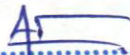
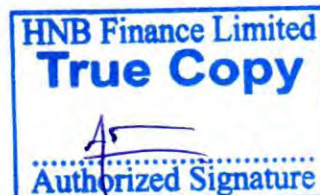


HNB Finance Limited  
**True Copy**  
Authorized Signature

**HNB FINANCE LIMITED**  
**FINANCIAL STATEMENTS**  
**31 MARCH 2019**

HNB Finance Limited  
**True Copy**  
  
Authorized Signature





HMAJ/BV/AD

# INDEPENDENT AUDITOR'S REPORT

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.

(Contd..2/)

For EY: W.R.H. Fernando FCA ACMA, R.Nee Saram ACA FCMA, M.A.N.A.D. Silva FCA, M.K.A.C. Silva FCA, W.R.H. de Silva ACA ACMA, W.K.B.P. Fernando FCA FCMA, M.A.R.M. Fernando FCA ACMA, M.L.H.L. Fernando FCA, A.P.A. Gunasekera FCA FCMA, A. Harsh FCA, D.K. Jangathurai FCA FCMA, L.B. Loney, H.M.A. Jayasinghe FCA FCMA, M.A.A. Luodavve FCA FCMA, M.G.S. Maniyilage FCA, M.P.V.K.N. Sankaran FCA, N.M. Subraman ACA ACMA, B.B.W. Jayaraja FCA FCMA

For HNB: G.B. Goussan ACMA, A.A.J.R. Perera ACA ACMA, T.P.M. Rodrigo FCA FCMA

Authorised for HNB Finance Limited





Building a better  
working world

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

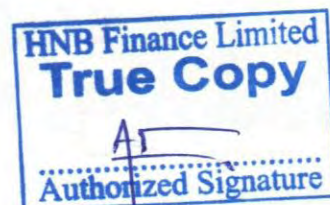
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### Report on other legal and regulatory requirements

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

11 July 2019  
Colombo



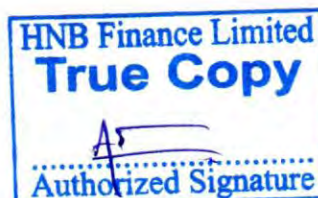
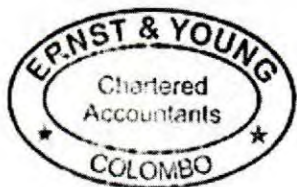


**HNB Finance Limited**
**STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 March 2019

	Note	2019 LKR	2018 LKR
<b>Gross Income</b>	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)
<b>Net Interest Income</b>	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)
<b>Net Fee and Commission Income</b>	6.	624,951,978	580,787,181
<b>Net Interest, Fee and Commission Income</b>		<u>5,052,034,754</u>	<u>4,744,989,912</u>
Other operating income	7.	284,738,350	242,443,143
Net mark to market valuation gain	7.	(113,600)	1,103,040
<b>Total Operating Income</b>		<u>5,336,659,505</u>	<u>4,988,536,095</u>
Impairment charges for loans and other losses	8.	(842,911,062)	(685,269,932)
<b>Net Operating Income</b>		<u>4,493,748,442</u>	<u>4,303,266,163</u>
Personnel expenses	9.	(1,235,850,374)	(1,108,124,495)
Other expenses	10.	(1,492,214,080)	(1,167,908,603)
<b>Total Operating Expenses</b>		<u>(2,728,064,454)</u>	<u>(2,276,033,098)</u>
<b>Operating Profit before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services</b>		<u>1,765,683,988</u>	<u>2,027,233,064</u>
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)
<b>Operating Profit after Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services</b>		<u>1,261,931,494</u>	<u>1,582,667,778</u>
Income tax expenses	13.	(431,335,672)	(570,884,458)
<b>Profit for the Year</b>		<u><u>830,595,822</u></u>	<u><u>1,011,783,320</u></u>
Basic earnings per share	14.	0.48	0.59

The Accounting Policies and Notes on pages 08 through 64 form an integral part of the Financial Statements.





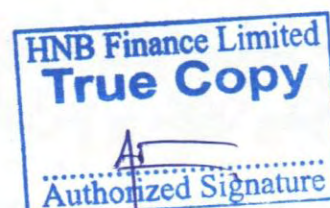
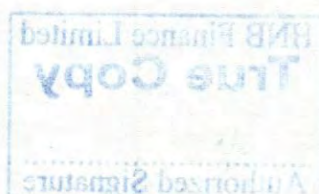
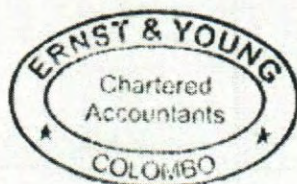
# HNB Grameen Finance Limited

## STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

	Note	2019 LKR	2018 LKR
<b>Profit for the Year</b>		<b>830,595,822</b>	<b>1,011,783,320</b>
<b>Other Comprehensive Income for the Year, Net of Tax</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(losses) on defined benefit plans	33.1	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)
<b>Other Comprehensive Income for the Year, Net of Tax</b>		<b>169,514,990</b>	<b>55,029,055</b>
<b>Total Comprehensive Income for the Year</b>		<b>1,000,110,812</b>	<b>1,066,812,375</b>

The Accounting Policies and Notes on pages 08 through 64 form an integral part of the Financial Statements.





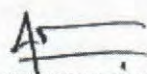
# HNB Finance Limited

## STATEMENT OF FINANCIAL POSITION

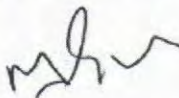
As at 31 March 2019


	Note	2019 LKR	2018 LKR
<b>ASSETS</b>			
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 & Equipment	26	1,420,476,897	1,158,835,158
Deferred tax assets	27	189,768,514	124,848,966
<b>Total Assets</b>		<b>32,929,187,275</b>	<b>25,338,794,768</b>
<b>LIABILITIES</b>			
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
<b>Total Liabilities</b>		<b>28,299,720,070</b>	<b>21,208,498,474</b>
<b>SHAREHOLDERS' FUND</b>			
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	2,724,314,274	2,553,710,332
<b>Total Equity and Liabilities</b>		<b>32,929,187,275</b>	<b>25,338,794,768</b>

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

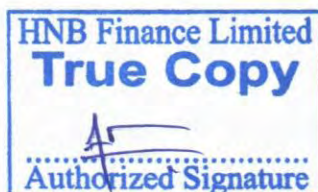
  
.....  
Chief Operating Officer

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

  
.....  
Chairman

  
.....  
Managing Director/CEO

The Accounting Policies and Notes on pages 08 through 64 form an integral part of the Financial Statements.





# HNB Finance Limited

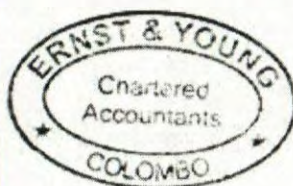
## STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

	Note	Stated Capital LKR	General Reserves LKR	Statutory Reserve LKR	Revaluation Reserve LKR	Retained Earnings LKR	Total LKR
<b>Balance as at 01 April 2017</b>		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
<b>Total comprehensive income for the year, net of tax</b>							
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
<b>Total comprehensive income for the year</b>		-	-	-	44,782,162	1,022,030,213	1,066,812,375
<b>Transactions recorded directly in equity</b>							
Transfer to statutory reserve fund		-	-	202,356,664	-	(202,356,664)	-
Dividend paid		-	-	-	-	(326,720,318)	(326,720,318)
<b>Balance as at 31 March 2018</b>		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)
<b>Restated Balance as at 31 March 2018 under SLFRS 9</b>		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
<b>Total comprehensive income for the year, net of tax</b>							
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	837,663,007	1,000,110,812
<b>Transactions recorded directly in equity</b>							
Transferred to statutory reserve fund		-	-	166,119,164	-	(166,119,164)	-
<b>Balance as at 31 March 2019</b>		223,545,481	82,897,989	1,006,995,465	591,713,996	2,724,314,274	4,629,467,205

The Accounting Policies and Notes on pages 08 through 64 from an integral part of the Financial Statements.

