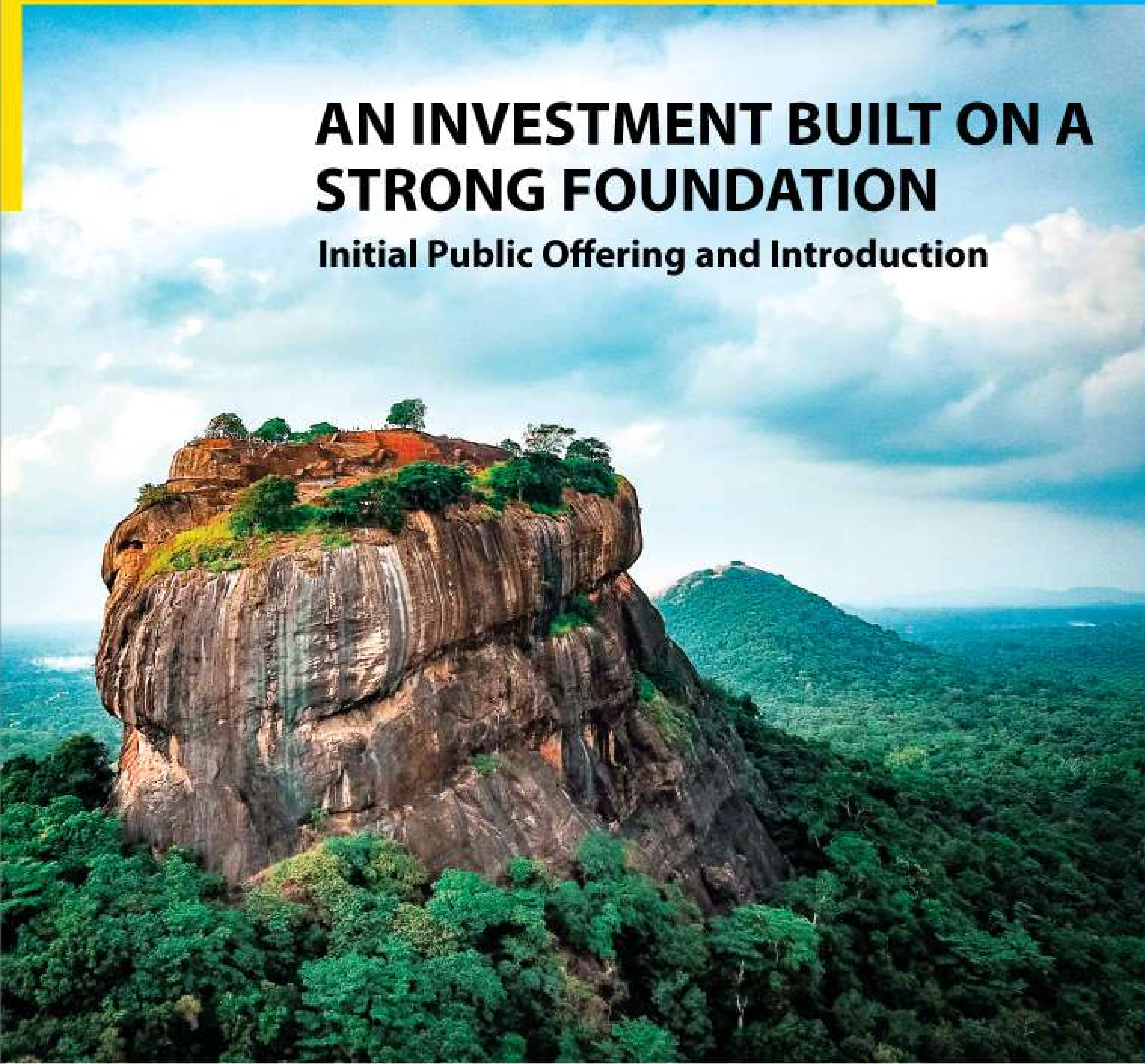
AN INVESTMENT BUILT ON A STRONG FOUNDATION

Initial Public Offering and Introduction



PROSPECTUS AND INTRODUCTORY DOCUMENT

INITIAL PUBLIC OFFER THROUGH AN OFFER FOR SALE OF TEN MILLION (10,000,000) ORDINARY VOTING SHARES AT LKR 5.70 PER SHARE AND LISTING OF TWO HUNDRED AND NINETY EIGHT MILLION TWO HUNDRED THOUSAND (298,200,000) ORDINARY NON-VOTING SHARES THROUGH AN INTRODUCTION AT LKR 4.20 PER SHARE

HNB FINANCE

Financial Advisor and Manager to the Offer

ACUITY®

A joint venture of DFCC Bank and HNB

HNB FINANCE LIMITED

PROSPECTUS AND INTRODUCTORY DOCUMENT

INITIAL PUBLIC OFFER THROUGH AN OFFER FOR SALE OF TEN MILLION (10,000,000) ORDINARY VOTING SHARES AT LKR 5.70 PER SHARE AND LISTING OF TWO HUNDRED AND NINETY EIGHT MILLION TWO HUNDRED THOUSAND (298,200,000) ORDINARY NON-VOTING SHARES THROUGH AN INTRODUCTION AT LKR 4.20 PER SHARE

To be listed on the Diri Savi Board of the Colombo Stock Exchange

Financial Advisor and Manager to the Offer

ACUITY

A joint venture of DFCC Bank and HNB

This page is intentionally left blank

INITIAL PUBLIC OFFER

THROUGH AN OFFER FOR SALE OF TEN MILLION (10,000,000) ORDINARY VOTING SHARES AT LKR 5.70 PER SHARE

AND

FOR OBTAINING THE LISTING OF TWO HUNDRED AND NINETY EIGHT MILLION TWO HUNDRED THOUSAND (298,200,000) ORDINARY NON-VOTING SHARES THROUGH AN INTRODUCTION

All resident Applicants should indicate in the Application for Shares, their NIC number or the company registration number as the case may be, the passport number may be indicated only if the Applicant does not have an NIC number.

As per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited (CDS) dated November 30, 2010, all Shares transferred must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, in order to facilitate the uploading of transferred Shares to their CDS account.

Please note that upon the transfer of Shares under this Offer, the transferred Shares would be credited to the Applicant's CDS account so indicated. Please note that SHARE CERTIFICATES WILL NOT BE ISSUED.

In instances where there is a discrepancy between the CDS account details provided in the Application Form and records held by CDS, the information held in the CDS account will take precedence in order to mitigate risk of transferring shares to an incorrect party.

Any Application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no transfer will be made.

You can open a CDS account through any member/trading member of the Colombo Stock Exchange (CSE) as set out in Annex E or through any Custodian Banks as set out in Annex F of this Prospectus and Introductory Document.

Related Party Transactions

We hereby declare that Acuity Partners (Private) Limited who acts as the Financial Advisor and Manager to the Offer and HNB Finance Limited are related parties and have common Directors on the said entities' Boards. Nevertheless, there is no conflict of interest arising between the said parties as all transactions are carried out at arm's length.

The delivery of this Prospectus and Introductory Document shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus and Introductory Document. However, if there are any material changes in the affairs of the Company from the date of this Prospectus and Introductory Document, till the Company's Shares are listed; such material changes will be duly disclosed.

If you are in doubt regarding the contents of this document or if you require any advice in this regard, you should consult your Stockbroker, Bank Manager, Lawyer or any other professional advisor.

This Prospectus and Introductory Document is dated January 30, 2020

The Colombo Stock Exchange ("CSE") has taken reasonable care to ensure full and fair disclosure of the information in this Prospectus and Introductory Document. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed, or reports included in the Prospectus and Introductory Document. Moreover, the CSE does not regulate the pricing of the shares, which is decided solely by the Company/Issuer.

This Prospectus and Introductory Document has been prepared from information provided by HNB Finance Limited (hereinafter referred to as "HNB Finance", "HNBF" or "Company") and its Directors and/or from publicly available sources. The Company and its Directors having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading.

Where representations regarding the future performance of the Company have been given in this Prospectus and Introductory Document, such representations have been made after due and careful enquiry of the information available to the Company and making assumptions that are considered to be reasonable at the present point in time in their best judgment.

The Company accepts responsibility for the information contained in this Prospectus and Introductory Document. While the Company has taken reasonable care to ensure full and fair disclosure of information, prospective applicants are advised to carefully read this Prospectus and Introductory Document and rely on their own examination and assessment of the Company including the risks involved prior to making any investment decision.

No person is authorized to give any information or make any representation not contained in this Prospectus and Introductory Document and if given or made, any such information or representation must not be relied upon as having been authorized by the Company.

A waiver has been granted by the CSE through their letter dated November 18, 2019 on the CSE Listing Rule 2.5 (d) & (e) i. e. copies of the Introductory Document shall be made available to the member firms and trading members of the CSE within twenty (20) market days of receiving approval from the CSE and the entity shall submit to the CSE a 'Declaration' as set out in Appendix 2D of the Listing Rules on the market day immediately following the day on which the Introductory Document was made available to the member firms and trading members of the CSE. The said waiver was granted by the CSE after considering the fact that the applicant entity is seeking approvals from the CSE for an Initial Public Offering of its Ordinary Voting Shares and for an Introduction of its Ordinary Non-Voting Shares simultaneously via a single document i.e. "Prospectus and Introductory Document". Furthermore, the Company shall comply with the timelines set out under Rule 2.4 of the CSE Listing Rules.

REGISTRATION OF THE PROSPECTUS AND INTRODUCTORY DOCUMENT

A copy of this Prospectus and Introductory Document has been delivered to the Registrar General of Companies in Sri Lanka for registration in accordance with the provisions contained in the Companies Act No. 07 of 2007.

The following documents were also attached to the copy of the Prospectus and Introductory Document delivered to the Registrar General of Companies.

- **The written consent of the Financial Advisor and Manager to the Offer and Listing through Introduction**
  The Financial Advisor and Manager to the Offer and Listing through Introduction have given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their name as Manager to the Offer and Listing through Introduction and for the inclusion of their statements/declarations in the form in which it is included in the Prospectus and Introductory Document.

- **The written consent of the Registrars to the Offer and Listing through Introduction**
  The Registrars to the Offer and Listing through Introduction have given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their name as Registrars to the Offer and Listing through Introduction in the Prospectus and Introductory Document.

- **The written consent of the Company Secretary**
  The Company Secretary has given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their name as Company Secretary in the Prospectus and Introductory Document.

- **The written consent of the Auditors and Reporting Accountants to the Company**
  The Auditors and Reporting Accountants to the Company have given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their name as Auditors and Reporting Accountants to the Company and for the inclusion of their report/statements in the form and context in which it is included in the Prospectus and Introductory Document.

- **The written consent of the Lawyers to the Offer and Listing through Introduction**
  The Lawyers to the Offer and Listing through Introduction have given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their name as Lawyers to the Offer and Listing through Introduction in the Prospectus and Introductory Document.

- **The written consent of the Bankers to the Offer**
  The Bankers to the Offer have given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their names as Bankers to the Offer in the Prospectus and Introductory Document.

- **The written consent of the Independent Valuers to the Offer and Listing through Introduction**
  The Independent Valuers to the Offer and Listing through Introduction have given and have not before the delivery of a copy of the Prospectus and Introductory Document for registration withdrawn their written consent for the inclusion of their name as the Independent Valuers to the Offer and Listing through Introduction in the Prospectus and Introductory Document.

- A declaration made by each of the Directors of the Company in terms of the Companies Act No. 07 of 2007 confirming that each of them have read the provisions of the Companies Act and the CSE Listing Rules relating to the issue of the Prospectus and Introductory Document and that those provisions have been complied with.

Registration of the Prospectus and Introductory Document in Jurisdictions Outside of Sri Lanka

This Prospectus and Introductory Document has not been registered with any authority outside of Sri Lanka. Non-resident applicants may be affected by the laws of the jurisdictions of their residence. Such applicants are responsible for complying with the laws relevant to the country of residence and the laws of Sri Lanka, when making the investment.

Representation

No person is authorized to give any information or make any representation not contained in this Prospectus and Introductory Document and if given or made, any such information or representation must not be relied upon as having been authorized by the Company.

Forward Looking Statements

Any statements included in this Prospectus and Introductory Document that are not statements of historical fact constitute “Forward Looking Statements”. These can be identified by the use of forward-looking terms such as “expect”, “anticipate”, “intend”, “may”, “plan to”, “believe”, “could” and other similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward-Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company’s ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry; and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results; and changes to performance or achievements expressed or implied by Forward Looking Statements contained herein. Forward Looking Statements are also based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company's actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Prospectus and Introductory Document, applicants are advised not to place sole reliance on such statements.

Investment Considerations

It is important that this Prospectus and Introductory Document is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective applicants, see "Investment Considerations and Associated Risk Factors" in Section 11 of this Prospectus and Introductory Document.

Presentation of Currency Information and Other Numerical Data

The financial statements of the Company and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Prospectus and Introductory Document to "LKR", "Rupees", and "Rs." are references to the lawful currency of Sri Lanka. Reference to "USD" is with reference to United States Dollars, the official currency of the United States of America.

Certain numerical figures in the Prospectus and Introductory Document have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Presentation of Macroeconomic and Industry Data

Economic and industry data used throughout this Prospectus and Introductory Document are derived from the Central Bank of Sri Lanka and various other industry data sources, which the Company believes to be reliable, but the accuracy and completeness of that information is not guaranteed. Similarly, industry surveys and other publications, while believed to be reliable, have not been independently verified and neither the Company nor the Managers to the Offer make any representation as to the accuracy of such information.

TABLE OF CONTENTS

SALIENT FEATURES OF THE OFFER FOR SALE AT A GLANCE

Company	HNB Finance Limited
Number and Type of Securities to be Offered	10,000,000 existing Ordinary Voting Shares of the Company
Share Offer Price	LKR 5.70 per Ordinary Voting Share
Selling Shareholder	Prime Lands (Private) Limited holds 562,391, 533 Ordinary Voting Shares of the Company as at the date of this Prospectus and Introductory Document (January 30, 2020) which represents 39.57% of the total Ordinary Voting Shares of the Company Refer Section 3.2 of this Prospectus and Introductory Document for further details on the Selling Shareholder
Minimum Subscription per Application	Minimum subscription per Application is 1,000 Shares (LKR 5,700). Applications exceeding the minimum subscription should be in multiples of 100 Shares Each successful Application shall receive the minimum subscription
Offer Opening Date	February 17, 2020
Offer Closing Date	March 06, 2020 or such earlier date on which the Offer of 10,000,000 Existing Ordinary Voting Shares is oversubscribed Refer Section 3.11 of this Prospectus and Introductory Document for further details on the Closure Date
Consideration to be Received by the Selling Shareholders through the Offer for Sale	LKR 57,000,000.00
Basis of Transfer	As described in Section 4.7 of this Prospectus and Introductory Document
CSE Listing	To be listed on the Diri Savi Board of the CSE subject to compliance with the CSE Listing Rules and SEC Directives (as applicable)

SALIENT FEATURES OF THE LISTING THROUGH INTRODUCTION AT A GLANCE

Company	HNB Finance Limited
Number and Type of Securities to be Listed through Introduction	Listing of 298,200,000 Ordinary Non-Voting Shares of the Company
Reference Price	LKR 4.20 per Ordinary Non-Voting Share

DEFINITIONS/INTERPRETATIONS

The following definitions/interpretations apply throughout this Prospectus and Introductory Document, unless the context otherwise requires:

"Applicant/s"	Any person who submits an Application Form under this Prospectus and Introductory Document
"Application Form", "Application"	The Application Form that constitutes part of this Prospectus and Introductory Document through which Applicants may apply for the Shares on Offer
"Articles of Association"	Articles of Association of HNB Finance Limited
"Auditors and Reporting Accountants to the Company"	Ernst & Young
"AWPLR"	Last quoted Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka
"Bn"	Billion
"CAGR"	Compounded Annual Growth Rate
"CAR"	Capital Adequacy Ratio
"CBSL"	Central Bank of Sri Lanka
"CDS"	Central Depository Systems (Private) Limited
"Companies Act"	Companies Act No. 07 of 2007
"CSE"	Colombo Stock Exchange
"Directors"	The Directors for the time being of the Company, unless otherwise stated
"EPS"	Earnings Per Share
"ESC"	Economic Service Charge
"Float Adjusted Market Capitalisation"	Public holding percentage of the Company multiplied by the market capitalization of the Company
"FY"	Financial Year
"GDP"	Gross Domestic Product
"Introduction"	The listing of Two Hundred and Ninety Eight Million Two Hundred Thousand (298,200,000) of Existing Ordinary Non-Voting Shares of the Company on the CSE without the requirement of an Initial Public Offering
"IMF"	International Monetary Fund
"IPO"	Initial Public Offering through an Offer for Sale of Ten Million (10,000,000) existing Ordinary Voting Shares of the Company at LKR 5.70 per share
"KMP"	Key Management Personnel
"Offering", "Offer", "Offer for Sale"	An invitation to the public by the Company to subscribe to the Initial Public Offering through an Offer for Sale of Ten Million (10,000,000) Ordinary Voting Shares to be offered at a Share Offer Price of LKR 5.70 per share by the Selling Shareholder
"Offer Closing Date", "Closure Date"	The date of closure of the subscription list as set out in Section 3.11 of this Prospectus and Introductory Document

“LCB”	Licensed Commercial Bank
“LSB”	Licensed Specialized Bank
“LFC”	Licensed Finance Company
“LMC”	Licensed Microfinance Company
“LKR”, “Rs.”, “Rupees”	Sri Lankan Rupees
“Local Time”	Sri Lanka Time
“Non-Voting Shares”, “Existing Non-Voting Shares”	Ordinary shares of the Company, without the voting rights at the meetings of the Company
“Market Day”	Any day on which the CSE is open for trading
“MCR”	Minimum Capital Requirement
“MFI”	Microfinance Institution
“Mn”	Million
“NAV”	Net Asset Value
“NBT”	Nation Building Tax
“NBFI”	Non-Banking Finance Institution
“Offered Shares”	Ten Million (10,000,000) Existing Ordinary Voting Shares offered to the public at the Share Offer Price, by the Selling Shareholder
“NIC”	National Identity Card
“NIM”	Net Interest Margin
“Opening Date”, “Offer Opening Date"	The date of opening of the subscription list as set out in Section 3.11 of this Prospectus and Introductory Document
“Issued and Paid up Ordinary Shares”, “Ordinary Voting Shares”, “Existing Ordinary Voting Shares”	Ordinary shares of the Company, with the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in dividends paid by the Company and the right to an equal share in the distribution of the surplus assets of the Company in liquidation
“Ordinary Non-Voting Shares”, “Non-Voting Shares”,	Ordinary Non-Voting Shares of the Company, rank *pari passu* in respect of all rights with the Ordinary Voting Shares of the Company except voting rights on a poll at a meeting of the Company on any resolution
“Offer for Sale”	An invitation to the public by the Company for and on behalf of the Selling Shareholders to purchase existing Ordinary Shares of the Company held by the Selling Shareholder, in terms of Section 3.2 of this Prospectus and Introductory Document
“P/E”	Price Earnings Ratio
“HNBF”, “HNB Finance”, “the Company”	HNB Finance Limited
“POA”	Power of Attorney
“Prospectus and Introductory Document”	This Prospectus and Introductory Document dated January 30, 2020 issued by the Company
“Reference Price”	Price of the Ordinary Non-Voting Shares to be used as the opening price for trading on the first day of trading Reference price of LKR 4.20 per Ordinary Non-Voting Share
“ROA”	Return on Assets
“ROE”	Return on Equity

"Shares"	Ordinary Voting and Ordinary Non-Voting Shares
"SEC"	Securities and Exchange Commission of Sri Lanka
"Selling Shareholder"	Shareholders of the Company offering existing Ordinary Shares of the Company as morefully described in Section 3.2, to facilitate a listing of Shares of the Company on the CSE
"Share Offer Price"	The price at which the Existing Ordinary Voting Shares will be offered to the public, as detailed in this Prospectus and Introductory Document Share Offer price of LKR 5.70 per Ordinary Voting Share
"SLAS", "SLFRS"	Sri Lanka Accounting Standards
"SLC"	Specialized Leasing Companies
"SME"	Small and Medium Enterprise
"Stated Capital"	The Stated Capital of HNB Finance Limited
"SSE"	Small Scale Enterprise
"The Board", "The Board of Directors"	The Board of Directors of HNB Finance Limited
"UK"	United Kingdom
"USA", "United States"	The United States of America
"USD"	United States Dollars
"VAT"	Value Added Tax
"WHT"	Withholding Tax

1.0 CORPORATE INFORMATION

Company	HNB Finance Limited	
Registered Office	168, Nawala Road Nugegoda, Sri Lanka Tel: +94 11 2206406 Fax: +94 11 2206436	
Date, Place and Authority of Incorporation	A Limited Liability Company Incorporated in Sri Lanka on December 20, 1999 under the Companies Act No. 17 of 1982 and re-registered on May 5, 2009 under the Companies Act No. 07 of 2007 The Company is a Licensed Finance Company, licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011 and is also registered under the Finance Leasing Act No. 56 of 2000. The Company is an Approved Credit Agency under the Mortgage Act No. 06 of 1949 and Trust Receipt Ordinance No. 12 of 1947	
Company Registration Number (as a Public Company)	PBS 965	
Company Secretary	**S S P Corporate Services (Private) Limited** 101, Inner Flower Road, Colombo 03, Sri Lanka Tel: +94 11 2573894/+94 11 2576871 Fax: +94 11 2573609	
Auditors and Reporting Accountants to the Company	**Messrs, Ernst & Young (Chartered Accountants)** 201, De Saram Place Colombo 10, Sri Lanka Tel: +94 11 2463500 Fax: +94 11 2697369	
Board of Directors	**Mr. A. J. Alles**	– Chairman/Non-Independent Non-Executive Director
	Mr. B. Premalal	– Deputy Chairman/Non-Independent Non-Executive Director
	Mr. B. M. D. C. Prabhath	– Managing Director/Chief Executive Officer
	Dr. S. U. H. Fernando	– Independent Non-Executive Director
	Mr. A. S. Wijesinha	– Independent Non-Executive Director
	Mr. P. A. H. D. Wijesundara	– Independent Non-Executive Director
	Mr. A. G. R. Dissanayake	– Non-Independent Non-Executive Director
	Mr. M. Perera	– Non-Independent Non-Executive Director

2.0 RELEVANT PARTIES TO THE OFFER

Financial Advisor and Manager to the Offer and Listing through Introduction	**Acuity Partners (Private) Limited** 53, Dharmapala Mawatha Colombo 03, Sri Lanka Tel: +94 11 2206206 Fax: +94 11 2437149
Lawyers to the Offer and Listing through Introduction	**Nithya Partners** (Attorneys - at - Law) 97A, Galle Road Colombo 03 Tel: +94 11 4712625 / 28 Fax: +94 11 2328817
Auditors and Reporting Accountants to the Offer and Listing through Introduction	**Messrs. Ernst & Young** (Chartered Accountants) 201, De Saram Place Colombo 10, Sri Lanka Tel: +94 11 2463500 Fax: +94 11 2697369
Registrars to the Offer and Listing through Introduction	**S S P Corporate Services (Private) Limited** 101, Inner Flower Road Colombo 03, Sri Lanka Tel: +94 11 2573894 / +94 11 2576871 Fax: +94 11 2573609
Bankers to the Offer	**Hatton National Bank PLC** 479, T B Jayah Mawatha Colombo 10, Sri Lanka Tel: +94 11 2394250-2 Fax: +94 11 2394353
Independent Valuer to the Offer and Listing through Introduction	**Nexia Management Services (Private) Limited** 22/4, Vijaya Kumarathunga Mawatha Colombo 05, Sri Lanka Tel: +94 11 2513420-22 Fax: +94 11 4512404

3.0 DETAILS OF THE OFFERING

3.1 The Offering

The Offer contemplated herein shall constitute an invitation made to the general public to purchase Ten Million (10,000,000) existing Ordinary Voting Shares through an Offer for Sale. The Offered Shares amount to approximately 0.70% of the Issued Voting Shares of the Company.

The Introductory Listing

The Introductory Listing contemplated herein will be for the purpose of obtaining a listing on the Diri Savi Board of the Colombo Stock Exchange for Two Hundred and Ninety Eight Million Two Hundred Thousand (298,200,000) Ordinary Non-Voting Shares of HNBF constituting 100% of the Issued Ordinary Non-Voting Shares of the Company.

Pursuant to the Offer for Sale of Ordinary Voting Shares and Introduction of Ordinary Non-Voting Shares of the Company, all such Shares will be listed on the Diri Savi Board of the CSE subject to compliance with the CSE Listing Rules and SEC Directives (as applicable).

3.2 Selling Shareholder

The shareholder mentioned below is offering for sale, Ten Million (10,000,000) Ordinary Voting Shares amounting to 0.70% of the Ordinary Voting Shares in order to facilitate the listing of the Ordinary Voting Shares of the Company on the CSE.

TABLE 3.1 - DIVESTITURE OF EXISTING ORDINARY VOTING SHARES

Selling Shareholder	No. of Shares Offered	Consideration paid per share	Nature of the Shares	Date of Acquisition
Prime Lands (Private) Limited	10,000,000	LKR 0.50	Ordinary Voting	June 29, 2011

The above listed Selling Shareholder has complied with Rule 2.1.1(e)(i) of the CSE Listing Rules.

The Selling Shareholders will own 38.86% of the total number of Ordinary Voting Shares of the Company, post IPO.

3.3 Nature of the Existing Ordinary Voting Shares on Offer and Ordinary Non-Voting Shares being Listed through an Introduction

From the date of completion of the transfer of the Ordinary Voting Shares to the Applicant/s, such Shares shall rank *pari passu,* in all respects with the existing other Ordinary Voting Shares allotted in terms of this Prospectus and Introductory Document and such a Share shall confer on the holder thereof the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in any dividend that may be paid by the Company and the right to an equal share in the distribution of the surplus assets of the Company in a liquidation.

From the date of completion of the listing of Ordinary Non-Voting Shares in Diri Savi Board of the CSE, other than for voting rights, such Ordinary Non-Voting Shares rank equal or *pari passu* with the Ordinary Voting Shares of the Company, equal in rights including the right to participate in any dividend declared to Ordinary Shareholders by the Company and the right to an equal share in the distribution of the surplus assets of the Company in the event of liquidation.

The Ordinary Non-Voting Shares of the Company were issued by the Company in 2011 under a restructure of deposits and borrowings held by the Company. Specifically, following the financial crisis in 2009-2010 and the inability of the Company to meet its repayment obligations on deposits and borrowings, the Company converted the funds of depositors and debt holders held by it into Ordinary Non-Voting Shares under a series of Directions issued by the Central Bank of Sri Lanka via letters dated January 07, 2011, June 06, 2011 and June 29, 2011. Accordingly, 298,200,000 Ordinary Non-Voting Shares of the Company were issued on the basis of one Ordinary Non-Voting Share for each 10 rupees of deposits and borrowings. No consent or approval were obtained by the Company from depositors and debt holders when converting such deposits and borrowings into Ordinary Non-Voting Shares.

TABLE 3.2 – CONVERSION OF DEPOSITS AND BORROWINGS INTO ORDINARY NON-VOTING SHARES

Depositor/ debt holder	Category of the liability	Liability value as at January 07, 2011	Conversion ratio	Ordinary Non-Voting Shares issued
Seylan Bank PLC	Preference Shares	LKR 1,000,000,000	One Ordinary Non-Voting Share to 10 rupees worth of Preference Shares	100,000,000
Seylan Bank PLC	Debentures converted in to Preference Shares	LKR 1,060,000,000	One Ordinary Non-Voting Share to 10 rupees worth of Preference Shares	106,000,000
Seylan Bank PLC	Interest due	LKR 272,000,000	One Ordinary Non-Voting Share to 10 rupees of interest due	27,200,000
Depositors	Savings deposits	LKR 650,000,000	One Ordinary Non-Voting share to 10 rupees worth of savings deposits	65,000,000
Total		**LKR 2,982,000,000**		**298,200,000**

The above deposits and borrowings (totalling to LKR 2,982,000,000) which were subsequently converted to Ordinary Non-Voting Shares did not represent the total number of deposits and borrowings of the Company as at the date of the initial restructure Direction issued by the Central Bank of Sri Lanka (i.e. January 07, 2011).

However, accurate contact details of the beneficiaries of 65,000,000 Ordinary Non-Voting Shares were not available with the Company at the time of the said conversion and thereby such 65,000,000 Ordinary Non-Voting Shares were held in a trust named the “Prime Grameen Class A Non-Voting Share Trust” pending identification of contact details of the persons entitled to the respective shares. Thereafter the Company made various efforts time to time in order to locate the beneficiaries of such shares held in the Prime Grameen Class A Non-Voting Share Trust. As a result, beneficiaries of 37,772,148 Ordinary Non-Voting Shares were located and such shares were bought back by Prime Lands (Private) Limited from the said identified beneficiaries.

Remaining 27,227,852 Ordinary Non-Voting Shares were continuously held in the Prime Grameen Class A Non-Voting Share Trust pending identification of contact details of beneficiaries. Furthermore, since the said Prime Grameen Class A Non-Voting Share Trust was not an incorporated company or corporation thereby not being permitted to open a CDS account, since the rules of the Central Depository System allows only body corporate or a natural person to open a CDS account, the Board of Directors of the Company, with the consent of the Central Bank of Sri Lanka has dissolved the Trust and transferred the aforesaid Ordinary Non-Voting Shares to a limited liability company named "Wealth Guard (Private) Limited" which will act as single purpose vehicle to hold the said Ordinary Non-Voting Shares on behalf of the persons who are entitled to the said Ordinary Non-Voting Shares until they are contacted and the Ordinary Non-Voting Shares transferred to them in due course. As per the Article 16 of the Articles of Association of Wealth Guard (Private) limited, Wealth Guard (Private) Limited shall make every endeavour to locate the beneficiaries and establish their respective entitlement to Non-Voting Shares. Upon the satisfactory establishment of such respective rights to, at the discretion of the Non-Voting Shareholder, Wealth Guard (Private) Limited should either;

i. Facilitate the transfer of such respective entitlements to the beneficiaries as per the terms of the Trust Deed between Prime Grameen Micro Finance Limited, and subject to the receipt of relevant approval (as applicable); or
ii. Dispose of the amount of Ordinary Non-Voting Shares that such beneficiaries on the Colombo Stock Exchange and pay such amount received as sales proceeds to the beneficiary

The sole objective of Wealth Guard (Private) Limited is to hold the Ordinary Non-Voting Shares and HNB Finance Limited facilitates & guides Wealth Guard (Private) Limited in the process of establishing the respective rights of such beneficiaries. Therefore, such beneficiaries should contact HNB Finance Limited in this regard. For establishment of rights of the beneficiaries, the index of details of such beneficiaries maintained by Prime Grameen Micro Finance Limited will be utilized, with the National Identity Card to verify the details.

Even though the deposits and borrowings were converted on the basis of one Ordinary Non-Voting Share for each 10 rupees of deposits and borrowings, the value of such converted shares post listing would vary depending on the Company's future performances and prevailing market conditions at the time of disposal of such shares by a particular Shareholder.

TABLE 3.3 – INFORMATION PERTAINING TO WEALTH GUARD (PRIVATE) LIMITED

Wealth Guard (Private) Limited	
Date of Incorporation	July 10, 2019
Names of Directors	Withanage Susira Priyalal Arangala Salpadoruge Alex Ruwan Fernando
Names of the Shareholder	Bamunuachchi Mangedarage Don Chaminda Prabath
Date of transfer of Ordinary Non-Voting Shares to Wealth Guard (Private) Limited	August 27, 2019

Consequent to the transfer of all Ordinary Non-Voting shares, the status of the Company (i. e. Wealth Guard (Private) Limited)	As per the Article 35 of the Articles of Association of Wealth Guard (Private) Limited, Wealth Guard (Private) Limited may not wound up unless and until all of the Ordinary Non-Voting Shares have been transferred to the beneficiaries unless with the prior written approval of Monetary Board of the Central Bank of Sri Lanka. Any winding up shall only be permitted or approved if arrangements which are satisfactory to the Monetary Board are made deal with the treatment of the Ordinary Non-Voting Shares in the interests of the beneficiaries
Free transferability of Shares held under Wealth Guard (Private) Limited	As per the Article 16 of the Articles of Association of Wealth Guard (Private) Limited, Ordinary Non-Voting Shares held under Wealth Guard (Private) Limited are freely transferable upon satisfactory establishment of beneficiaries and their respective rights to the Nov-Voting Shares

3.4 Size of the Offering

If fully subscribed, the Selling Shareholder shall receive a total of Rupees Fifty Seven Million (LKR 57,000,000).

3.5 Share Offer Price and Reference Price

The Share Offer Price for Ordinary Voting Shares will be Sri Lankan Rupees Five and Seventy Cents (LKR 5.70) per share. The Share Offer Price was determined by the Selling Shareholder based on the Independent Valuation Report provided by Nexia Management Services (Private) Limited.

The Reference Price for Ordinary Non-Voting Shares will be Sri Lankan Rupees Four and Twenty Cents (LKR 4.20) per share. The Board of Directors of HNBF is of the opinion that the Reference Price of the Ordinary Non-Voting Shares is fair and reasonable to the Company and to all existing shareholders of the Company. The Reference Price was determined by the Company in consultation with Nexia Management Services (Private) Limited.

In relation to the CSE Listing Rule 3.1.4(c), the Valuer declared that the Valuer is neither a related party of the applicant entity as defined in Sri Lanka Accounting Standards nor has a significant interest or financial connection with the applicant entity and/ or the group; the Valuer is a member of good standing in a professional association relevant to the valuation assignment undertaken and has the necessary skills and resources available at his disposal to arrive at a competent independent opinion in determining the fair value of Ordinary Voting and Ordinary Non-Voting Shares of the Company and the Valuer has made all the inquiries that he believes are desirable and appropriate in order to arrive at a competent independent opinion. Further the party prepared the Valuation possesses the requisite expertise to prepare valuation reports of this nature relating to a company to be quoted under Financials Sector of the Colombo Stock Exchange. Moreover, the qualifications and experience of the Independent Valuer can be found in Annexure D.

The net asset value of the equity share was LKR 2.69 as at March 31, 2019, and the Ordinary Voting Share Offer Price is 2.12 times the net asset value and the Ordinary Non-Voting Share Reference Price is 1.56 times the net asset value.

Ordinary Non-Voting Shares of the Company will start trading at LKR 4.20 per share immediately after the listing of such shares in the Diri Savi Board of the CSE even though the conversion of deposits and borrowings in to Ordinary Non-Voting Shares were done at a ratio of one Ordinary Non-Voting Share for each 10 rupees of deposits and borrowings (effectively, LKR 10 per share) in 2011 under a scheme mandated by the Central Bank of Sri Lanka.

Applicants should read the following summary with the risk factors included under Section 11 of this Prospectus and Introductory Document and the details of the Company and its financial statements included in this Prospectus and Introductory Document.

3.5.1 Quantitative Factors

The following quantitative aspects were also taken into consideration;

TABLE 3.4 - EARNINGS PER SHARE (EPS) AND RETURN ON EQUITY (ROE)

For the Period Ended		Basic Earnings per Share (LKR)*	Return on Equity**
March 31, 2017 – Audited		0.62	31.23%
March 31, 2018 – Audited		0.59	24.50%
March 31, 2019 – Audited		0.48	17.94%
Average EPS		**0.56**	**24.56%**
September 30, 2019	**- Using 06 Months Earnings**	0.18	6.39%
	- Using Annualized Earnings	0.36	12.50%***

** Earnings Per Share = Net profit attributable to equity shareholders/Weighted average number of equity shares outstanding during the year or period*

*** Return on Equity=Net profit after tax/ Net assets as at the end of the year or period*

**** Annualized ROE has been calculated by using the net asset value as at September 30, 2019*

Price Earnings Ratio (P/E)

The P/E in relation to the Ordinary Voting Share Offer Price of LKR 5.70 and the Ordinary Non-Voting Share Reference Price of LKR 4.20 are:

a) Based on the basic EPS of LKR 0.48 for the FY ended March 31, 2019, the P/E is 11.88 and 8.75 respectively.
b) Based on the average EPS of LKR 0.56 for the last three (03) financial years, the P/E is 10.18 and 7.50 respectively.
c) Based on the basic EPS of LKR 0.18 for the six (06) months ended September 30, 2019, the P/E is 31.67 and 23.33 respectively.
   Based on the annualised basic EPS of LKR 0.36 based on the earnings for the six (06) months ended September 30, 2019, the P/E is 15.83 and 11.66 respectively.
d) The P/E range of the industry peers is as given below;

As at December 23, 2019	Name of the Peer Company	P/E*
Highest	Mercantile Investments and Finance PLC	17.06
Lowest	Citizen Development Business Finance PLC	2.54
Industry Composite**		6.14

Source – Colombo Stock Exchange *Sector Classification – Banking, Finance and Insurance*

**P/E ratios have been calculated by using closing share prices as at December 23, 2019 except for Mercantile Investments and Finance PLC for which the share price as at June 24, 2019 has been used (last traded date of shares of Mercantile Investments and Finance PLC) and Earnings Per Share for the year ended March 31, 2019.*

***Industry Composite P/E ratio has been calculated by averaging out the P/E ratios of selected peers listed in the table under the below heading of "Peer Entity Accounting Ratios".*

Net Asset Value (NAV)

The Net Asset Value per share was;

a) LKR 2.69, based on the financial statements as at March 31, 2019
b) LKR 2.88, based on the interim financial statements for the six (06) months ended September 30, 2019
c) LKR 2.88, based on the Post Offer and Introductory Listing number of shares and interim financial statements for the six (06) months ended September 30, 2019

Peer Entity Accounting Ratios

A peer company comparison of the quantitative factors discussed above using market data as at December 23, 2019 (except for Mercantile Investments and Finance PLC)* and the audited financial statements for the 12 months period ended March 31, 2019 is provided below;

Peer Company	Net Asset Value per Share (LKR)	Earnings per Share (EPS)	P/E	Return on Equity
Vallibel Finance PLC	92.94	20.37	3.56	21.92%
Alliance Finance Company PLC	135.00	9.61	5.21	7.12%
Arpico Finance PLC	205.32	50.10	3.09	24.40%
Asia Asset Finance PLC	18.18	0.94	9.04	5.17%
Citizen Development Business Finance PLC	162.50	33.11	2.54	20.38%
Commercial Credit and Finance PLC	40.30	8.28	3.62	20.54%
Mercantile Investments and Finance PLC*	2885.00	152.39	17.06	5.28%
Nation Lanka Finance PLC	1.43	0.24	5.00	16.78%

Source – Colombo Stock Exchange *Sector Classification – Banking, Finance and Insurance*

**P/E ratio for Mercantile Investments and Finance PLC has been calculated by using the share price of Mercantile Investments and Finance PLC as at June 24, 2019 (last traded date of the shares of Mercantile Investments and Finance PLC) and the Earnings Per Share of Mercantile Investments and Finance PLC for the 12 months period ended March 31, 2019.*

3.5.2 Qualitative Factors

The following qualitative factors were considered by the Company when arriving at the Share Offer Price and the Reference Price.

- HNBF is backed by Hatton National Bank PLC and Prime Lands (Private) Limited which are its two largest shareholders.
- The proven track record of the management of HNBF in the Non-Banking Financial sector in Sri Lanka will assist in spearheading the Company to success.

3.6 Objectives of the Offering

The Company will not receive any proceeds raised via the Offer. All proceeds from the sale of Existing Ordinary Voting Shares would be received by the Selling Shareholders.

3.7 Listing

The Offer herein contemplated comprises of Ten Million (10,000,000) existing Ordinary Shares of the Company and for the listing of One Billion Four Hundred and Twenty One Million Three Hundred and Eighty Thousand Six Hundred and Twenty Four (1,421,380,624) Ordinary Voting Shares and Two Hundred and Ninety Eight Million Two Hundred Thousand (298,200,000) Ordinary Non-Voting Shares. The Shares Offered amounts to 0.70% of the Issued and Paid up Ordinary Voting Shares of the Company.

An Application has been made to the CSE for permission for a listing of the entire Issued and Paid up Ordinary Voting and Ordinary Non-Voting Shares of the Company subsequent to the Offer.

HNBF has already complied with Rule 2.1.2(ii)(a), Rule 2.1.2(ii)(b) and Rule 2.1.2(ii)(d) of the CSE Listing Rules.

It is expected that the Company will meet the minimum Public Holding requirement [Rule 2.1.2(ii)(c)] of the CSE Listing Rules on the completion of the Offer upon which the listing of the entire Ordinary Shares of the Company will take place on the Diri Savi Board of the CSE. The minimum public holding requirement stipulates that, if the Float Adjusted Market Capitalization of the Company is less than LKR 1 Bn, 10% of the total number of shares for which a listing is sought should be in the hands of a minimum number of 200 public shareholders, while if the Float Adjusted Market Capitalization of the Company is more than LKR 1 Bn, 7.5% of the total number of shares for which a listing is sought should be in the hands of a minimum number of 200 public shareholders.

However, in the event where HNBF is unable to meet the requirement of Rule 2.1.2(ii)(c) Option 2 of the CSE Listing Rules as mentioned above, upon closure of the Offer, **both Ordinary Voting Shares and Ordinary Non-Voting Shares** of the Company **will not be listed** on the CSE pursuant to the Rule 1.1(b) of the CSE Listing Rules. In such an event the subscription amounts will be returned to the Applicants.

It should be noted that the aforesaid public holding requirements would be calculated by considering all Shares that are freely tradable, on the Date of Listing.

The shares mentioned in Section 10.2 will be locked in to be in compliance with CSE Listing Rules 2.1.1(e) and will not be available for trading. Refer Table 10.4 of this Prospectus and Introductory Document for further information.

3.8 Cost of the Offering

The total costs associated with the Offering are estimated to be approximately LKR 3.71 Mn. These include all direct costs and expenses associated with the Offer, inclusive of but not limited to, the initial listing fees to the CSE; management/advisory fees payable to the Financial Advisor and Manager to the Offer; brokerage commission; fees for the registrar function; legal, consultancy and accountancy fees; advertising, promotional and printing costs. The costs will be met utilizing internal funds of the Company.

3.9 Brokerage

Brokerage at the rate of zero decimal six per centum (0.60%) of the value of the Shares will be paid in respect of the number of Offered Shares transferred on Applications bearing the original seal of any bank operating in Sri Lanka or a member/trading member of the CSE or Acuity Partners or any other intermediary appointed by the Company involved in the marketing of the Offer.

3.10 Minimum Subscription and Underwriting

There is no minimum amount required to be raised in this Offer.

The Company has not entered into any underwriting arrangement with regards to this Offer.

The Company shall seek a listing irrespective of whether the Offer is fully subscribed or not (subject to the Company satisfying the requirement of the CSE Listing Rules for such a listing as morefully described in Section 3.7 of this Prospectus and Introductory Document).

In the event the Offer is undersubscribed, the money collected will be returned to applicants and the Company will not be listed due to failure to comply with the requirements of Rule 2.1.2(ii)(c) of the CSE Listing Rules.

3.11 Opening of the Subscription List and Closure Date

The Subscription List for the Shares will open at 9.00 a.m. on February 17, 2020 and shall, subject to the occurrence of the events in the following paragraph, remain open for fourteen (14) Market Days (including the date of opening) until closure at 4.30 p.m. on March 06, 2020 ("Offer Period").

