,025	2,373,460,579	1,465,618,208	995,689,242	713,714,381
Non interest income	1,062,494,921	945,987,922	907,097,366	552,297,228	379,415,418
Non interest expense	995,715,656	795,655,675	805,903,349	185,973,091	180,958,701
Operating expense (Incl VAT,NBT and DRL)	3,231,816,948	2,731,867,199	2,336,212,991	1,732,024,360	1,294,940,905
Profit before income tax	1,261,931,494	1,582,667,779	1,626,380,875	1,544,842,138	657,339,671
Income tax on profit	431,335,672	570,884,458	567,546,689	434,748,933	122,793,299
Profit after taxation	830,595,822	1,011,783,321	1,058,834,186	1,110,093,205	534,546,372
Liabilities and Shareholder's Funds					
Customer deposits	22,632,141,889	18,821,363,686	14,040,245,231	10,420,418,906	7,557,913,371
Borrowings	4,217,579,835	1,178,231,116	1,333,380,268	909,572,460	780,301,120
Other liabilities	1,449,998,346	1,208,903,672	772,847,350	604,790,040	475,027,607
Deferred tax liabilities	-	-	16,115,738	49,026,181	-
Shareholders' funds	4,629,467,205	4,130,296,294	3,390,204,237	2,392,022,626	1,272,625,812
Total	32,929,187,275	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,910
Assets					
Loans and receivables to customers (Net)	25,470,710,661	19,044,674,591	13,763,766,163	9,138,489,796	5,724,678,521
Cash, short term deposits and balances with Central Bank of Sri Lanka	3,874,464,350	3,136,605,336	2,962,784,849	3,105,494,885	2,421,352,223
Property, plant and equipment	1,420,476,897	1,158,835,158	1,119,409,029	950,441,553	880,474,985
Deferred tax assets	189,768,514	124,848,966	-	-	5,978,982
Other assets	1,973,766,853	1,873,830,717	1,706,832,783	1,181,403,979	1,053,383,201
Total	32,929,187,275	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,912
Ratios					
Return on average shareholder funds (%)	18.06	24.50	31.23	46.41	42.00
Income growth (%)	10.81	20.03	38.99	58.00	36.37
Return on average assets (%)	2.54	3.99	5.42	7.72	5.30
Dividend Cover(Times)	-	2.57	4.66	-	-
Property plant and equipment to shareholders' funds (%)	30.64	28.06	33.02	39.73	69.19
Total assets to shareholders' funds (Times)	7.10	6.13	5.77	6.01	7.93
Liquid assets to liabilities (%)	39.67	23.60	34.23	41.81	43.88
Share Information					
Earnings per share (LKR)	0.48	0.59	0.62	0.65	0.31
Dividend per share (LKR)	-	0.23	0.13	-	-
Gross dividends (LKR)	-	326,720,318	189,153,868	-	-
Other Information					
No of employees	1,961	1,746	1,594	1,362	1,126
No of branches	48	48	48	48	48
No of service centres	21	21	21	21	21

Share Information

Ten Largest Shareholders - Voting

No	Shareholder Name	31st March 2019		31st March 2018	
		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. Prabhath	1,000,000	0.07	1,000,000	0.07
5	H. M. U. Senevirathna	150,000	0.01	150,000	0.01
6	W. S. P. Arangala	110,000	0.01	110,000	0.01
7	S. L.Y. Liyanawatte	102,500	0.01	102,500	0.01
8	S. T. D. 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 2019		31st March 2018	
		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

Share Information

Distribution of Shareholders - Voting

Shareholding Range	31st March 2019				31st March 2018			
	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 2019			31st March 2018		
	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