HNB Finance Limited  
True Copy  
Authorized Signature





## HNB Finance Limited

## STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	Note	2019 LKR	2018 LKR
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
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 & 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	842,911,062	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
Amortization on intangible assets	25	49,539,886	37,783,276
Depreciation - on Property, Plant & 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		(1,306,252,846)	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
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant & 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 & Equipment		577,286	522,815
Net of investment in financial assets at amortised cost - government security	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)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
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)
Debt 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 08 through 64 from an integral part of the Financial Statements

HNB Finance Limited  
True Copy  
Authorized Signature





**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 mobilization of public deposits.

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

**1.3 Parent Enterprise & Ultimate Parent Enterprise**

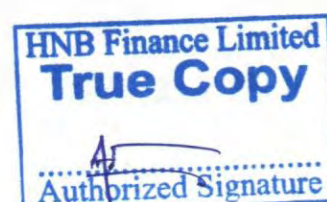
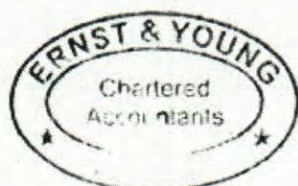
The Company's immediate and ultimate parent undertaking and controlling entity is Hatton National Bank PLC, which is incorporated in Sri Lanka. Hatton National Bank PLC which acquired a shareholding of 51% of the Company's voting ordinary shares on 07 November 2014.

**1.4 Directors' Responsibility Statement**

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

**1.5 Date of Authorization of Issue**

The Financial Statements were authorized for issue by the Board of Directors on 11<sup>th</sup> 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 "SLFRS/LAKSs"), promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and comply with the requirements of the Companies Act, No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendment thereto.

**2.1.2 Basis of Measurement**

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

Items	Measurement basis
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 recognized at the present value

**2.1.3 Presentation of Financial Statements**

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the 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 with the initial application date of 1<sup>st</sup> 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 at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments 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. Reconciliations from opening to closing ECL allowances are presented in Notes 18.1.2 (b) and 18.2. (b) and 19.2(a) 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 1<sup>st</sup> 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 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 recognized 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 amount of assets or liabilities affected in future periods.

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

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





### 2.2.1 Going Concern

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

### 2.2.2 Fair value of financial Instruments

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

### 2.2.3 Impairment Losses on Loans and Advances

#### *Collective Impairment Assessment*

Loans and advances are assessed collectively, by categorizing 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 amortized cost-Loans and advances to customers and Financial assets at amortized 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 1<sup>st</sup> 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.

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 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**

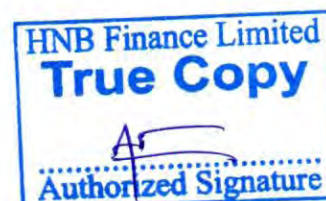
Management requires using its judgment to determine whether a property qualifies as an investment property. The Company had developed criteria so it can exercise its judgment consistently.

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 recognized 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 recognized in the financial statements are described in Notes 41.

**2.3 Summary of Significant Accounting Policies**

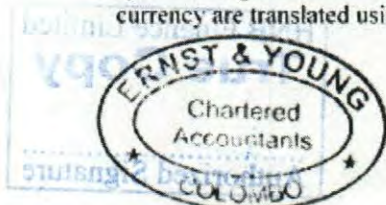
The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements, unless otherwise indicated.

**2.3.1 Foreign Currency Transactions and Balances**

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

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

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





**2.3.2 Financial Instruments- Initial Recognition, 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 receivable, loans and advances to members and others & 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 & other borrowings, funds due to customers and other financial liabilities.

**a) Date of Recognition**

All financial assets and liabilities are initially recognized 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**

**1. 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 recognized 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 recognized 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 recognized initially at fair value plus any directly attributable transaction costs.

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortization is included in interest income in the Statement of Comprehensive Income and the Statement of Other Comprehensive Income. The losses arising from impairment are recognized 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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest rate, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in REPOs, lease receivables, loans & 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 loans or receivables as available-for-sale.

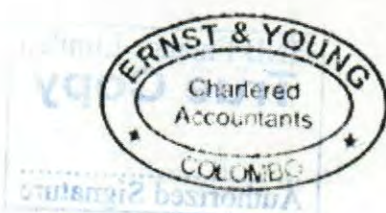
After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized 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. Dividend earned whilst holding available-for-sale financial instruments are recognized 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 recognized in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the available-for-sale reserve.

Available - for - sale financial instrument which fair value is not reliably measurable are stated at cost.

***Financial Assets Classified as Loans and Advances to Members, Lease Rental 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 Rental Receivables, Loans and Advances to Others and Other Financial Assets are subsequently measured at amortized cost using the Effective Interest Rate, less allowance for impairment. Amortized 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 amortization is included in Interest and similar income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income in 'Impairment 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 borrowing funds:

After initial recognition debt issued and other borrowing funds are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the Statement of Comprehensive Income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization 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 Amortized Cost

Deposits and bank 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 amortized 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.

Reclassification 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 derecognized when:

- The rights to receive cash flows from the asset have expired





- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - 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 recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes 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 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.

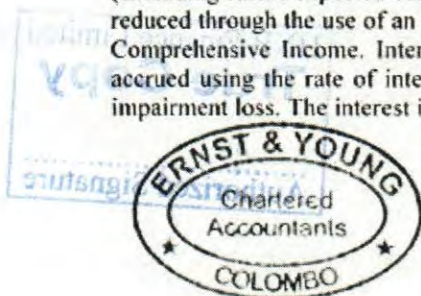
#### 2.3.2.5 Impairment of Financial Assets

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 customers 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 internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, 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, property prices, commodity prices, 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 at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- Financial assets 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 receivables and stock out on hire and Loans and advances to Others, Financial Assets measured at Amortised Cost.**

Before 1 April 2018, Lease rental receivable and Loans and receivables to other customers, 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





- 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, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets; rather 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

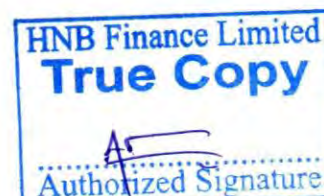
**(b) The SPPI Test**

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 derecognized 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-recognized 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.

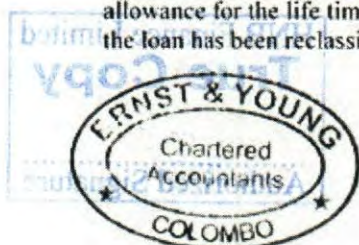
Based on the above process, the Company groups its loans into Stage 1, Stage 2 and Stage 3.

##### 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.

***EAD***

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

***LGD***

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

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

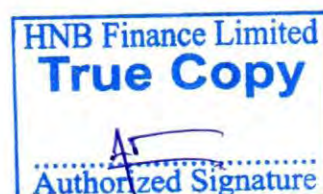
**2.3.3.5.2 The mechanics of the ECL method are summarized below:**

***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 Bank 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

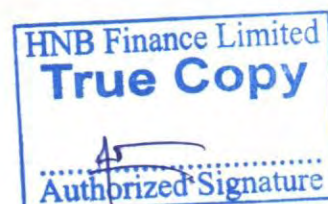
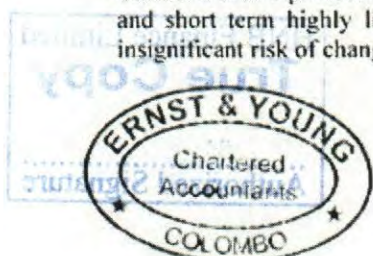
The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase 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 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 capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance cost in the Statement of 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 "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

**2.3.5.2 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 recognized as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Contingent rent payable is recognized as an expense in the period in which they are incurred.

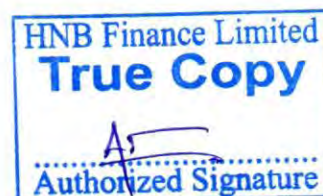
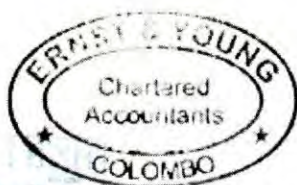
**2.3.5.2.2 Operating leases – Company as a lessor**

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.

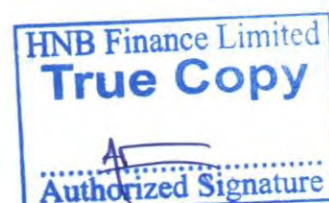
**2.3.6.2.2 Revaluation Model**

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 derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

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

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

Buildings	40 years
Motor Vehicles	05 years
Furniture & Fittings	05 years
Computer & Accessories	05 years
Machinery & Equipment	05 years
Fixtures & Fittings	05 years

**2.3.6.5 De-recognition**

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

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

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

**2.3.7.2 Measurement**

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





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

Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is charged against Statement of Comprehensive Income in the year in which the expenditure is incurred

#### 2.3.7.3 Amortization and impairment

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the Statement of 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-recognized on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Statement of Comprehensive Income.