The Offer shall close (a) at the end of the Offer Period; or (b) upon the offer being oversubscribed; or (c) the Board deciding to close the Offer for any reason prior to the completion of the Offer Period. In the event of the closure of the Offer upon oversubscription, the Company shall inform the CSE in writing immediately of such fact and the closure shall take place at 4.30 pm on the day of oversubscription. If the Board decides to close the Offer prior to the end of the Offer Period (apart from an oversubscription) it shall give the CSE prior notice of one Market Day.

3.12 Inspection of Documents

The Articles of Association, Auditor's Reports and Audited Financial Statements for the five (05) financial years ended March 31, 2019 (i.e the five (05) financial years immediately preceding the date of this

Prospectus and Introductory Document), Interim Financial Statements for the six (06) months ended September 30, 2019 of the Company, the independent valuation report by the Independent Valuer, management agreements and all other relevant documents, will be made available for inspection by the public during normal working hours at the Registered Office of the Company, 168, Nawala Road, Nugegoda for a period not less than fourteen (14) Market Days as per Rule 3.1.19(a) of the CSE Listing Rules.

A waiver has been granted by the CSE through their letter dated November 18, 2019 on the CSE Listing Rule 3.4.7 (a) to exclude from the hard copy of the Prospectus and Introductory Document, the Audited Financial Statements for the two financial years except the latest Audited Financial Statements.

The Prospectus and Introductory Document, Application Form, Articles of Association of the Company and Audited Financial Statements of the Company for the financial years ended March 31, 2018 & March 31, 2017 will be available on the website of the CSE (**www.cse.lk**), on the website of the Company (**www.hnbfinance.lk**), and on the websites of the Managers to the Issue (**www.acuity.lk**) for a period of not less than fourteen (14) Market Days as stipulated in Rule 3.1.19(b) of the CSE Listing Rules.

The independent valuation report prepared by Nexia Management Services (Private) Limited, will be available on the website of the CSE (**www.cse.lk**), on the Company website (**www.hnbfinance.lk**) and on the websites of the Managers to the Issue (**www.acuity.lk**) from the date hereof, for a period not less than two (02) months as stipulated in Rule 3.1.19(c) of the CSE Listing Rules.

4.0 PROCEDURE FOR APPLICATION

4.1 Eligible Applicants

Applications are invited from the following categories of persons, **having a Valid Account in the Central Depository System (Private) Limited (CDS Account):**

i. Citizens of Sri Lanka who are resident in or outside Sri Lanka and above 18 years of age; or
ii. Companies, corporations or institutions incorporated or established within Sri Lanka; or
iii. Corporate bodies incorporated or established outside Sri Lanka; or
iv. Approved unit trusts licensed by the SEC; or
v. Approved provident funds and contributory pension schemes registered/incorporated/established in Sri Lanka (in this case, Applications should be in the name of the Trustee/Board of Management in order to facilitate the opening of the CDS account); or
vi. Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas); or
vii. Global, regional and country funds approved by the SEC.

Applications made by **individuals less than 18 years of age** or those in the names of **sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies** will be rejected.

Applications submitted under the Unit Trust Applicant Category should conform to the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01).

Eligible Applicants may fall into one of the following categories.

- Retail Individual Applicant Category
- Unit Trust Applicant Category
- Non-Retail Applicant Category

Please refer Section 4.2.1 for the definitions of the aforementioned categories.

4.2 The Procedure for Application

Applicants applying for the Shares should submit their Applications in the manner set out in this Prospectus and Introductory Document.

The Prospectus and Introductory Document will be made available free of charge from the collection points listed in Annex E. The Prospectus and Introductory Document can also be downloaded from **www.cse.lk**, **www.hnbfinance.lk** and **www.acuity.lk.**

4.2.1 How to Apply

APPLICANTS SHOULD APPLY ONLY THROUGH ONE APPLICANT CATEGORY (INCLUDING JOINT APPLICANTS) AND WOULD BE PERMITTED TO SUBMIT ONLY ONE APPLICATION FORM. TWO OR MORE APPLICATIONS SUBMITTED BY THE SAME APPLICANT, EITHER UNDER THE SAME CATEGORY OR DIFFERENT CATEGORY WILL BE CONSTRUED AS MULTIPLE APPLICATIONS AND WILL BE REJECTED.

Only one Application should be made by an Applicant under the **Unit Trust Category**.

Applicants must apply for the Shares on the Application Form, which constitutes part of this Prospectus and Introductory Document. The Application Form should be legibly completed and be received by the Registrar to the Offer.

Retail Individual and Non-Retail Applicant Category

Applicants falling under the **Retail Individual and Non-Retail Applicant Categories** should apply for the Shares on the **WHITE colored** Application Form printed for this purpose, which constitutes part of this Prospectus and Introductory Document. Such Application Forms will be made available from the collection points listed in Annex E and can also be downloaded from **www.cse.lk,** **www.hnbfinance.lk** and **www.acuity.lk. Exact size copies of the Application form printed on WHITE colored paper as specified herein will also be permissible under the Retail Individual and Non-Retail Applicant Categories.** The completed Application Forms should be submitted to the Registrars to the Offer.

'Retail Individual Applicant' as defined by the CSE Listing Rules, shall mean, an individual Applicant who subscribes for a maximum of 17,500 shares or a value of not more than LKR 100,000 in a particular share class, whichever is higher.

Unit Trust Applicant Category

Applicants applying under the **Unit Trust Applicant Category** must apply for the Shares using the separate **YELLOW colored** Application Form printed for this purpose, which constitutes part of this Prospectus and Introductory Document. Such Application Forms will be made available through the registered office of the Company, 68, Nawala Road, Nugegoda, and Managers to the Offer, Acuity Partners (Private) Limited, 53, Dharmapala Mawatha, Colombo 3. **Exact size copies of the Application form printed on YELLOW colored paper as specified herein will also be permissible under the Unit Trust Applicant Category.** The completed Application Forms should be submitted directly to the Managers to the Offer who will forward the same to the Registrars to the Offer.

Applications submitted under the Unit Trust Applicant Category should submit a confirmation by the trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/Leg/11/06/01) and CSE Listing Rules, 3.1.5(b)(iii).

Applicants applying under the Retail Individual and Non-Retail Applicant categories should submit their Application Forms to the Registrars to the Offer in terms of Section 4.2.8.

Applications under the Unit Trust Applicant category should submit their Application Forms to the Managers to the Offer in terms of Section 4. 2. 8.

An Applicant of a Joint Application, applying through another Application Form is deemed to have made multiple Applications and will be rejected.

An Applicant who has made an Application under a margin trading account should not apply individually or jointly on a separate Application Form. Such Applications will also be construed as multiple Applications and will be rejected.

Subject to the above, the Company/Managers/Registrars to the Offer reserve the right to reject multiple Applications and suspected multiple Applications which are not allowed or to accept only one Application Form at their discretion.

Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part, for whatsoever reason.

Please note that Applicant information such as full name, address, NIC number/passport number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information shall take precedence over information provided in the Application Form.

Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts will be rejected.

Care must be taken to follow the instructions on the reverse of the Application Form. Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.

PLEASE NOTE THAT AN TRANSFER OF SHARES WILL ONLY BE MADE IF YOU HAVE A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF APPLICATION.

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

<u>Operation of a 'locked' balance in the CDS</u>

In order to preserve the confidentiality of shareholder information and to ensure that securities are not made available for trading for those shareholders who do not want to trade the securities, the CDS provides a mechanism where securities can be 'locked' in the CDS account.

The CDS maintains two balances for each CDS account, namely a 'trading' balance and a 'locked' balance. The trading balance would be visible to the CDS participant and all dealings and trading would be permitted on the said trading balance, as done normally.

As opposed to the trading balance, the locked balance will not be visible to the CDS participant and all dealings on such locked balance would be suspended thereby maintaining the confidentiality of the information and also safeguarding the account holder from any unauthorised sale by a broker.

At the option and request of an account holder, the CDS would transfer a named quantity of securities from the locked balance to the trading balance of a CDS account and/or from the trading balance to the locked balance.

4.2.2 Number of Shares Applied

Application should be made for a minimum of One Thousand (1,000) Shares [for a value of Sri Lankan Rupees Five Thousand Seven Hundred (LKR 5,700/-)] and in multiples of One Hundred (100) Shares thereof.

Applications made for less than One Thousand (1,000) Shares or for a number which is not in multiples of One Hundred (100) Shares will be rejected and the accompanying cheques, bank drafts or bank guarantees will not be sent for clearing but be returned via ordinary post at the risk of the Applicant, or in the case of Joint Applicants, the first named Applicant. **The cheque or bank draft or bank guarantee should be issued/carried out to the exact value of the number of Shares applied for, multiplied by the Share Offer Price.** Cheques, bank drafts or bank guarantees not conforming to the above requirement will be rejected at the outset.

Please refer Section 4.3.1 for details with respect to the mode of remittance.

4.2.3 Identification Information

All Applicants should disclose their identification/registration information by filling in the space provided in the Application Form for this purpose.

Applicants are requested to state their residency and nationality in the appropriate spaces provided in the Application Form.

The NIC, passport, or company registration number as the case may be, must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected.

Resident Applicants may use the passport for purposes of identification only if they do not have an NIC number.

Tabulated below is the relevant identification information that a prospective Applicant should provide depending on the legal status:

Citizenship/Legal Form	**Identification Information**			
	NIC Number	**Passport Number**	**Company Registration Number**	**Common Seal or Rubber Stamp**
Sri Lanka Citizens	✓			
Sri Lanka Citizens with no NIC Number*		✓		
Foreign Citizens**		✓		
Corporate Entities***			✓	✓

** In the case of Sri Lankan citizens, the passport number will be accepted only when the NIC number is not available. The CDS account must be for the same passport number.*
*** Foreign citizens must state the passport number in the space provided.*
**** The company registration number must be provided. The common seal or rubber stamp should be affixed and the Application Form duly signed as stipulated in the constitutional documents of such Applicants.*

A valid CDS account number must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected. All information about the Applicant (i.e. name, address, nationality and NIC or passport number) will be downloaded from the database of the CDS, based on the number given in the Application Form. In the event of any discrepancy between the information in the CDS and in the Application Form, the information in the CDS shall take precedence.

If the CDS account number is not indicated in the Application Form, or the number indicated in the form is found to be inaccurate/incorrect, or the account number indicated is not opened at the time of closing the Offering, such Applications will be rejected and no transfer of Shares will be made.

4.2.4 Key Responsibility of a Non-Resident Applicant

Non-resident Applicants may be affected by the laws of the jurisdiction of their residence. If non-resident Applicants wish to apply for the Shares, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

4.2.5 Margin Trading

Applicants who wish to apply through their margin trading account should submit the Applications in the name of the “margin provider/Applicant’s name” signed by the margin provider.

The Applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form. The Shares shall be uploaded to the CDS account indicated in the Application Form.

The NIC, passport, or company registration number of the Applicant as the case may be, must be stated in the Application Form.

Resident Applicants may use the passport for purposes of identification, only if they do not have an NIC number.

A photocopy of the margin trading agreement must be submitted along with the Application.

Please note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications. Details of multiple Applications are available under Section 4.2.1.

4.2.6 Applications made under Power of Attorney

In the case of Applications made under Power of Attorney (POA), a copy of the said POA, **certified by a Notary Public** to be a true copy of the original, should be lodged with the Registrars to the Offer along with the Application Form. **The original POA should not be attached.**

4.2.7 Joint Applications

If the ownership of the Shares is desired in the name of one Applicant, full details should be given only under the heading, **SOLE/FIRST APPLICANT** in the Applicant Forms. In the case of joint Applicants, the signatures and particulars in respects of all Applicants must be given under the relevant headings in the Application Form.

Joint Application Forms are permitted only for natural persons not exceeding three Applicants. Joint Applicants should note that there should not be a combination of residents of Sri Lanka and non-residents. An Applicant of a joint Application shall not apply through a separate Application Form either individually or jointly.

4.2.8 Submission of Applications

Application Forms properly and legibly filled in accordance with the instructions thereof, along with the applicable remittance (cheque or bank draft or bank guarantee only) for the full amount payable on Application should be enclosed in a sealed envelope marked **"HNB Finance Limited – IPO"** on the top left-hand corner and be addressed and dispatched by post or courier or delivered by hand to the Registrars to the Offer at the following address **prior to 4.30 p.m. Local Time on the Offer Closing Date.**

SSP Corporate Services (Private) Limited
101, Inner Flower Road,
Colombo 3, Sri Lanka

Applications may also be handed over to the Financial Advisors and Managers to the Offer, Bankers to the Offer and its designated branches, members and trading members of the CSE as set out in Annex E **prior to 4.30 p.m. Local Time on the Offer Closing Date**.

In the case of Applications dispatched by courier or post, such Applications should reach the Registrars to the Offer **no later than 4.30 p.m. Local Time on the Market Day immediately following the Offer Closing Date**. Any Applications received after the above deadline shall be rejected even though the courier or post mark is dated prior to the Offer Closing Date.

Applicants applying under the Unit Trust Applicant category should submit their Application Forms directly to the Managers to the Offer.

4.3 Payment of Application Monies

4.3.1 Mode of Remittance

(a) Payment in full for the total value of Shares applied for should be made separately in respect of each Application either by cheque or bank draft or bank guarantee drawn upon a Licensed Commercial Bank operating in Sri Lanka, as the case may be subject to (b) below. The remittances on Applications will be deposited in a separate bank account in the name of **"HNB Finance Limited – IPO".**

(b) The amount payable should be calculated by multiplying the number of Shares applied for under a particular category by the Share Offer Price of LKR 5.70. If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee, the Application will be rejected.

(c) **Payments for Applications for Shares may be supported by a cheque or bank draft or bank guarantee on the Offer Opening Date**. In such instances, Application Forms should be accompanied by only one cheque or bank draft or bank guarantee and should be issued for the **full amount** indicated in the Application Form. **Any Application for Shares accompanied by two or more cheques or bank drafts or bank guarantees will be rejected at the outset.**

Cash will not be accepted. Anyone wishing to pay cash should obtain a bank draft from a Licensed Commercial Bank in Sri Lanka.

4.3.2 Cheques or Bank Drafts – Resident Sri Lankan Applicants

Cheques or bank drafts should be drawn on any Licensed Commercial Bank in Sri Lanka and crossed "**Account Payee Only**" and made payable to **"HNB Finance Limited – IPO"**.

Cheques or bank drafts accompanying Application Forms made for less than One Thousand (1,000) Shares, i.e for a value of Sri Lankan Rupees Five Thousand Seven Hundred (LKR 5,700/-) or for a number which is not in multiples of One Hundred (100) Shares (as mentioned in Section 4.2.2) will not be sent for clearing and shall be returned via ordinary post at the risk of the Applicant, or in the case of Joint Applicants, to the first named Applicant.

In the event that cheques are not realized within two (02) Market Days from the date of presenting the same to the bank for clearing, the Directors reserve the right to reject the Applications and return the Application monies. No allocation of Shares will be made to such Applicants.

Applicants residing in outstation areas from which cheque clearance may take over two (02) Market Days are advised to make payment via bank drafts to avoid any delays.

Cheques must be honored on the first presentation to the bank for the Application to be valid. Applications supported by cheques which are not honored on first presentation will be rejected.

4.3.3 Bank Guarantees – Resident Sri Lankan Applicants

Applications made by resident Sri Lankan applicants backed by bank guarantees presented in line with the requirements set out in Section 4.3.1 will be accepted. Bank guarantees will be presented to the respective banks only after the Offered Shares have been transferred. Bank guarantees should be issued by any Licensed Commercial Bank in Sri Lanka and in favor of **"HNB Finance Limited – IPO"** in a manner acceptable to the Company and payable on demand.

Bank guarantees should be valid for a minimum of one (01) month from the date of opening of the Offering (i.e. February 17, 2020).

Applicants are advised to ensure that sufficient funds/facilities are available in order to honor the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Offer. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

4.3.4 Foreign Currency Remittances

This section is applicable to;

- Citizens of Sri Lanka who are above 18 years of age and resident overseas;
- Corporate bodies incorporated or established outside Sri Lanka;
- Regional or country funds approved by the SEC; and
- Foreign citizens (irrespective of whether they are resident in Sri Lanka or overseas) who are above 18 years of age.

The abovementioned Applicants should make their payments using one of the following methods as the case may be.

(a) A foreign Applicant may invest through a "Inward Investment Account" (IIA) maintained with any Licensed Commercial Bank in Sri Lanka. The procedure for arranging payments through an IIA is presented below;
- A Foreign Applicant may use the services of a custodian bank as an intermediary when investing in the Sri Lankan securities market;
- The intermediary may open an IIA, on an Applicant's behalf;
- In conjunction with the IIA, an account with the CDS must be opened in case the Applicant does not already have a valid CDS account;
- In respect of regional or country funds investing for the first time in Sri Lanka, the intermediary will facilitate the approval process regulated by the SEC;
- Payment for Shares should be made through a bank draft or bank guarantee issued by a Licensed Commercial Bank in Sri Lanka against the funds arranged through the IIA and made payable to **"HNB Finance Limited – IPO".**

(b) A foreign Applicant may invest through inward remittances of foreign currency held in a Foreign Currency Banking Unit (FCBU) account of the Applicant maintained with any Licenced Commercial Bank in Sri Lanka. The procedure for arranging payments through an FCBU account is presented below;
- The Applicant should forward the Application Form supported by an unconditional bank guarantee drawn on the Applicant's FCBU account pending transfer of the Offered Shares with confirmation from the LCB that upon notification of the transfer of Shares, the transfer value would be remitted through the Applicant's IIA.
- Upon transfer of Offered Shares, foreign currency to the extent of the Sri Lanka Rupee equivalent value of Offered Shares transferred would be called on the bank guarantee drawn on the Applicant's FCBU account.

- The requisite funds would then be credited to an IIA opened in favor of the Applicant via the aforementioned FCBU account. This procedure would protect a prospective Applicant from any losses accruing due to fluctuating exchange rates.

(c) In addition to the payments made through IIA and FCBU as mentioned above, a foreign citizen resident in Sri Lanka under the Resident Guest Scheme may invest through a Resident Guest Foreign Currency Account (RGFCA) or Resident Guest Rupee Current Account (RGRCA) that Applicants maintain with any LCB in Sri Lanka. An Applicant who wishes to avail him/herself of this facility should make the payment for New Shares through a bank draft or an unconditional bank guarantee in Sri Lanka Rupees or by converting foreign currency funds available in the RGFCA/RGRCA, as the case maybe based on the guidelines provided by the Exchange Control Department of the CBSL, and made payable to **"HNB Finance Limited – IPO".**

Cheques or bank drafts or bank guarantees should be endorsed by the issuing custodian bank, to the effect that, arrangements have been made to facilitate such payment to be made against funds available in the individual's IIA account. The endorsement must be clearly indicated on the cheque or bank draft or the bank guarantee. Alternatively, a document detailing the endorsement could be submitted along with the payment and Application.

Any refund payments to Foreign Applicants are made in terms of Section 4.8 of this Prospectus and Introductory Document.

Applications supported by foreign currency remittances should be made in conformity with requisite declarations accompanied by the documentation stipulated by the Controller of Exchange of the Central Bank of Sri Lanka.

4.3.5 Restrictions Applicable to Foreign Citizens Resident in Sri Lanka

Foreign citizens resident in Sri Lanka may make payments through Sri Lanka Rupee Accounts, only if they possess dual citizenship where one such citizenship is Sri Lankan. **Foreign citizens having Sri Lankan citizenship should attach a certified copy of the citizenship certificate with the Application Form.**

Foreign citizens residing in Sri Lanka having valid residency visas should note that they cannot make remittances via cheques or bank drafts or bank guarantees drawn upon Sri Lanka Rupee accounts maintained with any Licensed Commercial Bank in Sri Lanka but may do so via an IIA account as detailed in Section 4.3.4 above. **Applications made by foreign citizens not in accordance to the foregoing shall be rejected.**

4.4 Rejection of Applications

- Application Forms which are incomplete in any way and/or are not in accordance with the terms and conditions set out in this Prospectus and Introductory Document will be rejected at the absolute discretion of the Company/Joint Managers/Registrars to the Offer.
- Any Application Form which does not provide the NIC, passport (where NIC is not available) or company registration number as the case may be, will be rejected.
- Applications delivered by hand after 4.30 p.m. Local Time on the Offer Closing Date will be rejected. Applications received by courier/post after 4.30 p.m. Local Time on the succeeding Market Day

immediately following the Offer Closing Date, will also be rejected even if they carry a courier acceptance date/postmark date earlier than the Closing Date.

- Applications made for less than One Thousand (1,000) Shares or for a number which is not in multiple of One Hundred (100) Shares will be rejected.
- **An Application which does not carry a CDS account number, or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list (either at the time fixed for closing or on the date on which the Offering is subscribed), or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no transfer of Shares will be made.**
- Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts, will be rejected.
- Applicants should apply only through one Applicant category and would be permitted to submit only one Application Form. Two or more Applications submitted by the same Applicant either under the same category or different categories will be construed as multiple Applications and will be rejected.
- Application Forms submitted under a respective Applicant category, using the incorrectly colored Application Forms will be rejected.
- The company reserves the right to reject multiple Applications and suspected multiple Applications which are not allowed, as mentioned in Section 4.2.1.
- Payment for Applications accompanying two or more cheques, bank drafts or bank guarantees as mentioned in Section 4.3.1, will be rejected at the outset.
- Applications made by individuals below 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.

Notwithstanding any provision contained herein, the Board of Directors shall reserves the right to refuse any Application or to accept any Application in full or part for any reason.

4.5 Banking of Payments

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Market Day after the Closure Date of the Subscription List, in terms of the CSE Listing Rules.

4.6 Returning of Monies on Rejected Applications

Where an Application Form is rejected, the cheque or bank draft or bank guarantee received in respect of the Application will be returned via ordinary post at the risk of the Applicant. In the case of Joint Applicants, the cheque or bank draft or bank guarantee received in respect of the Application will be returned to the first named Applicant.

Where the Application Form is accepted and the cheque or bank draft or bank guarantee is not honored by the bank at the first presentation, the Application will also be rejected and the dishonored cheque or bank draft or bank guarantee will be returned via ordinary post at the risk of the Applicant. In the case of Joint Applicants, the dishonored cheque or bank draft or bank guarantee will be returned to the first named Applicant.

4.7 Basis of Transfer

The transfer of the Offered Shares will be made to the various categories of Applicants, as set out below:

Applicant Category	Percentage of Offer (%)
Unit Trusts *	10%
Retail Individual	40%
Non-Retail	50%
	100%

**** Unit Trust Applicants should be growth or balanced unit trusts operated by managing companies licensed by the SEC, where such unit trusts comprise of not less than 500 unit holders resident in Sri Lanka who together hold at least 50% of that fund as per the Direction issued by the SEC (Ref: SEC/LEG/11/03/36 of 10 March 2011). Only one Application should be made under each category.***

Applications submitted under the Unit Trust Applicant Category should accompany a confirmation by the trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/Leg/11/06/01) and CSE Listing Rules, 3.1.5(b)(ii).

Local and foreign individual Applicant/s who apply for up to a maximum of 17,500 Shares (value of not more than LKR 100,000) will be deemed as Retail Individual applicants for share transfer purposes.

Applicants who do not fall under the Retail Individual Applicant definition stated above will be deemed as Non-Retail applicants for Share transfer purposes. (All corporate bodies incorporated or established in Sri Lanka or outside Sri Lanka, global, regional or country funds approved by the SEC, shall fall under the Non-Retail category irrespective of the quantum of Shares applied for).

The Applicant categories have been selected to ensure the broadest possible spread of shareholders while treating all Applicants in a fair manner as may be decided by the Board at its discretion.

In the event of an under-subscription in the Unit Trust Applicant category, the Retail Individual Applicant category shall be given first priority, in transfer of the undersubscribed Shares.

In the event of an under-subscription in the Retail Individual Applicant category, the Unit Trust Applicant category shall be given first priority, in transfer of the undersubscribed Shares.

In the event of an under-subscription in the Non-Retail Applicant category, Retail Individual Applicant category will be given first priority followed by Unit Trust Applicant category in the transfer of the undersubscribed Shares.

Redistribution will not apply in the event of an oversubscription or undersubscription in all three categories stated above.

Subject to the above, the Board of Directors of the Company will endeavour to decide and announce to the CSE the basis of transfers as soon as practicable so as to ensure compliance with the CSE Listing Rules. Upon the transfer being decided, an announcement will be made to the CSE.

In the event of an over subscription of any one or all three categories mentioned above, the basis of transfer will be decided by the Board of Directors of the Company in a fair and equitable manner.

A written confirmation informing successful Applicants on their transfer of Offered Shares will be dispatched within ten (10) Market Days from the Closure Date as required by the CSE.

4.8 Refunds on Applications

Where an Application is accepted only in part or rejected in its entirety subsequent to cheques being realized, the balance/entirety of the monies received on Application as the case may be, will be refunded, such refunds will be made on or before the expiry of ten (10) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules. As required by Section 2.4(k) of the CSE Listing Rules, Applicants would be entitled to receive interest at the rate of last quoted Average Weighted Prime Lending Rate (AWPLR) published during the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in the event Central Bank of Sri Lanka ceases to publish the AWPLR) plus five per centum (5.00%) for the delayed period on any refunds not made by the expiry of the aforementioned period.

Refunds via Sri Lanka Inter-bank Payment Systems (SLIPS)

1. The refund payment will be made to the bank account specified by the Applicant through the SLIPS on or before the expiry of ten (10) Market Days from the Closure Date (Excluding the Closure Date) as required by the CSE Listing Rules and a payment advice shall be issued to the Applicant provided that the Applicant has submitted accurate and complete details of Applicant's bank account in the Application Form. However, SLIPS transfers are subject to a maximum limit of Sri Lanka Rupees Five Million (LKR 5,000,000/-) imposed by the CBSL with effect from October 29, 2010 as per Operating Instruction Circular No. 11/2010 dated October 25,2010.

2. Even though the Applicant has requested for SLIPS transfer for refund amounts and submitted accurate and complete details of the bank account in the Application Form, refund amounts exceeding Sri Lanka Rupees Five Million (LKR 5,000,000/-) will be made by a crossed cheque in favor of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a Joint Application, a crossed cheque will be drawn in favor of the Applicant whose name appears first in the Application Form.

3. In the event the refund payment is effected via SLIPS based on the bank account details provided by the Applicant in the Application Form, but is rejected by the Applicant's bank due to inaccurate or incomplete information, such refund payments would be made via a crossed cheque in favor of the Applicant and sent by ordinary post at the risk of the Applicant. In such instances, the Company together with the Registrars to the Offer will send the refund cheques to such Applicants at the earliest possible time and the Applicant should not hold the Company or the Registrars to the Offer accountable for such delays.

Bank codes and branch codes could be obtained from the following website, through the Quick Links access; http://www.lankaclear.com/products_and_services/sl_interbank_payment_system_guideline.php

Refunds via Crossed Cheque

If the Applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account with respect to refunds via SLIPS, the refund payment will be made by a crossed cheque in favor of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a Joint Application, a crossed cheque will be drawn in favor of the Applicant whose name appears first in the Applicant Forms.

4.9 Successful Applicants and CDS Lodgment

The Shares transferred will be directly uploaded to the respective CDS accounts given in the Application Form before the expiry of eighteen (18) Market Days from the Offer Closure Date as requested by the CSE Listing Rules.

A written confirmation, upon the completion of crediting the respective CDS accounts will be sent to the shareholder within Two (02) Market Days of crediting the CDS accounts by ordinary post to the address provided by each shareholder in their respective Applications.

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

Refer Section 4.2.1 for the definition of 'locked'.

Offered Shares shall not be transferable by the shareholders during the period between the date of transfer of the Offered Shares and up to the date of listing (excluding the date of listing) of the Ordinary Shares on the CSE. Further, the Company shall not allot any Shares of the Company or transfer Existing Ordinary Voting Shares (other than the transfer of Offered Shares) during the interim period between the date of the Initial Listing Application and the date of Listing of the Shares of the Company.

Upon the Ordinary Shares being listed on the CSE, such Shares shall be freely transferable except for those Shares mentioned in Section 10.2 of this Prospectus and Introductory Document, which will be locked-in to be in compliance with CSE Listing Rules 2.1.1(e).

4.10 Declaration to the CSE and Secondary Market Trading

The Company will submit to the CSE a "Declaration" on the Market Day immediately following the day on which the Applicants' CDS accounts are credited with the Offered Shares. Trading of the Ordinary Shares on the secondary market will commence on or before the third (3^{rd}) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

5.0 BUSINESS OPERATIONS OF HNB FINANCE LIMITED

5.1 Overview of HNB Finance Limited

HNB Finance Limited was incorporated as a limited liability company in Sri Lanka on December 20, 1999 under the Companies Act No. 17 of 1982 and was re-registered on May 05, 2009 under the Companies Act No. 07 of 2007. The Company was first established under the Ceylinco Group as a micro-financing institution under the name of Ceylinco Grameen Credit Co. Ltd. The Company had pioneered the 'Grameen' microfinancing model in Sri Lanka, which involves the disbursement of small-ticket loans to self-employed individuals at the grassroots levels of the economy.

However, subsequent to the collapse of several unregulated financial institutions within the Ceylinco Group, the Company was acquired by the Prime Lands Group in 2011. Thereafter, it was renamed as Prime Grameen Microfinance Limited and became a fully-fledged finance company, licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011. Subsequently, in 2014, 51% of the Company was acquired by Hatton National Bank PLC.

In October 2018, the Company was renamed as 'HNB Finance Limited', poised to benefit from the relationship with the parent entity Hatton National Bank PLC.

As at the date of this Prospectus and Introductory Document i.e. January 30, 2020, HNB Finance Limited is a subsidiary of Hatton National Bank PLC which holds 724,904,118 Ordinary Voting Shares of the Company which accounts for a 51% of the total Ordinary Voting Shares of the Company.

5.2 Products Offered

For the major part of the Company's 19-year history, HNBF primarily served the low-income segment of the country with a portfolio of micro loan and deposit products. However, following the recent transition from a Grameen-based operation to a fully-fledged financial services institution, the Company now caters to all the financing, leasing and investment needs of the mainstream financial services market.

Product Name	Description
Loan Products	
Diriya Micro Loan	The Diriya Micro Loan is HNBF's primary microfinance product which uses the Grameen model's most renowned 'trust group' concept. The Company reaches out to economically disadvantaged female entrepreneurs, whose access to traditional forms of financial services is limited due to their lack of resources and social distinction. The instalments are collected on a weekly, bi-weekly or monthly basis through 'meeting centers', which has also created a platform for imparting knowledge to loan holders on best business practices and overcoming day-to-day challenges. In a highly competitive arena, this has played a pivotal role in retaining existing customers.

Sahana Loan	Sahana is a consumption loan granted to active members of the Diriya Micro Loan scheme. It provides female borrowers a quick and easy way to gain access to small amounts of cash to meet urgent personal requirements, including the financing of social functions such as weddings and funerals, as well as unanticipated statutory payments. As is implied by the name of the product, this scheme aims to bring peace of mind to its borrower. Female borrowers can obtain a loan up to a maximum limit of LKR 15,000. Retention of customers is an added advantage gained through the provision of this loan facility.
Divi Saru	The Divi Saru Loan scheme is a hybrid product aimed at credit worthy Diriya customers to enable them to upgrad to individual loan schemes. This loan scheme also caters to new female customers as well as male customers successful small businesses. Customers can enjoy a repayment period of up to 24 months and obtain loans up to LKR 300,000. The Company expects this this loan scheme to help reduce the dependence on group-loan products.
Swashakthi Loan	The Swashakthi Loan scheme launched in 2014 caters to both male and female entrepreneurs. This loan scheme is designed to sustain the financial requirements of HNBF's savings account holders while encouraging the concept of saving. Swashakthi also serves as the ideal stepping-stone for Diriya customers to receive new funding for the business expansions.
Abhilasha Loan	The Abhilasha Loan scheme is aimed at male and female individual entrepreneurs, and provides enhanced financial services with greater flexibility and prolonged repayment periods to meet the standards of the global microfinance industry. This loan scheme caters to individuals who wish to obtain loans up to LKR 2,000,000 and uses a guarantor-based lending model.
Easy Loan	The Easy Loan facility is granted to individuals in the SSE sector who hold current accounts at LCBs in Sri Lanka. This product offers straightforward and quick access to loan facilities for those who require urgent working capital financing up to LKR 5,000,000.
Leasing Product	The Leasing Product introduced in December 2015 caters to a wide spectrum of leasing solutions ranging from micro-leasing to vehicle leasing, for both existing and new customers. The primary objective of this product is to provide greater convenience to existing customers and to retain them with the Company by catering to their growing financial needs.

HNB Finance Relax Personal Loan Scheme	The Relax Loan scheme was launched to capture the lending opportunities of employees in government and established private sector organizations. This personal loan scheme has been specially designed to provide financial solutions for salaried and permanent staff members of the above sectors to meet their numerous personal financial needs. Under the above scheme, group and individual loans are provided to applicants who meet the relevant eligibility criteria which are mainly linked with their salary. The monthly repayment of the loan is made directly from the employee's salary and remitted to HNBF. Competitive interest rates are offered whilst the repayment period is more flexible extending up to a maximum period of five years.
HNB Finance "SAVIYA" SME Loan Scheme	The Saviya Loan scheme was introduced to support and strengthen the SME sector, which is a fast growing and significant segment of the economy. This loan will extend financial assistance to upcoming small businesses with potential to become a part of the SME category while also catering to existing SME clientele to develop and expand their businesses. The customers base of this loan scheme includes sole proprietorships, partnerships and limited liability companies engaged in businesses. They are eligible to enjoy facilities up to a maximum level of LKR 20 Mn under this scheme. In case of start-up businesses, HNBF provides funding up to 75% of the project cost subject to meeting pre-defined guidelines. Competitive rates of interest are considered to ensure a reasonable market share. As a value-added service for these SME clients, HNBF's marketing executives are trained to assist clients after the disbursement of the loan to ensure proper use of funds, development of their business and to provide necessary guidance, as and when required.
Nivahana Housing Loan	The Nivahana housing product launched in December 2017 serves two categories of clientele. First category consists of Professionals and Businessmen who have a stable income stream. A 10-year loan can be obtained by professionals with a maximum loan amount of LKR 10 Mn. The second category consists of existing clients of the Company who have a proven track record of repayment. Existing clients are entitled for loans up to LKR 500,000 with a repayment period of three years. The housing loans are granted for the purchase of a fully completed or partly constructed house, construction of a house on land owned by the applicant, purchase of a bare land and construction of a house thereon, and for renovations and extensions to the existing houses.
Gold Loans	HNBF launched the Gold Loan product in November 2018. This product offers advances of up to 60% of the gold value and provides greater flexibility to customers through 1,3,6 or 12 months repayment plans. Plans to launch the product across 50 island-wide branches by the end of the financial year 2019/20 are well underway.

Deposit Products	
Fixed Deposits	Fixed Deposit customers are catered to through the 48 branches and service centers of the Company and offered attractive interest rates on par with market conditions. Fixed Deposits terms range from six months to five years. A dedicated marketing team also provides doorstep customer service to the Company's fixed deposits clientele.
Savings Deposits	The Company offers three savings products **– "Miyulasi", "Yalu" and "HNB Finance Savings Account"**. The Miyulasi product was introduced as a savings scheme for female borrowers, with a view to inculcate the savings habit. Yalu was launched to instil the habit of saving in children while HNB Finance Savings Account is a general savings product catering to the masses. A new product 'Sureki' was launched in 2019, which encourages the savings habit of customers by rewarding depositors for consistently saving a minimum of Rs. 50 per week.

While striving to cater to evolving needs of customers, HNBF introduced the novel concept of collections via Point of Sales (POS) machines and online methods for the HNB Finance Savings product, keeping in line with its aim to provide innovative solutions and convenience to its customers.

Over the years HNBF has witnessed the social and economic development of its customer base and has been a part of many success stories of HNBF's customers. The Company has also supported customers to move to become a part of the Small-Scale Enterprise (SSE) and SME categories.

5.3 Accolades and Ratings

Credit Rating from Fitch Ratings - Fitch ratings has affirmed a National Long-Term rating of A(lka) with a stable outlook for HNBF in 2019.

'A Great Place to Work' - HNBF is the only finance company in Sri Lanka to be recognized as one of the top 25 Great workplaces in Asia in 2019. The Company was also among the 25 great places to work in Sri Lanka in 2019 for the third consecutive year.

National Business Excellence Awards 2018 - HNBF received the Silver Award in the Non-Banking Financial Services category at the National Business Excellence Awards (NBEA) 2018, organized by the National Chamber of Commerce Sri Lanka, in recognition of the Company's continuous ability to enhance stakeholder value while also contributing to the economic growth of the nation.

The Best CSR Finance Company 2019 - Sri Lanka by the International Business Magazine - UAE – HNBF received the "Best CSE Finance Company 2019 – Sri Lanka" award from the International Business magazine – UAE in October 01, 2019 as a recognition of HNBF's CSR initiatives.

Gold award in the banking and finance sector and Silver award in the overall category at the BestWeb.lk Awards – 2019

Silver award in the banking and finance sector for HNBF's website at the W3 Awards 2019 - USA.

Gold award for "Best Rural Activation" for HNBF's brand awareness campaign at ACEF Awards 2019 – India.

Award from the Credit Information Bureau, Sri Lanka - The Company has received a rating of A++ from the Credit Information Bureau of Sri Lanka (CRIB) for the year 2017.

5.4 Branch Network

Since its inception 19 years ago, the Company has steadily expanded its geographic reach within Sri Lanka from North to the South of the country, comprising a fully-fledged integrated branch network of 48 branches and 21 service centers. Furthermore, with the aim of enhancing experience and exposure of the customer base, the Company increased the meeting centers to 10,875 as at December 31, 2019.

TABLE 5.1 – BRANCH DISTRIBUTION

Province	Number of Branches/Service Centres
Northern Province	3 Branches 5 Service Centers
North Central Province	4 Branches 3 Service Centers
North Western Province	6 Branches 2 Service Centers
Western Province	14 Branches
Southern Province	5 Branches 3 Service Centers
Eastern Province	4 Branches 3 Service Centers
Central Province	5 Branches 3 Service Centers
Uva Province	4 Branches 1 Service Centers
Sabaragamuwa Province	3 Branches 1 Service Centers
Total	**48 Branches** **21 Service Centers**

5.5 Human Resources

The Company serves its client base with 1,953 employees as at December 31, 2019. As at the date of this Prospectus and Introductory Document, there were no labor unions, significant agreements entered into between the labor unions and the Company or actions pending against the Company in the Labor Tribunal.

HNBF develops fresh talent by training school leavers by enhancing their knowledge base on the unique micro financing products rather than poaching talent from competitors. The training department also ensures employees' attitude development, assist to improve employees' skill levels for facilitating promotion and delivering the service with a human touch in dealing with the community. HNBF also provides training to our customers to improve their financial literacy, promote positive thinking and product development.

5.6 Future Outlook for HNB Finance Limited

The transition from a Grameen-based operation to a fully-fledged finance company which caters to all segments of the market has been one of the most significant and remarkable milestones in the Company's 19-year history. Leveraging on this transition, the Company intends to enter a new phase in our continuing expansion and growth by offering a more comprehensive range of financial solutions which are closely aligned to the value proposition of the parent company- HNB PLC. The Company's core values referred to as "InSPIRRE" (meaning - Integrity, Socially-conscious, Professionalism, Innovation, Respect, Relevance and Empathy) provides a solid platform for all employees to align to the Company's vision to be recognized as the leader in providing innovative, technology-driven financial solutions with a human touch for all.

To position HNBF as the preferred financial service provider in the market, a comprehensive, well-defined strategic business plan was drawn up in 2017 following a thorough market analysis. Revolving around several key strategic goals, HNBF's business plan will remain flexible to enable adaptation to significant internal and external environment developments over time.

The strategic business plan stresses on the importance of several key factors such as;

- High quality human resources
- Customer-centric product portfolio
- Creating a multi-channel approach to support product delivery
- Re-aligning branding and marketing
- Leveraging technology for growth

High quality human resources: Human resources is a critical factor in the business operations of HNBF and hence, the development and retention of high ability human resources is a key focus of the Company. As a result of the improved human resource policies and practices, HNBF has been recognized by the Great Place to Work Survey for three consecutive years and takes great pride in being the only finance company in Sri Lanka under the large category to be amongst the top 25 companies at Asia's Best Workplaces 2019. Launch of career progression plans, implementation of employee training, and appraisal schemes would be the key focus areas in the coming years to improve and create human capital value. As part of the improvements to the human resources of the Company, as at the financial year end 2018/19, HNBF carried out an organizational re-structure exercise to remain relevant in the decades to come. As part of this organizational re-structure exercise, all functions of the Company were segregated within two broad units- the Business unit and the Services unit headed by the Deputy General Manager - Business and the Chief Operating Officer respectively. In line with the above, a Credit Administration Department has been established as at the date of this Prospectus and Introductory Document and will be fully functional by March 2020. The purpose of the said Credit Administration Department is to approve all loans with a specialized team in order to reduce the turnaround time of granting loans and improve the evaluation skills thus to manage the Non-Performing Loans ratio of the Company.

However, job descriptions of several existing employees and future recruitment efforts of the Company have been impacted by the said organizational re-structure. Thereby the management of HNBF plans to engage with a human resource consultant to critically evaluate the Job descriptions of existing employees and to improve efficiency of existing employees. Moreover, HNBF has conducted a salary benchmark survey with a recognized service provider where the existing salary levels and critical job profiles of HNBF were compared against industry benchmarks. The results of this survey are expected to be utilized in setting salary levels of HNBF in the future. Furthermore, HNBF intends to implement the 9-box methodology, e-recruitment platform and an e-learning platform in the future under the objective of maintaining a high-quality human resource within the organization.

Customer-centric product portfolio: A dedicated product development team continuously work towards developing new products and modifying existing products and services to make them more customer centric. Some strategies used include: undertaking a gap analysis to identify gaps that can be catered to, carrying out demand side and supply side market studies, identifying potential partners to collaborate with to launch new products through existing networks, improving the technology platform to support product changes, and identifying methods to improve fee-based products. It is the success of such strategies that has enabled the Company to introduce several products such as the Divi Saru Micro Loan product and the Gold Loans within the past year to cater different segments in the market.

the Company intends to introduce a new savings product with special features attached in order to be in line with the Company's objective of enhancing the low-cost funding base. As at the date of this Prospectus and Introductory Document, HNBF is in the process of finalizing agreements with educational institutes with regard to the above special savings product and aims to expand its reach towards vocational training institutes. Furthermore, HNBF plans to introduce a new consumer loan product aiming low salaried employees in the private and government sector.

Multi-channel approach to support product delivery: HNBF has partnered with agency channel providers, Mobitel and Dialog with the approval of the CBSL to enable due collection via their Island wide agent networks. The Company has already deployed Ez Cash and M-cash solutions for existing customer base to provide enhanced payment avenues. To further strengthen the product offering and be on far with the industry, the Company has started rolling out internet and mobile banking solution. This will greatly enhance the savings product offering making it more attractive to our customers.