Contact Information

Province	Branch/SC	Address	Tel
Northern Province	Jaffna	■ No. 149A, K. K. S. Road, Jaffna	212117750
	Vavuniya	■ No. 65A/1, 1st Cross Street, Vavuniya	242117760
	Mannar	■ 1st Floor, Our lady of Victory's building, Main Street, Mannar	232117750
	Nelliyady	■ New Market, Main street, Nelliady	212117770
	Kilinochchi	■ No. 08, Kanakapuram Road, Uthayanager- North, Kilinochchi	212117780
	Mallavi	■ Thunukkai Road, Mallavi	212117760
	Nedunkerny	■ Oddusudan Junction, Mullaitivu Road, Nedunkeni	242117750
	Mullaitivu	■ No. 94, PWD Road, Mullaitivu	212117790
North Central Province	Padaviya	■ Bandaranayake Mawata, Padaviya	252117790
	Medawachchiya	■ No. 36, Kandy Road, Madawachchiya	252117760
	Anuradhapura	■ No. 255, 1st Floor, Maithreepala Senanayaka Mawatha, Anuradhapura	252117750
	Polonnaruwa	■ No. 57/4, Batticola Road, Polonnaruwa	272117750
	Galenbidunuwewa	■ Police Road, Galenbindunuwewa	252117780
	Kekirawa	■ No. 36 A, Yakalla Road, Kakirawa	252117740
	Nochchiyagama	■ Buddhist Centre Junction, Galadivulweva, Nochchiyagama	252117770
North Western Province	Puttlam	■ No. 171/1, Kurunegala Road, Puttalam	322117780
	Galgamuwa	■ No. 349, Anuradapura Road, Galgamuwa	372117760
	Nikaweratiya	■ No. 227, Puttalam Road, Nikaweratiya	372117770
	Chilaw	■ No.G1/F1, New Shopping Complex, Library Road, Chilaw	322117750
	Wennappuwa	■ No. 153/C, Chilaw Road, Dummaladaniya Mada, Wennappuwa	312127470
	Kurunegala	■ No. 94, Kandy Road, Kurunagala	372117750
	Norochchole	■ Kalpitiya Road, Norochchole	322117760
	Kuliyapitiya	■ No. 355, Madampe Road, Kuliyapitiya	372117780
Eastern Province	Trincomalee	■ No. 124/02, Main street, Trincomalee	262117750
	Kantale	■ No. 58/G, Main Street, Kanthale	262117760
	Batticaloa	■ No. 39/2, Central Road, Batticaloa	652117750
	Ampara	■ No. 27, Nidahas Mawatha, Ampara	632117750
	Pothuvil	■ Front of the Bus stand, Main Street, Pottuvil	632117760
	Kalmunai	■ No. 117/A, Main Street, Periyaneelavanai-2, Kalmunai	672117750
	Dehiattakandiya	■ No. 08, New Town, Dehiattakandiya	272117760
Central Province	Dambulla	■ No. 818, Dambulgama Junction, Dambulla	662117760
	Matale	■ No. 19, Kandy Road, Mathale	662117750
	Kandy	■ No. 677, Viliyam Gopallawa Mawatha, Kandy	812117750
	Nawalapitiya	■ No. 32/2, Ambagamuwa Road, Nawalapitiya	542117750
	Nuwara Eliya	■ No. 05, Srimath Jayathilaka Mawatha, Nuwara Eliya	522117750
	Rikillagaskanda	■ No. 06, Dibulkumbura Road, Rikillagaskada	812117760
	Walapane	■ No. 98, Kandy Road, Walapone	522117760
	Hatton	■ No. 187/D, Dimbula Road, Hatton	512117750