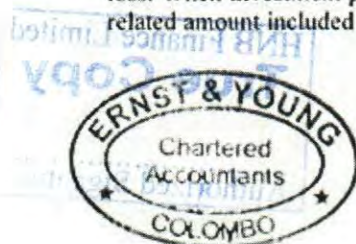
#### 2.3.8 Investment Properties

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

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

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

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





### 2.3.9 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 recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

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

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

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

### 2.3.10 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 recognized for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

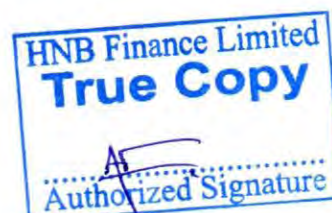
#### 2.3.10.2 Defined Contribution Plans

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

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





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

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

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

#### 2.3.12.1 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.

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

Deferred tax assets are recognized for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. De-recognized deferred tax assets are reassessed at each reporting date and are recognize to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.





Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

#### 2.3.12.3 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 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 Repayment Levy(DRL)

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services from every financial institution commencing from 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 recognized 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.

**2.4. 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.

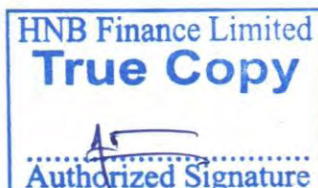
The new standard requires a lessee to:

Recognize 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.





<b>4. GROSS INCOME</b>		<b>2019</b>	<b>2018</b>
		<b>LKR</b>	<b>LKR</b>
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
<b>Total Income</b>		<b>8,291,663,723</b>	<b>7,482,548,192</b>
<b>5. NET INTEREST INCOME</b>		<b>2019</b>	<b>2018</b>
		<b>LKR</b>	<b>LKR</b>
Interest income	5.1	7,229,168,801	6,537,663,310
Interest expense	5.2	(2,802,086,025)	(2,373,460,579)
<b>Net interest income</b>		<b>4,427,082,776</b>	<b>4,164,202,731</b>
<b>5.1 Interest income</b>		<b>2019</b>	<b>2018</b>
		<b>LKR</b>	<b>LKR</b>
Financial assets at amortised cost - Loans and advances to customers/ members		5,736,304,837	5,449,581,653
Financial assets at amortised cost - 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 Savings deposits		1,440,000	1,600,000
<b>Net interest income</b>		<b>7,229,168,801</b>	<b>6,537,663,310</b>
<b>5.2 Interest expense</b>			
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
		<b>2,802,086,025</b>	<b>2,373,460,579</b>
<b>6. NET FEE AND COMMISSION INCOME</b>		<b>2019</b>	<b>2018</b>
		<b>LKR</b>	<b>LKR</b>
Fee and commission income		777,756,571	702,441,739
Fee and commission expenses		(152,804,593)	(121,654,558)
		<b>624,951,978</b>	<b>580,787,181</b>
<b>7. OTHER INCOME</b>		<b>2019</b>	<b>2018</b>
		<b>LKR</b>	<b>LKR</b>
Other operating income	7.1	284,738,350	242,443,143
Net mark to market valuation gain		(113,600)	1,103,040
		<b>284,624,750</b>	<b>243,546,183</b>





## 7. OTHER INCOME (Contd...)

	2019 LKR	2018 LKR
<b>7.1 Other Operating Income</b>		
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
	<u>284,738,350</u>	<u>242,443,143</u>

## 8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

	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 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	-
	<u>842,911,062</u>	<u>685,269,932</u>

## 8.1 Impairment Changes For Loans and Other Losses

	2019 LKR	2018 LKR
Charge/(write-back) to the Statement of Comprehensive Income - Impairment on collective loan portfolio	781,529,525	685,269,932
<b>Total impairment charge</b>	<u>781,529,525</u>	<u>685,269,932</u>

	2019 LKR
Loans and advances to customers	
Stage 1	(173,400,189)
Stage 2	(34,512,203)
Stage 3	788,391,918
	<u>580,479,526</u>

	2019 LKR
Lease rentals receivable and stock out on hire	
Stage 1	31,028,675
Stage 2	33,935,273
Stage 3	147,039,777
	<u>212,003,725</u>

## 8.2 Financial assets at Amortised Cost -Debt and Other Instruments

	2019 LKR	2018 LKR
Financial assets at amortised cost - debt and other Instruments/ Financial investments -loans and receivables	61,381,537	-
	<u>61,381,537</u>	<u>-</u>

## 9. PERSONNEL COST

	2019 LKR	2018 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 benefits	42,355,344	41,780,547
<b>Total</b>	<u>1,235,850,374</u>	<u>1,108,124,495</u>



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**10. OTHER EXPENSES**

	2019 LKR	2018 LKR
Other Operating Expenses, among others Include the following		
Depreciation on Property, Plant and Equipment	132,321,903	126,830,183
Advertising & Publications	83,335,407	44,207,143
Repairs & 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

**11. VALUE ADDED TAX (VAT) AND DEBT RECOVERY LEVY (DRL)**

	2019 LKR	2018 LKR
Value Added Tax on financial Services	360,083,419	392,263,488
Debt Recovery Levy	95,657,952	-
	<u>455,741,371</u>	<u>392,263,488</u>

**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**

	2019 LKR	2018 LKR
Nation Building Tax on Financial services	48,011,123	52,301,798
	<u>48,011,123</u>	<u>52,301,798</u>

**13. INCOME TAX**

	2019 LKR	2018 LKR
<b>Current Income Tax</b>		
Current income tax charge	345,859,248	681,369,313
Over/Under provision during previous year	-	5,348,108
<b>Deferred Income Tax</b>		
Deferred taxation charge / (reversal)	85,476,424	(115,832,963)
Income tax expense reported in the Statement of Comprehensive Income	<u>431,335,672</u>	<u>570,884,458</u>

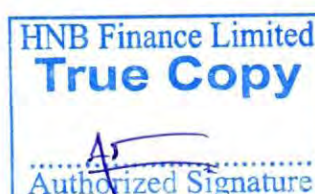
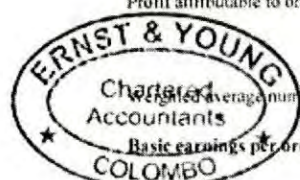
**13.1 Reconciliation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate**

Accounting profit before tax	<u>1,261,931,494</u>	<u>1,582,667,778</u>
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%)	<u>431,335,672</u>	<u>570,884,458</u>
<b>Tax Losses Brought Forward and Utilised during the Year</b>		
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	-	<u>415,440,051</u>

**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:

	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
	2019 Number	2018 Number
Weighted average number of ordinary shares in issue	1,719,580,624	1,719,580,624
Basic earnings per ordinary share	<u>0.48</u>	<u>0.59</u>





## 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:

	Company						
	LKAS 39 measurement			Remeasurement		SLFRS 9	
	Note	Category	Amount LKR	Reclassification LKR	ECL LKR	Other LKR	Amount LKR
<b>Financial assets</b>							
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)	-	-	-
Non-financial 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
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
Deferred Tax		N/A	124,848,966	-	-	194,809,961	319,658,927 N/A
<b>Total assets</b>			<b>25,338,794,768</b>	<b>-</b>	<b>(695,749,862)</b>	<b>194,809,961</b>	<b>24,837,854,867</b>



## 15. TRANSITION DISCLOSURES (Contd..)

**Financial liabilities**

Interest Bearing Borrowings

Due to the Customers

Other Financial Liabilities

**Non financial liabilities**

Other Non Financial Liabilities

Retirement Benefit Liability

Current Tax Liabilities

Total liabilities

Company							
LKAS 39 measurement			Reclassification		Premeasurement		SLFRS 9
Note	Category	Amount			ECL	Other	Amount
		LKR		LKR	LKR	LKR	LKR
	AC	1,178,231,116	-	-	-	-	1,178,231,116
	AC	18,821,363,686	-	-	-	-	18,821,363,686
	AC	809,883,196	-	-	-	-	809,883,196
	N/A	39,887,031	-	-	-	-	39,887,031
	N/A	181,016,637	-	-	-	-	181,016,637
	N/A	178,116,808	-	-	-	-	178,116,808
		<b>21,208,498,474</b>	-	-	-	-	<b>21,208,498,474</b>

## 15.1 The impact of transition to SLFRS 9 on Equity is as follows:

Balance as at 31st March 2018 (as per LKAS-39)

**Impact on reclassification and remeasurement****Impact on recognition of expected credit losses under SLFRS 9**

Financial assets at amortised cost - loans and advances

Deferred tax in relation to the above

Balance as at 1st April 2018 (as per SLFRS-09)

**Retained earnings**

LKR

2,553,710,332

(695,749,862)

194,809,961

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.