Re-aligning branding and marketing: The Company has been the corporate rebranding exercise supported by a complementing marketing strategy which ensured that HNBF's repositioning did not alienate existing stakeholders.

Following is the branding and marketing strategy to drive the HNBF's brand forward:

The Company's main objective is to increase brand affinity among identified key customer segment. The management of HNBF plans to achieve the said objective by establishing product brand via Above The Line/ Below The Line communication as required, strengthening on ground brand presence, driving reciprocal business and driving awareness among affluent business partners and driving consideration via differentiated positioning.

Establishing product brand via Above The Line/ Below The Line communication – KPIs to increase brand equity:

- Communication to focus on the experience vs product offering

- Drive media innovations vs drive share of voice
- Strengthening digital media engagement
- Improving imagery dimensions in awards and benefits

Strengthening on going brand presence – KPIs to increase Top of Mind association:

- Strengthen brand visibility in key urban towns with more focus on semi-permanent materials
- Create close relationships with the local communities via regional activations
- Strengthen brand presence at branches supported by Below The Line activations

Drive reciprocal business and drive awareness amongst affluent business partners – KPIs to strengthen awareness of SME, SSE, and higher sectors:

- Strengthen relationships with key SME/ SSE/ leasing dealer segments via supporting their key promotional activities
- Build relationships with SME, SSE communities via associating with key business and social forums
- Rewards and recognition

Drive consideration via differentiated positioning:

- Establish responsibility towards community via initiatives - health, education, empowering entrepreneurs and environment
- Drive growth in life
- Association with key religious and cultural events

Enablers such as traditional media, paid and owned digital media platforms, key events, road shows sponsorship, point of sales materials.

HNBF's point of difference, socially responsible technologically superior and customer centric finance company which is affiliated to HNB. The Company has successfully concluded a number of CSR and sustainability initiatives under health, education, empowering entrepreneurs & environment and the Company intends to continue its positive impact the community in the future. In recognition of our commitment for being socially responsible, HNBF were awarded the 'The Best CSR Finance Company 2019 - Sri Lanka' by the International Business Magazine-UAE.

Technologically superior **–** Customer of HNBF are being driven in to new payment channels via relationship management systems and targeted communication methods. Also, new digital channels have been implemented by HNBF to attract potential customers. HNBF's trilingual website has been the heart of the Company's digital ecosystem and HNBF's website was awarded with the Gold award in banking and finance sector and with the Silver award in the overall category at the BestWeb.lk awards 2019. Moreover, HNBF's website was awarded the Silver award in the banking and finance sector at the w^3 awards 2019 – USA.

Customer centric – As HNBF serves its customers with customer centric products, HNBF continues to enhance their experience by engaging with them at every possible opportunity. The number of customer promotions, giveaways and the happy customer testimonials is a testament for HNBF's customer centric approach. The Company won the Gold for 'Best Rural Activation' for brand awareness at ACEF Awards 2019 - India.

Leveraging technology for growth: Keeping in line with the aim to provide ease of access to the customer base, the Company intends to introduce new technology that will bring in operational efficiencies to benefit both the customers as well as the Company. HNBF is also conducting a Business Process Reengineering exercise to further improve efficiencies.

HNBF has initiated customer relationship management, document management and delinquency management solutions in order to improve customer satisfaction, internal efficiencies and security of the information which HNBF possesses while reducing the operations costs. Furthermore, the Company is currently evaluating the possibilities of using Big Data Analytics, Machine Learning and adoptability of Robotic Process Automation in order to facilitate proactive decision making and achieve visibility of the overall organizational performance.

The risks associated with the future plans of the Company are discussed under Section 11 of this Prospectus and Introductory Document.

5.7 Assumption Related to the Future Plans of HNB Finance Limited

The above-mentioned future plans of the HNBF would be dependent on market and industry conditions prevailing at the time of execution. Furthermore, the strategies are also based on the primary assumption that there will be no material changes in the regulatory environment. Any significant changes in the economy, industry, competition or regulatory environment may require an amendment to the plans and strategies of the Company. The following assumptions were made when developing the aforementioned plan.

Regulatory Environment of the Finance Industry – The Non-Banking Financial Institutions (NBFI) sector is heavily regulated by the CBSL and the Company's strategies for the future are based on the assumption that the finance industry's regulatory environment will not undergo any major changes including restrictions on entering new markets, restrictions on interest rates or fees or any other regulations that will have an adverse effect on the Company and its operations.

Regulatory Environment of Microfinance – It has been assumed that there will be no material changes in the regulatory environment with regard to microfinance such as restrictions on interest rates and interest margins specifically with regard to microfinance products, restrictions on the introduction of new products, etc. Microfinance has contributed the major portion to the Company's profitability in the past, which has reduced over the last couple of years due to the introduction of new products as well as the deliberate attempt to reduce exposure to microfinance as directed by the CBSL. Regulation of the microfinance business through the Microfinance Act of 2016 is expected to favorably affect the industry competition and regulatory pressures.

Leasing Industry – Since the newly introduced leasing sector is expected to increase its contribution towards the financial position and performance, it has been assumed that there will be no adverse conditions such as regulatory pressures, drastic decline in vehicle imports leading to lower demand for leasing, etc., affecting the leasing industry.

Adverse Weather Patterns – As a major part of HNBF's customer base is engaged in industries which are subject to volatilities in weather, it has been assumed that there will be no significant adverse weather situations which will affect their repayment abilities.

6.0 MANAGEMENT DISCUSSION AND ANALYSIS

6.1 Summarized Financials for the Five Years Ended March 31, 2019

TABLE 6.1 – SUMMARIZED AUDITED INCOME STATEMENTS

(LKR Mn) For the Year Ended March 31,	2015	2016	2017	2018	2019	CAGR (%)
Interest Income	2,468	3,906	5,327	6,538	7,229	30.82%
Interest Expenses	(716)	(996)	(1,466)	(2,373)	(2,802)	40.65%
Net Interest Income	**1,752**	**2,911**	**3,861**	**4,164**	**4,427**	**26.08%**
Net Fee and Commission Income	226	410	572	581	625	28.96%
Total Operating Income	2,013	3,387	4,670	4,989	5,337	27.60%
Impairment Charges for Loans	(70)	(110)	(708)	(685)	(843)	86.29%
Net Operating Income	1,942	3,277	3,963	4,303	4,494	23.34%
Total Operating Expenses	**(1,123)**	**(1,455)**	**(1,956)**	**(2,276)**	**(2,728)**	**24.84%**
Operating Profit before VAT and NBT	819	1,822	2,007	2,027	1,765	21.16%
Operating Profit after VAT and NBT	657	1,545	1,626	1,583	1,262	17.73%
Profit for the Year	**535**	**1,110**	**1,059**	**1,012**	**831**	**11.64%**
Earnings per Share (LKR)	**0.31**	**0.65**	**0.62**	**0.59**	**0.48**	**11.55%**

TABLE 6.2 – SUMMARIZED AUDITED STATEMENT OF FINANCIAL POSITION

(LKR Mn) For the Year Ended March 31	2015	2016	2017	2018	2019	CAGR (%)
Assets						
Loans and Advances	5,725	9,138	13,764	19,045	25,471	45.24%
Financial Investments	2,017	2,667	2,078	2535	2500	5.68%
Property, Plant and Equipment	880	950	1119	1,159	1,420	12.70%
Total Assets	**10,086**	**14,376**	**19,553**	**25,339**	**32,929**	**34.42%**
Liabilities						
Deposits	7,558	10,420	14,040	18,821	22,632	31.55%
Debt and Other Borrowed Funds	815	910	1,333	1,178	4,218	50.82%
Total Liabilities	**8,813**	**11,984**	**16,163**	**21,208**	**28,300**	**33.86%**
Total Shareholders' Fund	**1,273**	**2,392**	**3,390**	**4,130**	**4,629**	**38.10%**
Total Liabilities and Shareholder's Funds	**10,086**	**14,376**	**19,553**	**25,339**	**32,929**	**34.42%**

TABLE 6.3 – KEY FINANCIAL RATIOS

For the Year Ended March 31,	2015	2016	2017	2018	2019
Net profit margin*	30.54%	38.13%	27.43%	24.30%	18.77%
Return on equity**	53.12%	60.58%	36.62%	26.91%	18.96%
Gearing ratio***	39.04%	27.55%	28.23%	22.20%	47.67%
Interest cover ratio****	2.15	2.83	2.37	1.85	1.63

**Net profit margin = Net profit for the period/ Net interest income for the period*

***Return on equity = Net profit for the period/ Average total equity during the year or period*

****Gearing ratio = Interest bearing borrowings / (Interest bearing borrowings + Total shareholders' funds)*

*****Interest cover ratio = Earnings before interest and tax for the period/ Interest expenses for the period*

6.2 Net Interest Income

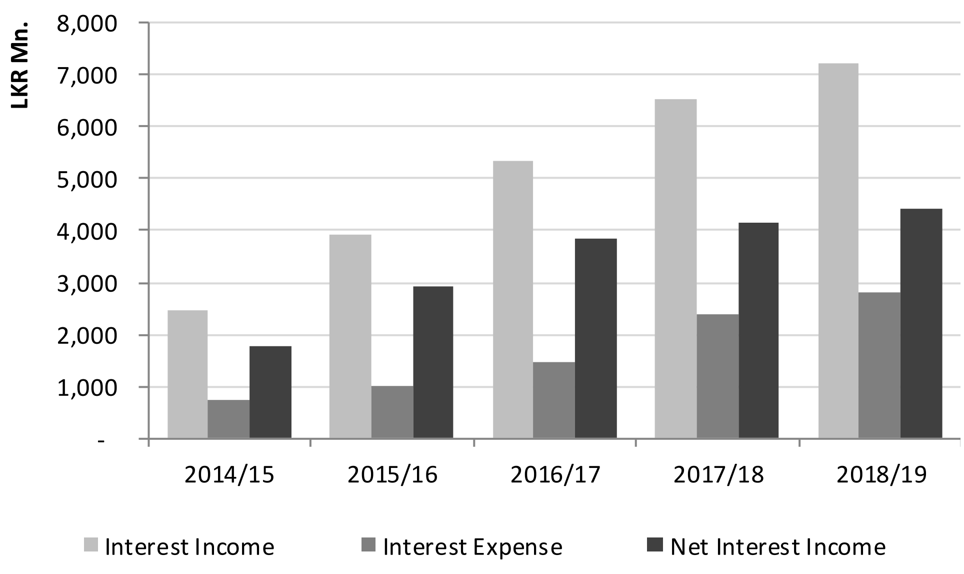
HNBF's interest income which was LKR 1,689 Mn in 2013/14 continued its growth trajectory posting a CAGR of 33.75% from 2013/14 to reach LKR 7,229 Mn in 2018/19. The growth was significant from 2013/14 to 2015/16 due to the low bases of the previous years and has since stabilized to sustainable levels. The economic slowdown together with the overall industry downturn has also caused the growth in interest income to reduce over the previous three years.

With the aim of reducing the excessive dependence on microfinance lending, HNBF has introduced new products such as leasing and gold loans during the last few years. Moreover, HNBF plans to introduce other new products such as auto draft loans and supplementary SME and SSE products to comply with the strategy of reducing the exposure to the microfinance industry.

The interest expenses increased by 18.06% in 2018/19 reflecting the increased borrowing interest rates despite the lending rates being maintained at the same level as the previous year. However, due to the initiatives taken by the CBSL to reduce the policy interest rates, HNBF expects a reduction in total interest expenses going forward.

Net interest income surpassed LKR 4.4 Bn by the end of the financial year 2018/19 recording a net growth of 6.31% for the year.

GRAPH 6.1 – NET INTEREST INCOME



Source – HNBF

6.3 Profitability

The personnel costs increased by 11.53% in 2018/19 lower than the growth of 17.43% in the previous year. The lower growth was achieved by the use of technology to improve employee efficiency even with an expanding employee base. During 2018/19, the Company continued to invest in information technology infrastructure with the view to capturing new markets and distribution channels as well as to introduce new products.

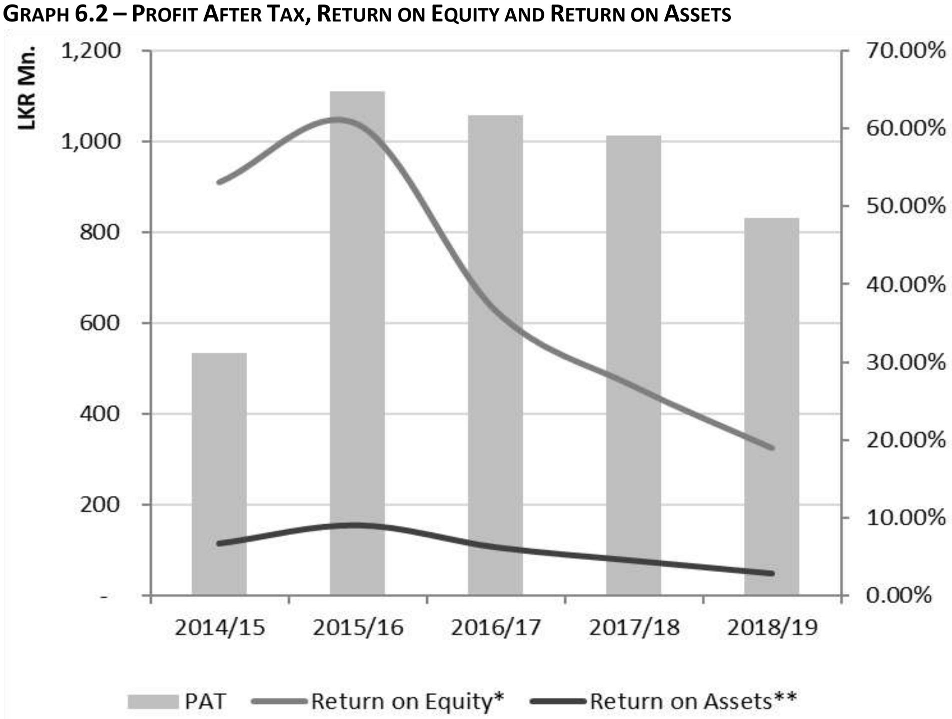
The cost to income ratio increased from 46.76% to 51.12% in 2018/19. This is mainly attributed to the growth in expenses despite the subdued income growth, the difficult market operating conditions and the expansion in employee cadre with the growth of the Company's product portfolio. The investment in technology together with stringent cost management initiatives adopted by the Company is expected to facilitate future cost savings.

The Value Added Tax (VAT) expense increased during 2018/19 mainly due to the higher tax base.
The increase in the interest and operating expenses together with the slower growth in interest income due to the difficult economic and market conditions was reflected in the declined profit of LKR 831 Mn in 2018/19.

HNBF reached a milestone in its profitability during 2015/16 by recording a Profit After Tax (PAT) exceeding LKR 1 Bn for the first time since inception. However, the profitability of the Company has been stagnant over the previous three financial years due to the reasons mentioned above.

The Earnings per Share (EPS) was recorded at LKR 0.48 per share for the financial year 2018/19, a 18.64% decline from LKR 0.59 per share in the previous year.

GRAPH 6.2 – PROFIT AFTER TAX, RETURN ON EQUITY AND RETURN ON ASSETS



Source – HNBF
** Return on Equity = Net profit for the period/ Average total equity during the year or period*
*** Return on Assets = Net profit for the period/ Average total assets during the year or period*

The Company's Return on Assets (ROA) was 2.85% in 2018/19 while the Return on Equity (ROE) was 18.96%, down from the previous year's 4.51% and 26.91% respectively. The shift towards collateral based products which are generally low yield products, such as leasing, caused the asset base to increase significantly while the profitability increased marginally, thus, resulting in the lower ROA. The growing equity base together with the declining profit has resulted in reducing the ROE over the last two years.

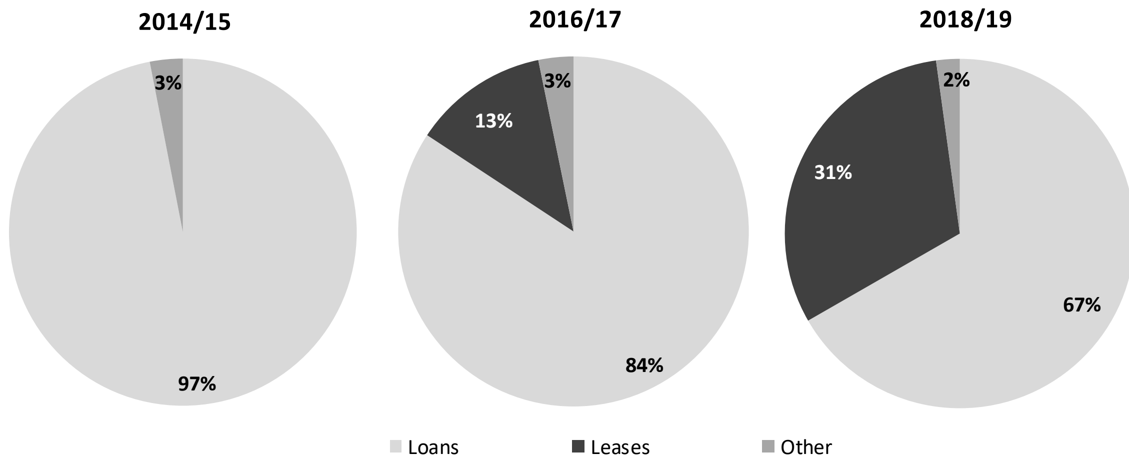
Furthermore, the mandated change from the use of the accounting standard LKAS 39 to SLFRS 9 that came into effect during the financial year 2018/19 has resulted in higher impairment charges to financial assets. As a result, impairment charges have increased to LKR 843 Mn in the year under review compared to LKR 685 Mn in the previous year. This negatively impacted pre-tax profitability of HNBF recording only a modest pre-tax profit of LKR 1,766 Mn during the financial year 2018/19, compared to LKR 2,027 Mn in the previous financial year. The profit after tax recorded in 2018/19 has been further impacted by the new tax directive which introduced a Debt Repayment Levy (DRL) of 7% with effect from 01 October 2018.

By implementing best practices and strategies during 2018/19 to curb increasing expenses on operational activities, the management of HNBF forecasts an accelerated growth rate in revenue and enhanced profitability over the short-term which is expected to create higher value to stakeholders.

6.4 Lending Portfolio

The total loans and advances (including rentals receivables and stock out of /leasing products) of HNBF reached LKR 25.5 Bn by the end of the financial year 2018/19 recording a growth of 33.74%. Keeping in line with the Company's objective of serving a wider portion of the population as well as CBSL's directive to reduce the exposure to the microfinance segment, a material portion of the lending portfolio's growth (pre-impairment) in 2018/19 was derived from leasing products (a YoY growth of LKR 3.9 Bn on leasing products whereas the total growth of the lending portfolio was LKR 7.7 Bn in 2018/19). This shift is clearly seen in the product mix given in the charts below. Loans comprise of all microfinance, SSE and SME lending products while other is comprised of gold loans, savings, advances and loans against deposits. Since the introduction of the leasing product in 2015/16, this product has shown an exponential growth, claiming a 31.13% share of the total disbursements to customers before impairment in 2018/19.

GRAPH 6.3 – DISBURSEMENT OF LOANS AND ADVANCES BY PRODUCT (BEFORE IMPAIRMENT)



Source – HNBF

Of the microfinance products, Diriya continued to contribute the largest portion in 2018/19. Further changes are expected to the product mix in the next few years keeping in line with the requirement to diversify the portfolio and reduce exposure to microfinance. The Company has also introduced housing loans as well as gold loans to assist in the diversification exercise. Furthermore, the Company is expecting to reduce its exposure to the agriculture segment to mitigate the risk of volatile earnings due to adverse weather patterns.

During 2018/19, the disbursements under the main loan products - Diriya micro loan and Sahana interim loans, amounted to LKR 12.7 Bn. The SSE loans such as Easy Loan, Abhilasha and Swashakthi recorded a disbursement of LKR 3.9 Bn in 2018/19 up from the LKR 3.4 Bn in the previous year with Easy loans contributing the highest growth with a disbursement of LKR 2.1 Bn, closely followed by a LKR 1.4 Bn disbursement through the Abhilasha loan scheme. Moreover, the recently introduced SME products such as Relax, Saviya and Nivahana; accounted for 8.73% (LKR 1.58 Bn) of the total loans and advances given to customers (pre-impairment) in 2018/19.

With the significant negative impact that adverse weather had on the agriculture and agri-based industries and businesses, the Company's Non-Performing Assets (NPA) ratio underwent a substantial pressure increase recording 8.85% by the end of the financial year 2018/19 up from 3.79% in the previous year.

6.5 Other Assets

Financial investments accounted for 7.64% of the total assets in 2018/19 out of which, held to maturity financial instruments represented 98.87%. However, the aforesaid is a decline of 243 basis points compared to the previous year where the total financial investments (LKR 2.55 Bn in 2017/18) represented 10.07% of the total assets of the Company. However, in the financial year 2017/18, held to maturity instruments accounted for 98.88% of the total financial investments.

The total assets increased by 29.96% in 2018/19 reaching LKR 32.9 Bn.

6.6 Funding Portfolio

The deposit base surpassed LKR 22.6 Bn in 2018/19 recording an increase of 20.25%, with the fixed deposits increasing by 22.14% and savings deposits increasing by 9.03%. Fixed deposits continue to be the main source of funding, accounting for over 85% of the funding portfolio.

6.7 Equity

Prior to being acquired by Prime Lands, HNBF had accumulated significant accumulated losses which reached LKR 3.9 Bn by the end of the FY 2012/13. The turnaround in the post Prime Lands acquisition and the acquisition by HNB PLC, resulted in the retained losses reducing to LKR 3.2 Bn by end the FY2014/15.

To wipe out the major portion of the accumulated losses, HNBF carried out a capital reduction exercise during the FY 2015/16, which amounted to LKR 3,672 Mn. This, together with the profit recorded during the FY 2015/16 resulted in the accumulated losses amounting to LKR 1.4 Bn while the stated capital (Voting and Non-Voting) reduced to LKR 223.5 Mn by the end of 2015/16 from LKR 3,895 Mn recorded in 2014/15.

The subsequent three years resulted in steady profits being realized by the Company, thereby affirming the stability of HNBF with the accumulated profits increasing to LKR 2.7 Bn by the end of the FY 2018/19, after the disbursement of healthy dividends to shareholders.

6.8 Capital Adequacy

As at the end of March 2019 the Company's Core Capital (Tier I) ratio was 8.35% while the total risk weighted capital (Tier I and II) was 10.10%, despite recording a dip over the previous year mainly due to the growth of the leasing and micro finance portfolio which are considered higher risk weighted assets. The Company's financial stability and the ability to absorb any unexpected losses is illustrated by the maintenance of the Core Capital requirements above the statutory requirements of 6% and 10% for Tier I and Tier II, respectively.

TABLE 6.4 – COMPLIANCE OF CAPITAL ADEQUACY RATIO REQUIREMENTS – LFC'S WITH ASSETS LESS THAN LKR 100 BN

	March 31, 2019		***July 31, 2019***		***July 01, 2020***	***July 01, 2021***
	CBSL requirement	***HNBF compliance***	***CBSL requirement***	***HNBF compliance***	***CBSL requirement***	***CBSL requirement***
Tier 1 capital %	6.00	8.35	6.50	9.64	7.00	8.50
Total Capital %	10.00	10.10	10.50	11.12	11.00	12.50

7.0 FINANCE SECTOR IN SRI LANKA

7.1 Overview

The Licensed Finance Companies (LFC) and Specialized Leasing Companies (SLC) are classified under one category by the CBSL and therefore, the analysis and data provided below would consist of both sectors.

LFC and SLC sector, which accounted for LKR 1,431 Bn representing 7.6% of Sri Lanka's financial system in terms of the total assets, has played a vital role in the financial sector in 2018, although the performance was subdued during the year when compared with the previous years, in terms of credit growth, profitability and non-performing loans. LFC and SLC sector assets recorded a growth of 5.6% during 2018 down from the 11.8% and 21.7% growths recorded in 2017 and 2016 respectively, mainly due to lower credit growth (CBSL Annual Report 2018).

7.2 Business Growth

This sector comprised of 43 LFCs and five SLCs by the end 2018. During 2018, the LFC and SLC sector branch network expanded by 11 to 1,373 with 658 other outlets of LFCs and SLCs (CBSL Annual Report 2018). The Western Province had the largest concentration of branches (c.32%) with Southern, North Western and Central Provinces each having an approximate concentration of 11%.

TABLE 7.1– DISTRIBUTION OF BRANCHES OF LFCS AND SLCS BY PROVINCE

Province	2017	2018	Movement during the Year
Western	442	446	4
Southern	148	151	3
Sabaragamuwa	111	110	(1)
North Western	147	148	1
Central	152	158	6
Uva	68	68	-
North Central	100	98	(2)
Eastern	110	110	-
Northern	84	84	-
Total	**1,362**	**1,373**	**11**

Source: Central Bank of Sri Lanka – Annual Report 2018

7.3 Assets and Liabilities

The growth of the total asset base of the LFC and SLC sector reduced to 5.6% in 2018, down from 11.8% in 2017, continuing the reducing trend from the annual growth rates of approximately 20% recorded prior to 2017. The slower growth was mainly due to the moderate economic growth and lower lending towards vehicles due to fiscal and macroprudential policy measures taken by the government to curtail the vehicle importation and lending for same (CBSL Annual Report 2018).

The gross finance leases, the secured loans and advances, pawning advances and loans against deposits contributed positively towards the asset growth while hire purchase recorded a decline of LKR 8 Bn in 2018 (CBSL Annual Report 2018).

The investment portfolio of the sector also recorded a decline of 7.1% in 2018 (5.7% increase in 2017) mainly due to the reduction in the market value of investments, while other assets recorded a growth of 2.7% mainly due to higher placements with banks and financial institutions (CBSL Annual Report 2018).

TABLE 7.2– COMPOSITION OF ASSETS AND LIABILITIES OF THE LFC AND SLC SECTOR

Item (LKR Bn)	2017	2018	Change (%)
Assets			
Loans and Advances	1,057	1,137	7.6%
Investments	118	110	-7.1%
Other	180	185	2.7%
Total Assets	1,355	1,431	5.6%
Liabilities			
Total Deposits	687	717	4.4%
Total Borrowings	396	464	17.1%
Capital Elements	170	184	8.2%
Other	103	67	-34.7%
Total Liabilities	1,355	1,431	5.6%

Source: Central Bank of Sri Lanka – Annual Report 2018

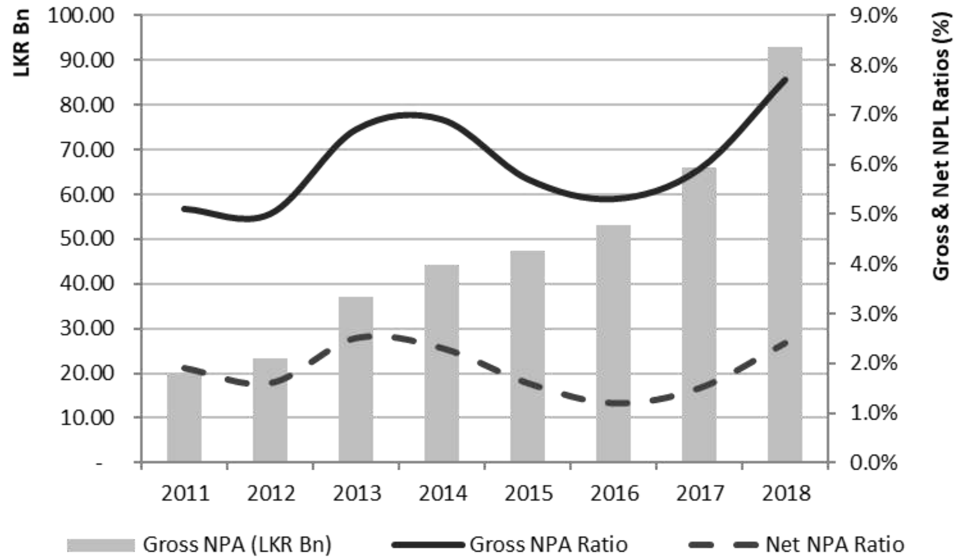
Similar to 2017, customer deposits accounted for the majority of total liabilities in 2018 while the total sectoral borrowings increased by 17.1% during the year. (CBSL Annual Report 2018).

The steps taken by LFCs and SLCs to meet the LKR 1.5 Bn minimum core capital requirement together with the profits generated resulted in the capital elements to increase by 8.2% in 2018 (CBSL Annual Report 2018).

7.4 Risk Management

Credit Risk: The economic slowdown in 2018 together with the adverse weather experienced during the year resulted in the increased gross Non-Performing Loans (NPLs) and the relevant ratios. NPLs increased by 41% to LKR 93 Bn in 2018 causing the gross NPL ratio to increase to 7.7% from 5.9% in 2017. The net NPL ratio also increased during the year with the reduced provision coverage ratio. Net NPL ratio stood at 2.4% in 2018, up from 1.5% in 2017, while the provision coverage ratio was 57% (64% in 2017) with the total provisions being LKR 53 Bn in 2018 up from LKR 42.2 Bn in 2017. These increasing NPAs and related ratios show signs of the deteriorating asset quality of the sector (CBSL Annual Report 2018).

GRAPH 7.1– NON-PERFORMING ADVANCES OF THE LFC AND SLC SECTOR



Source: Central Bank of Sri Lanka – Annual Reports 2016 and 2018

The NPAs are expected to increase further in 2019 if the adverse weather conditions continue and due to the Debt Relief program, which was introduced by the Ministry of Finance and Mass Media in August 2018, while the adoption of SLFRS 9 is also expected to challenge the credit risk of the sector.

Market Risk: Due to the relatively low exposure to trading portfolio and foreign currency transactions, the sector experienced a minimal market risk. The increasing trend in the interest rates towards the end of 2018 slightly increased the sector's interest rate risk. The negative mismatch in the maturity profile of interest-bearing assets and liabilities assisted in maintaining a positive net interest margin (CBSL Annual Report 2018).

Liquidity Risk: The overall statutory liquid assets available in the LFC and SLC sector by the end of 2018 were at a surplus of LKR 25.6 Bn from the stipulated minimum requirement of LKR 88.2 Bn. A decrease in the surplus was observed during the year causing the liquid assets to total assets ratio to reduce to 7.6% from 8.9% in 2017, while the liquid assets to deposits ratio remained well above the minimum requirements (CBSL Annual Report 2018).

7.5 Profitability

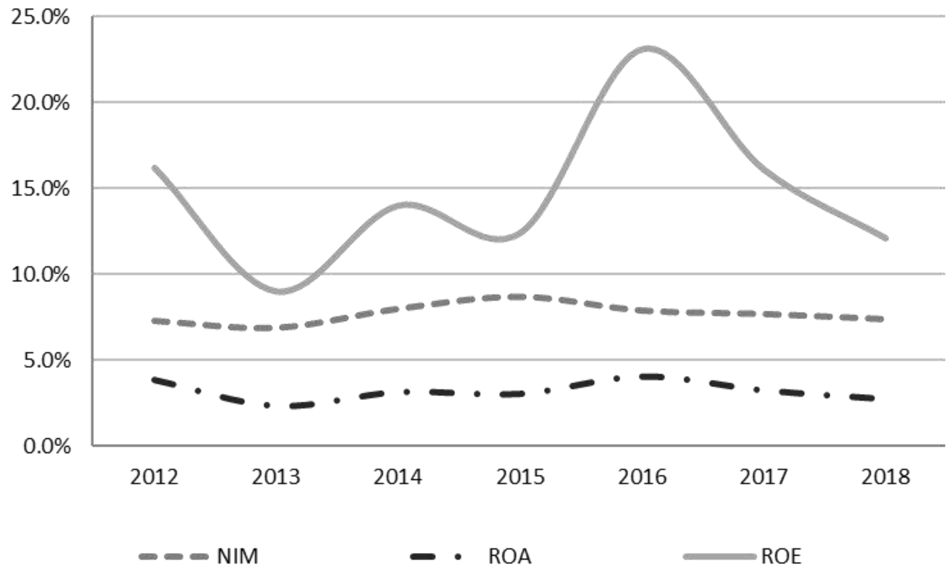
During 2018, the LFC and SLC sector profits recorded a decline mainly due to the increased funding cost, increase in the loan loss provisions as well as the increase in staff costs. The net interest margin marginally reduced to 7.4% in 2018 from 7.7% in 2017, due to the 4.3% increase in interest income and the 2.9% increase in interest expense. Default charges and other service charges contributed towards the increase in non-interest income. Overall profitability of the sector recorded a decline of 17.2% reaching LKR 21.4 Bn from the profit of LKR 25.8 Bn recorded in 2017 (CBSL Annual Report 2018).

TABLE 7.3– COMPOSITION OF INCOME AND EXPENSES OF THE LFC AND SLC SECTOR

Item	Amount (LKR Bn)					Growth	
	2014	2015	2016	2017	2018	Amount (LKR Bn)	%
Interest Income	131.2	150.4	188.9	231.5	241.5	9.9	4.3%
Interest Expenses	69.1	68.2	96.8	128.9	132.6	3.8	2.9%
Net Interest Income	**62.1**	**82.2**	**92.1**	**102.6**	**108.8**	**6.1**	**6.0%**
Non-Interest Income	20.4	22.8	28.3	34.0	38.1	4.1	12.1%
Non-Interest Expenses	47.6	67.0	65.5	80.0	81.2	1.2	1.5%
Loan Loss Provisions (Net)	11.0	9.0	7.6	13.5	25.9	12.4	91.9%
Profit Before Tax	23.9	28.5	**47.2**	**43.2**	**39.7**	**(3.5)**	**(8.1%)**
Profit After Tax	14.8	15.2	**31.5**	**25.8**	**21.4**	**(4.4)**	**(17.2%)**

Source: Central Bank of Sri Lanka – Annual Reports 2015, 2017 and 2018

GRAPH 7.2– PROFITABILITY INDICATORS OF THE LFC AND SLC SECTOR



Source: Central Bank of Sri Lanka – Annual Reports 2015 and 2018

The sector experienced a peak in its performance during 2016 which was subdued in 2017 and 2018 due to the low credit growth, reduced Net Interest Margin (NIM) and increasing provisions etc. The profitability indicators of the sector, i.e. ROA and ROE decreased further to 2.7% and 12.1%, respectively, in 2018 from 3.2% and 16.1% in 2017.

7.6 Capital

The total regulatory capital increased to LKR 160.8 Bn by the end of 2017 mainly due to the efforts taken by companies in the sectors to meet the minimum capital requirements. The capital adequacy ratios (CAR) of the sector remained above the required minimum levels, although both the core capital ratio and the total CAR decreased in 2018 to 9.9% from 11.2% and 12.4% from 13.1%, respectively (CBSL Annual Report 2018).

7.7 Microfinance Industry in Sri Lanka

Microfinance is a source of financial services for individuals lacking access to or without access to traditional banking services. The customers of the microfinance industry are the individuals and businesses with regular income, generally from self-employment activities, who lack the conventional collateral to obtain bank loans.

Although financial exclusion has reduced rapidly over the last few years, it is still widespread and the potential for growth in the microfinance industry remains vast. With the rapid development in the microfinance industry in many countries and regions, industry players have evolved and grown with the initial client groups to provide services for both the micro and Small and Medium Enterprises (SME) sectors of the market. As a result, at present a higher focus is placed on Micro and SME (MSME) financial institutions globally.

Microfinance in Sri Lanka has a history of over 100 years with the establishment of Thrift and Credit Co-operative Societies (TCCSs) which were introduced by the British colonial administration. Over the years, Multi-Purpose Co-operative Societies (MPCSs), SANASA, Co-operative Rural Banks (CRBs) and Regional Rural Development Banks (RRDBs) were set up to provide access to financial services to the remote rural population and smallholders. In the late 1980s and early 1990s many local and international Non-Governmental Organizations (NGOs) entered the microfinance business, which was initially combined with social and community development activities.

However, commercialization of the group lending mode of the microfinance industry can be traced back to the year 2000 with the adaptation of the 'Grameen' model by HNB Finance Ltd, then known as Ceylinco Grameen Credit Co. Ltd.

Over the years, with economic development and because of many poverty alleviation initiatives undertaken, many households have risen above the poverty line. Permanent and sustainable access to finance is a successful method used to assist households to rise above and remain above the poverty line. Microfinance is a more suitable approach to poverty alleviation than charitable aid since it is sustainable and creates independence from aid, rather than a dependence on aid; and secondly, it is passed directly on to individuals who require it, thus bypassing certain bureaucracies and corruption.

Collateral considerations and the difficulties and time-consuming application process of obtaining loans from LCBs and LSBs have been identified as being the main reasons for the preference for microcredit. The current macroeconomic landscape of the country is also conducive to promote the microfinance business, which is further supplemented by the national policy of the country which supports financial and social inclusivity together with initiatives which propagate financial literacy.

At present, in Sri Lanka, microfinance products are mainly provided by formal financial institutions such as banks, and leasing and finance companies; and semi-formal institutions such as co-operative societies, Non-Governmental Organization microfinance institutions (NGO MFIs), community-based organizations and state programs such as Samurdhi. In addition to these, informal sources such as money lenders and rotating savings and credit associations also provide financial services to the communities who are not catered to by formal and semi-formal financial institutions.

With the rapid growth in assets and the extensive outreach leading to the development in the microfinance sector, many experts expressed concerns over the regulation and governance-related issues. Although the LCBs, LSBs, LFCs, SLCs, Co-operative societies, etc., are regulated and supervised by specific regulatory bodies, the NGO MFIs were not under the scrutiny of any institution, and the existing regulatory framework was not specific to the microfinance business segment.

As a result of these concerns, the Government passed the Microfinance Act of 2016, in May 2016, which aims to regulate the industry and license and monitor the players.

Industry experts believe that the microfinance industry will experience some changes over the next few years as discussed below;

- **Stricter Regulatory Environment** - Following up on the recently introduced Microfinance Act of 2016, the regulators are likely to introduce added regulatory measures mainly to ensure that the industry's practices are streamlined. Furthermore, owing to the recent issues relating to the repayment abilities of microfinance borrowers, stricter regulations are expected to be imposed within the microfinance industry.
- **Revision to the Repayment Practices** - Due to the heavy involvement of female customers and the social implications of attending the weekly meetings and collection centers, the industry may evolve to alter the current weekly repayment practices to allow fortnightly or monthly repayments.
- **Technological Advancements** - With the maturity of the industry and its players, technology is expected to play a major role in the future development of the industry. Repayment through mobile cash, newer loan disbursement methods, balance transfers and online utility bill payment options, etc., are expected to be introduced by industry players.
- **Government Incentives**: For the purposes of achieving macro level targets such as financial inclusion, the government is likely to incentivize the microfinance sector.
- **Monitoring by Central Bank** - The monitoring of microfinance institutions by the Central Bank is likely to be shifted to a regional level through the utilization of regional monitoring boards.

8.0 CORPORATE STRUCTURE

8.1 Board of Directors

The Board of Directors guide and supervise the business and operations of the Company. The Board consists of three (03) Independent Non-Executive Directors, four (04) Non-Executive Directors, and one (01) Executive Director who is the CEO/Managing Director. As at the date of this Prospectus and Introductory Document, the composition of the Board is as follows.

TABLE 8.1– DETAILS OF HNB FINANCE LIMITED BOARD OF DIRECTORS

Name	Address	Designation
Mr. A. J. Alles	Apt. 4/3, Sunset Wing, Trillium Residencies, 153, Elvitigala Mawatha, Colombo 08	Chairman / Non-Independent Non-Executive Director
Mr. B. Premalal	No. 75, D S Senanayake Mawatha, Colombo 08	Deputy Chairman / Non-Independent Non-Executive Director
Mr. B. M. D. C. Prabhath	No. 211, Lake Drive, Rajagiriya	Managing Director/ Chief Executive Officer
Dr. S. U. H. Fernando	No. 32/4, Bellanwila, Boralesgamuwa	Independent Non-Executive Director
Mr. A. S. Wijesinha	No 8, Stubbs Place, Colombo 05	Independent Non-Executive Director
Mr. P. A. H. D. Wijesundara	No. 155/34, Pannipitiya Road, Battaramulla	Independent Non-Executive Director
Mr. A. G. R. Dissanayake	No. 23B, College Street, Colombo 13	Non-Independent Non-Executive Director
Mr. M. Perera	Apt. 6/4, 18, St. Anthony's Mawatha, Colombo 03	Non-Independent Non-Executive Director

8.2 Profiles of the Board of Directors

Mr. A. J. Alles - ***Chairman / Non-Independent Non-Executive Director***
Mr. Alles was appointed Chairman of HNB Finance Limited in the year 2014. He also holds the position of Managing Director/Chief Executive Officer of Hatton National Bank PLC and counts over 32 years of banking experience having served several international banks including the HSBC, Dubai; Saudi British Bank, Riyadh; HSBC, Sri Lanka; and National Bank of Abu Dhabi. Mr. Alles is also the Chairman of Acuity Partners (Private) Limited and is the immediate past Chairman/Director of Lanka Financial Services Bureau Ltd, Lanka Ventures PLC and LVL Energy Fund PLC.

He holds a first-class MBA in Finance from the University of Stirling, United Kingdom and is an Associate Member of the Institute of Bankers of Sri Lanka and Mr. Alles was recently appointed as the Chairman of Asian Bankers Association for the period 2018-2020.

Mr. B. Premalal - ***Deputy Chairman / Non-Independent Non-Executive Director***

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

He is an alumnus of Thurstan College, Colombo and a fellow member of the Chartered Institute of Management Accountants, United Kingdom; Chartered Business Administrator, Canada and holds a Postgraduate Diploma in Marketing from the University of Sri Jayawardenapura, Sri Lanka. He was conferred with the prestigious UCD Entrepreneur of the Year in 2011 considering his vast experience in the real estate industry and exposure to many other industries as an entrepreneur. Mr. Premalal was honored as being one of the 2018 A-List of Sri Lankan Businesspeople by the LMD last year, listing among the top 50 businessmen in Sri Lanka who have driven the nation's engine of growth and are the country's true assets. He was also recognized as one of Asia's Greatest Brand Leaders in 2017. Under his leadership, Prime Group has won the most prestigious award in the industry for Best Developer awarded by Property Guru at the Asia Property Awards 2018.

Mr. B. M. D. C. Prabhath *- Managing Director/ Chief Executive Officer*
Mr.Prabhath holds a Master's Degree in Business Administration (Sp. in Finance) from the University of Southern Queensland, Australia and he is a qualified Management Accountant (ACMA (UK), CGMA. He is also a Certified Management Accountant of the Institute of Certified Management Accountants of Australia (CMA). He has a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka and a member of the Chartered Institute of Marketing (MCIM), United Kingdom

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

Mr. Prabhath is a financier by profession and an internationally certified microfinance expert from the Frankfurt School of Finance and Management, Germany. He has over 25 years of experience in the private sector.

Dr. S. U. H. Fernando- *Independent Non-Executive Director*
Dr. Fernando is an Executive Director of the Centre for Poverty Analysis (CEPA), a Colombo-based Think Tank. He has also held leadership positions in Sri Lankan development organizations and served as a Guest Researcher at the University of Amsterdam, Netherlands and as a Senior Consultant for Context International, Netherlands. Dr. Fernando who focuses on areas of development cooperation and aid policy has worked in Sri Lanka, Europe, East and West Africa, and South East Asia. Dr. Fernando is also a visiting academic at the Open University of Sri Lanka.