Contact Information

Province	Branch/SC	Address	Tel
Uva Province	Mahiyanganaya	■ No. 207, Padiyathalawa Road, Mahiyanganaya	552117760
	Badulla	■ No. 24/1/1, Anagarika Dharmapala Mawatha, Badulla	552117750
	Monaragala	■ No. 306, Wallawaya Road, Monaragala	552117770
	Welimada	■ No. 33/01, Haputale Road, Welimada	572117760
	Bandarawela	■ No. A/96, Badulla Road, Bandarawela	572117750
Western Province	City	■ No. 67/1, Mahinda place, Kirulapana, Colombo 5	112127600
	Head Office	■ No.168, Nawala Road, Nugegoda	0112176262
	Negombo	■ No. 349/1A1, Main Street, Negambo	312117750
	Nittambuwa	■ No.9, Kandy Road, Nittambuwa	332117760
	Ja-Ela	■ No. 71/1, Minuwangoda Road, Kanuwana, Ja Ela	112127680
	Wattala	■ No. 34/1/1, Negambo Road, Wattala	112127660
	Gampaha	■ No. 57, Baudhaloka Mawatha, Gampaha	332117750
	Avissawella	■ No. 117 B, Rathnapura Road, Avissawella	362117750
	Kaduwela	■ No. 155/2/A, Avissawella Road, Hewagama Kaduwela.	112127670
	Homagama	■ No. 62/A, High Level Road, Homagama	112127650
	Horana	■ No. 161, Rathnapura Road, Horana	342117760
	Moratuwa	■ No. 597, Galle Road, Rawathawatta, Moratuwa	112127630
	Bandaragama	■ No. 12, Panadura Road, Bandaragama	382117750
	Kalutara	■ No. 427, Galle Road, Kaluthara North	342117750
	Mathugama	■ No.141/2, Agalawatta Road, Mathugama	342117760
Sabaragamuwa Province	Kegalle	■ No. 290/28, Main street, Kegalle	352117750
	Ratnapura	■ No. 434/1/1, Kudugal Watta, Ratnapura	452117750
	Embilipitiya	■ No. 59, 2nd Floor, Rathnaweera Building, Main Street, Embilipitiya	472117780
	Balangoda	■ No. 71/C, Old Road, Balangoda	452117760
Southern Province	Hambantota	■ No. 21A, Jail Street, Hambantota	472117750
	Beliatta	■ No. 51/1, Matara Road, Beliatta	472117770
	Matara	■ No. 386/01, Kumarathunga Mawatha, Matara	412117750
	Galle	■ No. 48, Olcott Mawatha, Galle	912117750
	Ambalangoda	■ No. 273, Main Street, Ambalangoda	912117760
	Thissamaharamaya	■ No. 29, Palliyawaththa Road, Tissamaharama	472117760
	Morawaka	■ No. 07, Nilwala Building, Morawaka	412117760
	Pitigala	■ No. 290/1A, Elpitiya Road, Pitigala	912117770

■ Branch

■ Service Centre

GRI Content Index

GRI Standard	Disclosure	Page No.	Remarks
GRI General Disclosures			
GRI 102: General Disclosures	102-1 Name of the organisation	1, 199	
	102-2 Activities, brands, products, and services	51	
	102-3 Location of headquarters	58, 199	
	102-4 Location of operations	58 - 59	
	102-5 Ownership and legal form	199	
	102-6 Markets served	48 - 51, 58	
	102-7 Scale of the organisation	18 - 21	
	102-8 Information on employees and other workers	64 - 71	
	102-9 Supply Chain	75 - 76	
	102-10 Significant changes to the organisation and its supply chain		There were no significant changes
	102-11 Precautionary principle or approach	62, 104 - 109	
	102-12 External initiatives	4, 72 - 78	
	102-13 Membership of associations	199	
	102-14 Statement from senior decision maker	26 - 30	
	102-15 Key impacts, risks, and opportunities	104 - 109	
	102-16 Values, principles, standards, and norms of behaviour	5, 61, 92 - 103	
	102-18 Governance structure	86 - 91	
	102-40 List of stakeholder groups	34 - 38	
	102-41 Collective bargaining agreements	64	Company does not have collective bargaining agreements in place
	102-42 Identifying and selecting stakeholders	34 - 38	
	102-43 Approach to stakeholder engagement	34 - 38	
	102-44 Key topics and concerns raised	34 - 38	
	102-45 Entities included in the consolidated financial statements		We do not have subsidiaries or associates
	102-46 Defining report content and topic boundaries	4, 39 - 40	
	102-47 List of material topics	39 - 40	
	102-48 Restatements of information		None
	102-49 Changes in reporting	4	Adoption of GRI Standards 'Core' for the first time
	102-50 Reporting period	4	
	102-51 Date of most recent report	4	
	102-52 Reporting cycle	4	
	102-53 Contact point for questions regarding the report	4	