**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

**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

980,123,826

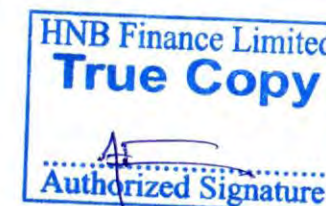
695,749,862

1,675,873,688

980,123,826

695,749,862

1,675,873,688





## 16. CASH AND CASH EQUIVALENTS

	2019 LKR	2018 LKR
Cash in hand	133,128,858	102,342,270
Balances with banks	1,237,967,514	802,817,485
<b>Total</b>	<b>1,371,096,372</b>	<b>905,159,755</b>

## 17. FINANCIAL ASSETS- FAIR VALUE THROUGH PROFIT OR LOSS

	2019 LKR	2018 LKR
Cost of treasury bond investment	16,250,272	16,250,272
Interest receivable	480,000	480,000
	<u>16,730,272</u>	<u>16,730,272</u>
Less: Loss from mark to market valuation	(715,872)	(602,272)
	<u>16,014,400</u>	<u>16,128,000</u>

As at 31 March 2019

	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
		<u>16,250,272</u>	<u>16,000,000</u>	<u>16,014,400</u>

## 18. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

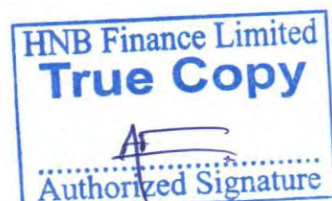
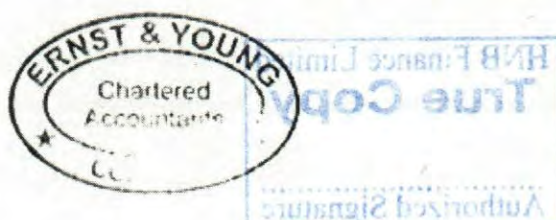
	2019 LKR	2018 LKR
At amortised cost:		
Loans and advances to customers	18,682,625,619	14,892,780,713
Less: Allowance for Impairment losses	(1,927,016,956)	(883,007,105)
	<u>16,755,608,663</u>	<u>14,009,773,608</u>

## 18.1 FINANCIAL ASSETS AT AMORTISED COST -LOANS AND ADVANCES TO CUSTOMERS PRODUCT WISE

	Note	2019 Amortized Cost LKR	2019 Impairment LKR	2018 Amortized Cost LKR	2018 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 advance	18.2	79,204,149	2,277,200	-	-
Loan against fixed deposits	18.3	510,672,375	-	444,188,492	-
Saving advance	18.4	-	-	50,399,155	-
		<u>18,682,625,619</u>	<u>1,927,016,956</u>	<u>14,892,780,713</u>	<u>883,007,105</u>

## 18.1.1 Net loans and advances to customers

	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	1,625,672,932
	<u>18,092,749,095</u>	<u>1,924,739,756</u>	<u>16,168,009,339</u>





18. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.,)

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	<u>474,616,798</u>	<u>83,274,407</u>	<u>1,366,848,551</u>	<u>1,924,739,756</u>

(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	<u>1,924,739,756</u>	<u>883,007,105</u>
Collective impairment	1,924,739,756	883,007,105
Total	<u>1,924,739,756</u>	<u>883,007,105</u>

18.1.3 Sensitivity Analysis of Accumulated Impairment for Loan Rentals Receivable as at 31.03.2019

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

18.2.1 Net Rentals Receivable on Gold Loans

	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	-	-	-
	<u>79,204,149</u>	<u>2,277,200</u>	<u>76,926,949</u>

18.2.2 Allowance for Impairment Losses

(a) Movement in impairment allowance during the year

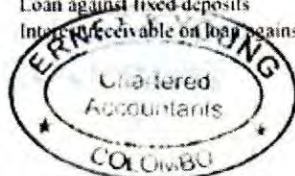
	Stage -1	Collective Stage -2	Stage -3	Total
Balance as at 01 April 2018 (LKAS 39)				-
Transition impact on adoption of SLFRS 9				-
Balance as at 01 April 2018 (SLFRS 09)	-	-	-	-
Charges/(Reversals) for the year	2,208,021	69,179	-	2,277,200
Balance as at 31 March 2019	<u>2,208,021</u>	<u>69,179</u>	<u>-</u>	<u>2,277,200</u>

(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	<u>2,277,200</u>	<u>-</u>
Collective impairment	2,277,200	-
Total	<u>2,277,200</u>	<u>-</u>

18.4 Loan against Fixed Deposits

Loan against fixed deposits  
Interest receivable on loan against fixed deposits



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2019 LKR	2018 LKR
501,467,033	435,748,349
9,205,342	8,440,143
<u>510,672,375</u>	<u>444,188,492</u>



## 18. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd..)

18.3 Saving Advance	2019 LKR	2018 LKR
Saving advance	-	50,399,155
	-	50,399,155

## 19. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

	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)
<b>Net receivable</b>	<b>8,444,989,460</b>	<b>4,541,443,899</b>
Less : Rental received in advance	-	-
<b>Net rentals receivables before charging allowance for impairment losses</b>	<b>8,444,989,460</b>	<b>4,541,443,899</b>
Less : Allowance for impairment losses	(371,599,902)	(86,136,026)
<b>Total net rentals receivable</b>	<b>8,073,389,558</b>	<b>4,455,307,873</b>

## 19.1 Lease rentals receivable and stock out on hire

	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
	<b>8,444,989,460</b>	<b>371,599,902</b>	<b>8,073,389,558</b>

## 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	<b>175,491,195</b>	<b>91,563,760</b>	<b>104,544,947</b>	<b>371,599,902</b>

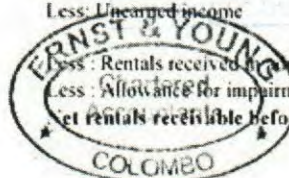
## (b) Movement in impairment allowance

	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	<b>371,599,902</b>	<b>86,136,026</b>
Collective impairment	371,599,902	86,136,026
<b>Total</b>	<b>371,599,902</b>	<b>86,136,026</b>

## 19.3 Sensitivity Analysis of Accumulated Impairment for Lease Rentals Receivable and Stock Out on Hire as at 31.03.2019

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	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)
	<b>2,651,246,230</b>	<b>5,774,193,639</b>	<b>19,549,591</b>	<b>8,444,989,460</b>
Less: Rentals received in advance				-
Less: Allowance for impairment losses				(371,599,902)
<b>Net rentals receivable before charging allowance for impairment losses</b>				<b>8,073,389,558</b>



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## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

## 19. NET RENTALS RECEIVABLE ON LEASE AND STOCK OUT ON HIRE (Contd.)

## 19.5 Allowance For Impairment Losses

	Notes	Impairment LKR	Total LKR
Balance as 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 custom	8.1	580,479,526	580,479,526
Charge for the year - Lease rentals receivable and s	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		<u>2,298,616,859</u>	<u>2,298,616,859</u>

## 20. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO OTHERS

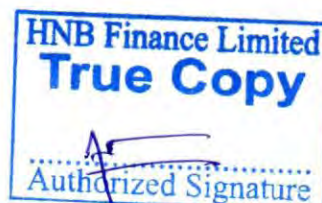
		2019 LKR	2018 LKR
Staff loans	20.1	344,338,944	357,473,118
Staff mortgage loan		297,400,466	233,100,687
		641,739,409	590,573,805
Less: Allowance for impairment losses	20.2	(26,969)	(10,980,695)
		<u>641,712,440</u>	<u>579,593,110</u>

## 20.1 Staff Loans

At the beginning of the year	357,473,118	331,890,240
Loan 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	<u>344,338,944</u>	<u>357,473,118</u>

## 20.2 Allowance for impairment losses

	Balance as at 01 April 2017 LKR	Provision made during the year LKR	Written off during the year LKR	Balance as at 31 March 2018 LKR
Staff loan	26,969	7,391,060	-	7,418,029
Staff mortgage loan	3,562,666	-	-	3,562,666
	<u>3,589,635</u>	<u>7,391,060</u>	<u>-</u>	<u>10,980,695</u>
Balance as at 31 March 2019				
	Balance as at 01 April 2018 LKR	Provision made during the year LKR	Written off during the year LKR	Balance as at 31 March 2019 LKR
Staff loans	7,418,029	(7,391,060)	-	26,969
Staff mortgage loan	3,562,666	(3,562,666)	-	-
	<u>10,980,695</u>	<u>(10,953,726)</u>	<u>-</u>	<u>26,969</u>