He holds a PhD in International Development Cooperation from the University of Amsterdam, Netherlands. His specializations at the Bachelor's and Master's Degree levels have been law, economics, management and labor studies.

Mr. A. S. Wijesinha *- Independent Non-Executive Director*
Mr. Wijesinha is an economist and policy advisor and his research on trade and investment, innovation, SME development, and international economics have been published in national and international publications.

He is currently an international consultant to the UNDP and the International Trade centre, working in Maldives, Myanmar and Geneva. Until recently he was an Advisor to the Minister of Development Strategies and International Trade where he focused on trade, competitiveness and innovation. He was previously the Chief Economist and Head of the Economic Intelligence Unit of the Ceylon Chamber of Commerce, the country's apex industry body. He is currently a member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka, a board member of the Sri Lanka Export Development Board, and member of Governors of the Institute of Policy Studies of Sri Lanka In previous roles, he was Research Economist heading Industry, Competitiveness and Regulatory Policy at the Institute of Policy Studies of Sri Lanka, was Research Officer at the Presidential Commission on Taxation (2009) and has been a Consultant for the World Bank, Asian Development Bank and GIZ.

He serves on the boards of Fairfirst Insurance Ltd and Seylan Bank PLC as an Independent Non-Executive Director. He was recently selected to the Global Future Council on Innovation Ecosystems, by the World Economic Forum.

Mr. Wijesinha holds a Master's in Economics and Development from the University of Leeds Business School, United Kingdom and a Bachelor of Science in Economics from the University College London, United Kingdom.

Mr. P. A. H. D. Wijesundara - *Independent Non-Executive Director*
Mr. Wijesundara is an Advisor at the German Development Cooperation (GIZ) for SME Development. He is a development expert attached to GIZ and counts over a decade of experience in microfinance and SME finance, trade, regulatory issues, sector strategies, social performance management and inclusive finance. In addition to his experience gained in Sri Lanka, he has hands on experience regionally. Being a team member of the appraisal missions for the Sustainable Regional Economic Growth and Investment Program (SREGIP) in Indonesia and the Promotion of Green Economic Development (ProGED) Program in the Philippines, he contributed to the project design and shaping up with respective Governments. He is also conversant with the financial systems in India, Bangladesh, Myanmar, Cambodia, Malaysia, and Pakistan and involved in numerous international assignments in these regions.

He holds a Master's Degree in Economics from the University of Colombo, Sri Lanka; a Bachelor's Degree in Law from the Open University of Sri Lanka and a Bachelor's Degree in Science in Industrial Management. from University of Kalaniya. He also has fellowships with several local and international professional bodies. He is an Attorney-at-Law of the Supreme Court of Sri Lanka since 2009 and is currently reading for the Master of Laws Degree at the University of Colombo, Sri Lanka. He is a fellow member of Chartered Management Institute, United Kingdom and is a fellow and life member of the Sri Lanka Economic Association. Mr. Wijesundara is an accredited trainer of microfinance and SME finance with reputed international bodies such as the Frankfurt School of Finance & Management, Germany and CGAP. In addition, he serves as a visiting Senior Lecturer at several universities and higher education institutions in Sri Lanka.

Mr. A. G. R. Dissanayake – *Non-Independent Non-Executive Director*
Mr. Dissanayake counts for nearly two decades of experience covering the banking sector and capital markets. He currently serves as the Chief Strategy Officer of Hatton National Bank PLC. In addition to being on the Board of HNB Finance Ltd, Mr. Dissanayake is also a Director of Acuity Partners (Private) Limited. He chairs the Board Audit Committee and Board Integrated Risk Management Committee. He is also a member of the Strategy and Investment Review Committee and the Board Procurement Committee of the Company.

Mr. Dissanayake is a CFA Charter holder, a fellow member of the Chartered Institute of Management Accountants, United Kingdom and a Chartered Global Management Accountant. He also holds a Bachelors' Degree in Business Administration from the University of Colombo, Sri Lanka.

Mr. M. Perera – *Non-Independent Non-Executive Director*
Mr. Perera is a commercial lawyer and a business consultant and counts many years of experience in advising on commercial, corporate and employment law as well as on compliance and regulatory aspects. In addition to giving legal advice, he also provides business consultancy services.

He is also a fellow member of the Chartered Institute of Management Accountants, United Kingdom; a Chartered Global Management Accountant and has an MBA from the Postgraduate Institute of Management, Sri Jayawardenepura University, Sri Lanka. He counts over 25 years of professional experience in the commercial sector as a Director/Chief Executive Officer of listed and unlisted companies before moving into the legal field. At present, Mr. Perera is an Independent Director of Prime Finance PLC.

8.3 Other Directorships Held by the Board

TABLE 8.2– OTHER DIRECTORSHIPS

Name	Directorships in Other Institutions
Mr. A. J. Alles	Managing Director/CEO – Hatton National Bank PLC Chairman/Director – Acuity Partners (Private) Limited Director – Lanka Ventures PLC Director – LVL Energy Fund PLC Director – Lanka Financial Services Bureau Limited
Mr. B. Premalal	Chairman/Director – Prime Lands (Private) Limited Chairman/Director – Prime Lands Residencies (Private) Limited Deputy Chairman - Bhoomi Realty Holdings (Private) Limited Director – Prime Finance PLC Director – Condominium Management Authority of Sri Lanka
Mr. B. M. D. C. Prabhath	N/A
Dr. S. U. H. Fernando	Director – Strategic Inspirations (Private) Limited
Mr. A. S. Wijesinha	Director – Fairfirst Insurance Limited Director – BizEx Consulting (Private) Limited Director – Seylan Bank PLC Director – Sri Lanka Export Development Board
Mr. P. A. H. D. Wijesundara	Director – Sasnaka Sansada Foundation
Mr. A. G. R. Dissanayake	Director – Acuity Partners (Private) Limited
Mr. M. Perera	Director – Prime Finance PLC Director – Pele Consulting (Private) Limited Director – Pet Packaging (Private) Limited Director – My Beverages Marketing (Private) Limited Director – Inout Enterprise (Private) Limited

	Director – R S M Property (Private) Limited Director – Fairfield International Holdings (Private) Limited Director – Eastgate Properties (Private) Limited

8.4 Directors' Interest in Shares

8.4.1 Directors' Direct and Indirect Shareholdings in the Company

The Directors' direct and indirect shareholdings in the Company as at the date of this Prospectus and Introductory Document i.e. January 30, 2020 are tabulated below.

TABLE 8.3– DIRECTORS' DIRECT SHAREHOLDINGS IN HNB FINANCE LIMITED AS AT JANUARY 30, 2020

Name of Director	Number of Shares Held	Percentage of Shareholding (%)
Ordinary Voting Shares – Direct		
Mr. B. M. D. C. Prabhath	1,000,000	0.07%

8.4.2 Sale or Purchase of Shares by the Directors

There were no sales, transfers or purchases of shares made by the Directors of the Company during the last 12 months prior to the date of this Prospectus and Introductory Document.

8.4.3 Directors' Emoluments

The Directors were remunerated in the form of salaries and fees during the financial year 2018/19 to an extent of LKR 24,154,000. The Directors are expected to be remunerated in the form of salaries and fees during the financial year 2019/20 to an approximate extent of LKR 26,327,860.

8.4.4 Directors' Interest in Assets

The Directors hold no interest in assets acquired, disposed of or leased by the Company during the two years preceding the IPO. Furthermore, it is not proposed that the Directors will hold any interest in assets to be acquired, disposed of or leased by the Company in the two years subsequent to the IPO.

8.4.5 Directors' Interest in Material Contracts

There are no contracts or arrangements in force as at the date of this Prospectus and Introductory Document i.e. January 30, 2020 in which the Directors of the Company are materially interested in relation to the business of the Company.

8.4.6 Statement - Board of Directors

No Director or a person nominated to become a Director of the Company is or was involved in any of the following events:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;

- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

8.5 Corporate Governance Practices

HNBF believes that effective governance is an essential component of its long-term success. Towards achieving this goal, the system of internal controls and procedures have been well formulated and function within an integral governance structure in line with the corporate governance regulations issued by the regulators. With a view to guiding the Company in fulfilling its corporate mission in a transparent and an accountable manner while protecting the assets of the Company over time, the role of the Board has been clearly articulated. The Board also plays an important role to ensure that the Company maintains effective systems and adequate controls facilitating efficient operations whilst meeting the regulatory prudential requirements.

Strengthening the capabilities of the Board of Directors in discharging these responsibilities the Board was reconstituted in November 2014 with a few new appointments with relevant experience in micro finance and related subjects.

The Board has also appointed the following committees as required to support the corporate governance functions;

1. Board Audit Committee
2. Nomination Committee
3. Human Resources and Remuneration Committee
4. Related Party Transactions Review Committee
5. Board Integrated Risk Management Committee
6. Board Credit Committee
7. Strategic/Investment Review Committee

8.5.1 Board Audit Committee

The Board audit committee constitutes the following Directors, while Mr. A G R Dissanayake who is a Non-Independent/Non-Executive Director is the Chairman of the Audit Committee;

- Mr. A. G. R. Dissanayake - Chairman to the Committee
- Mr. A. S. Wijesinha
- Mr. P. A. H. D. Wijesundara

The audit committee is empowered by the Board of Directors to oversee financial reporting, internal controls, internal audit, whistle blowing activities, and assess the independence and performance of external auditors. The main roles of the audit committee include;

- Ensuring that a good financial reporting system is in place and well managed in order to give accurate, appropriate and timely information to the management, regulatory authorities and shareholders in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act and other financial reporting related regulations and requirements.
- Reviewing the Company's internal controls and risk management systems and ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards.
- Ensuring business conduct complies with applicable laws, regulations and policies of the Company.

- Assessing the independence and monitoring of the performance and functions of the internal and external auditors.
- Assessing the Company's ability to continue as a going concern in the foreseeable future.

The committee meets regularly and adequately throughout the financial year to discharge its duties.

8.5.2 Nomination Committee

The Board has established a committee of the Board known as the Nomination Committee to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new Directors, re-appointment of current Directors, selection and appointment of the Chief Executive Officer and the management personnel.

The Board shall appoint the Chairman and members of the committee and determine the period for which the Chairman and other members of the Committee shall hold office. The MD/CEO shall be present at all meeting of the Committee except when matters pertaining to him are discussed. The committee constitutes the following Directors:

- Dr. S. U. H. Fernando - Chairman to the Committee
- Mr. B. Premalal
- Mr. A. J. Alles

Meetings of the committee shall be held as necessary but at least twice a year and at such other times as the Chairman of the Committee shall deem necessary. The main roles of the committee include:

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

8.5.3 Human Resources and Remuneration Committee

The Board has established a committee of the Board known as the Human Resources and Remuneration Committee to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to recommend the remuneration (cash and non-cash benefits) payable to the Chairman, the Managing Director/Chief Executive Officer, the Non-Executive Directors and other executive management officers to the Board.

The MD/CEO shall be present at all meeting of the Committee except when matters pertaining to him are discussed. The committee constitutes the following Directors:

- Mr. P. A. H. D. Wijesundara - Chairman to the Committee
- Mr. A. J. Alles
- Dr. S. U. H. Fernando

Meetings of the committee shall be held as necessary but at least twice a year and at such other times as the Chairman of the Committee shall deem necessary. The Committee is vested with powers to;

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

8.5.4 Related Party Transactions Review Committee

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

The Related Party Transactions Review Committee constitutes the following Directors, while Mr. A. S. Wijesinha who is an Independent/Non-Executive Director is the Chairman of the Committee;

- Mr. A. S. Wijesinha -Chairman to the Committee
- Mr. P. A. H. D. Wijesundara
- Mr. B. M. D. C. Prabhath

The purpose of the Committee is to review all proposed related party transactions other than those transactions explicitly exempted in the CSE Listing Rules. Accordingly, except for transactions mentioned under Rule 9.5 of the CSE Listing Rules, all other related party transactions require review by the Committee either prior to entering into a transaction or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

The scope of the Committee includes the following;

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- Reviewing in advance all proposed related party transactions of the Company except those explicitly exempted by the Rule 9.5 of the CSE Listing Rules.

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

The Company has in place a comprehensive Related Party Transaction (RPT) policy whereby the categories of persons who will be considered as 'related parties' have been identified. This was further updated to be in full compliance with the rules and regulations applicable to related party transactions as set out in the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules. The Company has developed a mechanism which enables to obtain, monitor and report transactions with identified related parties.

8.5.5 Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee constitutes the following Directors, while Mr. A. G. R. Dissanayaka who is a Non-Independent Non-Executive Director is the Chairman of the Committee;
- Mr. A. G. R. Dissanayaka – Chairman to the Committee
- Mr. B. M. D. C. Prabhath
- Mr. M. Perera
- Mr. A. S. Wijesinha

The scope of the Committee includes the following;
- The Committee shall assess, review and monitor risks that may arise when transacting business of the Company.
- The Committee shall closely work with key management personnel and make decisions on behalf of the Board of Directors, within the scope of the authority and responsibility assigned to the Committee by the Board.
- The Committee shall review the adequacy and effectiveness of relevant management level Committees in order to address specific risks and to manage such risks, within quantitative and qualitative risk limits, as specified by the Committee.
- The Committee shall take prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies and regulatory cum supervisory requirements.
- The Committee shall establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies in all areas of business operations.

- The Committee shall take appropriate action against the officers responsible for breaches, violations of regulation and laid down procedures, including risk mitigating controls.

8.5.6 Board Credit Committee

The Board Credit Committee constitutes the following Directors, while Mr. P.A.H.D Wijesundara who is an Independent Non-Executive Director is the Chairman of the Committee;

- Mr. P. A. H. D. Wijesundara - Chairman to the Committee
- Mr. A. S. Wijesinha

The Committee is responsible to the Board of Directors and reports on its activities regularly. The Board Credit Committee also assist the Board in its general over sight of recommending Credit Policy of the Company

The scope of the Board Credit Committee includes the following;

- Review the methodologies in assessing the Company's credit risks whilst recommending appropriate exposure limits.
- Ensure concentration of credit risks are within the risk tolerance of the Company.
- Monitor new areas of lending through the product development committee.
- Monitor adherence to, and ensure compliance with, the limits set out in the lending policy
- Approve and monitor the risk elements of the Company and review the credit risk report on a quarterly basis.
- Recommend actions to the Board to mitigate credit risk where applicable.

8.5.7 Strategic/Investment Review Committee

The Board Strategic/Investment Committee constitutes the following Directors, while Mr. A. J. Alles who is a Non-Independent Non-Executive Director is the Chairman of the Committee;

- Mr. A. J. Alles - Chairman to the Committee
- Mr. B. Premalal
- Mr. A. G. R. Dissanayake

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

- Oversee and monitor the preparation of the strategic plan and the annual budget of the Company.
- Monitor and review periodically the implementation of these strategic initiatives under the strategic plan and evaluate their effectiveness in light of achievements.
- Monitor and assess achievement of the financial goals and targets against the annual budget.
- Review adequacy and composition of the Company's capital structure in the context of the growth targets and developments in the regulatory framework and where necessary, recommend capital augmentation plans for approval of the Board.
- Review and evaluate the strategic investment decisions and overseas expansion projects of the Company and advise the Board accordingly.
- Evaluate both local and international developments, trends, opportunities and threats, affecting the macroeconomic conditions and the financial services industry in general and their implications on the Company.

- In light of the above, formulate short-term, medium-term and long-term strategies to optimize opportunities or to minimize downside impacts and advise the Board accordingly.
  Carry out any tasks assigned to the Committee through the Company's investment policy and/or as required by the Board of Directors.

8.6 Corporate Management

The key management personnel set out below are employees of the Company and are responsible for managing the affairs of HNBF according to the key responsibilities allocated to each individual.

Mr. B. M. D. C. Prabhath - *Chief Executive Officer/Managing Director*
Refer profile under Section 8.2.

Mr. W. S. P. Arangala - *Chief Operating Officer*
Mr. Arangala has over 25 years of experience in the field of finance, of which 13 years have been in microfinance. He also counts 18 years of auditing experience holding very senior positions in leading audit firms in Sri Lanka. His acumen for finance and the vast experience in accumulated in the microfinance industry has earned himself the key position of Chief Operating Officer of HNBF.

Mr. Arangala played a leading and pivotal role in HNBF obtaining the license to operate as a licensed finance company in 2009. In recognition of his contribution, he was appointed as a Director of the Company in 2010. Prior to that Mr. Arangala served on the Board of the Grameen Group and Finance Micro Credit Company Limited.

Subsequent to the restructure of the Company consequent to the acquisition by Prime Lands (Private) Limited in June 2011, he was appointed as Director MIS and Compliance. He voluntarily relinquished this designation in November 2014 to facilitate the restructure of the management under the CBSL initiated Financial Sector Consolidation Program subsequent to HNB acquiring the controlling stake of the Company.

He holds a Master's Degree in Finance from the Asia e-University, Malaysia. Mr. Arangala is a CBA of the Institute of Chartered Accountants of Sri Lanka. He also holds a Diploma in Business Studies, Accounting and Auditing; is a member of the Association of Accounting Technicians (SAT), Sri Lanka and is an Associated Certified Professional Manager of the Institute of Certified Professional Managers (FCPM).

Mr. R. M. P. Dayawansa – *DGM - Business*
Mr. Dayawansa is a banking professional with over 34 years of extensive and diverse work experience at Hatton National Bank in the fields of branch/regional management, marketing, leasing, retail/commercial banking and deposit mobilization. He received training at Mt. Eliza Executive Education, Melbourne Business School, Australia; National University of Singapore (NUS); and the Singapore Institute of Management (SIM). He is a past President of the Sri Lanka Institute of Marketing (SLIM). He holds an MBA from the Postgraduate Institute of Management, Sri Lanka and is a fellow of Institute of Bankers of Sri Lanka (FIB), a Chartered Marketer, a fellow of the Chartered Institute of Marketing (FCIM), United Kingdom and a fellow of the Sri Lanka Institute of Marketing (FSLIM).

Mr. B. S. Seneviratne - *DGM – Liability Sales*

Mr. Seneviratne has over 16 years of experience in the microfinance industry. Having gained most of his experience at HNB Finance, Mr. Seneviratne's inherent knowledge and experience in marketing financial products has enabled him to become an asset to the organization. He is a finalist of Chartered Institute of Marketing, United Kingdom.

Mr. S. A. R. Fernando - ***DGM – Human Resources and Administration/Chief Human Resource Officer***
Mr. Fernando brings to the organization over 18 years of industry experience. Commencing his carrier in microfinance at HNBF, Mr. Fernando has proven to be an asset to the organization through his commitment and skill in human resource management. He holds a Bachelor of Science Degree in Business Administration. His experience and exposure in the industry as well as his academic knowledge contributes immensely towards the fulfilment of his responsibilities at HNBF.

Mr. W. B. A. Fernando - ***DGM - Operations***
With over 18 years of experience in the microfinance industry, Mr. Fernando has obtained most of his knowledge and experience in the organization which has resulted in giving him inherent skills to ensure the smooth operations of the day-to-day business operations. He is a well-rounded microfinance professional and holds a Diploma in Microfinance.

Mr. J. M. R. Fonseka - ***AGM – Compliance***
Mr. Fonseka has over 15 years of hands on experience in microfinance and marketing. Mr. Fonseka obtained a Bachelor's Degree in Business Administration from the University of Charleston W.V, USA; and a Postgraduate Diploma in Business Administration from the Postgraduate Institute of Management, University of Sri Jayawardenapura, Sri Lanka. Mr. Fonseka also holds a Diploma in Microfinance and a Diploma in International Trade, Shipping and Logistics. He is a past president of the PIM Alumni Association. He was the first vice chairman of the sub-committee of compliance officers of the Finance House Association (FHA). Currently, Mr. Fonseka serves as a Board member of the Lanka Micro Finance Practitioners (LMFPA) in addition to his post as AGM Compliance at HNB Finance.

Mr. B. Wijeratne - ***AGM – Risk***
Mr. Wijayaratne is a senior banker who counts extensive experience in banking and finance, spanning over a period of 38 years, covering many strategically important areas at Hatton National Bank PLC, Union Bank of Colombo PLC and HNB Finance Ltd, having held the positions of Chief Compliance Officer and Head of Group Internal Audit respectively, with the former two Banks and presently functioning as the Assistant General Manager – Risk of HNB Finance Ltd.

He holds a Master's Degree in Financial Economics from the University of Colombo and a Master's Degree in Business Administration from University of Manipal, India. He is a fellow member of the Institute of Bankers of Sri Lanka and holds a fellowship of Institute of Certified Professional Managers. Further, he is a member of the Sri Lankan Chapter of the Institute of Internal Auditors, USA.

Having held several key positions, including that of the Senior Vice President, he is currently serving as a Member of the Council of Advisors to the Association of Professional Bankers, Sri Lanka. Mr. Wijayaratne has also served as the President of the Association of Compliance Officers of Banks, Sri Lanka.

He is a much sought after resource personnel in the field of banking and finance and presently serves as an external faculty member of the College of Banking and Finance of the Institute of Bankers of Sri Lanka, and the Centre for Banking Studies of the Central Bank of Sri Lanka. He also has served as a lecturer and a program coordinator at the Sri Lanka Foundation and has authored several articles in various business newspaper supplements/journals and professional magazines.

Mr. R. M. M. Tissa - ***AGM – Microfinance***
With more than 17 years of experience in the microfinance industry, Mr. Tissa brings to his present position in the organization experience from key sectors of the finance industry. He began his career at HNB Finance and gained experience in the various aspects of operating a microfinance organization. His experience in the industry in complimented by a Diploma in Microfinance from Institute of Bankers of Sri Lanka (IBSL) and he has also undergone several Microfinance training programmes overseas.

Mr. R. K. M. Priyanga - ***AGM – Branch Network***
Mr. Priyanga has worked in the microfinance industry for over 18 years. He began his career at HNB Finance and has proven his commitment to the organization as well as the industry together with gaining advanced skills and knowledge through his hands-on work experience. He holds a Diploma in Microfinance balancing his industry expertise with professional qualifications.

Mr. M. P. S. Cooray - ***AGM – Branch Network***
With over 17 years of experience in the microfinance industry, Mr. Cooray has gained abilities in various aspects of the finance industry as well as the business. His tenure with HNB Finance started as a Field Executive in 2001 and by proving himself with his dedication to the Company and his capabilities in fulfilling his duties and responsibilities, he has risen in ranks to the position he holds with HNBF today. He has a Diploma in Microfinance and a Higher Diploma in Credit Management from Institute of Asian International Academy (AIA).

Mr. K. D. D. Prabath Kathriarachchi –-***AGM – Branch Network***
Mr. Kathriarachchi joined HNB Finance in 2002, and during his tenure with the organization he has gained a wealth of experience in core operational areas. He has continued to drive the business with his strong business acumen and passion for over 17 years. He holds a Diploma in Microfinance, Diploma in Credit Management and has a Post Graduate Diploma in Management Studies.

Mr. P. Dias - ***AGM - Chief Information Officer***
With over 24 years of experience in the field of information technology, both locally and internationally, Mr. Dias has a wealth of knowledge in information and communication technology across all business verticals supporting many leading organizations. His tenure with HNBF spans over three years. He holds a Diploma in Business Administration from the Postgraduate Institute of Management, University of Sri Jayawardenepura, Sri Lanka; is a member of the British Computer Society, and a CISCO and Microsoft Certified professional.

Mr. D. M. K. Munasinghe - ***Head of Business System Development***
Mr. Munasinghe has over 15 years of experience in the microfinance industry. He began his career at HNBF as an Accounts Assistant and has gained extensive and invaluable experience in the industry in general and in specific related finance concepts and accounting practices through his tenure with the organization.

Mr. H. D. S. C. Gunasekara - ***Chief Accountant / Head of Finance***
Mr. Gunasekara has 15 years of experience in the microfinance industry. He holds an Executive Diploma in Business and Accounting and a Postgraduate Diploma in Business and Finance.

Mr. A. Udawaththe - ***Head of Training***

With over 14 years of experience in the industry, Mr. Udawaththe is competent in human resource management, training and development. His exposure to the microfinance industry was through his tenure at HNB Finance where he gained extensive hands on experience. He holds a Certificate in Human Resource Management, a Diploma in Microfinance and a National Diploma in Training & Human Talent Development.

Mr. D. Dissanayake - ***Chief Manager – SME and Personal Loans***

A banker by profession, Mr. Dissanayake has 35 years of experience in the banking sector and joined HNBF in October 2018. Prior to joining HNB Finance, he was a Regional Head at HNB PLC for 10 years where he overlooked the administration of more than 20 branches in each region. He also was also responsible for supporting the development of SME, microfinance and personal loans; the leasing portfolio, and managing recoveries in the Uva, Sabaragamuwa, Colombo South Western, and Colombo regions. Having completed the Intermediate Banking Diploma examinations from the Institute of Bankers of Sri Lanka, he also holds an MBA from Manipal University, India.

Mr. H. Kulatilaka - Chief Manager/Head of Corporate Planning

Mr. Kulathilaka is an experienced financial professional counting over 18 years of local and overseas experience in the finance field.

He holds a Bachelor's Degree (Special) in Business Administration from the University of Sri Jayewardenepura, Sri Lanka and is a Chartered Accountant of the Institute of Chartered Accountants of Australia and New Zealand and Institute of Chartered Accountants of Sri Lanka. He is also an associate member of the Chartered Institute of Management Accountants (FCMA), United Kingdom and a Chartered Global Management Accountant (CGMA). He holds an Advanced Diploma in Accounting from the University of Western Sydney, Australia.

Mr. Kulathilaka has previously served as the Head of Finance at Contract Manufacturing & Packaging Services (Private) Limited, a nutraceutical company based in Australia for eight years. Prior to his migration to Australia, he worked as an Accountant at Lanka Equities (Private) Limited which had businesses in apparel, hydropower and diamond polishing.

Mr. C. Mallawa Arachchi ***- Chief Manager/Head of Legal***

Mr. Mallawa Arachchi is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public, counting over 12 years of experience at the Bar. He has specialized experience in the banking and finance industry and is currently heading the legal department at HNBF. He earned his LLB (Hons) Degree from the University of Colombo and is currently reading for his Master of Business Administration from the University of Wolverhampton, United Kingdom. Mr. Mallawa Arachchi has worked in both the public and private sector as an in-house legal counsel in addition to functioning as a Commissioner for Oaths, a Company Secretary and an Intellectual Property Agent.

Mr. L. Ranasinghe - ***Chief Manager – Gold Loans***

Mr. Ranasinghe has over 19 years of experience in pawning and gold loans. He started his career at ETI and progressed through the ranks to hold senior positions in the organization. As Mr. Ranasinghe joined HNB Finance in 2018, he brought with him a wealth of experience which adds immense value to the organization. He has also been instrumental in executing the gold loan product across the Company's branch network.

Mr. E. S. Kumara - *Chief Manager – Recoveries*

Mr. Kumara has 15 years of experience in the microfinance and finance industry. Having joined HNB Finance in 2004, he started as a Field Executive and gained valuable experience in different capacities before rising up in the corporate ladder to his current position.

He holds a Diploma in Microfinance from the Institute of Bankers of Sri Lanka, an Advance Diploma in Management from Aquinas University College, Sri Lanka and a Certificate in Business English from Saegis Campus, Sri Lanka.

Mr. L. Eraj - *Chief Manager – Head of Small-Scale Enterprises*

Mr. Eraj has over 16 years of extensive experience in the microfinance sector. During the period 2003 to 2010 he served as the Branch Manager for Puttalam and Nikaweratiya branches. In the year 2010 he was promoted as Senior Regional Manager of the Puttalam region, and through his leadership he managed to transform the region to be the most successful region for HNB Finance. He was promoted to his current position in 2017 in view of his exceptional performance in driving organization's business goals.

Mr. Eraj holds a Diploma in Microfinance from the Institute of Bankers of Sri Lanka and has completed an English Diploma at the University of Wayamba, Sri Lanka. Being fluent in English, Tamil and Sinhala, he serves as an employee engagement officer of HNBF. Additionally, Mr. Eraj acts as an umpire for the Sri Lanka Cricket board and is a member of the Sri Lanka Cricket Umpires Association.

8.6.1 Corporate Management Emoluments

The Corporate Management (including the MD/CEO and the Executive Director) were remunerated in the form of salaries and bonuses during the FY 2018/19 to the value of LKR 94,607,824. The Corporate Management is expected to be remunerated in the form of salaries and bonuses during the FY 2019/20 to an approximate value of LKR 103,122,528.

8.7 Statement – Managing Director/CEO

The Managing Director/CEO of the Company has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

9.0 OTHER INFORMATION

9.1 Degree of Dependence on Customers, Borrowers or Suppliers

There is no material dependency on key customers, borrowers or suppliers in terms of the overall business operations of the Company.

9.2 Dividends

9.2.1 Dividend Policy

The Company may, subject to the provisions of the Articles of Association and the Companies Act No. 07 of 2007, make dividend payments by way of interim and final dividends to its shareholders in relation to the profits made from time to time. The Company will target to pay a cash dividend of 20% of the distributable profit to the shareholders of the Company, in respect of each financial year as determined by the Board of Directors subject to;

- the solvency requirements of the Companies Act No. 07 of 2007.
- any funding covenants by which HNBF is bound from time to time.
- cash flow position of the Company, return from operations, business prospects, current and expected obligations, funding needs for growth opportunities, maintenance of a strong capital structure and any other factor which the Board of Directors may deem relevant, and
- approval from Central Bank of Sri Lanka.

In addition to the above-mentioned cash dividends, the Company may consider payment of dividends in the form of scrip dividends as deemed appropriate.

9.2.2 Dividend History

The Company has declared and paid the following dividends during the last three financial years immediately preceding the date of this Prospectus and Introductory Document.

TABLE 9.1 – DIVIDEND HISTORY

(LKR)	Financial Year Ended		
	March 31, 2019	**March 31, 2018**	**March 31, 2017**
Interim Dividends	-	**154,762,256***	171,958,062**
Final Dividends	-	-	-
Total Dividend for the Year	**-**	**154,762,256**	**171,958,062**
Number of Shares	**1,719,580,624**	**1,719,580,624**	**1,719,580,624**
Dividend Per Share	**-**	**0.09**	**0.10**

** The interim dividend was paid during FY 2017/18*

*** The interim dividend was paid during FY 2017/18*

9.3 Details of Material Indebtedness

Particulars of the Company's loan capital outstanding as at December 31, 2019 are as follows:

TABLE 9.2 – PARTICULARS OF MATERIAL INDEBTEDNESS

Name of Bank/Finance Institution	Type of Facility	Value of Facility	Outstanding as at December 31, 2019 (LKR)
Seylan Bank PLC	Debentures	665,000,000.00	665,000,000.00
Debenture holders	Subordinated, Listed, Rated, Unsecured, Redeemable Debentures	1,158,820,000.00	1,158,820,000.00
Hatton National Bank PLC	Term Loan	100,000,000.00	9,982,000.00
Hatton National Bank PLC	Term Loan	500,000,000.00	125,000,024.00
Hatton National Bank PLC	Term Loan	500,000,000.00	291,666,680.00
Hatton National Bank PLC	Term Loan	500,000,000.00	364,583,342.00
Hatton National Bank PLC	Money Market Revolving Loan	200,000,000.00	200,000,000.00
Hatton National Bank PLC	Money Market Revolving Loan	100,000,000.00	100,000,000.00
Hatton National Bank PLC	Money Market Revolving Loan	100,000,000.00	100,000,000.00
Hatton National Bank PLC	Money Market Revolving Loan	100,000,000.00	100,000,000.00
DFCC Bank PLC	Term Loan	500,000,000.00	383,333,324.00
DFCC Bank PLC	Term Loan	500,000,000.00	433,333,328.00
Total		4,923,820,000.00	3,931,718,698.00

There were no leasing, lease purchase and hire purchase commitments of the Company outstanding as at December 31, 2019.

There were no material contingent liabilities, including acceptances and guarantees outstanding as at December 31, 2019 other than in the ordinary course of business.

There were no mortgages or charges on assets of the Company as at December 31, 2019 except for the following.

TABLE 9.3 – PARTICULARS OF MORTGAGES AND CHARGES ON THE ASSETS OF THE COMPANY

Description of Property	Date of Purchase	Total Cost / Valuation (LKR)
06, Abaya Place,7th Lane, Anuradhapura	May 16, 2008	50,000,000.00
37, Vihara Mawatha, Matale	June 10, 2008	10,500,000.00
56, Puttlam Service Mawatha, Puttlam	November 21, 2008	31,500,000.00
9/10/11, Galle Road, Katubedda, Moratuwa	May 7, 2008	46,000,000.00
67/1, Mahinda Place, Kirulapone, Colombo 05	April 1, 2006	144,000,000.00
249, Stanley Thilakarathna Mawatha, Nugegoda	February 18, 2008	840,000,000.00
465/1, Old Police Station Road, Kahathuduwa, Polgasovita	July 31, 2012	155,000,000.00
94 96/1, Kandy Road, Kurunegala	January 28, 2008	90,000,000.00
46/A, Tangalle Road, Hambantota	March 31, 2009	25,000,000.00
168, Nawala Road, Nugegoda	March 31, 2010	872,000,000.00
677, William Gopallawa Mawatha, Kandy	March 31, 2010	81,000,000.00
Total		**2,345,000,000.00**

9.4 Working Capital

The Board is of the opinion that the working capital is sufficient for the purpose of carrying out day to day operations of the Company.

9.5 Litigation, Disputes and Contingent Liabilities

Given below are the details of the Company's litigation portfolio and possible contingent liabilities of the Company as at the date of this Prospectus and Introductory Document;

1. Cases filed by the Company against micro and other loan defaulters:
   a. Legacy portfolio and cases filed under the previous company name (as at December 31, 2019)
      i. Number of cases – 243
      ii. Outstanding – LKR 72,147,646.17
   b. Cases filed by the Company under the management of HNB Grameen Finance Limited and HNB Finance Limited (as at December 31, 2019)
      i. Number of cases – 7,934
      ii. Outstanding – LKR 1,641,441,448.16
2. There are approximately 3,500 Mediation Board proceedings filed by the Company against micro loan defaulters as at December 31, 2019
3. There were no any penalties imposed on the Company by Regulators and State Authorities during the five (05) year period preceding from December 31, 2019.
4. There were no any litigations which would have a significant effect upon the Company as at December 31, 2019.

9.6 Management Agreements

There are no management agreements presently in force or currently being considered by the Company.

9.7 Material Contracts

There are no material contracts entered into by the Company other than those contracts entered into in the ordinary course of business.

9.8 Details of Commissions Paid

No commission has been paid in the two (02) years preceding the Offer or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any Shares of the Company.

9.9 Details of Benefits Paid to Promoters

No benefit has been paid or given within the two (02) years preceding the Offer and there are no benefits intended to be paid or given to any promoter.

9.10 Details of transactions Relating to Property

There were no any transactions relating to a property of the Company completed within the two (02) preceding years from December 31, 2019 in which any vendor of the property to the Company or any person who is or was at the time of the transaction, a Promoter or a Director or proposed Director of the Company had any interest, direct or indirect.

10.0 CAPITAL STRUCTURE

As at the date of this Prospectus and Introductory Document, the Stated Capital of the Company is Sri Lankan Rupees Two Hundred and Twenty Three Million Five Hundred and Forty Five Thousand Four Hundred and Eighty One (LKR 223,545,481.00) divided into One Billion Four Hundred and Twenty One Million Three Hundred and Eighty Thousand Six Hundred and Twenty Four (1,421,380,624) fully paid up Ordinary Voting Shares and Two Hundred and Ninety Eight Million Two Hundred Thousand (298,200,000) fully paid up Ordinary Non-Voting Shares.

10.1 An Overview of the Capital Structure

The detailed breakdown of the Stated Capital of HNB Finance Limited is given below.

TABLE 10.1 - STATED CAPITAL OF HNB FINANCE LIMITED

	December 31, 2019	March 31, 2019	March 31, 2018	March 31, 2017
Stated Capital (LKR)	223,545,481	223,545,481	223,545,481	223,545,481
Number of Ordinary Shares in Issue				
Voting Shares	1,421,380,624	1,421,380,624	1,421,380,624	1421,380,624
Non-Voting Shares	298,200,000	298,200,000	298,200,000	298,200,000
Total	**1,719,580,624**	**1,719,580,624**	**1,719,580,624**	**1,719,580,624**

There was no any redemption of repurchase of shares (both Ordinary Voting Shares and Ordinary Non-Voting Shares) during the two year period immediately preceding the date of this Prospectus and Introductory Document (January 30, 2020) in terms of Sections 63, 64, 66, 67, 68, 69, 93 and 100 of the Companies Act and of any reduction of stated capital in terms of Section 59 of the Companies Act.

There are no any statutory restrictions on the free transferability of both Ordinary Voting and Ordinary Non-Voting Shares of the Company.

10.2 Shareholding Structure Pre and Post IPO and Introduction

The current and the post IPO and Introduction shareholding structures are as shown below.

TABLE 10.2 - SHAREHOLDING STRUCTURE – PRE AND POST IPO AND INTRODUCTION

Ordinary Voting Shares

Name	Pre IPO and Introduction		Post IPO and Introduction	
	No. of Ordinary Voting Shares	%	No. of Ordinary Voting Shares	%
Existing Shareholders	1,421,380,624	100.00%	1,411,380,624	99.30%
IPO Shareholders	-	-	10,000,000	0.70%
Total	**1,421,380,624**	**100.00%**	**1,421,380,624**	**100.00%**

Ordinary Non-Voting Shares

Name	Pre IPO and Introduction		Post IPO and Introduction	
	No. of Ordinary Non-Voting Shares	%	No. of Ordinary Non-Voting Shares	%
Existing Shareholders	298,200,000	100.00%	298,200,000	100.00%
IPO Shareholders	-	-	-	-
Total	**298,200,000**	**100.00%**	**298,200,000**	**100.00%**

In terms of CSE Listing Rule 2.1.1(e)(ii), shares held by Non-Public Shareholders, as defined in Section 10.3, namely the 1,278,706,751 Ordinary Voting Shares, held by Hatton National Bank PLC, Prime Lands (Private) Limited and other Non-Public Shareholders as shown in Table 10.3 below, would be subject to a 'lock-in' for a period of six (06) months from the date of listing of Shares. As such these shares would not be available for secondary market trading on the CSE upon HNBF obtaining listing of its shares subsequent to the IPO contemplated via this Prospectus and Introductory Document until the expiry of the aforesaid six (06) month period from the respective date of listing.

However, shares held by Public Shareholders prior to the date of the listing application shall not be locked-in.

Since there were no share allotments or share transfers during the period of twelve (12) months immediately preceding the date of an Initial Listing Application, no further shares will be subject to a lock-in, in terms of CSE Listing Rule 2.1.1(e)(iv) or 2.1.1(e)(v), except for the shares mentioned above.

TABLE 10.3 - SHARES LOCKED IN – PRE IPO
ORDINARY VOTING SHARES

Category of Shareholders (Pre-Listing)	Locked-in Ordinary Voting Shares	The Months after which the Ordinary Voting Shares will be Available for Trading	No. of Ordinary Voting Shares	No. of Ordinary Voting Shares as a percentage of Total Number of Ordinary Voting Shares in Issue (Pre-Listing)
Non-Public	Shares held by Non-Public Shareholders prior to the date of the Initial Listing Application - Locked-in	6 months from the date of listing	1,278,706,751	89.9623%
Public *	Not Locked-in	-	132,673,873	9.3342%
IPO Shares	Not Locked-in	-	10,000,000	0.7035%
Total			**1,421,380,624**	**100.0000%**

**'Public' defined under the definition mentioned in CSE Listing Rules 2.1.1 (Refer Section 10.3 of the Prospectus and Introductory Document)*

The Company hereby confirms that the information furnished herewith shall remain unchanged to the date of listing.

Pre-IPO Public Holding of the Ordinary Voting Shares (Shares held by the 'Public' as a percentage of the total Pre-IPO number of Ordinary Voting Shares)

As per the 'Public' definition provided in the;

CSE Listing Rules 2.1.1 9.3342%

TABLE 10.4 - SHARES LOCKED IN – POST IPO
Ordinary Voting Shares

Category of Shareholders (Post-Listing)	Locked-in Ordinary Voting Shares	The Months after which the Ordinary Voting Shares will be Available for Trading	No. of Ordinary Voting Shares	No. of Ordinary Voting Shares as a percentage of Total Number of Ordinary Voting Shares in Issue (Post-Listing)
Non-Public	Locked-in (Pre IPO Shares)	6 months from the date of listing	1,278,706,751	89.9623%
Public *	Not Locked-in (Pre IPO Shares)	-	132,673,873	9.3342%
IPO Shares	Not Locked-in (IPO Shares)	-	10,000,000	0.7035%
Total			**1,421,380,624**	**100.0000%**

** 'Public' defined under the definition mentioned in CSE Listing Rules 2.1.1 (Refer Section 10.3 of the Prospectus and Introductory Document)*

Post -IPO Public Holding of the Ordinary Voting Shares (Using the CSE Listing Rules) 10.0377%
(Total unlocked Ordinary Voting Shares post-IPO that will be held by the public as a percentage of the total Ordinary Voting Shares in issue Post-IPO)

Tabulated below are the top ten (10) shareholders of the Company as at the date of this Prospectus and Introductory Document i.e. January 30, 2020.

TABLE 10.5 – TWENTY LARGEST SHAREHOLDERS – ORDINARY VOTING SHARES - PRE IPO

	Name	No. of Ordinary Voting Shares	%
01	Hatton National Bank PLC	724,904,118	51.000
02	Prime Lands (Private) Limited	562,391,533	39.567
03	DWM Funds S.C.A SICAV- SIF	112,700,000	7.929
04	B. M. D. C. Prabhath	1,000,000	0.070
05	H. M. U. Senevirathna	150,000	0.011
06	W. S. P. Arangala	110,000	0.008
07	S. L. Y. Liyanawatte	102,500	0.007
08	S. T. D. Pieris	101,000	0.007
09	J. S. B. Galagoda	101,000	0.007
10	W. B. A. Fernando	100,500	0.007
11	S. A. R. Fernando	100,500	0.007
12	B. S. Seneviratne	100,100	0.007

13	R. P. K. Gallage	100,000	0.007
14	E. A. D. Silva	100,000	0.007
15	R. D. S. Munasinghe	100,000	0.007
16	W. D. Wijesinghe	50,500	0.004
17	R. M. M. Tissa	50,500	0.004
18	R. K. M. Priyanga	50,200	0.004
19	J. M. R. Fonseka	50,100	0.004
20	G. V. Rathnayake	50,000	0.004
	Total shares held by top twenty Shareholders	**1,402,412,551**	**98.666**
	Total shares held by other Shareholders	**18,968,073**	**1.334**
	Total shares held by Shareholders	**1,421,380,624**	**100.000**

There were no share transfers relating to the top twenty shareholders mentioned above, during the period of twelve (12) months immediately preceding the date of the Initial Listing Application.