GRI Content Index

GRI Standard	Disclosure	Page No.	Remarks
	102-54 Claims of reporting in accordance with the GRI Standards	4	
	102-55 GRI content index	195 - 198	
	102-56 External assurance		Voluntary reporting under GRI guidelines
Management Approach			
GRI 103: Management Approach	103-1 Explanation of the material topics and its boundaries	39 - 40	
	103-2 The management approach and its components	39 - 40	
	103-3 Evaluation of the management approach	39 - 40	
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	55	
	201-2 Financial implications and other risks and opportunities due to climate change		Being in the industry of Financing, climate change does not have a direct impact on our business
	201-3 Defined benefit plan obligations and other retirement plans	147	
GRI 202: Market Presence	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	64	Equal pay for both Men and Women without any Gender discrimination
	202-2 Proportion of senior management hired from the local community	65	
GRI 203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported	72 - 78	
	203-2 Significant indirect economic impacts	72 - 78	
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	75 - 76	
GRI 205: Anti- Corruption	205-1 Operations assessed for risks related to corruption		None
	205-2 Communication and training about anti-corruption policies and procedures		None
	205-3 Confirmed incidents of corruption and actions taken		No incidents of corruption were reported in 2018/19 financial year
GRI 302: Energy	302-1 Energy consumption within the organisation	80	
	302-4 Reduction of energy consumption	80	
GRI 303: Water and Effluents	303-1 Water withdrawal by source	80	
	303-2 Water sources significantly affected by withdrawal of water	80	
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations		No incidents were reported on Non- compliance with Environmental laws and regulations
GRI 401: Employment	401-1 New employee hires and employee turnover	21	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	66	
	401-3 Parental leave	67	

GRI Standard	Disclosure	Page No.	Remarks
GRI 402: Labor/ Management Relations	402-1 Minimum notice periods regarding operational changes	N/A	Adequate notice given as required
GRI 403: Occupational Health and Safety	403-1 Workers representation in formal joint management-worker health and safety committees	N/A	
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	N/A	No injuries were reported during the period
	403-3 Workers with high incidence or high risk of diseases related to their occupation	N/A	As a finance company, there are no such employee category observed
	403-4 Health and safety topics covered in formal agreements with trade unions		No trade unions in the company
	403-4 Worker participation, consultation, and communication on occupational health and safety	67	
	403-5 Worker training on occupational health and safety	67	
	403-6 Promotion of worker health	67	
	403-9 Work-related injuries		None
	403-10 Work-related ill health		None
GRI 404: Training and Education	404-1 Average hours of training per year per employee	68 - 69	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	68 - 69	
	404-3 Percentage of employees receiving regular performance and career development reviews	68 - 69	
GRI 405: Diversity and Inclusion	405-1 Diversity of governance bodies and employees	65, 88 - 89	
GRI 406: Non- discrimination	406-1 Incidents of discrimination and corrective actions taken		None
GRI 407: Freedom of Association and Collective Bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		No restrictions for the formation of associations and collective bargaining
GRI 408: Child Labour	408-1 Operations and suppliers at significant risk for incidents of child labour	64	
GRI 409: Forced or Compulsory Labour	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	64	
GRI 413: Local Communities	413-1 Operations with local community engagement, impact assessments, and development programmes	76 - 78	

GRI Content Index

GRI Standard	Disclosure	Page No.	Remarks
GRI 416: Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	N/A	As a service organisation, health and safety impacts of our products and service categories cannot be assessed
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	N/A	
GRI 417: Marketing and Labelling	417-2 Incidents of non-compliance concerning product and service information and labelling		No incidents were reported during the year under review
	417-3 Incidents of non-compliance concerning marketing communications		
GRI 418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data		No incidents were reported during the year under review

Corporate Information

Name

HNB Finance Limited (Subsidiary of Hatton National Bank PLC)

Nature of Business

Acceptance of Fixed Deposits and Savings Accounts; provision of Microfinance Loans; Finance Leasing, Business Loans, Housing Loans, Gold Loans and other value added services

Legal Status

A public limited liability company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and 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 Microfinance Practitioners' Association
The Finance House Association of Sri Lanka.

Registered Office and Principal Place of Business

HNB Finance Limited
No. 168, Nawala Road, Nugegoda,
Sri Lanka.
Tel : +94 11 2176262
Fax : +94 11 2176263
Email : info@hnbfinance.lk
Website : www.hnbfinance.lk

Outlets

Branches - 48
Service Centres - 21

Company Secretaries

SSP Corporate Services (Pvt) Ltd
101, Inner Flower Road, Colombo 03,
Sri, Lanka.
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 (Ika)' 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

Notes

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This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Notice of Meeting