**21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

		2019 LKR	2018 LKR
Unquoted equity securities	21.1	12,430,283	12,430,283
		<u>12,430,283</u>	<u>12,430,283</u>

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	2019		2018	
	Number of Shares	Cost LKR	Number of Shares	Cost LKR
Credit Information Bureau of Sri Lanka	100	234,000	100	234,000
Standard Credit Lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd	1,742,326	12,196,283	1,742,326	12,196,283
		<u>50,888,757</u>		<u>50,888,757</u>
Less: Allowance for impairment losses		<u>(38,458,474)</u>		<u>(38,458,474)</u>
		<u>12,430,283</u>		<u>12,430,283</u>

**22. FINANCIAL ASSETS AT AMORTISED COST -DEBT AND OTER INSTRUMENTS**

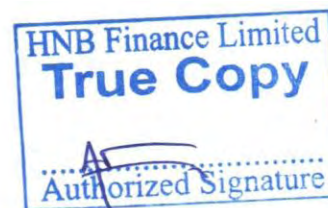
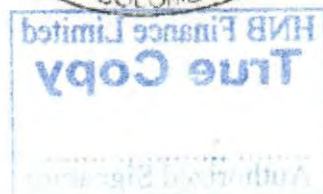
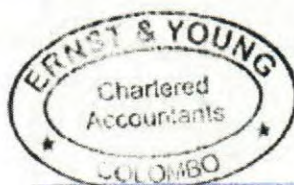
	Notes	2019 LKR	2018 LKR
Fixed deposits		310,191,507	773,125,342
Debentures		166,031,250	166,875,000
Sri lanka government securities	22.1	1,765,399,588	1,275,317,239
Reverse repurchase agreements	22.2	245,731,234	307,112,770
		<u>2,487,353,578</u>	<u>2,522,430,351</u>

**22.1 Sri Lanka Government Securities**

Treasury bills		1,719,565,417	1,229,697,436
		<u>1,719,565,417</u>	<u>1,229,697,436</u>
Interest receivable - Treasury bills		45,834,171	45,619,803
		<u>1,765,399,588</u>	<u>1,275,317,239</u>

**22.2 Reverse repurchase agreements**

	2019 LKR	2018 LKR
Other loan & Receivable	773,091,683	773,091,682
Impairment losses financial investments-loans & receivables	<u>(527,360,449)</u>	<u>(465,978,912)</u>
	<u>245,731,234</u>	<u>307,112,770</u>





**HNB Finance Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2019

23. OTHER ASSETS		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
		<u>492,794,672</u>	<u>242,603,911</u>

**23.1 Other Non Financial Assets**

Other receivables	225,541,063	152,344,913
Less: Allowance for impairment losses	-	(675,130)
	<u>225,541,063</u>	<u>151,669,783</u>

**24. INVESTMENTS PROPERTIES**

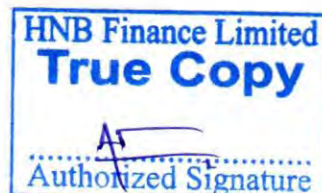
	2019 LKR	2018 LKR
<b>Land</b>		
Balance at the beginning of the year	466,810,637	398,174,753
Fair value adjustment for the period	96,158,780	68,635,884
Balance at the end of the year	<u>562,969,417</u>	<u>466,810,637</u>
<b>Building</b>		
Balance at the beginning of the year	713,339,363	651,425,247
fair value adjustment for the period	18,691,221	61,914,116
Balance at the end of the year	<u>732,030,584</u>	<u>713,339,363</u>
<b>Net Book Value</b>	<u>1,295,000,001</u>	<u>1,180,150,000</u>

The Company carries investment properties at fair value. valuations of the above investment properties were carried out as at 31st 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		2019 LKR	2018 LKR
<b>Cost</b>			
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		<u>309,324,298</u>	<u>217,776,268</u>
<b>Amortization and Impairment</b>			
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		<u>135,782,401</u>	<u>86,242,515</u>
<b>Net Book Value</b>		<u>173,541,897</u>	<u>131,533,753</u>

**25.1 Intangible Assets by Class**

	Cost	Accumulated Amortization	Net Book Value
<b>Balance as at 31 March 2018</b>			
Software	122,021,847	62,083,678	59,938,169
License	95,754,421	24,158,837	71,595,584
	<u>217,776,268</u>	<u>86,242,515</u>	<u>131,533,753</u>
<b>Balance as at 31 March 2019</b>			
Software	186,768,880	88,973,651	97,795,228
License	122,555,418	46,808,750	75,746,669
	<u>309,324,298</u>	<u>135,782,401</u>	<u>173,541,897</u>





HNB Finance Limited  
NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 2019

26. PROPERTY, PLANT & EQUIPMENT

26.1 Carried at cost/Valuation

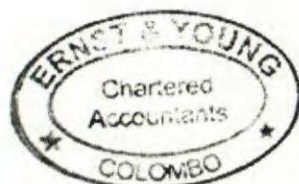
26.1.1 Cost/Fair Value

	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 & 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 & equipment	2,638,601	-	-	-	-	2,638,601	-	-	-	(2,638,601)	-
Fixtures & 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 & 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	-	-	0	-	(0)	-	-	-
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	-	-	(0)	-	0	-	-	-
Machinery & equipment	2,638,601	-	-	-	-	2,638,601	-	(0)	-	(2,638,601)	(0)
Fixtures & 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

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**26. PROPERTY, PLANT & EQUIPMENT (Contd...)****26.1 Carried at cost/Valuation****26.1.2 Written Down Value**

	As at 2019 LKR	As at 2018 LKR
Land	253,944,038	203,097,553
Building	814,055,964	655,778,059
Furniture & 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 & fittings	49,505,854	37,500,802
Network accessories	41,024,076	46,066,508
Building Work in Progress	32,029,107	-
	<u>1,420,476,897</u>	<u>1,158,835,158</u>

**27. DEFERRED TAX LIABILITY/(ASSET)**

	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	<u>(189,768,514)</u>	<u>(124,848,966)</u>

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**

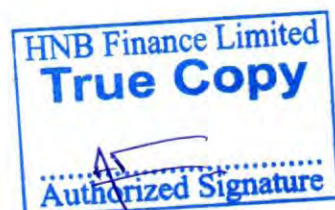
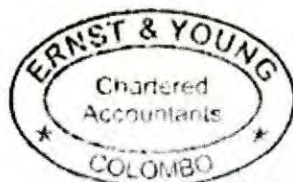
Revaluation surplus on buildings	63,174,146	17,415,285
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	2,748,350	3,984,903

**Deferred tax assets**

Retirement benefit obligation	(58,184,790)	(50,684,658)
Unutilised tax losses	-	(117,086,279)
Impairment losses for loans & other losses	(595,293,687)	(365,065,617)
Net deferred tax liabilities	<u>(189,768,514)</u>	<u>(124,848,966)</u>

**28. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO CUSTOMER**

	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
	<u>19,668,624,548</u>	<u>16,103,374,386</u>
Savings deposits	2,963,517,340	2,717,989,300
	<u>22,632,141,889</u>	<u>18,821,363,686</u>





## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

## 29. FINANCIAL LIABILITIES AT AMORTISED COST - DEBT ISSUED AND OTHER BORROWED FUNDS

	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
		<u>4,217,579,835</u>	<u>1,178,231,116</u>

## 29.1 Financial Liabilities at Amortised Cost - Redeemable Debentures

Balance at the beginning of the year	665,000,000	765,000,000
Interest payable to debenture holders	5,687,481	5,454,221
	<u>670,687,481</u>	<u>770,454,221</u>

## 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
				<u>665,000,000</u>	<u>765,000,000</u>

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.

	2019 LKR	2018 LKR
29.2 As at 01st April	399,155,676	533,743,002
Loan Obtained	5,300,000,000	-
Interest Recognized	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	<u>3,545,818,358</u>	<u>399,155,676</u>

## 30. INCOME TAX PAYABLE

	2019 LKR	2018 LKR
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
	<u>549,355,346</u>	<u>1,040,165,224</u>
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	<u>80,353,556</u>	<u>203,496,098</u>

## 31. VALUE ADDED TAX PAYABLE

Balance at the beginning of the year	
Over/Under provision during previous year	
Accountants VAT on financial services	
Payment made during the year	

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	2019 LKR	2018 LKR
	(25,379,290)	(6,263,276)
	<u>360,083,419</u>	<u>392,263,488</u>
	<u>334,704,129</u>	<u>386,000,212</u>
	<u>(284,999,282)</u>	<u>(411,379,502)</u>
	<u>49,704,847</u>	<u>(25,379,290)</u>



**HNB Finance Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2019

**32. OTHER LIABILITIES**

Other financial liabilities  
Other non financial liabilities

**32.1 Other Financial Liabilities**

Other payables

**32.2 Other Non Financial Liabilities**

NBT payable  
WHT payable  
Other payables

**33. RETIRING BENEFIT OBLIGATION**

Movements in present value of the the retirement benefit obligation are as follows:

Balance at the beginning of the year

Add : Retiring gratuity expenses

Less : Benefits paid during the year

Balance at the end of the year

**33.1 Retiring Gratuity Expense**

Current service cost

Interest cost

Actuarial (gain) / loss

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st 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 defined benefit obligation is not externally funded. Actuarial gain on defined benefit plan is recognized in other comprehensive income.