TABLE 10.6 – DETAILS PERTAINING TO NON-PUBLIC SHAREHOLDERS – PRE IPO

Name	Relationship with the Company	No. of Ordinary Voting Shares held	%
Hatton National Bank PLC	Parent Company	724,904,118	51.000
Prime Lands (Private) Limited	Shareholding of more than 5%	562,391,533	39.567
B. M. D. C. Prabath	KMP - Chief Executive Officer/Managing Director	1,000,000	0.070
W. S. P. Arangala	KMP – Chief Operating Officer	110,000	0.008
S. A. R. Fernando	KMP – DGM, Human Resources and Administration/Chief Human Resource Officer	100,500	0.007
W. B. A. Fernando	KMP – DGM, Operations	100,500	0.007
B. S. Seneviratne	KMP – DGM, Liability Sales	100,100	0.007
Total Non-Public shareholding		**1,288,706,751**	**90.666**

TABLE 10.7 – SHAREHOLDERS – ORDINARY NON-VOTING SHARES - PRE IPO

Name	No. of Ordinary Non-Voting Shares	%
Seylan Bank PLC	233,200,000	78.20
Prime Lands (Private) Limited	37,772,148	12.67
Wealth Guard (Private) Limited	27,227,852	9.13
Total	**298,200,000**	**100.00**

There were no share transfers relating to shareholders mentioned above, during the period of twelve (12) months immediately preceding the date of the Initial Listing Application.

10.3 Free Transferability of Shares

In accordance with CSE Listing Rule 2.1.1(e):

- Shareholders who intend to divest through the IPO should have held such shares for a minimum period of eighteen (18) months prior to the date of listing of the Company.
- All Shares held by '**Non-Public Shareholders'*** prior to the date of the Initial Listing Application shall be locked-in for a period of **six (06) months** from the date of listing of the Company.
- All Shares held by **'Public Shareholder'**** prior to the date of the Initial Listing Application shall **not be locked-in**.
- **All shares acquired by way of a transfer from another shareholder** (irrespective of being Non-Public or Public Shareholders) **during the period of twelve (12) months** immediately preceding the date of the Initial Listing Application shall be **locked in for a minimum of six (06) months** from the date of listing or **twelve (12) months** from the date of acquisition of those shares, whichever is longer.
- All Shares acquired by way of an allotment during the period of **twelve (12) months** immediately preceding the date of the Initial Listing Application shall be dealt with by the discretion vested in the Securities and Exchange Commission under Section 28A of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 where the Commission grants a waiver to an entity in terms of the said provision.
  HNBF does not require a waiver from the Securities and Exchange Commission of Sri Lanka under the Section 28A of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987.

** Non-Public Shareholders, shall mean the following parties who hold, directly or indirectly, shares of the Company;*

a) *its parent, any subsidiary or associate companies or any subsidiaries or associates of its parent company,*
b) *its Directors who are holding office as Directors of the entity and their close family members,*
c) *Chief Executive Officer and his/her close family members,*
d) *Key Management Personnel and their close family members,*
e) *Any party acting in concert with the parties set out in a), b), c) and d) above,*
f) *Shareholders whose shares are in a locked account with the CDS due to a statutory or regulatory requirement other than those shareholders exempted under (h) below and whose shares have been subject to a voluntary lock-in at the option of the shareholder,*
g) *Employees of the Company, who have been allotted shares of a Listed Entity which are directly or indirectly controlled by the management or the majority shareholder of the Company,*
h) *Any Entity or an individual or individuals jointly or severally holding 5% or more of the shares of the Listed Entity if the Company is a Diri Savi Board Entity and 10% or more of the shares if the Company is a Main Board Entity, except where such shareholder is;*
    i. *a statutory institution managing funds belonging to contributors or applicants who are members of the public; or*
    ii. *an entity established as a unit trust or any other investment fund approved by the SEC; or*
    iii. *not a related party declared in terms of Sri Lanka Accounting Standards or a party acting in concert declared in terms of the Company Takeovers and Mergers Code.*

'Close Family Member' shall mean the spouse or a financially dependent child.
'Key Management Personnel' shall mean those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

*** Public Shareholders shall mean any party who hold Shares of the Company other than the parties identified as 'Non-Public Shareholders' abovementioned.*

The details of the lock-in periods for the shares are mentioned in Tables 10.3 and 10.4 above and the shares that will be subject to a lock-in will not be will be available for trading.

10.4 Other Securities

The Company has not issued any convertible debt securities or any other class of shares other than the shares stated above. Further, there are no securities of the same or other class subscribed or sold privately in conjunction with this IPO.

10.5 Takeover Offers

There have been no takeover offers by third parties in respect of the Company's shares during the past two years and no takeover offers have been made by the Company in respect of shares of third parties.

11.0 INVESTMENT CONSIDERATIONS AND ASSOCIATED RISK FACTORS

Risk Factors

Prior to investing in the Offered Shares, prospective applicants should pay particular attention to the fact that the Company and its business activities are subject to a number of risk factors which may be within or outside the control of the Company.

The risk factors that follow may be considered material to applicants in making an informed judgment on the Company. If any of the considerations and uncertainties given below develop into actual events, the Company's business, financial conditions or results of operations and prospects could be adversely affected. However, given the importance of the industry in which the Company operates and due to strategic initiatives employed by the Company, the business operations of the Company are expected to be sustainable in the foreseeable future.

11.1 Risks Related to the Finance Sector

Government Regulations: The finance sector is heavily regulated and monitored by the Central Bank of Sri Lanka, which pose both favorable and unfavorable conditions for the Company. Given the restrictions placed on many aspects of the operations such as interest rates, credit limit, etc. the operations are directly affected by any fiscal and monetary policy decisions taken by the Government. However, the strict supervision by the regulators reduces the risk of liquidation and malpractices within the sector.

Economic Downturn: The direct relationship with economic factors such as the economic growth rate, the income levels and the money and capital market performance, pose a direct risk to the Company's financial performance.

11.2 Risks Related to Business Operations

Credit Risk: Credit risk arises when the Company incurs losses due to the inability of the customers to honor their obligations to repay the dues on time or permanently default their dues. HNBF's credit risk is managed through weekly follow-ups by a cardre of field officers. One yardstick to measure the effectiveness of the credit management process is the NPL rate of an organization. A well-defined credit evaluation process enables an organization to disburse quality loans that result in having a relatively low NPL rate. In a sector where 58% of loans are given free of collateral as at end of June 2019, an NPL rate of 10.47% as in the Company's case, is a good indication of HNBF's credit risk management process compared to the present industry average.

Market Risk: Market risk arises due to fluctuations in interest rates, foreign currency, credit spread equity prices, commodity prices and risk related matters. Interest rate volatility can impact the Company's net interest margin. The Company reduced the fixed deposit and savings rates gradually whilst the lending rate remained static enabling to a greater extent to reduce the cost to income ratio.

Operational Risk: Operational risk arises due to inadequate or failed process, systems, people or external events. The Board Integrated Risk Management Committee (BIRMC) oversees the management of operational risks covering the entire business operations on a regular basis and the Board Audit Committee overseas the Company's risk aspects. Periodical visits by the internal audit team and surprise inspections by the investigations team have helped the Company to identify potential operational risk factors and address them at early stages. Implementation of the new ICT infrastructure will further enhance the operational risk management in the future.

Liquidity Risk: Liquidity risk arises when the Company is unable to meet its financial obligation by not being able to pay its deposit holders their due at maturity or on demand. The Company policy is to maintain an adequate liquidity buffer to meet its short-term and long-term obligations as defined in its corporate liquidity policy. The Company's liquidity position has remained at comfortable levels and has surpassed the regulatory requirement.

Strategic Risk: The strategic and investment committee is a new committee headed by the Chairman, appointed by the Board, to have oversight on all current and future strategic investments, divestments and disposals of the Company. This includes investment in equity, corporate debt and treasury investments. The scope of the strategic and investment committee covers the monitoring of performance of these portfolios and recommending necessary remedial action.

11.3 Risks Related to Future Plans

In addition to the risks discussed in 11.1 and 11.2 above, the future plans of the Company will be subject to the risk factors identified below;

Lack of Experience in New Segments: The Company has mainly focused on the microfinance industry in the past, as a result of which it lacks exposure and experience in other segments in the financial services sector. This could lead to incorrect decisions being made regarding developing, marketing and managing new products. This risk will be mitigated by obtaining the services of experienced personnel specialized in these segments. Furthermore, the experience the Company has gained over the last couple of years from the introduction of new products as well as the performance of same would assist in future product developments as well.

Strong Competition in the Leasing Industry: The leasing industry is dominated by many large and well-established players covering both finance and leasing companies as well as banks. The fierce competition poses a risk to the Company in terms of achieving set targets. However, regardless of the intense competition, HNBF expects to focus on its existing customer bases as well as new customers covering micro and retails sectors as a growth stream. HNBF will have to mitigate that risk by diverting its future investment portfolios into other target segments such as SME and mid-sized corporates.

11.4 Risks Related to the IPO

Nonexistence of Prior Market for the Shares: Prior to the IPO there has been no public market for the Company's Shares. There can be no assurance that an active trading market for the Shares will develop or if developed, will be sustained, or that the market price of the Shares shall not decline below the Share Offer Price. The Share Offer Price may not be indicative of the market price for the Company's Shares after completion of the IPO.

Price Volatility in the Secondary Market: The price of the Shares may fluctuate due to and not limited to the following: variations in operating results, changes in the operating environment, transitions in the regulatory front, strategic alliances or acquisitions, industrial or environmental laws, fluctuations in the market prices for products or raw materials, macroeconomic factors, and external events. Price of Shares may follow general Applicant sentiment prevalent in the market at any given time. In addition, the price of the Shares in the market will fluctuate as a result of share trading volumes.

12.0 TAXATION

The following information is an overview of selected taxation and other regulations that may be relevant to the Company and potential applicants with regard to share transactions in the Democratic Socialist Republic of Sri Lanka. The discussion does not claim to be a comprehensive explanation of regulations and consideration that pertain to the purchase, ownership and disposition of the Offered Shares. The explanations are based on provisions effective in Sri Lanka at the time of printing of this Prospectus and Introductory Document. Applicants are advised to consult their own advisors prior to engaging in transitions relating to the Offer.

Income Tax

Taxation will be based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act and any subsequent amendments. HNBF is liable for Income Tax at the rate of 28%.

Value added Tax on Financial Services

HNBF's total value addition is subjected to a 15% Value Added Tax.

Nation Building Tax on Financial Services

HNBF's total value addition is subjected to a 2% Nation Building Tax.

Debt Repayment Levy on Financial Services

HNBF's total value addition is subjected to a 7% Debt Repayment Levy.

Economic Service Charges

HNBF's total turnover is subjected to 0.5% Economic Service Charges.

Taxation of Share Transactions (On Commencement of Trading of Shares on the CSE)

Upon the listing of the Shares of the Company, a transaction levy at the rate of 0.3% on the sales and purchases of all share transactions is charged from both the buyer and the seller in terms of the Finance Act No. 05 of 2005 (as amended).

Withholding Tax (WHT) for Dividends

In general, dividends distributed by resident companies out of taxable income to resident or non-resident shareholders are subject to WHT at the rate of 14% under Section 84 of the Inland Revenue Act No. 24 of 2017. The Company is required to deduct dividend tax at source and remit the same to the Department of Inland Revenue.

Other than the WHT referred to above, dividends paid on shares to shareholders of the Company will not be subject to any other Sri Lankan tax. Dividend income received by a company resident in Sri Lanka from another company resident in Sri Lanka does not form part of statutory income and is therefore not taxable in the hands of the recipient company.

13.0 STATUTORY DECLARATIONS

Statutory Declaration by the Directors

January 30, 2020

We the undersigned, who are named in the Prospectus and Introductory Document as Directors of HNBF, hereby declare and confirm that we have read the provisions of the CSE Listing Rules and of the Companies Act No. 07 of 2007 and any amendments to it relating to the issue of this Prospectus and Introductory Document, and that those provisions have been complied with.

This Prospectus and Introductory Document has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of HNBF have been given in the Prospectus and Introductory Document, such representations have been made after due and careful enquiry of the information available to HNBF and making assumptions that are considered to be reasonable at the present point in time by our best judgement.

Name	Designation	Signature
Mr. A. J. Alles	Chairman/Non-Executive Non-Independent Director	Sgd
Mr. B. Premalal	Deputy Chairman / Non-Executive Non-Independent Director	Sgd
Mr. B. M. D. C. Prabhath	Managing Director/CEO	Sgd
Dr. S. U. H. Fernando	Independent Non-Executive Director	Sgd
Mr. A. S. Wijesinha	Independent Non-Executive Director	Sgd
Mr. P. A. H. D. Wijesundara	Independent Non-Executive Director	Sgd
Mr. A. G. R. Dissanayake	Non-Independent Non-Executive Director	Sgd
Mr. M. Perera	Non-Independent Non-Executive Director	Sgd

Statutory Declaration by the Managers to the Offer – Acuity Partners (Private) Limited

January 30, 2020

We, Acuity Partners (Private) Limited, of 53, Dharmapala Mawatha, Colombo 03 being the Financial Advisor and Manager to the Offer and Introductory Listing of HNBF, hereby declare and confirm that to the best of our knowledge and belief the Prospectus and Introductory Document constitutes full and true disclosure of all material facts about the Offer and of HNBF, whose Ordinary Voting Shares are being Offered and whose Ordinary Non-Voting Shares are being listing through an Introduction.

Sgd.
Director

Statutory Declaration by the Company

January 30, 2020

An application has been made to the CSE for permission to deal in and for a listing for all of the Ordinary Voting and Ordinary Non-Voting Shares of the Company and those Ordinary Voting Shares which are the subject of this Offer. Such permission will be granted when shares are listed on the CSE. The CSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus and Introductory Document. Listing on the CSE is not to be taken as an indication of the merits of the Company or of the Shares Offered.

Sgd. Director	Sgd. Director

Building a better working world

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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

HMAJ/BV/IP/AD

Board of Directors
HNB Finance Limited
No 168, Nawala Road
Nugegoda
Sri Lanka

20 September 2019

Accountants' Report
HNB Finance Ltd

Dear Sirs/Mesdames

This report has been prepared for the purpose of prospectus issued with the proposed offer for sale of ten million (10,000,000) ordinary voting shares at LKR 5.70 per share and the listing through Introduction of two hundred and ninety eight million two hundred thousand (298,200,000) ordinary non-voting shares of HNB Finance Limited.

We have examined the Financial Statements of the HNB Finance Ltd (the "Company") for the years ended 31 March 2015 to 31 March 2019, and report as follows.

1. **Incorporation**

The HNB Finance Ltd is a licensed finance company registered under the Finance Business Act No 42 of 2011 and was incorporated as a public limited liability Company on 20th December 1999 under the provisions of the Companies Act No 17 of 1982 and re-registered under the Companies Act No 7 of 2007 under the registration number PB 965. The Company is registered under the Finance Leasing Act no 56 of 2000.

The registered office of the Company is No. 168, Nawala Road, Nugegoda, at which the Company's Head Office is also situated. The Company's principal activates during the period were providing microfinance facilities, finance leases, vehicle loan facilities, mortgage loans, gold loan, other credit facilities, acceptance of fixed deposits, maintenance of savings accounts and value-added services to the finance sector.

2. **Financial Information**

2.1. **Five-year Summary of Audited Financial Statements**

A summary of Statements of Financial Position, Statement of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows of the Company for the financial years ended 31 March 2015 to 31 March 2019, based on the audited financial statements are set out on Annexure 01 of the Accountants' Report.

Financial Statements for the year ended 31March 2015 has been audited by another auditor ("Messrs. Kreston MNS & Co").

2.2. Audited Financial Statements for the Year ended 31 March 2019

Our audit report on the Financial Statements of the Company for the year ended 31 March 2019 together with such Financial Statements comprising the Statement of Financial Position, Statement of Comprehensive Income, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow along with the accounting policies and notes thereon is available on the Annexure of the Prospectus.

2.3. Audit Reports

The Financial Statements of the Company for the year ended 31 March 2015, has been audited by Messrs. Kreston MNS & Co. We have audited the Financial Statements of the Company for the years ended 31 March 2016 to 31 March 2019. Unmodified audit opinions have been issued for the said financial years by such auditors' reports dated 10 June 2015, 08 June 2016, 07 September 2017, 26 June 2018 and 11 July 2019 respectively.

2.4. Accounting Policies

The Financial Statements of the Company for the years ended 31 March 2015 to 31 March 2019 comply with Sri Lanka Accounting Standards. Financial Statements for the year ended 31March 2015 has been audited by another auditor ("Messrs. Kreston MNS & Co").

The accounting policies of the Company are stated in detail in the audited financial statements of the Company for the year ended 31 March 2019. There were no material changes in the accounting policies of the Company for the years ended 31 March 2015 to 31 March 2018.

2.5. Dividends

Company has declared dividend during the years ended 31 March 2015 to 31 March 2019 as follows.

Year	Dividend Declared (LKR)	Dividend Per Share (LKR)
2015	-	-
2016	189,153,868.64	0.11
2017	171,958,062.40	0.10
2018	154,762,256.16	0.09
2019	-	-

2.6. **Events after Reporting Date**

There were no significant events occurred after the last audit report date.

3. **Restriction on Use**

This report is made solely for the purpose of prospectus issued with the proposed offer for sale of ten million (10,000,000) ordinary voting shares at LKR 5.70 per share and the listing through Introduction of two hundred and ninety eight million two hundred thousand (298,200,000) ordinary non-voting shares of HNB Finance Limited.

Yours faithfully

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st March	2019	2018	2017	2016	2015
Gross Income	8,291,663,723	7,482,548,192	6,234,033,583	4,485,107,633	2,838,662,640
Interest Income	7,229,168,801	6,537,663,310	5,327,018,057	3,906,231,603	2,467,538,240
Interest Expenses	(2,802,086,025)	(2,373,460,579)	(1,465,618,208)	(995,689,242)	(715,610,870)
Net Interest Income	4,427,082,776	4,164,202,731	3,861,399,849	2,910,542,361	1,751,927,370
Fee and commission income	777,756,571	702,441,739	670,219,063	485,813,442	336,146,746
Fee and commission expenses	(152,804,593)	(121,654,558)	(98,395,049)	(75,520,940)	(109,782,746)
Net fee and commission income	624,951,978	580,787,181	571,824,014	410,292,502	226,364,000
Net Interest, Fee and commision Income	5,052,034,754	4,744,989,912	4,433,223,863	3,320,834,863	1,978,291,370
Other operating income	284,738,350	242,443,143	236,796,463	93,062,588	34,977,654
Capital loss from trading				(26,578,802)	(768,443)
Net mark to market valuation gain	(113,600)	1,103,040	81,840	-	
Total Operating Income	5,336,659,505	4,988,536,095	4,670,102,166	3,387,318,649	2,012,500,581
Impairment chargers for loans and other losses	(842,911,063)	(685,269,932)	(707,508,300)	(110,452,151)	(70,461,526)
Net Operating Income	4,493,748,442	4,303,266,163	3,962,593,866	3,276,866,498	1,942,039,055
Personnel expenses	(1,235,850,374)	(1,108,124,496)	(943,611,008)	(712,015,514)	(540,590,862)
Other expenses	(1,492,214,080)	(1,167,908,603)	(1,011,929,349)	(743,321,460)	(582,677,877)
Total Operating Expenses	(2,728,064,454)	(2,276,033,099)	(1,955,540,357)	(1,455,336,974)	(1,123,268,739)
Operating Profit before Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services	1,765,683,988	2,027,233,064	2,007,053,509	1,821,529,524	818,770,316
Value Added Tax (VAT) on Financial services	(455,741,371)	(392,263,488)	(331,394,045)	(234,120,096)	(137,916,069)
Nation Building Tax (NBT) on Financial services	(48,011,123)	(52,301,798)	(49,278,589)	(42,567,290)	(23,514,572)
Operating Profit after Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services	1,261,931,494	1,582,667,778	1,626,380,875	1,544,842,138	657,339,675
Income Tax Expenses	(431,335,672)	(570,884,458)	(567,546,689)	(434,748,933)	(122,793,299)
Profit for the Year	830,595,822	1,011,783,320	1,058,834,186	1,110,093,205	534,546,376

ERNST & YOUNG Chartered Accountants COLOMBO

HNB FINANCE LIMITED.

-1-

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF OTHER COMPREHENSIVE INCOME

	2019	2018	2017	2016	2015
Profit for the Year	830,595,822	1,011,783,320	1,058,834,186	1,110,093,205	534,546,376
Other Comprehensive Income for the Year, Net of Tax					
Other Comprehensive Income to be reclassified to profit or loss in subsequent periods					
Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods					
Acturial gain/(losses) on defined benefit plans	9,815,534	14,231,796	8,793,209	12,921,679	(3,412,787)
Deferred tax effect on acturial gains/(losses) on defined benefit plans	(2,748,350)	(3,984,903)	(2,462,099)	(3,618,070)	955,580
Revaluation Reserve of free hold Lands & Buildings	225,621,952	62,197,447	166,240,013	-	
Deferred tax effect on revaluation on Buildings	(63,174,146)	(17,415,285)	(44,069,830)	-	384,555
Other Comprehensive Income for the Year, Net of Tax	169,514,990	55,029,055	128,501,293	9,303,609	(2,072,652)
Total Comprehensive Income for the Year	1,000,110,812	1,066,812,375	1,187,335,479	1,119,396,814	532,473,724

ERNST & YOUNG Chartered Accountants COLOMBO

HNB FINANCE LIMITED.

-2-

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF CASH FLOWS

Year ended 31st March	2019 Rs	2018 Rs	2017 Rs	2016 Rs	2015 Rs
CASH FLOW FROM OPERATING ACTIVITIES					
Profit before Tax	1,261,931,494	1,582,667,778	1,626,380,875	1,544,842,138	657,339,675
Adjustments;					
Interest expenses on borrowings	276,280,016	60,979,110	24,503,761	8,511,811	18,492,845
Interest expenses on debentures	71,480,904	89,057,578	89,328,560	69,904,419	64,823,338
Interest income from financial assets at amortised cost - Debt and other instruments	(167,411,299)	(366,540,884)	(143,357,077)	(124,404,108)	(85,018,439)
Interest income on financial assets measured at fair value through profit or loss	(1,440,000)	(1,600,000)	(1,600,000)	(12,372,066)	(2,546,667)
Lease Interest					
Dividend Income	(240,000)	(200,000)	(65,000)	(60,000)	(40,000)
Profit/(loss) on disposal of property,plant & equipment	(657,287)	(325,359)	754,272	(296,872)	233,430
Project participants written back					
Sundry Income					
Fair value gain on investment property	(114,850,000)	(130,550,000)	(149,300,000)	(14,000,000)	
Impairment charge/(reversal) for loans and other assets	842,911,063	685,269,932	712,008,300	110,452,151	70,407,512
Provision for value added tax	360,083,419	392,263,488	331,394,045	234,120,096	138,233,612
Provision for Debt Recovery Levy	96,275,024				
Crop insurance levy	8,370,000	10,480,000	11,601,542	11,349,144	3,872,913
Provision for nation building tax	48,011,123	52,301,798	49,278,589	42,567,290	23,514,572
Ammortization on intangible assets	49,539,886	37,783,276	23,738,355	8,180,662	4,532,421
Depreciation - on property,plant & equipment	132,321,898	126,830,182	110,572,370	78,173,019	52,352,182
Gratuity provision	42,355,344	41,780,547	35,619,133	31,690,645	29,250,107
(Gain)/loss on mark to market valuation of Financial assets measured at Fair value through profit or loss	113,600	(1,103,040)	(81,840)	1,787,152	4,390,293
Disposal (gain)/loss from treasury bond		-	-	26,578,802	(3,621,850)
Provision for amount payable unde sip saviya scheme	1,200,000	1,200,000	1,200,000	1,100,000	1,021,427
Staff loan fair value adjustment			(4,500,000)	4,500,000	
Operating profit(loss) before changes in operating assets and liabilities	2,906,275,184	2,580,294,407	2,717,475,885	2,022,624,283	977,237,371
(Increase)/Decrease in operating assets					
Financial assets at amortised cost -Loans and advances to customers	(7,890,947,316)	(5,804,588,669)	(4,688,005,502)	(3,259,289,662)	(2,030,588,526)
Financial assets at amortised cost - Loans and advances to others	(51,165,604)	(83,949,832)	(119,076,674)	(195,023,753)	(155,596,331)
Other assets	(250,190,761)	(31,992,336)	(13,944,921)	(40,532,630)	(28,291,526)
Increase/(decrease) in operating liabilities					
Due to customers	3,762,708,507	4,781,118,455	3,558,442,443	2,752,125,940	4,010,761,637
Other Liabilities	217,067,143	581,616,282	117,293,001	54,065,373	8,095,232
Cash flow from operating activities	(1,306,252,847)	2,022,498,307	1,572,184,232	1,333,969,551	2,781,617,857
Gratuity paid	(5,753,625)	(4,040,992)	(3,700,400)	(3,582,213)	(8,098,775)
VAT paid	(284,999,282)	(411,379,502)	(378,963,036)	(307,532,596)	(238,327,337)
Income Tax paid	(443,187,546)	(806,451,351)	(530,294,140)	(201,303,324)	(96,916,342)
WHT paid	(7,167,948)	(21,249,698)	(11,090,158)	(1,129,598)	(218,945)
Notional Tax		(8,968,077)	(9,489,647)	(12,172,457)	(9,286,652)
NBT paid	(33,941,759)	(58,595,217)	(55,193,347)	(39,912,801)	(23,735,112)
Crop insurance Levy paid	(8,620,147)	(8,939,266)	(13,037,934)	(10,158,536)	(5,929,722)
ESC paid	(18,646,296)	(38,976,427)	(22,880,212)		
Debt Recovery Levy Paid	(67,830,030)				
Dividend paid		(326,720,318)	(189,153,868)		
Net Cash Flow from Operating Activities	(2,176,399,479)	337,177,459	358,381,490	758,178,026	2,399,104,972

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB FINANCE LIMITED.

-3-

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF CASH FLOWS

Year ended 31st March	2019 Rs	2018 Rs	2017 Rs	2016 Rs	2015 Rs
CASH FLOW FROM OPERATING ACTIVITIES					
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant & equipment	(136,968,171)	(104,281,973)	(113,828,308)	(148,402,241)	(120,683,718)
Purchase of intangible asset	(91,548,030)	(42,238,874)	(83,009,468)	(68,323,759)	
Investment properties purchased/disposal			4,200,000	(4,200,000)	
Proceeds from sale of property.plant & equipment	577,286	522,815	824,939	559,528	283,269
Net of investment in government security	(490,082,349)	(994,021,638)	440,069,336	342,324,589	(1,556,110,470)
Investment on debentures				(150,000,000)	
Net investment in fixed deposits	462,933,835	521,980,000	(290,000,000)	(984,467,991)	(1,336,500)
Investment in treasury bond				182,107,650	(198,357,922)
Fixed deposit interest received	36,432,055	213,564,250	40,242,123	967,782	1,484,977
Treasury bill interest received	137,847,227	46,682,993	47,888,930	8,976,547	6,169,740
Reverse repurchase interest received				49,836,339	49,170,398
Treasury bond interest received	1,440,000	1,440,000	1,440,000	17,520,000	1,600,000
Dividend income	240,000	200,000	65,000	60,000	40,000
Debenture interest received			16,875,000		
Financial assets at amortised cost -Debentures interest received	16,875,000				
Net Cash Flow from Investing Activities	(62,253,146)	(356,152,427)	64,767,552	(753,041,556)	(1,817,740,226)
CASH FLOW FROM FINANCING ACTIVITIES					
Lease instalments paid		(1,785,454)	(5,363,379)	(4,074,608)	(9,915,840)
Interest payments on debenture	(65,793,423)	(82,997,333)	(88,771,246)	(61,902,416)	(66,007,203)
Interest payments on borrowings	(276,280,016)	(60,979,110)	(24,503,761)	(8,511,811)	(16,976,059)
Debenture during the year	100,000,000				
Borrowings during the year	5,300,000,000	-	500,000,000	131,237,876	
Loans repayments during the year	(2,153,337,318)	(134,587,326)	(51,250,000)	(15,003,000)	(200,061,778)
Net Cash Flow from Financing Activities	2,704,589,242	(280,349,223)	330,111,614	41,746,041	(292,960,880)
Net increase/(decrease) in cash and cash equivalents	466,167,996	(299,324,191)	753,260,656	46,882,511	288,403,866
Cash and cash equivalents at the beginning of the year	905,159,755	1,204,483,946	451,223,290	404,340,779	115,936,913
Cash and cash equivalents at the end of the year	1,371,096,372	905,159,755	1,204,483,946	451,223,290	404,340,779

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB FINANCE LIMITED.

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31st March	2019 Rs	2018 Rs	2017 Rs	2016 Rs	2015 Rs
ASSETS					
Cash and cash equivalents	1,371,096,372	905,159,755	1,204,483,946	451,223,290	404,340,779
Financial assets measured at fair value through profit or loss/ Financial assets held for trading	16,014,400	16,128,000	15,024,960	14,943,120	194,914,296
Financial assets at amortised cost -Loans and advances to customers/members	16,755,608,663	14,009,773,608	13,260,731,825	8,759,039,215	5,538,291,449
Financial assets at amortised cost -Lease rentals receivables and stock out on hire	8,073,389,558	4,455,307,873			
Financial assets at amortised cost - Loans and advances to others	641,712,440	579,593,110	503,034,338	379,450,581	186,387,074
Financial assets measured at fair value through other comprehensive income/Financial investments - Available-For-Sale	12,430,283	12,430,283	12,430,283	12,430,283	234,000
Financial assets at amortised cost - Debt and other instruments/Financial investments - Held-To-Maturity and loans and receivables	2,487,353,578	2,522,430,351	2,050,388,713	2,639,328,475	1,822,097,147
Other Assets	492,794,672	242,603,911	210,611,575	196,666,654	156,134,024
Investment properties	1,295,000,001	1,180,150,000	1,049,600,000	904,500,000	886,300,000
Intangible Assets	173,541,897	131,533,753	127,078,155	67,807,042	10,715,176
Property, plant & equipment	1,420,476,897	1,158,835,158	1,119,409,029	950,441,553	880,474,986
Deferred tax Assets	189,768,514	124,848,966	-	-	5,978,982
Total Assets	32,929,187,275	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,913
LIABILITIES					
Financial Liabilities at Amortised cost - Due to Customers	22,632,141,889	18,821,363,686	14,040,245,231	10,420,418,906	7,557,913,372
Financial Liabilities at Amortised cost -Debt issued and other borrowed funds	4,217,579,835	1,178,231,116	1,333,380,268	909,572,460	815,134,777
Income tax payable	80,353,556	203,496,098	353,447,803	278,240,026	109,483,565
Value Added Tax patable	49,704,847	(25,379,290)	(6,263,276)	41,305,715	114,718,215
Other Liabilities	1,112,137,121	849,770,227	268,153,945	150,860,944	96,795,571
Retiring benefit obligation	207,802,822	181,016,637	157,508,878	134,383,355	119,196,601
Deferred tax liability		-	16,115,738	49,026,181	-
Total Liabilities	28,299,720,070	21,208,498,474	16,162,588,587	11,983,807,587	8,813,242,101
SHAREHOLDERS' FUND					
Stated capital	223,545,481	223,545,481	223,545,481	223,545,481	3,895,806,240
General Reserve	82,897,989	82,897,989	82,897,989	82,897,989	82,897,989
Statutory reserve fund	1,006,995,465	840,876,301	638,519,637	426,752,800	204,734,159
Investment Fund		-	-	-	-
Revaluation reserve	591,713,996	429,266,191	384,484,029	262,313,846	262,313,846
Retained earning	2,724,314,273	2,553,710,332	2,060,757,101	1,396,512,510	(3,173,126,422)
Total Equity and Liabilities	32,929,187,275	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,913

ERNST & YOUNG Chartered Accountants COLOMBO

HNB FINANCE LIMITED.

-5-

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF CHANGERS IN EQUITY

Year ended 31st March	Stated Capital Rs	General Reserves Rs	Statutory Reserves Rs	Investment Fund Rs	Revaluation Reserve Rs	Retained Earnings Rs	Total Rs
Balance as at 01st April 2014	3,895,806,240	82,897,989	97,824,884	61,395,350	267,482,817	(3,665,255,192)	740,152,088
Profit for the year						534,546,376	534,546,376
Comprehensive income for the year, net of tax							
Other comprehensive income for the year net of tax					384,555	(2,457,207)	(2,072,652)
Total comprehensive income for the year	-	-	-	-	384,555	532,089,169	532,473,724
Transactions recorded directly in equity							
Realisation on account of depreciation on revalued assets					(5,553,526)	5,553,526	-
Transfer of investment fund to retained earning				(61,395,350)		61,395,350	-
Transfer to statutory reserve fund			106,909,274			(106,909,274)	-
Balance as at 31st March 2015	3,895,806,240	82,897,989	204,734,158	-	262,313,846	(3,173,126,421)	1,272,625,812
Profit for the year						1,110,093,205	1,110,093,205
Comprehensive income for the year, net of tax							
Acturial gain/(losses) on defined benefit plans						12,921,679	12,921,679
Deferred tax effect on acturial gains/(losses) on defined benefit plans						(3,618,070)	(3,618,070)
Total comprehensive income for the year	-	-	-	-	-	1,119,396,814	1,119,396,814
Transactions recorded directly in equity							
Transfer to statutory reserve fund			222,018,641			(222,018,641)	-
Capital Reduction	(3,672,260,759)					3,672,260,759	-
Balance as at 31st March 2016	223,545,481	82,897,989	426,752,799	-	262,313,846	1,396,512,511	2,392,022,626

ERNST & YOUNG Chartered Accountants COLOMBO

HNB FINANCE LIMITED.

-6-

FIVE YEAR SUMMARY

HNB FINANCE LIMITED
STATEMENT OF CHANGERS IN EQUITY

Year ended 31st March	Stated Capital Rs	General Reserves Rs	Statutory Reserves Rs	Investment Fund Rs	Revaluation Reserve Rs	Retained Earnings Rs	Total Rs
Profit for the year						1,058,834,186	1,058,834,186
Comprehensive income for the year, net of tax							
Acturial gain/(losses) on defined benefit plans						8,793,209	8,793,209
Deferred tax effect on acturial gains/(losses) on defined benefit plans						(2,462,099)	(2,462,099)
Revaluation Reserve of free hold Lands & Buildings					166,240,013		166,240,013
Deferred tax effect on revaluation on Buildings					(44,069,830)		(44,069,830)
Total comprehensive income for the year	-	-	-	-	122,170,183	1,065,165,296	1,187,335,479
Transactions recorded directly in equity							
Transfer to statutory reserve fund			211,766,837			(211,766,837)	-
Dividend paid						(189,153,868)	(189,153,868)
Balance as at 31st March 2017	223,545,481	82,897,989	638,519,636	-	384,484,029	2,060,757,102	3,390,204,237
Profit for the year						1,011,783,320	1,011,783,320
Comprehensive income for the year, net of tax							
Acturial gain/(losses) on defined benefit plans						14,231,796	14,231,796
Deferred tax effect on acturial gains/(losses) on defined benefit plans						(3,984,903)	(3,984,903)
Revaluation Reserve of free hold lands and buildings - Net of Differed Tax					44,782,162		44,782,162
Total comprehensive income for the year	-	-	-	-	44,782,162	1,022,030,213	1,066,812,375
Transactions recorded directly in equity							
Transfer to statutory reserve fund			202,356,664			(202,356,664)	-
Dividend paid						(326,720,318)	(326,720,318)
Balance as at 31st March 2018	223,545,481	82,897,989	840,876,300	-	429,266,191	2,553,710,333	4,130,296,294
Impact of application of SLFRS 9 - Net of Differed Tax						(500,939,901)	(500,939,901)
Restated Balance as at 31 March 2018 under SLFRS 9	223,545,481	82,897,989	840,876,300	-	429,266,191	2,052,770,432	3,629,356,393
Profit for the Year						830,595,822	830,595,822
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						9,815,534	9,815,534
Deferred tax effect on actuarial gain on defined benefit plans						(2,748,350)	(2,748,350)
Revaluation Reserve of free hold lands and buildings - Net of Differed Tax					162,447,806		162,447,806
	-	-	-	-	162,447,806	837,663,006	1,000,110,812
Transactions recorded directly in equity							
Transferred to statutory reserve fund			166,119,164			(166,119,164)	
Balance as at 31st March 2019	223,545,481	82,897,989	1,006,995,464	-	591,713,997	2,724,314,274	4,629,467,205

ERNST & YOUNG Chartered Accountants COLOMBO

HNB FINANCE LIMITED.

-7-

ANNEXURE B: INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS AND AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED MARCH 31, 2019, MARCH 31, 2018 AND MARCH 31, 2017

Financial year ended March 31, 2019

Authorized Signature

HNB FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2019

Building a better working world

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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

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/)

EY
Building a better
working world

HNB Finance Limited
True Copy
Authorized Signature

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
Gross Income	**4.**	**8,291,663,723**	**7,482,548,192**
Interest income		7,229,168,801	6,537,663,310
Interest expenses		(2,802,086,025)	(2,373,460,579)
Net Interest Income	**5.**	4,427,082,776	4,164,202,731
Fee and commission income		777,756,571	702,441,739
Fee and commission expenses		(152,804,593)	(121,654,558)
Net Fee and Commission Income	**6.**	624,951,978	580,787,181
Net Interest, Fee and Commission Income		**5,052,034,754**	**4,744,989,912**
Other operating income	**7.**	284,738,350	242,443,143
Net mark to market valuation gain	**7.**	(113,600)	1,103,040
Total Operating Income		5,336,659,505	4,988,536,095
Impairment charges for loans and other losses	**8.**	(842,911,062)	(685,269,932)
Net Operating Income		4,493,748,442	4,303,266,163
Personnel expenses	**9.**	(1,235,850,374)	(1,108,124,495)
Other expenses	**10.**	(1,492,214,080)	(1,167,908,603)
Total Operating Expenses		(2,728,064,454)	(2,276,033,098)
Operating Profit before Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services		1,765,683,988	2,027,233,064
Value Added Tax (VAT) and Debt Recovery Levy (DRL) on financial services	**11.**	(455,741,371)	(392,263,488)
Nation Building Tax (NBT) on financial services	**12.**	(48,011,123)	(52,301,798)
Operating Profit after Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services		1,261,931,494	1,582,667,778
Income tax expenses	**13.**	(431,335,672)	(570,884,458)
Profit for the Year		**830,595,822**	**1,011,783,320**
Basic earnings per share	**14.**	0.48	0.59

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

-3-

HNB Grameen Finance Limited

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

HNB Finance Limited
True Copy
Authorized Signature

	Note	2019 LKR	2018 LKR
Profit for the Year		**830,595,822**	**1,011,783,320**
Other Comprehensive Income for the Year, Net of Tax			
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)
Other Comprehensive Income for the Year, Net of Tax		169,514,990	55,029,055
Total Comprehensive Income for the Year		1,000,110,812	1,066,812,375

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	2019 LKR	2018 LKR
ASSETS			
Cash and cash equivalents	16	1,371,096,372	905,159,755
Financial assets measured at Fair value through profit or loss/ Financial assets held for trading	17	16,014,400	16,128,000
Financial assets at amortised cost -Loans and advances to customers/ members	18	16,755,608,663	14,009,773,608
Financial assets at amortised cost - Lease rentals receivables and stock out on hire	19	8,073,389,558	4,455,307,873
Financial assets at amortised cost - Loans and advances to others	20	641,712,440	579,593,110
Financial assets measured at fair value through other comprehensive income/ Financial investments - Available-For-Sale	21	12,430,283	12,430,283
Financial assets at amortised cost - Debt and other instruments/ Financial investments - Held-To-Maturity and loans and recivebles	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
Total Assets		32,929,187,275	25,338,794,768
LIABILITIES			
Financial Liabilities at Amortised cost - Due to Customers	28	22,632,141,889	18,821,363,686
Financial Liabilities at Amortised cost -Debt issued and other borrowed funds	29	4,217,579,835	1,178,231,116
Income tax payable	30	80,353,556	203,496,098
Value Added Tax payable	31	49,704,847	(25,379,290)
Other liabilities	32	1,112,137,121	849,770,227
Retiring benefit obligation	33	207,802,822	181,016,637
Total Liabilities		28,299,720,070	21,208,498,474
SHAREHOLDERS' FUND			
Stated capital	34	223,545,481	223,545,481
General reserve	35	82,897,989	82,897,989
Statutory reserve fund	36	1,006,995,465	840,876,301
Revaluation reserve	37	591,713,996	429,266,191
Retained earnings	38	2,724,314,274	2,553,710,332
Total Equity and Liabilities		32,929,187,275	25,338,794,768

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

....

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 from an integral part of the Financial Statements.

ERNST & YOUNG
Chartered Accountants
11 July 2019
Colombo
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

-5-

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
Balance as at 01 April 2017		**223,545,481**	**82,897,989**	**638,519,637**	**384,484,029**	**2,060,757,101**	**3,390,204,237**
Profit for the year		-	-	-	-	1,011,783,320	1,011,783,320
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						14,231,796	14,231,796
Deferred tax effect on actuarial gain on defined benefit plans		-	-	-	-	(3,984,903)	(3,984,903)
Revaluation Reserve of free hold lands and buildings - Net of Differed Tax	37	-	-	-	44,782,162	-	44,782,162
Total comprehensive income for the year		-	-	-	**44,782,162**	**1,022,030,213**	**1,066,812,375**
Transactions recorded directly in equity							
Transfer to statutory reserve fund		-	-	202,356,664	-	(202,356,664)	-
Dividend paid		-	-	-	-	(326,720,318)	(326,720,318)
Balance as at 31 March 2018		**223,545,481**	**82,897,989**	**840,876,301**	**429,266,191**	**2,553,710,332**	**4,130,296,294**
Impact of application of SLFRS 9 - Net of Differed Tax	15					(500,939,901)	(500,939,901)
Restated Balance as at 31 March 2018 under SLFRS 9		**223,545,481**	**82,897,989**	**840,876,301**	**429,266,191**	**2,052,770,431**	**3,629,356,393**
Profit for the year		-	-	-	-	830,595,822	830,595,822
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						9,815,534	9,815,534
Deferred tax effect on actuarial gain on defined benefit plans		-	-	-		(2,748,350)	(2,748,350)
Revaluation Reserve of free hold lands and buildings - Net of Differed Tax	37	-	-	-	162,447,806	-	162,447,806
		-	-	-	**162,447,806**	**837,663,007**	**1,000,110,812**
Transactions recorded directly in equity							
Transferred to statutory reserve fund		-	-	166,119,164	-	(166,119,164)	-
Balance as at 31 March 2019		**223,545,481**	**82,897,989**	**1,006,995,465**	**591,713,996**	**2,724,314,274**	**4,629,467,205**

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

-6-

HNB Finance Limited

HNB Finance Limited True Copy Authorized Signature

STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	Note	2019 LKR	2018 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before Tax		1,261,931,494	1,582,667,778
Adjustments			
Interest expenses on borrowings	5.2	276,280,016	60,979,110
Interest expenses on debentures	5.2	71,480,904	89,057,578
Interest income from Financial assets at amortised cost - Debt and other instruments	5.1	(167,411,299)	(366,540,884)
Interest income on Financial assets measured at Fair value through profit or loss	5.1	(1,440,000)	(1,600,000)
Dividend income	7.1	(240,000)	(200,000)
Profit/(loss) on disposal of Property, Plant & 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
Ammortization on intangible assests	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**
CASH FLOW FROM INVESTING ACTIVITIES			
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)**
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid		-	(1,785,454)
Interest payments on debentures	5.2	(65,793,423)	(82,997,333)
Interest payments on borrowings	5.2	(276,280,016)	(60,979,110)
Debenture during the Year	29.1.1	100,000,000	
Borrowings during the year	29	5,300,000,000	-
Loans repayments during the year	29	(2,153,337,318)	(134,587,326)
Net Cash Flow from Financing Activities		**2,704,589,242**	**(280,349,223)**
Net increase/(decrease) in cash and cash equivalents		466,167,996	(299,324,191)
Cash and cash equivalents at the beginning of the year	16	905,159,755	1,204,483,946
Cash and cash equivalents at the end of the year	16	1,371,096,372	905,159,755

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

ERNST & YOUNG COLOMBO

-7-

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 11th July 2019

ERNST & YOUNG
Chartered
Accountants

HNB Finance Limited
True Copy
Authorized Signature

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The financial statements of the Company which comprise the Statement of Financial Position, Statement of Comprehensive Income , Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with Sri Lanka Accounting Standards prefixed both SLFRS and LKAS (here after known as "SLFRSs/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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

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 1st April 2018. This standard replaced Sri Lanka Accounting Standard LKAS 39 – "Financial Instruments: Recognition and Measurement" (LKAS 39). SLFRS 9 brought about significant changes to the classification and measurement of financial instruments and impairment assessment pertaining to such instruments. These changes are discussed in Notes 2.1.6.1 (a) and 2.1.6.1 (b) to the Financial Statements.