Notice is hereby given that the 09th Annual General Meeting of the shareholders of HNB Finance Limited (the Company) will be held at the "Auditorium", Level 06, Head Office of HNB Finance Limited, No. 168, Nawala Road, Nugegoda, on the 27th day of August 2019 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 2019 together with the Report of the Auditors thereon.
3. To re-elect Mr. Anushka Sheran Wijesinha as a Director, who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.
4. To re-elect Mr. Pathirana Arachchige Hasitha Danushka Wijesundara as a Director, who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.
5. To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.
6. To authorise the Board of Directors to determine contributions to charities and other donations for the year 2019/2020.
7. To consider and if thought fit to authorise the Company, upon the Company becoming a listed entity pursuant to the shares of the Company being listed on the Diri Savi Board of the Colombo Stock Exchange, to change its status from a public company to a public listed company by adoption of the following Resolution as a Special Resolution:

Special Resolution –

"IT IS HEREBY RESOLVED THAT the status of the Company be changed from a public limited company to a public listed company in terms of Section 92 (1) (g) of the Companies Act No. 7 of 2007 and that immediately upon the Company obtaining a listing of its shares on the Colombo Stock Exchange, the Company will be deemed to have resolved to change its name in accordance with provisions of Section 11 (3) and Section 8 (1) of the Companies Act No. 07 of 2007 by substituting for the word "Limited" at the end of its name, the words "Public Limited Company" (PLC) and accordingly the Company's name will be changed from HNB Finance Limited to HNB Finance PLC."

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

By Order of the Board of Directors of
HNB Finance Limited



S S P Corporate Services (Private) Limited
Secretaries

11 July 2019
Colombo

Notes:

1. A shareholder entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote on his/her behalf.
2. A proxy so appointed need not be a member of the company.
3. A form of proxy accompanies this notice.

Form of Proxy

I/We* (please indicate full name) holder

of NIC No. of

being a member/*members of H N B Finance Limited hereby appoint::

Mr./Ms. (please indicate full name)

holder of NIC No. of or failing him/her

Mr. B. M. D. C. Prabhath	of Colombo or failing him
Mr. B. Premalal	of Colombo or failing him
Mr. A. J. Alles	of Colombo or failing him
Mr. A. S. Wijesinha	of Colombo or failing him
Mr. S. U. H. Fernando	of Colombo or failing him
Mr. P. A. H. D. Wijesundara	of Colombo or failing him
Mr. A. G. R. Dissanayake	of Colombo or failing him
Mr. M. Perera	of Colombo

as my/*our Proxy to represent me/*us and to vote as indicated below on my/*our behalf at the Annual General Meeting of the Company to be held on the 27th day of August 2019 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 2019 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To re- elect Mr. Anushka Sheran Wijesinha who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(3) To re- elect Mr. Pathirana Arachchige Hasitha Danushka Wijesundara who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(4) To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
(5) To authorise the Board of Directors to determine contributions to charities and other donations for the year 2019/2020	<input type="checkbox"/>	<input type="checkbox"/>
(6) To consider and if thought fit to approve the Special Resolution for the change of status of the Company from a public limited company to a public listed company and the deemed change of name of the Company from 'HNB Finance Limited' 'HNB Finance PLC'.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand set hereto this day of Two Thousand and Nineteen.

.....
Signature

Note:

- Instructions as to completion are given below. Please delete the words which are not applicable and mark 'X' in the appropriate cages to indicate your instructions as to voting.
- A proxy need not be a member of the Company.

Instructions as to Completion of Form of Proxy

1. Kindly perfect the Form of Proxy by filling in legibly your full name, NIC No, address, instructions as to voting and by signing and filling in the date of signature in the space provided.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given, the Proxy in his/her discretion may vote as he/she thinks fit.
3. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No. 168, Nawala Road, Nugegoda, not less than 48 hours before the time appointed for holding the Meeting.
4. If the Shareholder is a Company or a body corporate, a form of Corporate Representation executed under the Common Seal in accordance with the Articles of Association or the Constitution should be submitted.
5. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of proxy.
6. Any Shareholder/ Proxy attending the Annual General Meeting is kindly requested to bring with him/ her the National Identity Card or any other form of valid identification and produce same at the time of Registration.



HNB Finance Limited.

Head Office - No. 168, Nawala Road, Nugegoda, Sri Lanka.