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

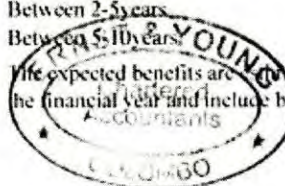
	2019 LKR	2018 LKR
<b>Present value of defined benefit obligation</b>		
<b>Discount rate</b>		
1% Less	221,562,710	193,518,502
1% More	195,543,090	169,935,946
<b>Salary escalation rate</b>		
1% Less	195,716,884	170,284,273
1% More	221,139,460	192,909,991

**33.2 The expected benefit payout in the future years for retirement gratuity**

Maturity Profile	2019 LKR	2018 LKR
Within the next 12 Months	3,448,137	3,969,869
Between 1-2 years	2,687,970	-
Between 2-5 years	4,904,278	5,177,485
Between 5-10 years	196,762,438	171,869,283

The expected benefits are 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.

HNB Finance Limited  
**True Copy**  
  
Authorized Signature

  
R. S. & YOUNG  
accountants



## 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

## 35. GENERAL RESERVE

	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 RESEVE 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

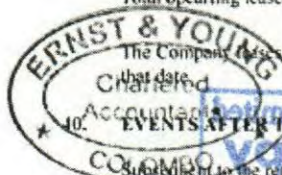
39.1 At the year end, no capital expenditure approved by the board and contracted for which no provision has been made in these Financial Statements

## 39.2 Operating Leases

**Leases as lessee**  
Non-cancellable operating lease rentals payables as follows:  
Future Commitments on operating leases  
Less than one year  
Between one and five years  
More than five years  
Total operating lease commitments

HNB Finance Limited  
**True Copy**  
Authorized Signature

	2019 LKR	2018 LKR
	73,089,489	49,078,122
	218,899,557	100,183,157
	100,634,449	42,412,659
	392,623,495	191,673,938



The Company has 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.

10. 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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

## 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 its related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated

## 42.1.1 Transactions with the Parent Company

2019

2018

LKR

LKR

Hatton National Bank PLC is the parent and the ultimate controlling party of the company.

## Statement of Profit or Loss

Interest income - Financial assets at amortised cost - Debt and other instruments Debentur	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 dep	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

## 42.1.2 Transactions with Related Companies

2019

2018

LKR

LKR

## Transactions with Prime Lands (Pvt) Ltd

## 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 depos	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

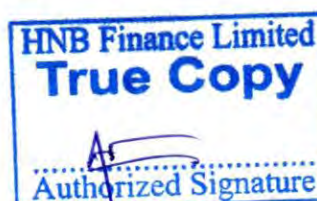
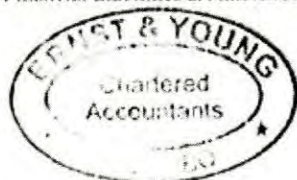
## 42.1.3 Transactions with HNB Assurance

## Statement of Comprehensive Income

Other operating income - sundry income	-	2,126,302
Interest expense - Financial liabilities at Amortised cost - Due to customers - Fixed deposit	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
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## 42. RELATED PARTY TRANSACTIONS (Contd...)

## 42.1.4 Transactions with Government of Sri Lanka

## Statement of profit or loss

Financial assets at amortised cost - Debt and other instrument/Financial investment held-to	138,478,079	89,680,772
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## Statement of financial position

Sri lankan 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

2019	2018
LKR	LKR

The following represents the compensation paid to Key Management Personnel of the company

Short-term benefits	24,154,000	21,835,200
	<u>24,154,000</u>	<u>21,835,200</u>

## 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 the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/Commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The Transactions didn't involve more than the normal risk of repayment or present other unfavorable features.

	2019 LKR	2018 LKR
<b>Statement of Profit or Loss</b>		
Interest expense - Deposits from customers	26,207,369	28,729,038
<b>Statement of Financial Position</b>		
Due to customers - Saving & fixed deposits	217,018,478	205,384,579
Due to customers - Interest payable	5,936,318	13,314,937

## 43. PLEDGED ASSETS

Nature of assets	Nature of liability	Carrying amount pledged 2019 LKR	2018 LKR	Included under
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**

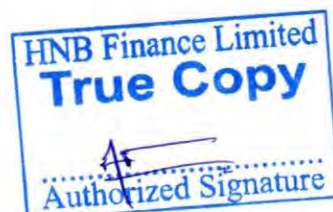
Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

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 identified based on specific loss event and a collective impairment established for similar receivables in term of their Credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

**b) Write-off Policy**

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

Micro Finance Concept works with the Group Peer Pressure where members being pressurized by the other members to pay installments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the company. Immovable assets are taken as securities for high valued loan disbursements such as Abhilasha. Other Securities such as personal guarantees are taken for Diriya and Swashakthi Loan facilities. In this context group members will be cross-guarantors each other by which they are pressurized to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2019+2018; no collaterals held).





44. FINANCIAL RISK MANAGEMENT (Contd...)

44.3 Credit Risk (Contd...)

c) Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Company's credit risk, including:

- 1 Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- 2 Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Committee which consists of two directors.
- 3 Reviewing and assessing credit risk. Company credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned.
- 4 Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

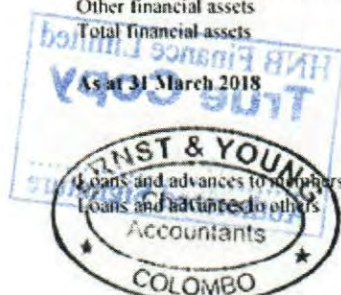
44.3.1 Credit Quality by Class of Financial Assets

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)	16,755,608,662
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	3,014,714,027	-	(527,360,449)	2,487,353,578
Other financial assets	267,253,609	-	-	267,253,609
<b>Total financial assets</b>	<b>22,126,511,484</b>	<b>10,324,351,695</b>	<b>(2,826,004,277)</b>	<b>29,624,858,902</b>

As at 31 March 2019	Less than 30 Days	Overdue 30 to 60 Days	60 to 90 Days	More than 90 Days	Total
	LKR	LKR	LKR	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
	<b>3,148,959,383</b>	<b>1,710,976,080</b>	<b>1,125,276,405</b>	<b>4,339,139,827</b>	<b>10,324,351,695</b>

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 & 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
<b>Total financial assets</b>	<b>19,508,728,051</b>	<b>4,529,131,798</b>	<b>(1,446,102,738)</b>	<b>22,591,757,111</b>

As at 31 March 2018	Less than 30 Days	Overdue 30 to 60 Days	60 to 90 Days	More than 90 Days	Total
	LKR	LKR	LKR	Days LKR	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
	<b>1,365,186,196</b>	<b>1,100,407,324</b>	<b>439,653,890</b>	<b>1,623,884,386</b>	<b>4,529,131,798</b>





**44. FINANCIAL RISK MANAGEMENT (Contd...)**

**44.3 Credit Risk (Contd...)**

**44.3.2 Maximum Exposure Disclosure of Financial Assets**

As at 31 March 2019	Gross carrying amount (Net of provision) LKR	Net exposure LKR
Cash and cash equivalents	1,371,096,372	1,371,096,372
Financial assets measured at fair value through profit or	16,014,400	-
Financial assets at amortised cost - Loans and advances to customers	16,755,608,663	14,869,248,324
Financial assets at amortised cost - Rentals receivables and stock out on hire	8,073,389,558	-
Financial assets at amortised cost - Loans and advances to others	641,712,440	344,311,975
Financial assets measured at fair value through other comprehensive income	12,430,283	-
Financial assets at amortised cost - Debt and other instruments	2,487,353,578	245,731,234
Other financial assets	267,253,609	267,253,609
<b>Total financial assets</b>	<b>29,624,858,902</b>	<b>17,097,641,513</b>