2.1.6.1(a) Changes to the impairment calculation

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

2.1.6.1(b) Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and receivables - amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments 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 1st April 2018. Adoption of this standard did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Company for the year beginning 1st April 2018.

2.1.6.4 Application of Accounting Policies

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

2.1.6.5 Comparative Information

The comparative information has been reclassified where ever necessary to conform 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.

HNB Finance Limited
True Copy
Authorized Signature

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 1st April 2018

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

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants

HNB Finance Limited
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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

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

Financial assets at fair value through profit or loss

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

ST & YOUNG
Chartered
Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

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 of 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

HNB Finance Limited
True Copy
Authorized Signature

- 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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

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.

HNB Finance Limited
True Copy
Authorized Signature

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

- 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.

HNB Finance Limited
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

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.

HNB Finance Limited
True Copy
Authorized Signature

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

Investment property is initially measured at cost and subsequently at fair value with any change therein 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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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

The Company recognizes all actuarial gains and losses arising from the defined benefit plan in the Statement of 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.

2.3.11 Provisions

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

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

2.3.12 Income Tax Expense

2.3.12.1 Current Tax Expense

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

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

2.3.12.2 Deferred Taxation

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

Ernst & Young
Chartered Accountants
Colombo

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.

HNB Finance Limited
True Copy
Authorized Signature

4.	GROSS INCOME		2019 LKR	2018 LKR
	Interest income		7,229,168,801	6,537,663,310
	Fee and commission income		777,756,571	702,441,739
	Other income		284,738,350	242,443,143
	Total Income		**8,291,663,723**	**7,482,548,192**

5.	NET INTEREST INCOME		2019 LKR	2018 LKR
	Interest income	5.1	7,229,168,801	6,537,663,310
	Interest expense	5.2	(2,802,086,025)	(2,373,460,579)
	Net interest income		4,427,082,776	4,164,202,731

5.1	Interest income	2019 LKR	2018 LKR
	Financial assets at amortised cost -Loans and advances to customers/ members	5,736,304,837	5,449,581,653
	Financial assets at amortised cost - Rentals recievables 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 recivebles	167,411,299	366,540,884
	Financial assets measured at fair value through profit or loss/ Financial assets held for	1,440,000	1,600,000
	Savings deposits	48,538,246	73,725,905
	Net interest income	7,229,168,801	6,537,663,310

5.2	Interest expense		
	Deposits from customers	2,454,325,105	2,223,423,891
	Debentures	71,480,904	89,057,578
	Other borrowings	276,280,016	60,979,110
		2,802,086,025	2,373,460,579

6.	NET FEE AND COMMISION INCOME	2019 LKR	2018 LKR
	Fee and commission income	777,756,571	702,441,739
	Fee and commission expenses	(152,804,593)	(121,654,558)
		624,951,978	580,787,181

7.	OTHER INCOME		2019 LKR	2018 LKR
	Other operating income	7.1	284,738,350	242,443,143
	Net mark to market valuation gain		(113,600)	1,103,040
			284,624,750	243,546,183

ERNST & YOUNG
Chartered Accountants

HNB Finance Limited
True Copy
Authorized Signature

7. OTHER INCOME (Contd...)

7.1 Other Operating Income

	2019 LKR	2018 LKR
Rent income	37,674,941	45,975,462
Recovery of loan balance written-off	14,927,743	13,564,008
Fair Valuation of Investment Properties	114,850,000	130,550,000
Sundry income	116,388,380	51,828,314
Profit from disposal of Property, Plant and Equipment	657,287	325,359
Dividend income	240,000	200,000
	284,738,350	242,443,143

8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

		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	-
		842,911,062	685,269,932

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
Total impairment charge	**781,529,525**	**685,269,932**

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

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

8.2 Financial assets at Amortised Cost -Debt and Other Instruments

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

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 benefit cost	42,355,344	41,780,547
Total	1,235,850,374	1,108,124,495

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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	-
	455,741,371	392,263,488

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

Debt Recovery Levy (DRL)
In accordance with section 36 of Finance Act no 35 of 2018, Debt Recovery Levy is charged and levied for every month commencing from October 2018 till December 2021 from Every Financial institution at the rate of 7% on profit or loss prior to deducting the tax payable under the said section, the Value Added Tax payable under section 25A of the Value Added Tax Act No 14 of 2002.

12. NATION BUILDING TAX

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

13. INCOME TAX

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

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

	2019	2018
Accounting profit before tax	1,261,931,494	1,582,667,778
At the statutory income tax rate of 28% (2016: 28%)	353,340,818	443,146,978
Tax Effect on;		
Non deductible expenses	696,515,124	658,209,746
Deductible expenses	(703,996,694)	(419,987,411)
Current tax on profits for the year	345,859,248	681,369,313
Current income tax charge	345,859,248	681,369,313
Over/Under provision during previous year	-	5,348,108
Deferred taxation charge	85,476,424	(115,832,963)
Income tax expense at the effective income tax rate of 34.18% (2018: 36.07%)	431,335,672	570,884,458
Tax Losses Brought Forward and Utilised during the Year		
Balance at the beginning of the year	415,440,051	179,835,622
Tax losses utilised during the year	(415,440,051)	235,604,429
Tax losses not utilised and carried forward	-	415,440,051

14. EARNINGS PER SHARE

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

	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
	1,719,580,624	1,719,580,624
Basic earnings per ordinary share	0.48	0.59

ERNST & YOUNG
Chartered Accountants
COLOMBO

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	Category
Financial assets								
Cash and cash equivalents		L&R	905,159,755	-			905,159,755	AC
Financial assets at amortised cost - loans and advances and Rentals receivables and stock out on hire		L&R	19,044,674,591	-	(695,749,862)	-	18,348,924,729	AC
Financial assets at amortised cost - debt and other instruments		N/A	-	2,522,430,351	-	-	2,522,430,351	AC
From : Financial investments - loans and receivables				(307,112,770)	-		307,112,770	
From : Financial investments - held to maturity				(2,215,317,581)			2,215,317,581	
			-	2,522,430,351	-	-	2,522,430,351	
Financial assets measured at fair value through profit or loss		N/A	-	16,128,000	-	-	16,128,000	FVPL
From : Financial investments - held for trading				(16,128,000)			16,128,000	
			-	16,128,000	-	-	16,128,000	
Financial assets measured at fair value through other comprehensive income		N/A	-	12,430,283	-	-	12,430,283	FVOCI
From : Financial investments - available for sale				(12,430,283)			12,430,283	
			-	12,430,283	-	-	12,430,283	
Financial investments - held to maturity		HTM	2,215,317,581	(2,215,317,581)			-	N/A
To : Financial assets at amortised cost - debt and other instruments				2,215,317,581				
			2,215,317,581	(2,215,317,581)	-	-	-	
Financial investments - available for sale		AFS	12,430,283	(12,430,283)	-	-	-	N/A
To : Financial investments - fair value through other comprehensive income				12,430,283	-	-		
			12,430,283	(12,430,283)	-	-	-	
Financial investments - loans and receivables		L&R	307,112,770	(307,112,770)	-	-	-	N/A
To : Financial assets at amortised cost - debt and other instruments				307,112,770				
			307,112,770	(307,112,770)	-	-	-	
Financial Assets - held for trading		HFT	16,128,000	(16,128,000)	-	-	-	N/A
To : Financial assets measured at fair value through profit or loss				16,128,000				
			16,128,000	(16,128,000)	-	-	-	
Non financial assets								
Other Assets		N/A	242,603,911	-	-	-	242,603,911	N/A
Investment Properties		N/A	1,180,150,000	-	-	-	1,180,150,000	N/A
Property, Plant and Equipment		N/A	1,158,835,158	-	-	-	1,158,835,158	N/A
Intangible Assets		N/A	131,533,753	-	-	-	131,533,753	N/A
Deferred Tax		N/A	124,848,966	-	-	194,809,961	319,658,927	N/A
Total assets			25,338,794,768	-	(695,749,862)	194,809,961	24,837,854,867	

ERNST & YOUNG Chartered Accountants COLOMBO

HNB Finance Limited True Copy Authorized Signature

-36-

15. TRANSITION DISCLOSURES (Contd..)

	Company							
	LKAS 39 measurement				Premeasurement		SLFRS 9	
	Note	Category	Amount LKR	Reclassification LKR	ECL LKR	Other LKR	Amount LKR	Category
Financial liabilities								
Interest Bearing Borrowings		AC	1,178,231,116	-	-	-	1,178,231,116	AC
Due to the Customers		AC	18,821,363,686	-	-	-	18,821,363,686	AC
Other Financial Liabilities		AC	809,883,196	-	-	-	809,883,196	AC
Non financial liabilities								
Other Non Financial Liabilities		N/A	39,887,031	-	-	-	39,887,031	
Retirement Benefit Liability		N/A	181,016,637	-	-	-	181,016,637	
Current Tax Liabilities		N/A	178,116,808	-	-	-	178,116,808	
Total liabilities			21,208,498,474	-	-	-	21,208,498,474	

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

	Retained earnings LKR
Balance as at 31st March 2018 (as per LKAS-39)	2,553,710,332
Impact on reclassification and remeasurement	-
Impact on recognition of expected credit losses under SLFRS 9	
Financial assets at amortised cost - loans and advances	(695,749,862)
Deferred tax in relation to the above	194,809,961
Balance as at 1st April 2018 (as per SLFRS-09)	2,052,770,431

The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Loan loss provision under LKAS 39/LKAS 37 at 31 March 2018 LKR	Re-measurement LKR	ECLs under SLFRS 9 at 1 April 2018 LKR
Impairment allowance for			
Financial assets at amortised cost - loans and advances to customers, lease rental receivable and stock out on hire and loans and advances to others	980,123,826	695,749,862	1,675,873,688
	980,123,826	695,749,862	1,675,873,688

ERNST & YOUNG Chartered Accountants COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

-37-

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
Total	1,371,096,372	905,159,755

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
	16,730,272	16,730,272
Less: Loss from mark to market valuation	(715,872)	(602,272)
	16,014,400	16,128,000

As at 31 March 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
		16,250,272	16,000,000	16,014,400

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)
	16,755,608,663	14,009,773,608

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

		2019		2018	
	Note	Amortized Cost LKR	Impairment LKR	Amortized Cost LKR	Impairment LKR
Loans and advances to customers	18.1	18,092,749,095	1,924,739,756	14,398,193,066	883,007,105
Gold loan 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	-
		18,682,625,619	1,927,016,956	14,892,780,713	883,007,105

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
	18,092,749,095	**1,924,739,756**	**16,168,009,339**

HNB Finance Limited
True Copy
Authorized Signature

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	474,616,798	83,274,407	1,366,848,551	1,924,739,756

(b) Movement in impairment allowance	2019 LKR	2018 LKR
As at 01 April	883,007,105	372,493,753
Transition impact on adoption of SLFRS 9	519,078,406	-
Charges/(reversals) for the year	578,202,325	588,478,137
Amounts written off	(55,548,080)	(77,964,785)
As at 31 March	1,924,739,756	883,007,105
Collective impairment	1,924,739,756	883,007,105
Total	**1,924,739,756**	**883,007,105**

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

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	-	-	-
	79,204,149	2,277,200	76,926,949

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	2,208,021	69,179	-	2,277,200

(b) Movement in impairment allowance	2019 LKR	2018 LKR
As at 01 April	-	-
Transition impact on adoption of SLFRS 9	-	
Charges/(reversals) for the year	2,277,200	-
As at 31 March	2,277,200	-
Collective impairment	2,277,200	-
Total	**2,277,200**	**-**

18.4 Loan against Fixed Deposits

	2019 LKR	2018 LKR
Loan against fixed deposits	501,467,033	435,748,349
Interest receivable on loan against fixed deposits	9,205,342	8,440,143
	510,672,375	444,188,492

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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

19.1 **Lease rentals receivable and stock out on hire**

	Gross rentals receivables	Allowance for impairment losses	Net rentals receivable
Stage - 1	7,493,342,694	175,491,195	7,317,851,499
Stage - 2	693,979,916	91,563,760	602,416,156
Stage - 3	257,666,850	104,544,947	153,121,903
	8,444,989,460	**371,599,902**	**8,073,389,558**

19.2 **Allowance for impairment losses**

(a) Movement in impairment allowance during the year

		Collective		Total
	Stage -1	Stage -2	Stage -3	
Balance as at 01 April 2018 (LKAS 39)				86,136,026
Transition impact on adoption of SLFRS 9				176,671,457
Balance as at 01 April 2018 (SLFRS 09)	144,462,520	57,628,487	60,716,476	262,807,483
Charges/(Reversals) for the year	31,028,675	33,935,273	147,039,777	212,003,725
Amount written off	-	-	(103,211,306)	(103,211,306)
Balance as at 31 March 2019	**175,491,195**	**91,563,760**	**104,544,947**	**371,599,902**

(b) Movement in impairment allowance	2019 LKR	2018 LKR
As at 01 April	86,136,026	324,926
Transition impact on adoption of SLFRS 9	176,671,457	-
Charges/(reversals) for the year	212,003,725	85,811,100
Amounts written off	(103,211,306)	-
As at 31 March	**371,599,902**	**86,136,026**
Collective impairment	371,599,902	86,136,026
Total	**371,599,902**	**86,136,026**

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

ERNST & YOUNG
COLOMBO

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 custor	8.1	580,479,526	580,479,526
Charge for the year - Lease rentals receivable and :	8.2	212,003,725	212,003,725
Day 1 impact from the application of SLFRS 9		695,749,862	695,749,862
Balance as at 31 March 2019		2,298,616,859	2,298,616,859

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

		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)
		641,712,440	579,593,110

20.1 **Staff Loans**

	2019 LKR	2018 LKR
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	344,338,944	357,473,118

20.2 **Allowance for impairment losses**

Balance as at 31 March 2018	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
	3,589,635	7,391,060	-	10,980,695

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)	-	-
	10,980,695	(10,953,726)	-	26,969

HNB Finance Limited
True Copy
Authorized Signature

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
		12,430,283	12,430,283

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

21.1 Investments In Non Quoted Shares

	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
		50,888,757		50,888,757
Less: Allowance for impairment losses		(38,458,474)		(38,458,474)
		12,430,283		12,430,283

22. FINANCIALASSETS 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
		2,487,353,578	2,522,430,351

22.1 Sri Lanka Government Securities

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

22.2 Reverse repurchase agreements

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

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
		492,794,672	242,603,911

23.1 Other Non Financial Assets

	2019 LKR	2018 LKR
Other receivables	225,541,063	152,344,913
Less: Allowance for impairment losses	-	(675,130)
	225,541,063	151,669,783

24. INVESTMENTS PROPERTIES

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

The Company carries investment properties at fair value. valuations of the above investment properties were carried out as at 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
Cost		
Balance at the beginning of the year	217,776,268	175,537,394
Additions during the year	91,548,030	42,238,874
Balance at the end of the year	309,324,298	217,776,268
Amortization and Impairment		
Balance at the beginning of the year	86,242,515	48,459,239
Charge for the year	49,539,886	37,783,276
Balance at the end of the year	135,782,401	86,242,515
Net Book Value	**173,541,897**	**131,533,753**

25.1 Intangible Assets by Class

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

-44-

HNB Finance Limited
True Copy
Authorized Signature

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	-
	1,420,476,897	1,158,835,158

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	(189,768,514)	(124,848,966)

Deferred tax assets, liabilities relates to the following

	2019 LKR	2018 LKR
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	**(189,768,514)**	**(124,848,966)**

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

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
		4,217,579,835	1,178,231,116

29.1 Financial Liabilities at Amortised Cost - Redeemable Debentures

	2019 LKR	2018 LKR
Balance at the beginning of the year	665,000,000	765,000,000
Interest payable to debenture holders	5,687,481	5,454,221
	670,687,481	770,454,221

29.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2019	Outstanding as at 31 March 2018
2010	Seylan bank PLC	001	Secured	125,000,000	125,000,000
2010	Seylan bank PLC	002	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	003	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	004	Secured	140,000,000	140,000,000
2013	Prime Lands (Private) Limited	001	Unsecured	-	100,000,000
				665,000,000	765,000,000

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

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

29.2	2019 LKR	2018 LKR
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	3,545,818,358	399,155,676

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
	549,355,346	1,040,165,224
Payment made during the year	(443,187,546)	(806,451,351)
WHT paid	(7,167,948)	(21,249,698)
Notional tax	-	(8,968,077)
ESC receivables	(18,646,296)	-
Balance at the end of the year	80,353,556	203,496,098

31. VALUE ADDED TAX PAYABLE

	2019 LKR	2018 LKR
Balance at the beginning of the year	(25,379,290)	(6,263,276)
Provision made		
VAT on financial services	360,083,419	392,263,488
	334,704,129	386,000,212
Payment made during the year	(284,999,282)	(411,379,502)
	49,704,847	(25,379,290)

32.	OTHER LIABILITIES	Notes	2019 LKR	2018 LKR
	Other financial liabilities	32.1	1,026,950,339	809,883,196
	Other non financial liabilities	32.2	85,186,782	39,887,031
			1,112,137,121	849,770,227
32.1	**Other Finanacial Liabilities**			
	Other payables		1,026,950,339	809,883,196
			1,026,950,339	809,883,196
32.2	**Other Non Financial Liabilities**			
	NBT payable		15,646,807	1,504,899
	WHT payable		11,763,440	1,766,463
	Other payables		57,776,535	36,615,669
			85,186,782	39,887,031

33.	RETIRING BENEFIT OBLIGATION		2019 LKR	2018 LKR
	Movements in present value of the the retirement benefit obligation are as follows;			
	Balance at the beginning of the year		181,016,637	157,508,878
	Add : Retiring gratuity expenses	33.1	32,539,810	27,548,751
			213,556,447	185,057,629
	Less : Benefits paid during the year		(5,753,625)	(4,040,992)
	Balance at the end of the year		207,802,822	181,016,637
33.1	**Retiring Gratuity Expense**			
	Current service cost		23,982,155	23,667,026
	Interest cost		18,373,189	18,113,521
			42,355,344	41,780,547
	Actuarial (gain) / loss		(9,815,534)	(14,231,796)
			32,539,810	27,548,751

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 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 define 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
Present value of defined benefit obligation		
Discount rate		
1% Less	221,562,710	193,518,502
1% More	195,543,090	169,935,946
Salary escalation rate		
1% Less	195,716,884	170,284,273
1% More	221,139,460	192,909,991

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

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

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the company at the end of the financial year and include benefits attributable to estimated future employee service.

34. STATED CAPITAL

	Issued and fully paid voting ordinary shares	Issued and fully paid non voting ordinary shares	Total
	Number	Number	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

	2019 LKR	2018 LKR
Leases as lessee		
Non-cancellable operating lease rentals payables as follows.		
Future Commitments on operating leases		
Less than one year	73,089,489	49,078,122
Between one and five years	218,899,557	100,183,157
More than five years	100,634,449	42,412,659
Total opearting lease commitments	392,623,495	191,673,938

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

40. EVENTS AFTER THE REPORTING DATE

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

HNB Finance Limited
True Copy
Authorized Signature

41. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2019.

42. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties " in Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures. The Terms and Conditions of such transactions are disclosed under 42.1 and 42.2

42.1 Transactions With Parent Company and Related Companies

During the year ended 31 March 2019 and March 2018, the Company has carried out transactions with it's related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated

42..1 Transactions with the Parent Company

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

	2019 LKR	2018 LKR
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

Transactions with Prime Lands (Pvt) Ltd

	2019 LKR	2018 LKR
Statement of Comprehensive Income		
Other Operating Income - Rent income	577,500	547,500
Interest expense - Debt issued and other borrowed funds - Borrowings	4,284,932	17,000,000
Interest expense - Financial Liabilities at Amortised cost - Due to Customers - fixed 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 liabilites at Amortised cost - Due to customers - Fixed deposits	3,383,316	3,360,986

42.1.3 Transactions with HNB Assurance

	2019	2018
Statement of Comprehensive Income		
Other operating income - sundry income	-	2,126,302
Interest expense - Financial liabilites 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

ERNST & YOUNG
Chartered
Accountants

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-t	138,478,079	89,680,772
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

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

	2019 LKR	2018 LKR
Short-term benefits	24,154,000	21,835,200
	24,154,000	21,835,200

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

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

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

43. PLEDGED ASSETS

		Carrying amount pledged		Included under
Nature of assets	**Nature of liability**	**2019 LKR**	**2018 LKR**	
Immovable properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties

HNB Finance Limited
True Copy
Authorized Signature

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).

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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	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 recievables 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 oter	3,014,714,027	-	(527,360,449)	2,487,353,578
Other financial assets	267,253,609	-	-	267,253,609
Total financial assets	22,126,511,484	10,324,351,695	(2,826,004,277)	29,624,858,902

As at 31 March 2019	Overdue				Total
	Less than 30 Days LKR	30 to 60 Days LKR	60 to 90 Days LKR	More than 90 Days LKR	LKR
Financial assets at amortised cost - Loans and advances to customers	1,099,964,538	416,980,707	426,968,004	3,511,462,740	5,455,375,989
Financial assets at amortised cost - Rentals recievables and stock out on hire	2,031,278,640	1,292,857,513	695,718,206	820,684,218	4,840,538,577
Financial assets at amortised cost - Loans and advances to others	17,716,205	1,137,860	2,590,195	6,992,869	28,437,129
	3,148,959,383	1,710,976,080	1,125,276,405	4,339,139,827	10,324,351,695

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited True Copy
Authorized Signature

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 recievables 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 oter instruments	2,487,353,578	245,731,234
Other financial assets	267,253,609	267,253,609
Total financial assets	29,624,858,902	17,097,641,513

As at 31 March 2018	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
Total financial assets	22,591,757,111	14,584,059,399

44.4 Liquidity Risk

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

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

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

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

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

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.

Ernst & Young Chartered Accountants COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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
Nothern	2,005,907,550	7	1,590,146,619	8
Sabaragamuwa	1,616,543,545	6	1,158,369,401	6
Central	2,539,684,709	9	2,069,167,049	10
	27,769,354,495	100	20,024,798,420	100

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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 recievables 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
Financialassets at amortised cost -debt and oter instruments	2,487,353,578	2,334,226,311	906,427,210	1,188,392,647	239,406,454
Other financial assets	267,253,609	267,253,609	72,711,103	151,856,436	42,686,069
	29,624,858,903	**37,399,225,183**	**15,100,786,390**	**12,668,728,105**	**9,629,710,688**
Financial liabilities at amortised cost - due to customers	22,632,141,889	27,202,850,589	4,770,957,506	8,122,974,368	14,308,918,714
Financial liabilities at amortised cost -debt issued and other borrowed funds	4,217,579,835	6,038,755,488	1,154,953,993	946,807,484	3,936,994,011
other financial liabilities	1,026,950,339	1,026,950,339	1,007,640,653	680,426	18,629,260
	27,876,672,062	**34,268,556,416**	**6,933,552,152**	**9,070,462,278**	**18,264,541,986**
Liquidity gap related period	-	3,130,668,767	8,167,234,238	3,598,265,827	(8,634,831,299)
Liquidity gap cumulative	-	-	8,167,234,238	11,765,500,065	3,130,668,766

As at 31st March 2018	Carrying amounts LKR	Gross nominal outflow/(inflow) LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Cash and cash equivalents	905,159,755	905,159,755	905,159,755	-	-
Financial assets held for trading	16,128,000	16,128,000			16,128,000
Loans and advances to members	18,465,081,484	23,007,700,137	7,651,261,364	9,327,319,219	6,029,119,554
Loans and advances to others	579,593,110	737,848,137	32,338,615	126,607,670	578,901,852
Financial investment - Loans & receivables	307,112,770	401,627,212		66,937,869	334,689,343
Financial investments - Available for sale	12,430,283	12,430,283			12,430,283
Financial investments - Held to maturity	2,215,317,581	2,413,725,701	934,681,991	1,244,668,710	234,375,000
Other financial assets	90,934,126	90,934,126	31,429,381	29,429,059	30,075,686
	22,591,757,109	27,585,553,351	9,554,871,105	10,794,962,527	7,235,719,718
Due to customers	18,821,363,686	23,023,876,846	3,570,572,140	7,520,606,160	11,932,698,547
Debt issued and other borrowed funds	1,178,231,116	2,864,398,390	169,422,897	142,404,718	2,552,570,776
Other Financial Liabilities	809,883,195	809,883,195	776,527,489	13,827,103	19,528,603
	20,809,477,997	26,698,158,431	4,516,522,526	7,676,837,980	14,504,797,926
Liquidity gap related period	-	887,394,919	5,038,348,580	3,118,124,546	(7,269,078,207)
Liquidity gap cumulative	-	-	5,038,348,580	8,156,473,126	887,394,919

44.5 Market Risk

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

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

Ernst & Young
Chartered Accountants
COLOMBO

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 LKR	4 to 12 Months LKR	1 to 5 Years LKR	More than 5 Years LKR	Total as at 31 March 2019 LKR
Interest earning assets					
Cash and cash equivalents	1,371,096,372	-	-	-	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-	-	-	16,014,400
Financial assets at amortised cost -Debt and oter 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 recievables 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
Total interest earning assets	10,160,680,619	11,983,694,025	9,113,476,416	385,967,780	31,643,818,840
Interest bearing liabilities					
Financial liabilities at amortised cost - Due to customers	4,092,228,623	6,465,279,570	11,784,735,362	289,898,334	22,632,141,889
Financial liabilities at amortised cost -Debt issued and other borrowed funds	1,154,953,993	946,807,484	1,450,818,361	665,000,000	4,217,579,838
Total interest bearing liabilities	5,247,182,616	7,412,087,054	13,235,553,723	954,898,334	26,849,721,727
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	4,913,498,003	4,571,606,972	(4,122,077,308)	(568,930,553)	4,794,097,114
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	49,134,980	45,716,070	(41,220,773)	(5,689,306)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(49,134,980)	(45,716,070)	41,220,773	5,689,306	-

	Up to 3 Months LKR	4 to 12 Months LKR	1 to 5 Years LKR	More than 5 Years LKR	Total as at 31 March 2018 LKR
Interest earning assets					
Cash and cash equivalents	905,159,755				905,159,755
Financial assets held for trading	16,128,000				16,128,000
Financial investments - Held-To-Maturity	906,427,210	1,142,015,371	166,875,000		2,215,317,581
Loans and advances to members (gross)	6,637,463,440	8,041,426,898	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
Total interest earning assets	8,493,899,516	9,527,456,791	5,815,452,178	98,777,396	23,935,585,880
Interest bearing liabilities					
Due to customers	3,571,939,302	6,968,577,048	8,057,748,200	223,023,140	18,821,287,690
Debt issued and other borrowed funds	154,063,377	114,074,114	245,093,606	665,000,000	1,178,231,097
Total interest bearing liabilities	3,726,002,679	7,082,651,162	8,302,841,806	888,023,140	19,999,518,787
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	4,767,896,837	2,444,805,629	(2,487,389,628)	(789,245,744)	3,936,067,093
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	47,678,968	24,448,052	(24,873,896)	(7,892,457)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(47,678,968)	(24,448,052)	24,873,896	7,892,457	-

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 March 2019	Less than 3 month LKR	3-6 Months LKR	6-12 Months LKR	12-36 Months LKR	36-60 Months LKR	Over 60 Months LKR	Total LKR
Assets							
Cash and cash equivalents	1,371,096,372	-	-	-	-	-	1,371,096,372
Financial assets measured at fair value through profit or loss	16,014,400	-	-	-	-	-	16,014,400
Financial assets at amortised cost -Loans and advances to customers	6,867,145,036	2,703,470,515	4,405,249,235	2,219,258,956	497,878,902	62,606,018	16,755,608,663
Financial assets at amortised cost -Rentals recievables 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 oter 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
	9,477,377,842	4,000,248,406	6,799,318,796	7,993,839,110	1,171,339,797	3,487,063,323	32,929,187,275
Liabilities							
Financial liabilities at amortised cost - Due to customers	3,973,814,902	2,312,281,004	4,177,074,607	8,611,121,582	3,286,887,878	270,961,915	22,632,141,888
Financial liabilities at amortised cost -Debt issued and other borrowed funds	1,154,953,991	649,225,926	297,581,558	998,735,028	452,083,333	665,000,000	4,217,579,836
Income tax payable	80,353,556						80,353,556
Value Added Tax payable	49,704,847						49,704,847
Other liabilities	1,080,642,580	60,730	619,696	900,851	509,701	29,403,562	1,112,137,120
Retiring benefit obligation						207,802,822	207,802,822
Shareholder's fund	-	-	-	-	-	4,629,467,205	4,629,467,205
	6,339,469,877	2,961,567,660	4,475,275,861	9,610,757,461	3,739,480,912	5,802,635,504	32,929,187,275

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
Assets							
Cash and cash equivalents	905,159,755	-	-	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	-	-	16,128,000
Loans and advances to members	6,240,232,701	3,574,814,196	3,988,640,624	3,058,795,212	1,581,735,334	20,863,415	18,465,081,482
Loans and advances to others	16,649,975	26,420,846	59,896,449	248,027,162	151,716,451	76,882,226	579,593,109
Financial investment - Loan & 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
	8,158,934,399	4,243,516,517	4,726,405,490	3,425,115,896	2,009,852,716	2,774,969,750	25,338,794,768
Liabilities							
Due to customers	3,572,015,298	2,732,528,821	4,236,048,227	3,437,308,443	4,620,439,757	223,023,140	18,821,363,686
Debt issued and other borrowed funds	154,063,386	38,024,708	76,049,416	245,093,606	-	665,000,000	1,178,231,116
Income tax payable	203,496,098	-	-	-	-	-	203,496,098
Value Added Tax payable	(25,379,290)	-	-	-	-	-	(25,379,290)
Other liabilities	816,414,520	12,451,637	1,375,466	5,035,379	847,999	13,645,226	849,770,227
Retiring benefit obligation	-	-	-	-	-	181,016,637	181,016,637
Shareholder's fund	-	-	-	-	-	4,130,296,294	4,130,296,294
Deferred tax liability	-	-	-	-	-	-	-
	4,720,610,012	2,783,005,166	4,313,473,109	3,687,437,428	4,621,287,756	5,212,981,297	25,338,794,768

Chartered Accountants
COLOMBO

HNB Finance L
True Copy
Authorized Signature

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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

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- Fair Value Through Profit Or Loss	Financial Assets/Liabilities Measured at Fair Value Through Other Comprehensive Income	Financial Assets/Liabilities At Amortised Cost -Debt And Oter Instruments	Financial Assets/Liabilities At Amortised Cost	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 recivebles								
-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	-	-

-60-

HNB Finance True Co

Authorized Signatu

ERNST & YOUNG Chartered Accountants COLOMBO

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	-	-

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

-61-

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 Land LKR	Cost/Carrying Amount Building LKR	Cost/Carrying Amount Total LKR	Fair Value Land LKR	Fair Value Building LKR	Fair Value Total LKR	Fair Value Hierarchy
Property, Plant & Equipment									
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
			203,097,552	659,902,448	863,000,000	253,944,037	814,055,963	1,068,000,000	
Investment Properties									
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	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, 7 th 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
			466,810,637	713,339,363	1,180,150,000	562,969,416	732,030,584	1,295,000,000	

As at 31 March 2018

Property, Plant & Equipment	Building Sq.ft	Extent Perches	Cost/Carrying Amount Land LKR	Cost/Carrying Amount Building LKR	Cost/Carrying Amount Total LKR	Fair Value Land LKR	Fair Value Building LKR	Fair Value Total LKR	
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
			192,502,121	623,897,879	816,400,000	203,097,552	659,902,448	863,000,000	
Investment Properties									
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	205,133,851	482,366,149	687,500,000	271,522,624	547,477,376	819,000,000	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, 7 th 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
			398,174,753	651,425,247	1,049,600,000	466,810,637	713,339,363	1,180,150,000	

Unobservable Inputs Used in Measuring Fair Value

Depreciated replacement cost basis/ market comparable method

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

Investment method

Significant increase/(decrease) in rent per sq.ft, outgoing expenses and no of years since purchase would result in a significantly higher/(lower) fair value.

-62-

ERNST & YOUNG Chartered Accountants COLOMBO

HNB Finance Limited True Copy Authorized Signature

46. FAIR VALUATION (Contd...)

46.4.2 Valuation details of Non-financial assets

	Valuation Method	Range of estimates for unobservable inputs				
		Value per perch (Land) LKR	Value per sq. ft. (Building)	Estimated rent per month LKR	Discount rate	Rate per perch for land LKR
Property, Plant & Equipment						
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%	-
Investment Properties						
No.67/1, Mahinda Place, Kirulapone, Colombo-05.	Income approach			500,000	20%	
No.249, Stanly Thilakarathna Mw, Nugegogda.	Income approach			2,922,250	20%	
No.465/1, Old Police Station Road, Kahathuduwa, Polgasovita.	Income approach			576,875	20%	
No.64, Abaya Place, 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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance
True C
Auth

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Finance Limited
True Copy
Authorized Signature

Financial year ended March 31, 2018

HNB Finance Limited
True Copy
Authorized Signature

HNB GRAMEEN FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2018

EY
Building a better working world

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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

HMAJ/BV/MFI

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

(Contd...2/)

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.

26 June 2018
Colombo

-2-

HNB Grameen Finance Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018

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

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

ERNST & YOUNG
Chartered
Accountants
COLOMBO

HNB Grameen Finance Limited

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

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

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO

HNB Grameen Finance Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

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

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

....
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 57 from an integral part of the Financial Statements.

ERNST & YOUNG
Chartered Accountants
26 June 2018
Colombo
COLOMBO

-5-

HNB Grameen Finance Limited

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

	Stated Capital	General Reserves	Statutory Reserve	Investment Fund	Revaluation Reserve	Retained Earnings	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 01 April 2016	**223,545,481**	**82,897,989**	**426,752,800**	-	**262,313,846**	**1,396,512,510**	**2,392,022,626**
Profit for the year	-	-	-	-	-	1,058,834,186	1,058,834,186
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						8,793,209	8,793,209
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(2,462,099)	(2,462,099)
Revaluation Reserve of free hold Lands & Buildings	-	-	-	-	166,240,013	-	166,240,013
Deferred tax effect on revaluation on Buildings	-	-	-	-	(44,069,830)	-	(44,069,830)
Total comprehensive income for the year	-	-	-	-	**122,170,183**	**1,065,165,296**	**1,187,335,479**
Transactions recorded directly in equity							
Transfer to statutory reserve fund	-	-	211,766,837	-	-	(211,766,837)	-
Dividend paid	-	-	-	-	-	(189,153,868)	(189,153,868)
Balance as at 31 March 2017	**223,545,481**	**82,897,989**	**638,519,637**	-	**384,484,029**	**2,060,757,101**	**3,390,204,237**
Profit for the year	-	-	-	-	-	1,011,783,320	1,011,783,320
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						14,231,796	14,231,796
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-		(3,984,903)	(3,984,903)
Revaluation Reserve of free hold Lands & Buildings	-	-	-	-	62,197,447	-	62,197,447
Deferred tax effect on revaluation on Buildings	-	-	-	-	(17,415,285)	-	(17,415,285)
Total comprehensive income for the year	-	-	-	-	**44,782,162**	**1,022,030,213**	**1,066,812,375**
Transactions recorded directly in equity							
Transferred to statutory reserve fund	-	-	202,356,664	-	-	(202,356,664)	-
Dividend paid	-	-	-	-	-	(326,720,318)	(326,720,318)
Balance as at 31 March 2018	**223,545,481**	**82,897,989**	**840,876,301**	-	**429,266,191**	**2,553,710,332**	**4,130,296,294**

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

ERNST & YOUNG
Chartered
Accountants
COLOMBO

-6-

HNB Grameen Finance Limited

STATEMENT OF CASH FLOWS

Year ended 31 March 2018

	Note	2018 LKR	2017 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before Tax		1,582,667,778	1,626,380,875
Adjustments			
Interest expenses on borrowings	5.2	60,979,110	24,503,761
Interest expenses on debentures	5.2	89,057,578	89,328,560
Interest income from financial investments held to maturity	5.1	(366,540,884)	(143,357,077)
Interest income on treasury bond	5.1	(1,600,000)	(1,600,000)
Dividend income	7.1	(200,000)	(65,000)
Profit/(loss) on disposal of property, plant & equipment	7.1	(325,359)	754,272
Fair value gain on investment property	7.1	(130,550,000)	(149,300,000)
Impairment charge/(reversal) for loans and other assets	8	685,269,932	712,008,300
Provision for value added tax	30	392,263,488	331,394,045
Crop insurance levy	10	10,480,000	11,601,542
Provision for nation building tax	12	52,301,798	49,278,589
Ammortization on intangible assests	24	37,783,276	23,738,355
Depreciation - on property, plant & equipment	25	126,830,182	110,572,370
Gratuity provision	9	41,780,547	35,619,133
(Gain)/loss on mark to market valuation of treasury bond	7	(1,103,040)	(81,840)
Provision for amount payable under sip saviya scheme	31.1	1,200,000	1,200,000
Staff loan fair value adjustment	18.1	-	(4,500,000)
Operating profit/(loss) before changes in operating assets and liabilities		2,580,294,407	2,717,475,885
(Increase)/decrease in operating assets			
Loans & advances to members	17	(5,804,588,669)	(4,688,005,502)
Loans & advances to others	18	(83,949,832)	(119,076,674)
Other assets	22	(31,992,336)	(13,944,921)
Increase/(decrease) in operating liabilities			
Due to customers	27	4,781,118,455	3,558,442,443
Other liabilities	30	581,616,282	117,293,001
Cash flow from operating activities		2,022,498,307	1,572,184,232
Gratuity paid	32	(4,040,992)	(3,700,400)
VAT paid	30	(411,379,502)	(378,963,036)
Income Tax paid	29	(806,451,351)	(530,294,140)
WHT paid	31	(21,249,698)	(11,090,158)
Notional Tax		(8,968,077)	(9,489,647)
NBT paid		(58,595,217)	(55,193,347)
Crop Insurance Levy paid		(8,939,266)	(13,037,934)
ESC paid		(38,976,427)	(22,880,212)
Dividend paid		(326,720,318)	(189,153,868)
Net Cash Flow from Operating Activities		**337,177,459**	**358,381,490**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	25	(104,281,973)	(113,828,308)
Purchase of intangible asset	24	(42,238,874)	(83,009,468)
Investment properties purchased/disposal	23	-	4,200,000
Proceeds from sale of property, plant & equipment		522,815	824,939
Net of investment in government security	20.1	(994,021,638)	440,069,336
Net investment in fixed deposits	20	521,980,000	(290,000,000)
Fixed deposit interest received	20	213,564,250	40,242,123
Treasury bill interest received	20.1	46,682,993	47,888,930
Treasury bond Interest received	21	1,440,000	1,440,000
Dividend income	7.1	200,000	65,000
Debentures interest received		-	16,875,000
Net Cash Flow from Investing Activities		**(356,152,427)**	**64,767,552**
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid	29	(1,785,454)	(5,363,379)
Interest payments on debentures	6	(82,997,333)	(88,771,246)
Interest payments on borrowings	29	(60,979,110)	(24,503,761)
Borrowings during the year	29	-	500,000,000
Loans repayments during the year	29	(134,587,326)	(51,250,000)
Net Cash Flow from Financing Activities		**(280,349,223)**	**330,111,614**
Net increase/(decrease) in cash and cash equivalents		(299,324,191)	753,260,656
Cash and cash equivalents at the beginning of the year	15	1,204,483,946	451,223,290
Cash and Cash Equivalents at the end of the year	15	**905,159,755**	**1,204,483,946**

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

Ernst & Young Chartered Accountants Colombo

1. REPORTING ENTITY

1.1 Corporate Information

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

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

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

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

1.2 Principal Activities and Nature of Operations

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

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

1.3 Parent Enterprise & Ultimate Parent Enterprise

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

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 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 26 June 2018

ERNST & YOUNG
Chartered Accountants
COLOMBO

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

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

2.1.2 Basis of Measurement

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

Items	Measurement basis
Fair value through profit or loss financial assets	Fair value
Available-for-sale financial assets	Fair value
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation
Investment property	Fair value
Net defined benefit assets/ (liabilities)	Actuarially valued and 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 income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

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

2.1.4 Functional and Presentation Currency

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

Ernst & Young Chartered Accountants COLOMBO

2.1.5 Materiality and Aggregation

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

2.1.6 Changes in Accounting Policies

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

2.1.7 Comparative Information

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

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

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

2.2.1 Going Concern

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

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 43 to the financial statements.