As at 31 March 2018	Gross carrying amount (Net of provision) LKR	Net exposure LKR
Cash and cash equivalents	905,159,755	905,159,755
Financial Assets Held for trading	16,128,000	-
Loans and advances to members	18,465,081,484	12,923,058,652
Loans and advances to others	579,593,110	357,794,094
Financial investment - Loans & receivables	307,112,770	307,112,770
Financial Investments - Available for sale	12,430,283	-
Financial Investments - Held to maturity	2,215,317,581	-
Other financial assets	90,934,128	90,934,128
<b>Total financial assets</b>	<b>22,591,757,111</b>	<b>14,584,059,399</b>

**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.

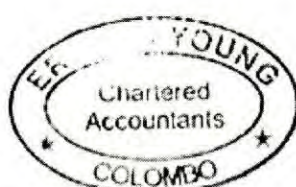
The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements. The treasury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

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

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





## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

## 44. FINANCIAL RISK MANAGEMENT (Contd...)

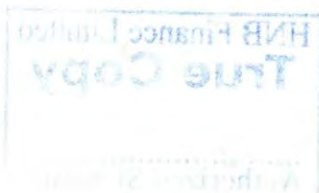
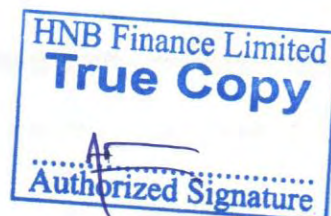
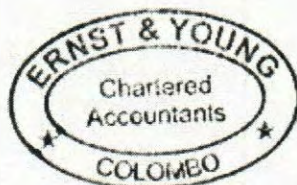
## 44.4.1 Concentration of Credit Risk

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
Nothorn	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
	<u>27,769,354,495</u>	<u>100</u>	<u>20,024,798,420</u>	<u>100</u>





## 44. FINANCIAL RISK MANAGEMENT (Contd...)

## 44.4 Liquidity Risk (Contd...)

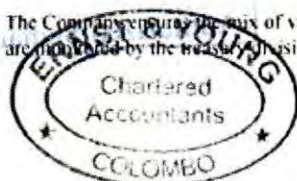
44.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below.

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- 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
	<b>29,624,858,903</b>	<b>37,399,225,183</b>	<b>15,100,786,390</b>	<b>12,668,728,105</b>	<b>9,629,710,688</b>
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
	<b>27,876,672,062</b>	<b>34,268,556,416</b>	<b>6,933,552,152</b>	<b>9,070,462,278</b>	<b>18,264,541,986</b>
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 & 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
	<b>22,591,757,109</b>	<b>27,585,553,351</b>	<b>9,554,871,105</b>	<b>10,794,962,527</b>	<b>7,235,719,718</b>
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
	<b>20,809,477,997</b>	<b>26,698,158,431</b>	<b>4,516,522,526</b>	<b>7,676,837,980</b>	<b>14,504,797,926</b>
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 manages the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are managed by the Treasury Division which get advises from the ALCO meetings.



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44. FINANCIAL RISK MANAGEMENT (Contd...)

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	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2019
	LKR	LKR	LKR	LKR	LKR
<b>Interest earning assets</b>					
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)	881,752,131	1,769,494,100	5,793,743,230	-	8,444,989,461
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
<b>Total interest earning assets</b>	<b>10,160,680,619</b>	<b>11,983,694,025</b>	<b>9,113,476,416</b>	<b>385,967,780</b>	<b>31,643,818,840</b>
<b>Interest bearing liabilities</b>					
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
<b>Total interest bearing liabilities</b>	<b>5,247,182,616</b>	<b>7,412,087,054</b>	<b>13,235,553,723</b>	<b>954,898,334</b>	<b>26,849,721,727</b>
<b>Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)</b>	<b>4,913,498,003</b>	<b>4,571,606,972</b>	<b>(4,122,077,308)</b>	<b>(568,930,553)</b>	<b>4,794,097,114</b>
<b>Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect</b>	<b>49,134,980</b>	<b>45,716,070</b>	<b>(41,220,773)</b>	<b>(5,689,306)</b>	<b>-</b>
<b>Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect</b>	<b>(49,134,980)</b>	<b>(45,716,070)</b>	<b>41,220,773</b>	<b>5,689,306</b>	<b>-</b>

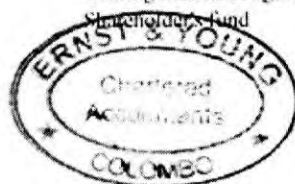
	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2018
	LKR	LKR	LKR	LKR	LKR
<b>Interest earning assets</b>					
Cash and cash equivalents	905,159,755	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	16,128,000
Financial investments - Held-To-Maturity	906,427,210	1,142,015,371	166,875,000	-	2,215,317,581
Loans and advances to members (gross)	6,637,463,440	8,041,426,898	4,733,439,108	21,895,170	19,434,224,616
Loans and advances to others (gross)	28,721,111	86,317,295	399,743,615	76,882,226	591,664,247
Financial Investments - Loans & Receivables	-	257,697,227	515,394,455	-	773,091,681
<b>Total interest earning assets</b>	<b>8,493,899,516</b>	<b>9,527,456,791</b>	<b>5,815,452,178</b>	<b>98,777,396</b>	<b>23,935,585,880</b>
<b>Interest bearing liabilities</b>					
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
<b>Total interest bearing liabilities</b>	<b>3,726,002,679</b>	<b>7,082,651,162</b>	<b>8,302,841,806</b>	<b>888,023,140</b>	<b>19,999,518,787</b>
<b>Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)</b>	<b>4,767,896,837</b>	<b>2,444,805,629</b>	<b>(2,487,389,628)</b>	<b>(789,245,744)</b>	<b>3,936,067,093</b>
<b>Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect</b>	<b>47,678,968</b>	<b>24,448,052</b>	<b>(24,873,896)</b>	<b>(7,892,457)</b>	<b>-</b>
<b>Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect</b>	<b>(47,678,968)</b>	<b>(24,448,052)</b>	<b>24,873,896</b>	<b>7,892,457</b>	<b>-</b>





## 45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

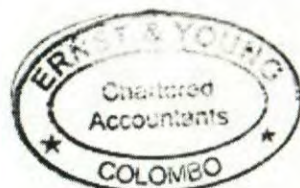
As at 31 March 2019	Less than 3 month LKR	3-6 Months LKR	6-12 Months LKR	12-36 Months LKR	36-60 Months LKR	Over 60 Months LKR	Total LKR
<b>Assets</b>							
Cash and cash equivalents	1,371,096,372	-	-	-	-	-	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-	-	-	-	-	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 & equipment	-	-	-	-	-	1,420,476,897	1,420,476,897
Deferred tax assets	-	-	-	-	-	189,768,514	189,768,514
	<u>9,477,377,842</u>	<u>4,000,248,406</u>	<u>6,799,318,796</u>	<u>7,993,839,110</u>	<u>1,171,339,797</u>	<u>3,487,063,323</u>	<u>32,929,187,275</u>
<b>Liabilities</b>							
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
Shareholders' fund	-	-	-	-	-	4,629,467,205	4,629,467,205
	<u>6,339,469,877</u>	<u>2,961,567,660</u>	<u>4,475,275,861</u>	<u>9,610,757,461</u>	<u>3,739,480,912</u>	<u>5,802,635,504</u>	<u>32,929,187,275</u>





## 45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd...)

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
<b>Assets</b>							
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 & 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 & equipment	-	-	-	-	-	1,158,835,158	1,158,835,158
Deferred tax assets	-	-	-	-	-	124,848,966	124,848,966
	<u>8,158,934,399</u>	<u>4,243,516,517</u>	<u>4,726,405,490</u>	<u>3,425,115,896</u>	<u>2,009,852,716</u>	<u>2,774,969,750</u>	<u>25,338,794,768</u>
<b>Liabilities</b>							
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	-	-	-	-	-	-	-
	<u>4,720,610,012</u>	<u>2,783,005,166</u>	<u>4,313,473,109</u>	<u>3,687,437,428</u>	<u>4,621,287,756</u>	<u>5,212,981,297</u>	<u>25,338,794,768</u>





**46. FAIR VALUE OF ASSETS AND LIABILITIES**

**46.1 Assets and Liabilities Measured at Fair Value**

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

**46.1.1 Financial assets measured at fair value through other comprehensive income**

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

**46.1.2 Financial assets- Fair value through profit or loss**

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

**46.1.3 Property, Plant and Equipment**

The methods used to determine the fair value of freehold land and buildings are explained in Note 46.3.1. The independent valuers provide the fair value of the Company's freehold land and buildings at least once in every three years.

**46.1.4 Investment Properties**

The independent valuers provide the fair value of the Company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 46.4.1 and 46.4.2.

**46.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value**

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

**46.2.1 Financial assets at amortised cost - Loans and advances to customers**

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

**46.2.2 Financial assets at amortised cost - Debt and other instruments**

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

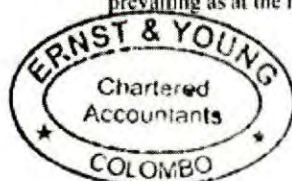
**46.2.3 Financial Liabilities at Amortised cost - Due to Customers**

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

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

**46.2.4 Financial Liabilities at Amortised cost - Debt securities issued**

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



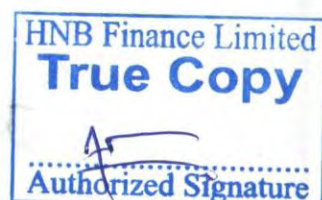


## 46. FAIR VALUATION (Contd...)

## 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 Measured at Fair Value Through Other Comprehensive Income	Financial Assets/Liabilities Measured at Fair Value Through Other Comprehensive Income	Financial Assets/Liabilities Measured at Fair Value Through Other Comprehensive Income	Financial Assets/Liabilities Measured at Fair Value Through Other Comprehensive Income	Total Carrying Amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cash & 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	(14,089,494)	Level II
Other financial liabilities	-	-	-	1,026,950,339	1,026,950,339	1,026,950,339	-	-



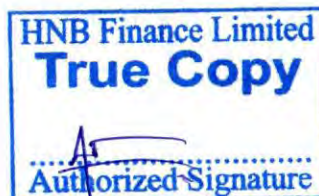
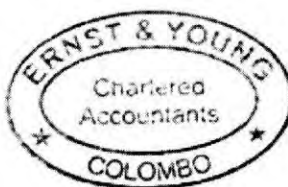


## 46. FAIR VALUATION (Contd...)

## 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 LKR	Available For Sale LKR	Amortized cost LKR	Total carrying amount LKR	Fair Value LKR	Increase/ (Decrease) in Fair Value LKR	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	905,159,755	905,159,755	905,159,755	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	16,128,000	-	-	16,128,000	16,128,000	-	-
- Measured at Amortized Cost	-	-	1,275,317,239	1,275,317,239	1,275,317,239	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	773,125,342	773,125,342	773,125,342	-	-
Finance Lease Receivables	-	-	4,541,443,899	4,541,443,899	4,889,573,595	348,129,695	Level II
Advances & Other Loans	-	-	15,432,995,363	15,432,995,363	15,489,655,357	56,659,994	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	90,934,128	90,934,128	90,934,128	-	-
Due To Customers - Fixed deposits	-	-	18,821,363,686	18,821,363,686	18,885,914,974	64,551,288	Level II
Debt issued & Other borrowed Funds	-	-	1,172,776,895	1,172,776,895	1,173,076,473	299,578	Level II
Trade & Other Payables	-	-	809,883,196	809,883,196	809,883,196	-	-





## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

## 46. FAIR VALUATION (Contd...)

## 46.4 Valuation of Non-Financial Assets

## 46.4.1 Fair value measurement of assets classified as Level 3

As at 31 March 2019

	Building Sq.ft	Extent Perches	Cost/Carrying Amount			Fair Value			Fair Value Hierarchy
			Land LKR	Building LKR	Total LKR	Land LKR	Building LKR	Total LKR	
<b>Property, Plant &amp; Equipment</b>									
No. 94/96/1, Kandy Rd, Kurunegala.	5755	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.	2113	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.	5400	9.26	22,147,114	56,152,886	78,300,000	24,305,250	56,694,750	81,000,000	Level III
No. 168, Nawala Rd, Nugegoda.	30887	25.9	153,243,921	523,456,079	676,700,000	193,785,335	678,214,665	872,000,000	Level III
			<u>203,097,552</u>	<u>659,902,448</u>	<u>863,000,000</u>	<u>253,944,037</u>	<u>814,055,963</u>	<u>1,068,000,000</u>	
<b>Investment Properties</b>									
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	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.	20494	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.	5786	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, 7th Lane, Anuradapura.	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
			<u>466,810,637</u>	<u>713,339,363</u>	<u>1,180,150,000</u>	<u>562,969,416</u>	<u>732,030,584</u>	<u>1,295,000,000</u>	

As at 31 March 2018

	Building Sq.ft	Extent Perches	Cost/Carrying Amount			Fair Value			
			Land LKR	Building LKR	Total LKR	Land LKR	Building LKR	Total LKR	
<b>Property, Plant &amp; Equipment</b>									
No. 94/96/1, Kandy Rd, Kurunegala.	5755	7.05	20,350,515	66,449,485	86,800,000	21,100,765	68,899,235	90,000,000	Level III
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000	Level III
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	22,062,259	55,937,741	78,000,000	22,147,114	56,152,886	78,300,000	Level III
No. 168, Nawala Rd, Nugegoda.	30887	25.9	143,483,594	490,116,406	633,600,000	153,243,921	523,456,079	676,700,000	Level III
			<u>192,502,121</u>	<u>623,897,879</u>	<u>816,400,000</u>	<u>203,097,552</u>	<u>659,902,448</u>	<u>863,000,000</u>	
<b>Investment Properties</b>									
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	205,133,851	482,366,149	687,500,000	271,522,624	547,477,376	819,000,000	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.	20494	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.	5786	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, 7th Lane, Anuradapura.	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
			<u>398,174,753</u>	<u>651,425,247</u>	<u>1,049,600,000</u>	<u>466,810,637</u>	<u>713,339,363</u>	<u>1,180,150,000</u>	

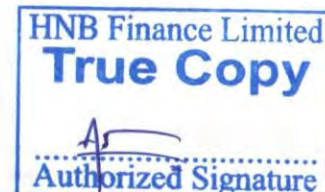
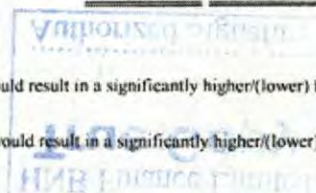


Depreciated replacement cost basis/ market comparable method

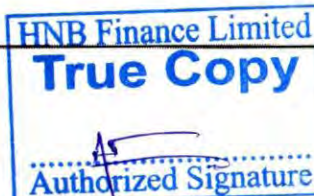
Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.

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. FAIR VALUATION (Contd...)

## 46.4.2 Valuation details of Non-financial assets

	Valuation Method	Value per perch (Land) LKR	Range of estimates for unobservable inputs			
			Value per sq. ft. (Building)	Estimated rent per month LKR	Discount rate	Rate per perch for land LKR
<b>Property, Plant &amp; Equipment</b>						
No. 94/96/1, Kandy Rd. Kurunegala.	Cost approach	3,000,000	10000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	500,000	4000	100,000	-	-
No. 677, William Gopallawa Mw. Kandy.	Cost approach	2,500,000	10000	300,000	-	-
No. 168, Nawala Rd, Nugegoda.	Income approach	5,500,000	12500	3,244,125	20%	-
<b>Investment Properties</b>						
No.67/1, Mahinda Place, Kirulapone, Colombo-05.	Income approach			500,000	20%	
No.249, Stanly Thilakarathna Mw, Nugegoda.	Income approach			2,922,250	20%	
No.465/1, Old Police Station Road, Kahathuduwa, Polgasovita.	Income approach			576,875	20%	
No.64, Abaya Place, Anuradapura.	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 revenues and expenses that relate to transactions with any of the company's other components, whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

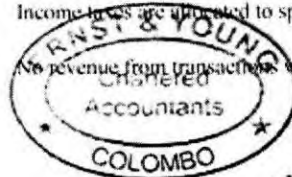
HNB Finance has three main segments, namely Finance, Leasing and Others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the company as well as to make decisions about resource allocation.

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

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

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

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Finance Limited's total revenue in 2017/18 and 2018/19 financial years.





## 47. SEGMENT REPORTING (Contd...)

	Financial		Leasing		Others		Consolidated	
	2019 LKR	2018 LKR	2019 LKR	2018 LKR	2019 LKR	2018 LKR	2019 LKR	2018 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 & 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
<b>Total Assets</b>	<b>22,085,950,792</b>	<b>18,274,091,223</b>	<b>8,327,438,222</b>	<b>4,526,145,193</b>	<b>2,515,798,261</b>	<b>2,538,558,352</b>	<b>32,929,187,275</b>	<b>25,338,794,768</b>
<b>Total Liabilities</b>	<b>19,419,049,872</b>	<b>16,060,648,514</b>	<b>8,209,982,717</b>	<b>4,477,395,739</b>	<b>670,687,481</b>	<b>670,454,221</b>	<b>28,299,720,070</b>	<b>21,208,498,474</b>



HNB Finance Limited  
True Copy  
Authorized Signature