ERNST & YOUNG Chartered Accountants COLOMBO

2.2.3 Impairment Losses on Loans and Advances

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

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

2.2.4 Impairment of Available for Sale Investments

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

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.2.5 Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances necessitate to do so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.6 Fair Value of Property, Plant and Equipment

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

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

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

2.2.8 Classification of Investment Property

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

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

2.2.9 Taxation

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

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

2.2.10 Deferred Tax Assets

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

2.2.11 Defined Benefit Obligation

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

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

2.2.12 Provisions for Liabilities and Contingencies

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

2.3 Summary of Significant Accounting Policies

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

2.3.1 Foreign Currency Transactions and Balances

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

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

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

2.3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

2.3.2.1 Non-Derivative Financial Assets

Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial assets

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

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

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

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

Classification of financial assets

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

(a) financial assets at fair value through profit or loss;
(b) held-to-maturity financial assets;
(c) loans and receivables; and
(d) available-for-sale financial assets.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity financial assets

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

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

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

Loans and receivables

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

(a) Cash and cash equivalents

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

(b) Finance leases and hire purchase

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

(c) Advances and other loans to customers

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

Available-for-sale financial assets

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

2.3.2.2 Non-Derivative Financial Liabilities

Classification and Subsequent Measurement of Financial Liabilities

The Company initially recognizes non-derivative financial liabilities on the date that they are originated. The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals and other payables:

Bank overdrafts

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

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

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

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

2.3.2.3 Reclassification of Financial Assets and Liabilities

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

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

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

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

No reclassifications of financial instruments were done during the year

2.3.2.4 Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

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

2.3.2.5 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

2.3.2.6 Renegotiated Loans

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

2.3.2.7 Amortized Cost Measurement

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

2.3.2.8 Fair value Measurement

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

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

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

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

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

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

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

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

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

2.3.2.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

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

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

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

Available-for-sale financial assets

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

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

Reversal of Impairment

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

Write Off of Financial Assets Carried at Amortized Cost

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

ERNST & YOUNG Chartered Accountants COLOMBO

2.3.3 Cash and cash equivalents

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

2.3.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.4.1 Finance Leases

Finance leases – Company as a lessee

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

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

Finance leases – Company as a lessor

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

2.3.4.2 Operating Leases

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

Operating leases – Company as a lessee

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

Operating leases – Company as a lessor

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

ERNST & YOUNG Chartered Accountants COLOMBO

2.3.5 Property and equipment

2.3.5.1 Basis of Recognition

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

2.3.5.2 Measurement

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

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

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

Cost Model

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

Revaluation Model

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

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

2.3.5.3 Subsequent Costs

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

2.3.5.4 Depreciation

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

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

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

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

2.3.5.5 De-recognition

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

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

2.3.5.6 Capital Work-in-Progress

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

2.3.6 Intangible assets

2.3.6.1 Basis of recognition

An intangible asset is 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.

ERNST & YOUNG
Chartered Accountants
COLOMBO

2.3.6.2 Measurement

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

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

Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is charged against income statement in the year in which the expenditure is incurred.

2.3.6.3 Amortization and impairment

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic lives based on a pattern in which the asset's economic benefits are consumed by the Company, at 20% per annum, except for software licenses which is 6.67 % per annum. Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with infinite useful lives such as license are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

2.3.6.4 Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.3.6.5 Derecognition

An intangible asset is derecognized 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 income statement.

2.3.7 Investment Properties

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

Investment property is initially measured at cost and subsequently at fair value with any change therein 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.

ERNST & YOUNG Chartered Accountants COLOMBO

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

2.3.8 Impairment of non–financial assets

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

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

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

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

2.3.9 Retirement benefits

2.3.9.1 Short-Term Employee Benefits

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

2.3.9.2 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the 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.

ERNST & YOUNG
Chartered
Accountants

2.3.9.3 Defined Benefit Plans

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

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

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

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

2.3.10 Provisions

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

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

2.3.11 Income Tax Expense

2.3.11.1 Current Tax Expense

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

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

2.3.11.2 Deferred Taxation

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

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

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

2.3.11.3 Value Added Tax on Financial Services (VAT)

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

2.3.11.4 Economic Service Charge (ESC)

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

2.3.11.5 Crop Insurance Levy

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

2.3.11.6 Nation Building Tax (NBT)

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

2.3.12 Revenue Recognition

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

2.3.12.1 Interest Income and Expense

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

2.3.12.2 Fee and Commission Income

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

2.3.12.3 Dividend Income

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

2.3.12.4 Rent Income

Rent income is recognised on an accrual basis.

2.3.12.5 Other Income

Other income is recognised on an accrual basis.

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

SLFRS 16- Leases

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

The new standard requires a lessee to:

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

3.1 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2018

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

SLFRS 15 -Revenue from Contracts with Customers

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

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

The Company carried out an initial impact analysis with the assistance of an external consultant during the year ended 31st March 2018. According to the above analysis, the Company does not have any material impact from the adoption of SLFRS 15 in the Financial Year 2017/2018.

SLFRS 9 –Financial Instruments

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

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

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

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

Classification & Measurement

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

Business Model Assessment

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

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

ERNST & YOUNG Chartered Accountants COLOMBO

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

Contractual Cash flow Characteristic Test

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

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

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

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

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

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

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

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

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

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

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

Significant Increase in Credit Risk

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

Individually Significant Assessment and Not Impaired Individually

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

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

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet its obligation
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, Increase in operating risk, working capital deficiency, Decrease in Asset quality, Increase in gearing, liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation

Grouping financial assets measured on a collective basis

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

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

The Calculation of ECL

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

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

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

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

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

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

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

Forward Looking Information

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

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

Transition process of the Company

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

ERNST & YOUNG
Chartered
Accountants
COLOMBO

4. GROSS INCOME

	2018 LKR	2017 LKR
Interest Income	6,537,663,310	5,327,018,057
Fee and commission income	702,441,739	670,219,063
Other Income	242,443,143	236,796,463
Total Income	**7,482,548,192**	**6,234,033,583**

5. NET INTEREST INCOME

		2018 LKR	2017 LKR
Interest Income	5.1	6,537,663,310	5,327,018,057
Interest Expense	5.2	(2,373,460,579)	(1,465,618,208)
Net Interest Income		4,164,202,731	3,861,399,849

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

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

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

5.1 Interest Income

	2018 LKR	2017 LKR
Loans and advances given to members	5,449,581,653	4,917,689,948
Loans and advances given to non members	69,541,968	55,683,105
Financial Investments - Held to Maturity	366,540,884	143,357,077
Financial Investments - Held for Trading	1,600,000	1,600,000
Savings Deposits	73,725,905	71,869,994
Finance Leases	576,672,900	136,817,933
Net interest income	6,537,663,310	5,327,018,057

5.2 Interest Expense

Deposits from Customers	2,223,423,891	1,351,785,887
Debentures	89,057,578	89,328,560
Other Borrowings	60,979,110	24,503,761
	2,373,460,579	1,465,618,208

6. NET FEE AND COMMISION INCOME

	2018 LKR	2017 LKR
Trade related Documentation charges	702,441,739	670,219,063
Fee and Commission expenses	(110,385,743)	(98,395,049)
	592,055,996	571,824,014

7. OTHER INCOME

		2018 LKR	2017 LKR
Other Operating Income	7.1	242,443,143	236,796,463
Net Mark to Market Valuation Gain		1,103,040	81,840
		243,546,183	236,878,303

ERNST & YOUNG Chartered Accountants COLOMBO

7. OTHER INCOME (Contd...)

7.1 Other Operating Income	2018 LKR	2017 LKR
Rent Income	45,975,462	45,044,775
Recovery of Loan Balance Written-off	13,564,008	17,440,711
Revaluation of Investment Properties	130,550,000	149,300,000
Sundry Income	51,828,314	25,700,249
Profit from Disposal of Property, Plant & Equipment	325,359	(754,272)
Dividend Income	200,000	65,000
	242,443,143	236,796,463

8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

		2018 LKR	2017 LKR
Loans and Receivable from Members	8.1	592,067,772	245,704,462
Loans and Receivable from Lease	8.2	85,811,100	324,926
Other Assets	8.3	7,391,060	(4,500,000)
Impairment Losses from Financial Investments-Loans & receivables	8.4	-	465,978,912
		685,269,932	707,508,300

8.1 Loans and Advances to Members

Collective Impairment Losses	592,067,772	245,704,462
	592,067,772	245,704,462

8.2 Loans and Receivable from Lease

Collective Impairment Losses	85,811,100	324,926
	85,811,100	324,926

8.3 Other Assets

Other Impairment	7,391,060	(4,500,000)
	7,391,060	(4,500,000)

8.4 Financial Investments-Loans and Receivables

Impairment Losses from Financial Investments-Loans & receivables	-	465,978,912
	-	465,978,912

9. PERSONNEL COST

	2018 LKR	2017 LKR
Salaries and Bonus	898,233,149	765,801,913
Other Personnel Cost	59,086,519	54,535,719
Employer's Contribution to Employees' Provident Fund	87,215,608	70,123,394
Employer's Contribution to Employees' Trust Fund	21,808,672	17,530,849
Retirement Benefit Cost	41,780,547	35,619,133
Total	1,108,124,495	943,611,008

ERNST & YOUNG Chartered Accountants

10. OTHER EXPENSES

	2018 LKR	2017 LKR
Other Operating Expenses, among others Include the following:		
Depreciation on Property, Plant & Equipment	126,830,183	110,572,371
Advertising & Publications	44,207,143	45,687,622
Repairs & Maintenance	94,655,608	80,192,643
Crop Insurance levy	10,480,000	11,601,542
Amortisation of intangible assets	37,783,277	23,738,354
Directors remuneration	21,385,000	15,505,000
Auditors' Remuneration	4,205,000	4,175,000
Legal charges	13,719,131	10,082,325
Donation	134,874	3,288,237

11. PROVISION FOR VALUE ADDED TAX

	2018 LKR	2017 LKR
Value Added Tax for the year		
Financial Services	392,263,488	331,394,045
	392,263,488	331,394,045

Value Added Tax

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

12. PROVISION FOR NATION BUILDING TAX

	2018 LKR	2017 LKR
Nation building tax for the year		
Financial services	52,301,798	49,278,589
	52,301,798	49,278,589

13. INCOME TAX

	2018 LKR	2017 LKR
Current Income Tax		
Current income tax charge	681,369,313	665,720,164
Over/Under provision during previous year	5,348,108	(18,731,103)
Pre. Year adjustment		
Deferred Income Tax		
Deferred taxation charge / (reversal)	(115,832,963)	(79,442,372)
Income tax expense reported in the statement of profit or loss	570,884,458	567,546,689

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

Accounting profit before tax	**1,582,667,778**	**1,626,380,875**
At the statutory income tax rate of 28% (2016: 28%)	443,146,978	455,386,645
Tax Effect on;		
Income exempt from tax	-	(18,200)
Non deductible expenses	658,209,746	432,190,639
Deductible expenses	(419,987,411)	(221,838,920)
Current tax on profits for the year	681,369,313	665,720,164
Tax effect on utilized tax losses	-	-
Current income tax charge	681,369,313	665,720,164
Over/Under provision during previous year	5,348,108	(18,731,103)
Deferred taxation charge	(115,832,963)	(79,442,372)
Income tax expense at the effective income tax rate of 36.07% (2015: 34.9%)	570,884,458	567,546,689

Tax Losses Brought Forward and Utilised during the Year

Balance at the beginning of the year	179,835,622	-
Tax losses utilised during the year	253,885,202	-
Tax losses not utilised and carried forward	433,720,824	-

ERNST & YOUNG
Chartered Accountants
Colombo

-33-

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:

	2018 LKR	2017 LKR
Net profit for the period	1,011,783,320	1,058,834,186
Profit attributable to ordinary shareholders	1,011,783,320	1,058,834,186
	2018 Number	**2017 Number**
Weighted average number of ordinary shares in issue	1,719,580,624	1,719,580,624
	1,719,580,624	1,719,580,624
Basic earnings per ordinary share (LKR)	0.59	0.62

15. CASH AND CASH EQUIVALENTS

	2018 LKR	2017 LKR
Cash in hand	102,342,270	39,107,948
Balances with banks	802,817,485	1,165,375,998
Total	905,159,755	1,204,483,946

16. FINANCIAL ASSETS HELD FOR TRADING

	2018 LKR	2017 LKR
Cost of treasury bond investment	16,250,272	16,250,272
Interest receivable	480,000	480,000
	16,730,272	16,730,272
Less: Loss from mark to market valuation	(602,272)	(1,705,312)
	16,128,000	15,024,960

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

17. LOANS AND ADVANCES TO MEMBERS

	2018 LKR	2017 LKR
At amortised cost:		
Loans and advances to members	19,434,224,612	13,629,635,943
Less: Allowance for Impairment losses	(969,143,131)	(368,904,118)
	18,465,081,481	13,260,731,825

17.1 Product-Wise Analysis of Loans And Advances To Members

	Notes		
Loans		14,398,193,066	11,486,285,715
Leases	17.1.1	4,541,443,899	1,703,990,476
Saving advance	17.1.2	50,399,155	209,717,224
Loan against deposits	17.1.3	444,188,492	229,642,528
		19,434,224,612	13,629,635,943

17.1.1 Lease Receivables

Rentals receivable	6,256,047,684	2,421,338,589
Unearned lease income	(1,854,334,251)	(752,609,150)
Rental in Arrears - Lease	139,730,466	35,585,963
Gross lease rental receivable	4,541,443,899	1,704,315,402
Collective Impairment allowance for lease receivables	(86,136,026)	(324,926)
Net receivables	4,455,307,873	1,703,990,476
Net receivables within one year	1,129,850,617	402,127,483
Net receivables from one to five years	3,319,266,548	1,298,611,428
Net receivables after five years	6,190,708	3,251,565
	4,455,307,873	1,703,990,476

ERNST & YOUNG
Chartered Accountants
COLOMBO

17. LOANS AND ADVANCES TO MEMBERS (Contd...)

17.1.2 Saving Advance

	2018 LKR	2017 LKR
Saving advance	50,399,155	209,717,224
	50,399,155	209,717,224

17.1 Product-Wise Analysis of Loans And Advances To Members

17.1.3 Loan against Deposits

	2018	2017
Loan against deposits	435,748,349	225,547,198
Interest receivable on loan against deposits	8,440,143	4,095,330
	444,188,492	229,642,528

17.2 Allowance For Impairment Losses

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

18. LOANS AND ADVANCES TO OTHERS

		2018 LKR	2017 LKR
Staff loans	18.1	357,473,118	331,890,240
Mortgage loan		233,100,687	174,733,733
		590,573,805	506,623,973
Less: Allowance for impairment losses	18.2	(10,980,695)	(3,589,635)
		579,593,110	503,034,338

18.1 Staff Loans

	2018	2017
At the beginning of the year	331,890,240	261,184,797
Loan granted during the year	152,248,000	217,584,000
Recovered during the year	(126,665,122)	(146,878,557)
	357,473,118	331,890,240

18.2 Allowance for impairment losses

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

19. FINANCIAL INVESTMENT - LOANS & RECEIVABLES

	Notes	2018 LKR	2017 LKR
Other loan & Receivable		773,091,682	773,091,682
Impairment losses Financial Investments-Loans & Receivables		(465,978,912)	(465,978,912)
		307,112,770	307,112,770

20. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	Notes	2018 LKR	2017 LKR
Unquoted equity securities	20.1	12,430,283	12,430,283
		12,430,283	12,430,283

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

20.1 Investments In Non Quoted Shares

	2018		2017	
	Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
Credit information bureau of sri lanka	100	234,000	100	234,000
Standard credit lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd	1,742,326	12,196,283	1,742,326	12,196,283
		50,888,757		50,888,757
Less: Allowance for impairment losses		(38,458,474)		(38,458,474)
		12,430,283		12,430,283

21. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	Notes	2018 LKR	2017 LKR
Fixed deposits		773,125,342	1,295,105,342
Debentures		166,875,000	150,000,000
Sri lanka government securities	21.1	1,275,317,239	298,170,601
		2,215,317,581	1,743,275,943

21.1 Sri Lanka Government Securities

	2018	2017
Treasury bills	1,275,317,239	285,140,500
	1,275,317,239	285,140,500
Interest receivable	-	13,030,101
	1,275,317,239	298,170,601

ERNST & YOUNG
Chartered
Accountants

22. OTHER ASSETS

		2018 LKR	2017 LKR
Other financial assets		90,934,128	94,051,090
Other non financial assets	22.1	151,669,783	116,560,485
		242,603,911	210,611,575

22.1 Other Non Financial Assets

Other receivables	152,344,913	117,235,615
Less: Allowance for impairment losses	(675,130)	(675,130)
	151,669,783	116,560,485

23. INVESTMENTS PROPERTIES

	2018 LKR	2017 LKR
Land		
Balance at the beginning of the year	398,174,753	334,155,169
Additions / disposal during the year	-	(4,200,000)
Fair value adjustment for the period	68,635,884	68,219,584
Balance at the end of the year	466,810,637	398,174,753
Building		
Balance at the beginning of the year	651,425,247	570,344,831
fair value adjustment for the period	61,914,116	81,080,416
Balance at the end of the year	713,339,363	651,425,247
Net Book Value	**1,180,150,000**	**1,049,600,000**

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

24. INTANGIBLE ASSETS

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

24.1 Intangible Assets by Class

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

HNB Grameen Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

25. PROPERTY, PLANT & EQUIPMENT

25.1 Carried at cost/Valuation

25.1.1 Cost/Fair Value

Cost/Fair Value	As at 01 April 2016	Additions during the year	Transfers during the year	Disposals during the year	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
Land	183,654,358	-	8,847,764	-	192,502,122	-	-	10,595,431	-	203,097,553
Building	500,945,642	-	122,952,237	-	623,897,879	-	-	36,004,570	-	659,902,449
Furniture & fittings - (free hold)	50,800,914	12,835,917	-	(2,890,968)	60,745,863	-	14,178,567	-	(2,695,062)	72,229,367
Office equipment - (free hold)	105,568,820	71,294,611	-	(348,439)	176,514,992	-	28,958,115	-	(215,384)	205,257,723
Computer - (free hold)	130,076,872	10,141,734	-	(10,363,917)	129,854,689	12,457,100	35,348,970	-	(2,539,893)	175,120,866
Computer - (lease hold)	12,642,000	-	-	(184,900)	12,457,100	(12,457,100)	-	-	-	-
Motor cycles - (free hold)	450,000	-	-	(450,000)	-		-	-	-	-
Motor vehicles	7,000,000	-	-	-	7,000,000	12,300,000	-	-	-	19,300,000
Motor vehicles - (lease)	12,300,000	-	-	-	12,300,000	(12,300,000)	-	-	-	-
Machinery & equipment	2,638,601	-	-	-	2,638,601	-	-	-	-	2,638,601
Fixtures & fittings	65,004,785	10,470,089	-	(526,900)	74,947,974	-	17,577,986	-	(5,368,205)	87,157,755
Network accessories	97,701,736	9,085,957	-	(970,564)	105,817,129	-	8,218,336	-	-	114,035,465
	1,168,783,728	113,828,308	131,800,001	(15,735,688)	1,398,676,349	-	104,281,973	46,600,001	(10,818,545)	1,538,739,779

25.1.2 Accumulated Depreciation and Impairment

Accumulated Depreciation and Impairment	As at 01 April 2016	Additions during the year	Transfers during the year	Disposals during the year	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
Building	25,047,282	13,292,093	(34,440,013)	-	3,899,362	-	15,822,475	(15,597,447)		4,124,390
Furniture & fittings - (free hold)	32,763,193	6,291,776	-	(2,877,851)	36,177,118	-	8,727,990	-	(2,604,489)	42,300,619
Office equipment - (free hold)	37,899,148	30,433,784	-	(326,388)	68,006,544	-	36,414,883	-	(215,380)	104,206,047
Computer - (free hold)	49,934,390	20,741,693	-	(10,344,006)	60,332,077	11,042,613	24,451,495	-	(2,423,797)	93,402,388
Computer - (lease hold)	7,710,868	2,522,545	-	(148,247)	10,085,166	(11,042,613)	957,448	-	-	-
Motor cycles - (free hold)	450,000	-	-	(450,000)	-	-	-	-	-	-
Motor vehicles	1,633,333	1,400,000	-	-	3,033,333	9,533,333	3,040,000	-	-	15,606,666
Motor vehicles - (lease)	6,253,333	2,460,000	-	-	8,713,333	(9,533,333)	820,000	-	-	-
Machinery & equipment	2,610,134	28,467	-	-	2,638,601	-	-	-	-	2,638,601
Fixtures & fittings	26,949,767	13,541,457	-	(375,557)	40,115,667	-	14,893,054	-	(5,351,769)	49,656,952
Network accessories	27,090,727	19,860,555	-	(685,163)	46,266,119	-	21,702,838	-	-	67,968,957
	218,342,175	110,572,370	(34,440,013)	(15,207,212)	279,267,320	-	126,830,182	(15,597,447)	(10,595,435)	379,904,621

ERNST & YOUNG Chartered Accountants COLOMBO

-38-

25. PROPERTY, PLANT & EQUIPMENT (Contd...)

25.1 Carried at cost/Valuation

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

26. DEFERRED TAX LIABILITY/(ASSET)

	2018 LKR	2017 LKR
Balance at the beginning of the period	16,115,738	49,026,181
Transfer from / (to) income statement	(115,832,963)	(79,442,372)
Transfer from / (to) other comprehensive income	(25,131,741)	46,531,929
Balance at the end of the year	(124,848,966)	16,115,738

Deferred tax assets, liabilities relates to the following

	2018	2017
Deferred tax liabilities		
Accelerated depreciation for tax purposes	185,724,335	158,128,264
Revaluation gain on buildings Investment Property	78,358,000	22,702,516
Finance leases	122,505,065	54,210,433
Other Comprehensive Income		
Revaluation surplus on buildings	17,415,285	44,069,830
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	3,984,903	2,462,099
Deferred tax assets		
Retirement benefit obligation	(50,684,658)	(44,102,486)
Unutilised tax losses	(117,086,279)	(50,420,518)
Impairment losses for loans & other losses	(365,065,617)	(170,934,400)
Net deferred tax liabilities	**(124,848,966)**	**16,115,738**

27. DUE TO CUSTOMERS

	2018 LKR	2017 LKR
Fixed deposits	15,681,956,464	11,515,325,320
Deferred transaction cost	(86,633,446)	(59,789,075)
Interest payable on fixed deposits	508,051,368	318,180,703
	16,103,374,386	11,773,716,948
Savings deposits	2,717,989,300	2,266,528,283
	18,821,363,686	14,040,245,231

ERNST & YOUNG
Chartered Accountants
COLOMBO

28.	**DEBT ISSUED AND OTHER BORROWED FUNDS**	**Notes**	**2018 LKR**	**2017 LKR**
	Redeemable debentures	28.1	770,454,221	771,099,781
	Borrowings		399,155,676	533,743,002
	Finance leases		8,621,219	28,537,485
			1,178,231,116	1,333,380,268

28.1 Redeemable Debentures

	2018 LKR	2017 LKR
Balance at the beginning of the year	765,000,000	765,000,000
Interest payable to debenture holders	5,454,221	6,099,781
	770,454,221	771,099,781

28.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2018	Outstanding as at 31 March 2017
2010	Seylan bank PLC	001	Secured	125,000,000	125,000,000
2010	Seylan bank PLC	002	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	003	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	004	Secured	140,000,000	140,000,000
2013	Prime lands (private) limited	001	Unsecured	100,000,000	100,000,000
				765,000,000	765,000,000

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

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

29.	**PROVISION FOR INCOME TAX**	**2018 LKR**	**2017 LKR**
	Balance at the beginning of the year	353,447,803	278,240,026
	Provision for the year	681,369,313	665,720,164
	Over/Under provision during previous year	5,348,108	(18,731,104)
		1,040,165,224	925,229,086
	Payment made during the year	(806,451,351)	(530,294,140)
	WHT paid	(21,249,698)	(11,090,158)
	Notional tax	(8,968,077)	(9,489,646)
	ESC receivables		(20,907,339)
	Balance at the end of the year	203,496,098	353,447,803

30.	**VALUE ADDED TAX PAYABLE**	**2018 LKR**	**2017 LKR**
	Balance at the beginning of the year	(6,263,276)	41,305,715
	Provision made		
	VAT on financial services	392,263,488	331,394,045
		386,000,212	372,699,760
	Payment made during the year	(411,379,502)	(378,963,036)
		(25,379,290)	(6,263,276)

ERNST & YOUNG
Chartered Accountants
COLOMBO

31.	OTHER LIABILITIES	Notes	2018 LKR	2017 LKR
	Other financial liabilities	31.1	809,883,196	236,020,182
	Other non financial liabilities	31.2	39,887,031	32,133,763
			849,770,227	268,153,945
31.1	**Other Finanacial Liabilities**			
	Other payables		809,883,196	236,020,182
			809,883,196	236,020,182
31.2	**Other Non Financial Liabilities**			
	NBT payable		1,504,899	(739,435)
	WHT payable		1,766,463	1,901,413
	Other payables		36,615,669	30,971,785
			39,887,031	32,133,763

32.	RETIRING BENEFIT OBLIGATION		2018 LKR	2017 LKR
	Movements in present value of the the retirement benefit obligation are as follows.			
	Balance at the beginning of the year		157,508,878	134,383,355
	Add : Retiring gratuity expenses	32.1	27,548,751	26,825,923
			185,057,629	161,209,278
	Less : Benefits paid during the year		(4,040,992)	(3,700,400)
	Balance at the end of the year		181,016,637	157,508,878
32.1	**Retiring Gratuity Expense**			
	Current service cost		23,667,026	21,508,880
	Interest cost		18,113,521	14,110,252
			41,780,547	35,619,132
	Actuarial (gain) / loss		(14,231,796)	(8,793,209)
			27,548,751	26,825,923

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st March 2018 using "Projected Unit Credit method" as recommended by Sri lanka accounting standards (LKAS 19) - Employee Benefits.

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

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

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

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

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

ERNST & YOUNG Chartered Accountants COLOMBO

-41-

33. 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 2016	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	-	-	-
Balance on 31 March 2017	1,421,380,624	298,200,000	1,719,580,624
Share issued during the year	-	-	-
Balance on 31 March 2018	1,421,380,624	298,200,000	1,719,580,624
	LKR	**LKR**	**LKR**
Balance on 01 April 2016	184,779,481	38,766,000	223,545,481
Share issued during the year	-	-	-
Balance on 31 March 2017	184,779,481	38,766,000	223,545,481
Share issued during the year	-	-	-
Balance on 31 March 2018	184,779,481	38,766,000	223,545,481

34. GENERAL RESERVE

	2018 LKR	2017 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

35. OTHER STATUTORY RESERVES

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

35.1 Statutory Reserve Fund

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

36. CAPITAL COMMITMENTS

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

36.2 Operating Leases

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

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

37. EVENTS AFTER THE REPORTING DATE

ERNST & YOUNG Chartered Accountants COLOMBO

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

38. CONTINGENT LIABILITIES

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

39. RELATED PARTY TRANSACTIONS

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

39.1 Transactions With Parent Company and Related Companies

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

39..1 Transactions with the Parent Company	2018 LKR	2017 LKR
Hatton National Bank PLC is the parent and the ultimate controlling party of the company.		
Statement of Profit or Loss		
Interest income - Financial investments - Held to Maturity	16,875,000	16,875,000
Interest income - Savings deposits	34,912,611	43,023,335
Interest income - Fixed deposits	95,942,181	34,760,274
Interest expense - Other borrowings	60,982,257	24,020,871
Other expenses - Bank Charges	4,469,863	1,164,216
Statement OF Financial Position		
Cash And Cash Equivalents - Balances with banks	498,993,961	600,548,285
Financial Investments - Held-To-Maturity - Fixed Deposits	300,000,000	750,000,000
Financial Investments - Held-To-Maturity - Debentures	150,000,000	150,000,000
Debt Issued And Other Borrowed Funds - Borrowings	399,155,676	533,743,002
Debt Issued And Other Borrowed Funds - Finance leases	-	-

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

39.1.3 Transactions with HNB Assurance		
Statement OF Profit or Loss		
Commission Income	2,126,302	8,278,958
Interest Expense-Fixed Deposits	6,863,014	
Claim Received	67,478,881	
HNB Assurance Premium	7,424,998	
Statement OF Financial Position		
Commission Receivable	-	2,089,631
Claim Receivable	-	12,310,082
HNB Assurance Premium	-	7,039,058
Due to Customers - Fixed Deposits	50,000,000	-

Ernst & Young Chartered Accountants Colombo

39. RELATED PARTY TRANSACTIONS (Contd...)

39.1.4 Transactions with Government of Sri Lanka

Statement OF Profit or Loss		
Balance with Central Bank of Sri lanka	89,680,772	94,896,474
Statement OF Financial Position		
Balance with Central Bank of Sri lanka	1,291,445,239	313,195,561
Reverse Repurchase Agreements	401,627,212	386,545,841

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

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

39.2.1 Compensation Paid To Key Management Personnel of the Company

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

	2018 LKR	2017 LKR
Short-term Benefits	21,385,000	17,915,000
	21,385,000	17,915,000

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

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

	2018 LKR	2017 LKR
Statement OF Profit or Loss		
Interest expense - Deposits from customers	28,729,038	18,407,200
Statement OF Financial Position		
Due to customers - Saving & Fixed deposits	205,384,579	259,696,440
Due to customers - Interest payable	13,314,937	8,594,485

40. PLEDGED ASSETS

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2018 LKR	2017 LKR	Included under
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties
Leased Assets	Charged over leased assets on finance lease liabilities	-	5,958,602	Property, Plant & Equipment

ERNST & YOUNG
Chartered Accountants
COLOMBO

41. FINANCIAL RISK MANAGEMENT

41.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

41.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

41.3 Credit Risk

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

a) Allowances for Impairment

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

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

b) Write-off Policy

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

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 2018 (2017: no collaterals held).

ERNST & YOUNG
Chartered Accountants
COLOMBO

41. FINANCIAL RISK MANAGEMENT (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.

41.3.1 Credit Quality by Class of Financial Assets

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

As at 31 March 2018		Overdue			Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	1,365,186,196	1,097,496,187	437,516,071	1,612,354,303	4,512,552,758
Loans and advances to others	-	2,911,137	2,137,819	11,530,082	16,579,040
	1,365,186,196	1,100,407,324	439,653,890	1,623,884,386	4,529,131,798

As at 31 March 2017	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,204,483,946	-	-	1,204,483,946
Financial Assets Held for Trading	15,024,960	-	-	15,024,960
Loans and advances to members	13,002,226,475	627,734,394	(369,229,044)	13,260,731,825
Loans and advances to others	502,900,627	3,723,346	(3,589,635)	503,034,338
Financial investment - Loan & Receivable	773,091,682	-	(465,978,912)	307,112,770
Financial investments - Available-For-Sale	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	1,743,275,943	-	-	1,743,275,943
Other financial assets	94,051,089	-	-	94,051,089
Total financial assets	17,347,485,005	631,457,740	(838,797,591)	17,140,145,154

As at 31 March 2017		Overdue			Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	353,516,352	56,101,985	37,865,032	180,251,025	627,734,394
Loans and advances to others	124,320	137,676	2,893,555	567,794	3,723,346
	353,640,672	56,239,661	40,758,587	180,818,819	631,457,740

ERNST & YOUNG
Chartered Accountants
COLOMBO

41. FINANCIAL RISK MANAGEMENT (Contd...)

41.3.2 Maximum Exposure Disclosure of Financial Assets

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

As at 31 March 2017	Gross carrying amount (Net of provision)	Net exposure
Cash and cash equivalents	1,204,483,946	1,204,483,946
Financial Assets Held for Trading	15,024,960	-
Loans and advances to members	13,260,731,825	12,730,379,415
Loans and advances to others	503,034,338	310,921,094
Financial investment - Loans & Receivables	307,112,770	307,112,770
Financial Investments - Available-For-Sale	12,430,283	-
Financial Investments - Held-To-Maturity	1,743,275,943	-
Other financial assets	94,051,089	94,051,089
Total financial assets	17,140,145,154	14,646,948,314

41.4 Liquidity Risk

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

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

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

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

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

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

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

41. FINANCIAL RISK MANAGEMENT (Contd...)

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

As at 31st March 2018	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	905,159,755	905,159,755	905,159,755	-	-
Financial assets held for trading	16,128,000	16,128,000	-	-	16,128,000
Loans and advances to members	18,465,081,484	23,007,700,137	7,651,261,364	9,327,319,219	6,029,119,554
Loans and advances to others	579,593,110	737,848,137	32,338,615	126,607,670	578,901,852
Financial investment - Loans & Receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,215,317,581	2,413,725,701	934,681,991	1,244,668,710	234,375,000
Other financial assets	90,934,126	90,934,126	31,429,381	29,429,059	30,075,686
	22,591,757,109	27,585,553,350	9,554,871,105	10,794,962,527	7,235,719,718
Due to customers	18,821,363,686	23,023,876,846	3,570,572,140	7,520,606,160	11,932,698,547
Debt issued and other borrowed funds	1,178,231,116	2,864,398,390	169,422,897	142,404,718	2,552,570,776
Other Financial Liabilities	809,883,195	809,883,195	776,527,489	13,827,103	19,528,603
	20,809,477,997	26,698,158,431	4,516,522,526	7,676,837,980	14,504,797,926
Liquidity gap related period	-	887,394,919	5,038,348,580	3,118,124,546	(7,269,078,207)
Liquidity gap cumulative	-	-	5,038,348,580	8,156,473,126	887,394,919

As at 31st March 2017	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Financial assets held for trading	15,024,960	16,250,272	-	-	16,250,272
Loans and advances to members	13,260,731,825	16,204,210,818	5,854,997,336	7,865,431,530	2,483,781,952
Loans and advances to others	503,034,338	637,552,840	31,141,644	96,314,551	510,096,645
Financial investment - Loans & Receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	1,743,275,943	1,841,046,613	964,906,849	659,379,490	216,760,274
Other financial assets	94,051,089	94,051,089	35,654,899	30,476,983	27,919,207
	17,140,145,154	20,411,653,073	8,091,184,675	8,718,540,423	3,601,927,976
Due to customers	14,040,245,231	16,477,704,512	4,556,206,198	3,852,125,900	8,069,372,415
Debt issued and other borrowed funds	1,333,380,268	2,850,570,752	12,876,279	32,425,016	2,805,269,457
Other Financial Liabilities	236,020,182	236,020,182	202,866,863	15,767,987	17,385,332
	15,609,645,681	19,564,295,446	4,771,949,340	3,900,318,902	10,892,027,203
Liquidity gap related period	-	847,357,627	3,319,235,334	4,818,221,520	(7,290,099,228)
Liquidity gap cumulative	-	-	3,319,235,334	8,137,456,855	847,357,627

ERNST & YOUNG
Chartered Accountants
COLOMBO

41. FINANCIAL RISK MANAGEMENT (Contd...)

41.5 Market Risk

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

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

41.5.1 Sensitivity Analysis

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

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2018
Interest earning assets					
Cash and cash equivalents	905,159,755	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	16,128,000
Financial investments - Held-To-Maturity	906,427,210	1,142,015,371	166,875,000	-	2,215,317,581
Loans and advances to members (gross)	6,637,463,440	8,041,426,897	4,733,439,108	21,895,170	19,434,224,615
Loans and advances to others (gross)	28,721,111	86,317,295	399,743,615	76,882,226	591,664,247
Financial Investments - Loans & Receivables	-	257,697,227	515,394,455	-	773,091,681
Total interest earning assets	8,493,899,516	9,527,456,791	5,815,452,178	98,777,396	23,935,585,879
Interest bearing liabilities					
Due to customers	3,571,939,302	6,968,577,048	8,057,748,200	223,023,140	18,821,287,690
Debt issued and other borrowed funds	154,063,377	114,074,114	245,093,606	665,000,000	1,178,231,097
Total interest bearing liabilities	3,726,002,679	7,082,651,162	8,302,841,806	888,023,140	19,999,518,787
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	4,767,896,837	2,444,805,630	(2,487,389,629)	(789,245,743)	3,936,067,093
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	47,678,968	24,448,056	(24,873,896)	(7,892,457)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(47,678,968)	(24,448,056)	24,873,896	7,892,457	-

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2017
Interest earning assets					
Cash and cash equivalents	1,204,483,946	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	15,024,960
Financial investments - Held-To-Maturity	942,858,918	650,417,025	150,000,000	-	1,743,275,943
Loans and advances to members (gross)	4,967,622,864	6,738,024,795	1,920,726,034	3,358,454	13,629,732,147
Loans and advances to others (gross)	22,246,782	62,580,093	352,526,618	69,499,204	506,852,697
Financial Investments - Loans & Receivables	-	128,848,614	515,394,455	128,848,613	773,091,681
Total interest earning assets	7,152,237,470	7,579,870,527	2,938,647,107	201,706,271	17,872,461,374
Interest bearing liabilities					
Due to customers	4,328,376,113	3,561,433,334	5,975,125,470	175,115,869	14,040,050,786
Debt issued and other borrowed funds	48,550,088	121,983,413	497,846,736	665,000,000	1,333,380,237
Total interest bearing liabilities	4,376,926,202	3,683,416,747	6,472,972,206	840,115,869	15,373,431,024
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,775,311,268	3,896,453,780	(3,534,325,098)	(638,409,599)	2,499,030,350
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	27,753,113	38,964,534	(35,343,251)	(6,384,096)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(27,753,113)	(38,964,534)	35,343,251	6,384,096	-

ERNST & YOUNG
Chartered Accountants
COLOMBO

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 March 2018	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	905,159,755	-	-	-	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	-	-	-	16,128,000
Loans and advances to members	6,240,232,701	3,574,814,196	3,988,640,624	3,058,795,212	1,581,735,334	20,863,415	-	18,465,081,482
Loans and advances to others	16,649,975	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	8,246,131	61,179,819	242,603,911
Investment properties	-	-	-	-	-	-	1,180,150,000	1,180,150,000
Intangible assets	-	-	-	-	-	-	131,533,753	131,533,753
Property, plant & equipment	-	-	-	-	-	-	1,158,835,158	1,158,835,158
Deferred tax Assets							124,848,966	124,848,966
	8,158,934,399	4,243,516,517	4,726,405,490	3,425,115,896	2,009,852,716	105,991,772	2,668,977,979	25,338,794,768
Liabilities								
Due to customers	3,572,015,298	2,732,528,821	4,236,048,227	3,437,308,443	4,620,439,757	223,023,140	-	18,821,363,686
Debt issued and other borrowed funds	154,063,386	38,024,708	76,049,416	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	2,542,023	11,103,203	849,770,227
Retiring benefit obligation	-	-	-	-			181,016,637	181,016,637
Shareholder's Fund	-	-	-	-	-	-	4,130,296,294	4,130,296,294
	4,720,610,012	2,783,005,166	4,313,473,109	3,687,437,428	4,621,287,756	890,565,163	4,322,416,134	25,338,794,768

ERNST & YOUNG
Chartered Accountants
COLOMBO

42. **MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd...)**

As at 31 March 2017	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	1,204,483,946	-	-	-	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	-	-	-	15,024,960
Loans and advances to members	4,692,417,770	3,396,649,715	3,255,843,978	1,328,133,541	584,329,793	3,357,028	-	13,260,731,825
Loans and advances to others	18,428,423	19,520,162	43,059,931	225,679,204	126,847,415	69,499,204	-	503,034,338
Financial investment - Loan & Receivable	-	-	51,185,462	102,370,923	102,370,923	51,185,462	-	307,112,770
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	1,287,937,076	205,811,382	99,527,485	-	150,000,000	-	-	1,743,275,943
Other assets	121,858,703	36,021,779	20,442,235	27,454,658	2,532,049	2,302,150	-	210,611,574
Investment properties	-	-	-	-	-	-	1,049,600,000	1,049,600,000
Intangible assets	-	-	-	-	-	-	127,078,155	127,078,155
Property, plant & equipment	-	-	-	-	-	-	1,119,409,029	1,119,409,029
	7,340,150,878	3,658,003,039	3,470,059,091	1,683,638,326	966,080,180	126,343,843	2,308,517,467	19,552,792,824
Liabilities								
Due to customers	4,328,570,558	1,069,776,415	2,491,656,919	4,504,692,330	1,470,433,140	175,115,869	-	14,040,245,231
Debt issued and other borrowed funds	48,550,119	41,697,699	80,285,713	399,115,742	98,730,994	665,000,000	-	1,333,380,268
Income Tax payable	90,162,428	263,285,375	-	-	-	-	-	353,447,803
Value Added Tax payable	(6,263,276)	-	-	-	-	-	-	(6,263,276)
Other liabilities	226,545,070	11,655,556	12,567,987	4,472,827	1,667,185	11,245,320	-	268,153,945
Retiring benefit obligation	-	-	-	-	-	-	157,508,878	157,508,878
Shareholder's Fund	-	-	-	-	-	-	3,390,204,237	3,390,204,237
Deferred tax liability	-	-	-	-	-	-	16,115,738	16,115,738
	4,687,564,899	1,386,415,045	2,584,510,619	4,908,280,899	1,570,831,319	851,361,189	3,563,828,853	19,552,792,824

ERNST & YOUNG
Chartered Accountants
COLOMBO

43. FAIR VALUE OF ASSETS AND LIABILITIES

43.1 Assets and Liabilities Measured at Fair Value

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

43.1.1 Financial Investments – Available-For-Sale

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

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

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

43.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 43.3.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

43.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 43.4.1 and 43.4.2.

43.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

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

43.2.1 Loans and Receivables to Customers

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

43.2.2 Financial Investments Held to Maturity

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

43.2.3 Due to customers

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

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

43.2.4 Debt securities issued

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

ERNST & YOUNG
Chartered Accountants
COLOMBO

43. FAIR VALUATION (Contd...)

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2018	Fair Value through Profit and Loss	Available For Sale	Amortized cost	Total carrying amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	905,159,755	905,159,755	905,159,755	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	16,128,000	-	-	16,128,000	16,128,000	-	-
- Measured at Amortized Cost	-	-	1,275,317,239	1,275,317,239	1,275,317,239	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	773,125,342	773,125,342	773,125,342	-	-
Finance Lease Receivables	-	-	4,541,443,900	4,541,443,900	3,266,992,580	(1,274,451,320)	Level II
Advances & Other Loans	-	-	14,923,432,234	14,923,432,234	16,160,505,315	1,237,073,081	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	90,934,128	90,934,128	90,934,128	-	-
Due To Customers - Fixed deposits	-	-	16,103,374,386	16,103,374,386	16,167,925,674	64,551,288	Level II
Debt issued & Other borrowed Funds	-	-	1,172,776,895	1,172,776,895	1,173,076,473	299,578	Level II
Trade & Other Payables	-	-	809,883,196	809,883,196	809,883,196	-	-

ERNST & YOUNG
Chartered Accountants
COLOMBO

43. FAIR VALUATION (Contd...)

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2017	Fair Value through Profit and Loss	Available For Sale	Amortized cost	Total carrying amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	15,024,960	-	-	15,024,960	15,024,960	-	-
- Measured at Amortized Cost	-	-	298,170,601	298,170,601	298,170,601	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	1,295,105,342	1,295,105,342	1,295,105,342	-	-
Finance Lease Receivables	-	-	1,704,446,462	1,704,446,462	1,717,595,462	13,149,000	Level II
Advances & Other Loans	-	-	12,621,462,914	12,621,462,914	12,704,570,044	83,107,131	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	94,021,922	94,021,922	94,021,922	-	-
Due To Customers - Fixed deposits	-	-	11,773,716,948	11,773,716,948	11,900,599,594	126,882,646	Level II
Debt issued & Other borrowed Funds	-	-	1,327,326,382	1,327,326,382	1,329,333,700	2,007,318	Level II
Trade & Other Payables	-	-	236,020,182	236,020,182	236,020,182	-	-

Ernst & Young
Chartered Accountants
COLOMBO

43. **FAIR VALUATION (Contd...)**

43.4 **Valuation of Non-Financial Assets**

43.4.1 **Changes in Value of Non-Financial Assets**

As at 31 March 2018

	Building	Extent	Cost/Carring Amount			Fair Value		
	Sq.ft	**Perches**	**Land**	**Building**	**Total**	**Land**	**Building**	**Total**
Property, Plant & Equipment								
No. 94 96/1, Kandy Rd, Kurunegala.	5755	7.05	20,350,515	66,449,485	86,800,000	21,100,765	68,899,235	90,000,000
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	22,062,259	55,937,741	78,000,000	22,147,114	56,152,886	78,300,000
No. 168, Nawala Rd , Nugegoda.	30887	25.9	143,483,594	490,116,406	633,600,000	153,243,921	523,456,079	676,700,000
			192,502,121	623,897,879	816,400,000	203,097,552	659,902,448	863,000,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	205,133,851	482,366,149	687,500,000	271,522,624	547,477,376	819,000,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,750,000	-	9,750,000
No. 44/1, Service Road, Puttalam.	Land	25.6	15,400,000	-	15,400,000	16,000,000	-	16,000,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20494	182.59	56,755,335	72,844,665	129,600,000	52,152,445	69,647,555	121,800,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5786	8	33,785,567	96,214,433	130,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	25,000,000	-	25,000,000	25,700,000	-	25,700,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	36,800,000	-	36,800,000	41,400,000	-	41,400,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	16,300,000	-	16,300,000	16,500,000	-	16,500,000
			398,174,753	651,425,247	1,049,600,000	466,810,637	713,339,363	1,180,150,000

As at 31 March 2017

	Building	Extent	Cost/Carring Amount			Fair Value		
Property, Plant & Equipment	**Sq.ft**	**Perches**	**Land**	**Building**	**Total**	**Land**	**Building**	**Total**
No. 94 96/1, Kandy Rd, Kurunegala.	5755	7.05	19,600,266	63,999,734	83,600,000	20,350,515	66,449,485	86,800,000
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	18,642,581	54,357,419	73,000,000	22,062,259	55,937,741	78,000,000
No. 168, Nawala Rd , Nugegoda.	30887	25.9	138,805,759	371,194,241	510,000,000	143,483,594	490,116,406	633,600,000
			183,654,358	500,945,642	684,600,000	192,502,121	623,897,879	816,400,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	156,474,658	407,525,342	564,000,000	205,133,851	482,366,149	687,500,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	-	12,800,000	15,400,000	-	15,400,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20494	182.59	54,740,871	70,259,129	125,000,000	56,755,335	72,844,665	129,600,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5786	8	28,439,640	92,560,360	121,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	20,000,000	-	20,000,000	25,000,000	-	25,000,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	34,500,000	-	34,500,000	36,800,000	-	36,800,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000	-	14,000,000	16,300,000	-	16,300,000
			329,955,169	570,344,831	900,300,000	398,174,753	651,425,247	1,049,600,000

Chartered Accountants
COLOMBO

43. FAIR VALUATION (Contd...)

43.4.2 Valuation Details of Non-Financial Assets

	Valuation Method	Range of estimates for unobservable inputs				
		Value per Perch (Land)	Value per sq. ft. (Building)	Estimated rent per month	Discount Rate	Rate per perch for land
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	Cost approach	2,500,000	10000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	350,000	4000	73,000	-	-
No. 677, William Gopallawa Mw, Kandy.	Cost approach	2,300,000	10000	300,000	-	-
No. 168, Nawala Rd , Nugegoda.	Income approach	4,750,000	12000	2,000,000	20%	-
Investment Properties						
No.67/1 , Mahinda Place , Kirulapone, Colombo-05.	Income Approach			450,000	20%	
No.249 , Stanly Thilakarathna Mw , Nugegogda.	Income Approach			2,496,787	20%	
No.465/1 , Old Police Station Road , Kahathuduwa , Polgasovita.	Income Approach			452,540	20%	
No.64 , Abaya Place , Anuradapura.	Market Comparable method					1,900,000
No. 37 , Vihara Mw , Matale.	Market Comparable method					650,000
No. 340 , Galle Road , Katubedda , Moratuwa.	Market Comparable method					1,800,000
No.56 ,Sewa Mw , Puttalam .	Market Comparable method					625,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market Comparable method					22,700

44. SEGMENT REPORTING

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

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

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

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

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

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2016/17 and 2017/18 financial years.

ERNST & YOUNG Chartered Accountants COLOMBO

HNB Grameen Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

44. SEGMENT REPORTING (Contd...)

	Financial		Leasing		Others		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Interest Income	3,145,663,042	3,685,455,325	576,672,900	72,949,776	441,866,789	102,994,750	4,164,202,731	3,861,399,851
Net Fee and Commision Income	613,456,327	577,254,372	(21,400,331)	(5,430,358)	-	-	592,055,996	571,824,014
Net Gain /(Loss) from Trading	-	-	-	-	1,103,040	81,840	1,103,040	81,840
Net Gain /(Loss) from Financial Investments	-	-	-	-	-	-	-	-
Other operating income	17,781,785	61,731,214	47,935,897	-	176,725,462	175,065,249	242,443,144	236,796,463
Total Operating Income	3,776,901,154	4,324,440,911	603,208,466	67,519,418	619,695,291	278,141,839	4,999,804,911	4,670,102,168
Impairment charges for Loan & Other Losses	(599,458,832)	(241,204,462)	(85,811,100)	(324,926)	-	(465,978,912)	(685,269,932)	(707,508,300)
Net Operatig Income	3,177,442,322	4,083,236,449	517,397,366	67,194,492	619,695,291	(187,837,073)	4,314,534,979	3,962,593,868
Operating Profit/(Loss)	923,892,027	1,802,971,491	39,080,460	11,246,456	619,695,291	(187,837,073)	1,582,667,778	1,626,380,875
Income Tax Expenses	(422,972,592)	(563,753,094)	(14,096,322)	(3,793,595)	(133,815,544)	-	(570,884,458)	(567,546,689)
Profit/(Loss) for the Year	500,919,435	1,239,218,397	24,984,138	7,452,861	485,879,747	(187,837,073)	1,011,783,320	1,058,834,186
Total Assets	18,274,091,223	15,743,297,427	4,526,145,193	1,744,081,723	2,538,558,352	2,065,413,674	25,338,794,768	19,552,792,824
Total Liabilities	16,060,648,514	13,066,746,966	4,477,395,739	1,734,412,729	670,454,221	1,361,428,892	21,208,498,474	16,162,588,587

ERNST & YOUNG Chartered Accountants COLOMBO

-57-

Financial year ended March 31, 2017

HNB Finance Limited
True Copy
Authorized Signature

HNB GRAMEEN FINANCE LIMITED
(FORMERLY KNOWN AS PRIME GRAMEEN MICRO FINANCE LIMITED)

FINANCIAL STATEMENTS

31 MARCH 2017

Independent Auditor's Report

Building a better working world

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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of HNB Grameen Finance Limited, (the "Company"), which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion:

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

- The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

Ernst & Young

07th September 2017
Colombo

Statement of Comprehensive Income

	Note	2017 LKR	2016 LKR
Gross Income	4	6,234,033,583	4,485,107,633
Interest income		5,327,018,057	3,906,231,603
Interest expenses		(1,465,618,208)	(995,689,242)
Net Interest Income	5	3,861,399,849	2,910,542,361
Fee and commission income		670,219,063	485,813,442
Fee and commission expenses		(98,395,049)	(75,520,940)
Net Fee and Commission Income	6	571,824,014	410,292,502
Net Interest, Fee and Commission Income		4,433,223,863	3,320,834,863
Other operating income		236,796,463	93,062,588
Capital loss from trading		-	(26,578,802)
Net mark to market valuation gain		81,840	-
Total Operating Income	7	4,670,102,166	3,387,318,649
Impairment charges for loans and other losses	8	(707,508,300)	(110,452,151)
Net Operating Income		3,962,593,866	3,276,866,498
Personnel expenses	9	(943,611,008)	(712,015,514)
Other expenses	10	(1,011,929,349)	(743,321,460)
Total Operating Expenses		(1,955,540,357)	(1,455,336,974)
Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		2,007,053,509	1,821,529,524
Value added tax (VAT) on financial services	11	(331,394,045)	(234,120,096)
Nation building tax (NBT) on financial services	12	(49,278,589)	(42,567,290)
Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		1,626,380,875	1,544,842,138
Income tax expenses	13	(567,546,689)	(434,748,933)
Profit for the Year		1,058,834,186	1,110,093,205
Basic earnings per share	14	0.62	0.65

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Statement of Other Comprehensive Income

Year ended 31 March

	Note	2017 LKR	2016 LKR
Profit for the Year		1,058,834,186	1,110,093,205
Other Comprehensive Income for the Year, Net of Tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(losses) on defined benefit plans	32	8,793,209	12,921,679
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	26	(2,462,099)	(3,618,070)
Revaluation reserve of freehold Land & buildings	25	166,240,013	-
Deferred tax effect on revaluation of buildings	26	(44,069,830)	-
Other Comprehensive Income for the Year, Net of Tax		128,501,293	9,303,609
Total Comprehensive Income for the Year		1,187,335,479	1,119,396,814

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March

	Note	2017 LKR	2016 LKR
ASSETS			
Cash and cash equivalents	15	1,204,483,946	451,223,290
Financial assets held for trading	16	15,024,960	14,943,120
Loans and advances to members	17	13,260,731,825	8,759,039,215
Loans and advances to others	18	503,034,338	379,450,581
Financial investments - loans & receivables	19	307,112,770	-
Financial investments - available-for-sale	20	12,430,283	12,430,283
Financial investments - held-to-maturity	21	1,743,275,943	2,639,328,475
Other assets	22	210,611,575	196,666,654
Investment properties	23	1,049,600,000	904,500,000
Intangible assets	24	127,078,155	67,807,042
Property, plant & equipment	25	1,119,409,029	950,441,553
Total Assets		19,552,792,824	14,375,830,213
LIABILITIES			
Due to customers	27	14,040,245,231	10,420,418,906
Debt issued and other borrowed funds	28	1,333,380,268	909,572,460
Income tax payable	29	353,447,803	278,240,026
Value added tax payable	30	(6,263,276)	41,305,715
Other liabilities	31	268,153,945	150,860,944
Retiring benefit obligation	32	157,508,878	134,383,355
Deferred tax liability	26	16,115,738	49,026,181
Total Liabilities		16,162,588,587	11,983,807,587
SHAREHOLDERS' FUND			
Stated capital	33	223,545,481	223,545,481
General reserve	34	82,897,989	82,897,989
Statutory reserve fund	35	638,519,637	426,752,800
Revaluation reserve		384,484,029	262,313,846
Retained earnings		2,060,757,101	1,396,512,510
Total Equity and Liabilities		19,552,792,824	14,375,830,213

The accounting policies and notes on pages 120 to 169 form an integral part of the financial statements.
I certify these financial statements are in compliance with the requirements of the companies act No. 07 of 2007.

W.S.P. Arangala
Chief Operating Officer

The board of directors are responsible for the preparation and presentation of these financial statements.
signed for and on behalf of the board by;

A.J. Alles
Chairman

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

07th September 2017
Colombo

Statement of Changes in Equity

Year ended 31 March

	Stated Capital LKR	General Reserves LKR	Statutory Reserve LKR	Investment Fund LKR	Revaluation Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 01 April 2015	3,895,806,240	82,897,989	204,734,159	-	262,313,846	(3,173,126,422)	1,272,625,812
Profit for the year	-	-	-	-	-	1,110,093,205	1,110,093,205
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						12,921,679	12,921,679
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(3,618,070)	(3,618,070)
Total comprehensive income for the year	-	-	-	-	-	1,119,396,814	1,119,396,814
Transactions recorded directly in equity							
Transfer to statutory reserve fund	-	-	222,018,641	-	-	(222,018,641)	-
Capital reduction	(3,672,260,759)					3,672,260,759	
Balance as at 31 March 2016	223,545,481	82,897,989	426,752,800	-	262,313,846	1,396,512,510	2,392,022,626
Profit for the year	-	-	-	-	-	1,058,834,186	1,058,834,186
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans	-	-	-	-	-	8,793,209	8,793,209
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(2,462,099)	(2,462,099)
Revaluation reserve of freehold Land & buildings	-	-	-	-	166,240,013	-	166,240,013
Deferred tax effect on revaluation of buildings					(44,069,830)	-	(44,069,830)
	-	-	-	-	122,170,183	1,065,165,296	1,187,335,479
Transactions recorded directly in equity							
Transferred to statutory reserve fund	-	-	211,766,837	-	-	(211,766,837)	-
Dividend paid	-	-	-	-	-	(189,153,868)	(189,153,868)
Balance as at 31 March 2017	223,545,481	82,897,989	638,519,637	-	384,484,029	2,060,757,101	3,390,204,237

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 March

	Note	2017 LKR	2016 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		1,626,380,875	1,544,842,138
Adjustments			
Interest expenses on borrowings	5.2	24,503,761	8,511,811
Interest expenses on debentures	5.2	89,328,560	69,904,419
Interest income from financial investments held to maturity	5.1	(143,357,077)	(124,404,108)
Interest income on treasury bond	5.1	(1,600,000)	(12,372,066)
Dividend income	7.1	(65,000)	(60,000)
Profit/(loss) on disposal of property, plant & equipment	7.1	754,272	(296,872)
Fair value gain on investment property	7.1	(149,300,000)	(14,000,000)
Impairment charge/(reversal) for loans and other assets	8	712,008,300	110,452,151
Provision for value added tax	30	331,394,045	234,120,096
Crop insurance levy	10	11,601,542	11,349,144
Provision for nation building tax	12	49,278,589	42,567,290
Ammortisation on intangible assests	24	23,738,355	8,180,662
Depreciation - on property, plant & equipment	25	110,572,370	78,173,019
Gratuity provision	9	35,619,133	31,690,645
(Gain)/loss on mark to market valuation of treasury bond	7	(81,840)	1,787,152
Disposal (gain)/loss from treasury bond	7	-	26,578,802
Provision for amount payable under sip saviya scheme	31.1	1,200,000	1,100,000
Staff loan fair value adjustment	18.1	(4,500,000)	4,500,000
Operating profit/(loss) before changes in operating assets and liabilities		2,717,475,885	2,022,624,283
(Increase)/decrease in operating assets			
Loans & advances to members	17	(4,688,005,502)	(3,259,289,662)
Loans & advances to others	18	(119,076,674)	(195,023,753)
Other assets	22	(13,944,921)	(40,532,630)
Increase/(decrease) in operating liabilities			
Due to customers	27	3,558,442,443	2,752,125,940
Other liabilities	31	117,293,001	54,065,373
Cash flow from operating activities		1,572,184,232	1,333,969,551
Gratuity paid	32	(3,700,400)	(3,582,213)
VAT paid	30	(378,963,036)	(307,532,596)
Income tax paid	29	(530,294,140)	(201,303,324)
WHT paid	31	(11,090,158)	(1,129,598)

	Note	2017 LKR	2016 LKR
Notional tax		(9,489,647)	(12,172,457)
NBT paid		(55,193,347)	(39,912,801)
Crop insurance levy paid		(13,037,934)	(10,158,536)
ESC paid		(22,880,212)	-
Dividend paid		(189,153,868)	-
Net Cash Flow from Operating Activities		358,381,490	758,178,026
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	25	(113,828,308)	(148,402,241)
Purchase of intangible asset	24	(83,009,468)	(68,323,759)
Investment properties purchased/disposal	23	4,200,000	(4,200,000)
Proceeds from sale of property, plant & equipment		824,939	559,528
Net of investment in government security	20.1	440,069,336	342,324,589
Investment on debentures	20	-	(150,000,000)
Net investment in fixed deposits	20	(290,000,000)	(984,467,991)
Investment in treasury bond	21	-	182,107,650
Fixed deposit interest received	20	40,242,123	967,782
Treasury bill interest received	20.1	47,888,930	8,976,547
Reverse repurchase interest received	20.1	-	49,836,339
Treasury bond Interest received	21	1,440,000	17,520,000
Dividend income	7.1	65,000	60,000
Debentures interest received		16,875,000	-
Net Cash Flow from Investing Activities		64,767,552	(753,041,556)
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid	29	(5,363,379)	(4,074,608)
Interest payments on debentures	6	(88,771,246)	(61,902,416)
Interest payments on borrowings	29	(24,503,761)	(8,511,811)
Borrowings during the year	29	500,000,000	131,237,876
Loans repayments during the year	29	(51,250,000)	(15,003,000)
Net Cash Flow from Financing Activities		330,111,614	41,746,041
Net increase/(decrease) in cash and cash equivalents		753,260,656	46,882,511
Cash and cash equivalents at the beginning of the year	15	451,223,290	404,340,779
Cash and Cash Equivalents at the end of the year	15	1,204,483,946	451,223,290

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

Notes to the Financial Statements

Year ended 31 March

1. REPORTING ENTITY

1.1 Corporate Information

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

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

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

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

1.2 Principal Activities and Nature of Operations

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

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

1.3 Parent Enterprise & 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 Authorisation of Issue

The financial statements were authorised for issue by the Board of Directors on 07th September 2017

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

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

2.1.2 Basis of Measurement

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

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

2.1.3 Presentation of Financial Statements

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

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

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

2.1.4 Functional and Presentation Currency

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

2.1.5 Materiality and Aggregation

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

2.1.6 Changes in Accounting Policies

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

2.1.7 Comparative Information

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

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

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

2.2.1 Going Concern

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

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 43 to the financial statements.

2.2.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when

Notes to the Financial Statements

Year ended 31 March

determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

2.2.4 Impairment of Available for Sale Investments

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

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.2.5 Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances necessitate to do so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.6 Fair Value of Property, Plant and Equipment

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

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

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

2.2.8 Classification of Investment Property

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

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

2.2.9 Taxation

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

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

2.2.10 Deferred Tax Assets

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

2.2.11 Defined Benefit Obligation

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

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

2.2.12 Provisions for Liabilities and Contingencies

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

2.3 Summary of Significant Accounting Policies

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

2.3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected.

Financial statements of the Company are presented in Sri Lankan Rupees, which is the functional and presentation currency of the Company. Transactions in foreign currencies are re-translated into Sri Lankan rupees at the spot rate of exchange prevailing at the dates of the transactions.

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

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

2.3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

2.3.2.1 Non-Derivative Financial Assets

Initial recognition of financial assets

Date of recognition

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

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial

Notes to the Financial Statements

Year ended 31 March

assets at fair value through profit or loss as per the Sri Lanka Accounting Standard (LKAS 39) - Financial Instruments: Recognition and Measurement.

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

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

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

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

Classification of financial assets

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

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

(b) held-to-maturity financial assets;

(c) loans and receivables; and

(d) available-for-sale financial assets.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity financial assets

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

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

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

Loans and receivables

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

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

(a) ***Cash and cash equivalents***

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

(b) *Finance leases and hire purchase*

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

(c) *Advances and other loans to customers*

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

Available-for-sale financial assets

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

2.3.2.2 Non-Derivative Financial Liabilities

Classification and Subsequent Measurement of Financial Liabilities

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

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

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals and other payables:

Bank overdrafts

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

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

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

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

2.3.2.3 Reclassification of Financial Assets and Liabilities

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

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

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

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

No reclassifications of financial instruments were done during the year

2.3.2.4 Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

Notes to the Financial Statements

Year ended 31 March

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

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

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

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

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

Financial liabilities

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

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

2.3.2.5 Offsetting of Financial Instruments

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

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

2.3.2.6 Renegotiated Loans

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

2.3.2.7 Amortised Cost Measurement

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

2.3.2.8 Fair value Measurement

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

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

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

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

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

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

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

(a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

(b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

(c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures.

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

2.3.2.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

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

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

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

Available-for-sale financial assets

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

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

Reversal of Impairment

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

Write Off of Financial Assets Carried at Amortised Cost

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

Notes to the Financial Statements

Year ended 31 March

2.3.3 Cash and cash equivalents

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

2.3.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.4.1 Finance Leases

Finance leases – Company as a lessee

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

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

Finance leases – Company as a lessor

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

2.3.4.2 Operating Leases

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

Operating leases – Company as a lessee

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

Operating leases – Company as a lessor

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

2.3.5 Property and equipment

2.3.5.1 Basis of Recognition

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

2.3.5.2 Measurement

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

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

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

Cost Model

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

Revaluation Model

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

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

2.3.5.3 Subsequent Costs

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

2.3.5.4 Depreciation

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

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

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

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

2.3.5.5 De-recognition

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

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

2.3.5.6 Capital Work-in-Progress

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

2.3.6 Intangible assets

2.3.6.1 Basis of recognition

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

Notes to the Financial Statements

Year ended 31 March

2.3.6.2 Measurement

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

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

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged against income statement in the year in which the expenditure is incurred.

2.3.6.3 Amortisation and impairment

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic lives based on a pattern in which the asset's economic benefits are consumed by the Company, at 20% per annum, except for software licenses which is 6.67% per annum. Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with infinite useful lives such as license are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

2.3.6.4 Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.3.6.5 Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

2.3.7 Investment Properties

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

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

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

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

2.3.8 Impairment of non–financial assets

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

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

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

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

2.3.9 Retirement benefits

2.3.9.1 Short-Term Employee Benefits

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

2.3.9.2 Defined Contribution Plans

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

2.3.9.3 Defined Benefit Plans

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

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

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

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

2.3.10 Provisions

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

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

2.3.11 Income Tax Expense

2.3.11.1 Current Tax Expense

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

Notes to the Financial Statements

Year ended 31 March

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

2.3.11.2 Deferred Taxation

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

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

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

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

2.3.11.3 Value Added Tax on Financial Services (VAT)

Company's total value addition is subjected to a 11% Value Added Tax up to 01 May 2016, 15% from 02 May 2016, 11% from 12.07.2016 and 15% from 01 November 2016 up to 31.12.2016 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

2.3.11.4 Economic Service Charge (ESC)

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

2.3.11.5 Crop Insurance Levy

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

2.3.11.6 Nation Building Tax (NBT)

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

2.3.12 Revenue Recognition

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

2.3.12.1 Interest Income and Expense

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

2.3.12.2 Fee and Commission Income

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

2.3.12.3 Dividend Income

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

2.3.12.4 Rent Income

Rent income is recognised on an accrual basis.

2.3.12.5 Other Income

Other income is recognised on an accrual basis.

3. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE REPORTING DATE

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Financial Statements. Analyses of the possible effect from those standards are given below.

Standards issued but not yet adopted which may have impact

3.1 SLFRS 9 Financial Instruments

Summary of the Requirements

SLFRS 9, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 month expected credit loss; or

- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carries guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

Possible Impact on Financial Statements

The company has completed the initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operations, this standard is expected to have a pervasive impact on the company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

3.2 SLFRS 15 Revenue from Contracts with Customers

Summary of the Requirements

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

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

Possible Impact on Financial Statements

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15

3.3 SLFRS 16 – 'Leases'

Summary of the Requirements

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

Possible Impact on Financial Statements

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16

Notes to the Financial Statements

Year ended 31 March

			2017 LKR	2016 LKR
4.	**GROSS INCOME**			
	Interest income		5,327,018,057	3,906,231,603
	Fee and commission income		670,219,063	485,813,442
	Other income		236,796,463	93,062,588
	Total income		6,234,033,583	4,485,107,633
5.	**NET INTEREST INCOME**			
	Interest income	5.1	5,327,018,057	3,906,231,603
	Interest expense	5.2	(1,465,618,208)	(995,689,242)
	Net interest income		3,861,399,849	2,910,542,361

Notional tax credit for withholding tax on government securities on secondary market transactions.

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

Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to 9.49 Mn.

		2017 LKR	2016 LKR
5.1	**Interest Income**		
	Loans and advances given to members	4,917,689,948	3,715,702,304
	Loans and advances given to non members	55,683,105	37,502,989
	Financial Investments - held to maturity	143,357,077	124,404,108
	Financial Investment - fair value through profit and loss	1,600,000	13,746,636
	Savings deposits	71,869,994	13,247,456
	Finance leases	136,817,933	1,628,110
	Net interest income	5,327,018,057	3,906,231,603
5.2	**Interest Expense**		
	Deposits from customers	1,351,785,887	917,273,012
	Debentures	89,328,560	69,904,419
	Other borrowings	24,503,761	8,511,811
		1,465,618,208	995,689,242

			2017 LKR	2016 LKR
6.	**NET FEE AND COMMISION INCOME**			
	Trade related documentation charges		670,219,063	485,813,442
	Fee and commission expenses		(98,395,049)	(75,520,940)
			571,824,014	410,292,502
7.	**OTHER INCOME**			
	Other operating income	7.1	236,796,463	93,062,588
	Capital loss from trading		-	(26,578,802)
	Net mark to market valuation gain		81,840	-
			236,878,303	66,483,786
7.1	**Other Operating Income**			
	Rent income		45,044,775	43,917,700
	Recovery of loan balance written-off		17,440,711	18,540,442
	Revaluation of investment properties		149,300,000	14,000,000
	Fair valuation on available-for-sale investments		-	12,196,283
	Sundry income		25,700,249	4,051,291
	Profit from disposal of property, plant & equipment		(754,272)	296,872
	Dividend income		65,000	60,000
			236,796,463	93,062,588
8.	**IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES**			
	Loans and receivable from members	8.1	245,704,462	105,918,099
	Loans and receivable from lease	8.2	324,926	-
	Other assets	8.3	(4,500,000)	4,534,052
	Impairment losses from financial investments - loans & receivables	8.4	465,978,912	-
			707,508,300	110,452,151
8.1	**Loans and Advances to Members**			
	Individual impairment losses		143,325,742	79,537,316
	Collective impairment losses		102,378,720	26,380,783
			245,704,462	105,918,099
8.2	**Loans and Receivable from Lease**			
	Individual impairment losses		324,926	
			324,926	-

Notes to the Financial Statements

Year ended 31 March

		2017 LKR	2016 LKR
8.3	**Other Assets**		
	Other impairment	(4,500,000)	4,534,052
		(4,500,000)	4,534,052
8.4	**Financial Investments - loans & receivables**		
	Impairment losses from financial investments - loans & receivables	465,978,912	-
		465,978,912	-
9.	**PERSONNEL COST**		
	Salaries and bonus	765,801,913	568,932,269
	Other personnel cost	54,535,719	45,099,845
	Employer's contribution to employees' provident fund	70,123,394	53,034,203
	Employer's contribution to employees' trust fund	17,530,849	13,258,552
	Retirement benefit cost	35,619,133	31,690,645
	Total	943,611,008	712,015,514
10.	**OTHER EXPENSES**		
	Other operating expenses, among others Include the following:		
	Depreciation on property, plant & equipment	110,572,371	77,562,766
	Advertising & publications	45,687,622	47,292,737
	Repairs & maintenance	80,192,643	56,392,960
	Crop insurance levy	11,601,542	11,349,144
	Amortisation of intangible assets	23,738,354	8,790,909
	Directors remuneration	15,505,000	7,565,000
	Auditors' remuneration	4,175,000	4,156,000
	Legal charges	10,082,325	5,395,125
	Donation	3,288,237	4,205,029
11.	**PROVISION FOR VALUE ADDED TAX**		
	Value added tax for the year		
	Financial services	331,394,045	234,120,096
		331,394,045	234,120,096

Value Added Tax

Company's total value addition is subjected to a 11% Value Added Tax up to 01 May 2016, 15% from 02 May 2016, 11% from 12 July 2016 and 15% from 01 November 2016 up to 31 March 2017 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

		2017	2016
		LKR	LKR
12.	**PROVISION FOR NATION BUILDING TAX**		
	Nation building tax for the year		
	Financial services	49,278,589	42,567,290
		49,278,589	42,567,290
13.	**INCOME TAX**		
	Current Income Tax		
	Current income tax charge	665,720,164	383,361,840
	Over provision during previous year	(18,731,103)	-
	Deferred Income Tax		
	Deferred taxation charge / (reversal)	(79,442,372)	51,387,093
	Income tax expense reported in the statement of profit or loss	567,546,689	434,748,933

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

	2017	2016
Accounting profit before tax	1,626,380,875	1,544,842,138
At the statutory income tax rate of 28% (2016: 28%)	455,386,645	432,555,799
Tax Effect on;		
Income exempt from tax	(18,200)	(16,800)
Non deductible expenses	432,190.639	131,950,122
Deductible expenses	(221,838,920)	(60,775,954)
Current tax on profits for the year	665,720,164	503,713,167
Tax effect on utilised tax losses	-	(120,351,327)
Current income tax charge	665,720,164	383,361,840
Over provision during previous year	(18,731,103)	-
Deferred taxation charge	(79,442,372)	51,387,093
Income tax expense at the effective income tax rate of 34.9% (2015: 28.1%)	567,546,689	434,748,933
Tax Losses Brought Forward and Utilised during the Year		
Balance at the beginning of the year	-	429,826,167
Tax losses utilised during the year	-	(429,826,167)
Tax losses not utilised and carried forward	-	-

Notes to the Financial Statements

Year ended 31 March

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:

	2017 LKR	2016 LKR
Net profit for the period	1,058,834,186	1,110,093,205
Profit attributable to ordinary shareholders	1,058,834,186	1,110,093,205

	2017 Number	2016 Number
Weighted average number of ordinary shares in issue	1,719,580,624	1,719,580,624
	1,719,580,624	1,719,580,624
Basic earnings per ordinary share	0.62	0.65

	2017 LKR	2016 LKR
15. CASH AND CASH EQUIVALENTS		
Cash in hand	39,107,948	50,851,152
Balances with banks	1,165,375,998	400,372,138
Total	1,204,483,946	451,223,290
16. FINANCIAL ASSETS HELD FOR TRADING		
Cost of treasury bond investment	16,250,272	16,250,272
Interest receivable	480,000	480,000
	16,730,272	16,730,272
Less: Loss from mark to market valuation	(1,705,312)	(1,787,152)
	15,024,960	14,943,120

As at 31 March 2017	Year of Maturity	Cost of Investment LKR	Face Value LKR	Carrying Value LKR
Treasury bond	01.May.2021	16,250,272	16,000,000	14,943,120
		16,250,272	16,000,000	14,943,120

			2017 LKR	2016 LKR
17.	**LOANS AND ADVANCES TO MEMBERS**			
	At amortised cost:			
	Loans and advances to members		13,629,635,943	8,913,718,165
	Less: Allowance for impairment losses		(368,904,118)	(154,678,950)
			13,260,731,825	8,759,039,215
17.1	**Product-Wise Analysis of Loans And Advances To Members**			
	Loans		11,486,285,715	8,476,840,827
	Leases	17.1.1	1,703,990,476	114,417,229
	Saving advance	17.1.2	209,717,224	181,804,948
	Loan against deposits	17.1.3	229,642,528	140,655,161
			13,629,635,943	8,913,718,165

		2017 LKR	2016 LKR
17.1.1	Lease Receivables		
	Rentals receivable	2,421,338,589	159,217,756
	Unearned lease income	(752,609,150)	(44,927,473)
	Rental in arrears - lease	35,585,963	126,946
	Gross lease rental receivable	1,704,315,402	114,417,229
	Less : Allowance for impairment losses	(324,926)	-
	Net receivables	1,703,990,476	114,417,229
	Net receivables within one year	402,127,483	23,782,714
	Net receivables from one to five years	1,298,611,428	89,182,504
	Net receivables after five years	3,251,565	1,452,011
		1,703,990,476	114,417,229
17.1.2	Saving Advance		
	Saving advance	209,717,224	186,577,253
	Less : Deferred interest on concessional lending	-	(4,772,305)
		209,717,224	181,804,948
17.1.3	Loan against Deposits		
	Loan against deposits	225,547,198	139,511,612
	Interest receivable on loan against deposits	4,095,330	1,143,549
		229,642,528	140,655,161

Notes to the Financial Statements

Year ended 31 March

17. LOANS AND ADVANCES TO MEMBERS (Contd...)

			Individual impairment LKR	Collective impairment LKR	Total LKR
17.2	**Allowance For Impairment Losses**				
	Balance as at 01 April 2015		52,892,896	23,472,503	76,365,399
	Charge for the year- Loans		79,537,316	26,380,783	105,918,099
	Written off during the year		(27,604,548)	-	(27,604,548)
	Balance as at 31 March 2016		104,825,664	49,853,286	154,678,950
	Amount written off		(31,479,294)	-	(31,479,294)
	Charge for the year - Loans	8.1	143,325,742	102,378,720	245,704,462
	Charge for the year - Lease	8.2		324,926	324,926
	Balance as at 31 March 2017		216,672,112	152,556,932	369,229,044

			2017 LKR	2016 LKR
18.	**LOANS AND ADVANCES TO OTHERS**			
	Staff loans	18.1	331,890,240	261,184,797
	Mortgage loan		174,733,733	121,862,502
			506,623,973	383,047,299
	Less: Allowance for impairment losses	18.2	(3,589,635)	(3,596,718)
			503,034,338	379,450,581
18.1	**Staff Loans**			
	At the beginning of the year		261,184,797	174,465,981
	Loan granted during the year		217,584,000	158,249,500
	Recovered during the year		(146,878,557)	(67,030,684)
			331,890,240	265,684,797
	Less: Fair value gain		-	(4,500,000)
			331,890,240	261,184,797

	Balance as at 31 March 2016	Balance as at 01 April 2015	Provision made during the year	Written Off during the year	Balance as at 31 March 2016
18.2	**Allowance for impairment losses**				
	Staff loan	4,585,597	34,052	(4,585,597)	34,052
	Loan to other entities	105,949,420	-	(105,949,420)	-
	Mortgage loan	3,562,666	-	-	3,562,666
		114,097,683	34,052	(110,535,017)	3,596,718

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

		2017 LKR	2016 LKR
19.	**FINANCIAL INVESTMENT - LOANS & RECEIVABLES**		
	Other loan & Receivable	773,091,682	-
	Impairment losses Financial Investments - Loans & Receivales	(465,978,912)	-
		307,112,770	-

			2017 LKR	2016 LKR
20.	**FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE**			
	Unquoted equity securities	20.1	12,430,283	12,430,283
			12,430,283	12,430,283

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

		2017		2016	
		Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
20.1	**Investments In Non Quoted Shares**				
	Credit information bureau of sri lanka	100	234,000	100	234,000
	Standard credit lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
	UB Finance Ltd	1,742,326	12,196,283	1,742,326	12,196,283
			50,888,757		50,888,757
	Less: Allowance for impairment losses		(38,458,474)		(38,458,474)
			12,430,283		12,430,283

Notes to the Financial Statements

Year ended 31 March

			2017 LKR	2016 LKR
21.	**FINANCIAL INVESTMENTS - HELD-TO-MATURITY**			
	Fixed deposits		1,295,105,342	1,015,545,077
	Debentures		150,000,000	150,000,000
	Sri lanka government securities	21.1	298,170,601	1,473,783,398
			1,743,275,943	2,639,328,475
21.1	**Sri Lanka Government Securities**			
	Treasury bills		285,140,500	725,209,836
	Repurchase agreement - REPO		-	703,104,335
			285,140,500	1,428,314,171
	Interest receivable		13,030,101	45,469,227
			298,170,601	1,473,783,398

			2017 LKR	2016 LKR
22.	**OTHER ASSETS**			
	Other financial assets		94,051,090	128,048,274
	Other non financial assets	22.1	116,560,485	68,618,380
			210,611,575	196,666,654
22.1	**Other Non Financial Assets**			
	Other receivables		117,235,615	78,512,870
	Less: Allowance for impairment losses		(675,130)	(9,894,490)
			116,560,485	68,618,380

		2017	2016
		LKR	LKR
23.	**INVESTMENTS PROPERTIES**		
	Land		
	Balance at the beginning of the year	334,155,169	315,638,224
	Additions / disposal during the year	(4,200,000)	4,200,000
	Fair value adjustment for the period	68,219,584	14,316,945
	Balance at the end of the year	398,174,753	334,155,169
	Building		
	Balance at the beginning of the year	570,344,831	570,661,776
	fair value adjustment for the period	81,080,416	(316,945)
	Balance at the end of the year	651,425,247	570,344,831
	Net Book Value	1,049,600,000	904,500,000

The Company carries investment properties at fair value. Valuations of the above investment properties were carried out as at 31st December 2016 by R. S. Wijesuriya, Professional Independent Valuer. Company earned LKR 33.88 Mn as rental income for the financial year.

		2017	2016
		LKR	LKR
24.	**INTANGIBLE ASSETS**		
	Cost		
	Balance at the beginning of the year	92,527,926	27,255,398
	Transfer during the year	-	(3,051,231)
	Additions during the year	83,009,468	68,323,759
	Balance at the end of the year	175,537,394	92,527,926
	Amortisation and Impairment		
	Balance at the beginning of the year	24,720,884	16,540,222
	Transfers during the year	-	(943,664)
	Charge for the year	23,738,355	9,124,326
	Balance at the end of the year	48,459,239	24,720,884
	Net Book Value	127,078,155	67,807,042

Notes to the Financial Statements

Year ended 31 March

		Cost	Accumulated Amortisation	Net Book Value
24.	**INTANGIBLE ASSETS (Contd.)**			
24.1	**Intangible Assets by Class**			
	Balance as at 31 March 2016			
	Software	75,158,704	23,562,936	51,595,768
	License	17,369,222	1,157,948	16,211,274
		92,527,926	24,720,884	67,807,042
	Balance as at 31 March 2017			
	Software	119,321,847	41,474,342	77,847,505
	License	56,215,547	6,984,897	49,230,651
		175,537,394	48,459,239	127,078,156

25. PROPERTY, PLANT & EQUIPMENT

25.1 Carried at cost/Valuation

25.1.1 Cost/Fair Value

	As at 01 April 2015	Transfers during the year	Additions during the year	Disposals during the year	As at 31 March 2016	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2017
Land	183,654,358	-	-	-	183,654,358		-	8,847,764	-	192,502,122
Building	500,945,642	-	-	-	500,945,642		-	122,952,237	-	623,897,879
Furniture & fittings - (free hold)	44,201,343		10,105,497	(3,505,926)	50,800,914		12,835,917	-	(2,890,968)	60,745,863
Office equipment - (free hold)	68,329,048	(1,211,444)	39,698,376	(1,247,160)	105,568,820		71,294,611	-	(348,439)	176,514,992
Computer - (free hold)	63,778,570	150,000	67,060,778	(912,476)	130,076,872		10,141,734	-	(10,363,917)	129,854,689
Computer - (lease hold)	12,792,000	(150,000)		-	12,642,000		-	-	(184,900)	12,457,100
Motor cycles - (free hold)	450,000			-	450,000		-	-	(450,000)	-
Motor vehicles	7,000,000			-	7,000,000		-	-	-	7,000,000
Motor vehicles - (lease)	12,300,000			-	12,300,000		-	-	-	12,300,000
Machinery & equipment	2,638,601			-	2,638,601		-	-	-	2,638,601
Fixtures & fittings	47,036,062	1,211,444	17,044,419	(287,140)	65,004,785		10,470,089	-	(526,900)	74,947,974
Network accessories	83,208,565		14,493,171	-	97,701,736		9,085,957	-	(970,564)	105,817,129
	1,026,334,189	-	148,402,241	(5,952,702)	1,168,783,728	-	113,828,308	131,800,001	(15,735,688)	1,398,676,349

25.1.2 Accumulated Depreciation and Impairment

	As at 01 April 2015	Transfers during the year	Additions during the year	Disposals during the year	As at 31 March 2016	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2017
Building	12,523,641	-	12,523,641	-	25,047,282		13,292,093	(34,440,013)	-	3,899,362
Furniture & fittings - (free hold)	32,251,155	(117,090)	4,094,060	(3,464,932)	32,763,193		6,291,776		(2,877,851)	36,177,118
Office equipment - (free hold)	23,591,717	146,199	15,408,389	(1,247,157)	37,899,148		30,433,784		(326,388)	68,006,544
Computer - (free hold)	40,885,614	(145,644)	10,086,235	(891,815)	49,934,390		20,741,693		(10,344,006)	60,332,077
Computer - (lease hold)	5,247,223	(70,001)	2,533,646	-	7,710,868		2,522,545		(148,247)	10,085,166
Motor cycles - (free hold)	450,000	-	-	-	450,000		-		(450,000)	-
Motor vehicles	233,333	-	1,400,000	-	1,633,333		1,400,000		-	3,033,333
Motor vehicles - (lease)	3,793,333	-	2,460,000	-	6,253,333		2,460,000		-	8,713,333
Machinery & equipment	2,202,143	-	407,991	-	2,610,134		28,467		-	2,638,601
Fixtures & fittings	15,258,303	197,775	11,579,832	(86,143)	26,949,767		13,541,457		(375,557)	40,115,667
Network accessories	9,422,741	(11,239)	17,679,225	-	27,090,727		19,860,555		(685,163)	46,266,119
	145,859,203	-	78,173,019	(5,690,047)	218,342,175	-	110,572,370	(34,440,013)	(15,207,212)	279,267,320

Notes to the Financial Statements

Year ended 31 March

25. PROPERTY, PLANT & EQUIPMENT (Contd...)

25.1 Carried at cost/Valuation

25.1.2 Written Down Value

	2017 LKR	2016 LKR
Land	192,502,122	183,654,358
Building	619,998,517	475,898,360
Furniture & fittings - (free hold)	24,568,745	18,037,721
Office equipment - (free hold)	108,508,448	67,669,672
Computer - (free hold)	69,522,612	80,142,482
Computer - (fease hold)	2,371,934	4,931,132
Motor cycles - (free hold)	-	-
Motor vehicles	3,966,667	5,366,667
Motor vehicles - (lease)	3,586,667	6,046,667
Machinery & equipment	-	28,467
Fixtures & fittings	34,832,307	38,055,018
Network accessories	59,551,010	70,611,009
	1,119,409,029	950,441,553

26. DEFERRED TAX LIABILITY/(ASSET)

	2017 LKR	2016 LKR
Balance at the beginning of the period	49,026,181	(5,978,982)
Transfer from / (to) income statement	(79,442,372)	51,387,093
Transfer from / (to) other comprehensive income	46,531,929	3,618,070
Balance at the end of the year	16,115,738	49,026,181

Deferred tax assets, liabilities relates to the following

	2017 LKR	2016 LKR
Deferred tax liabilities		
Accelerated depreciation for tax purposes	158,128,264	91,689,042
Revaluation gain on buildings Investment Property	22,702,516	
Finance leases	54,210,433	(5,035,522)
Other Comprehensive Income		
Revaluation surplus on buildings	44,069,830	
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	2,462,099	-
Deferred tax assets		
Retirement benefit obligation	(44,102,486)	(37,627,339)
Unutilised tax losses	(50,420,518)	-
Impairment losses for loans and other losses	(170,934,400)	
Net deferred tax liabilities	16,115,738	49,026,181

			2017 LKR	2016 LKR
27.	**DUE TO CUSTOMERS**			
	Fixed deposits		11,515,325,320	8,672,682,124
	Deferred transaction cost		(59,789,075)	(47,940,218)
	Interest payable on fixed deposits		318,180,703	244,947,964
			11,773,716,948	8,869,689,870
	Savings deposits		2,266,528,283	1,550,729,036
			14,040,245,231	10,420,418,906
28.	**DEBT ISSUED AND OTHER BORROWED FUNDS**			
	Redeemable debentures	28.1	771,099,781	770,337,308
	Borrowings		533,743,002	84,997,000
	Finance leases		28,537,485	54,238,152
			1,333,380,268	909,572,460
28.1	**Redeemable Debentures**			
	Balance at the beginning of the year		765,000,000	765,000,000
	Interest payable to debenture holders		6,099,781	5,337,308
			771,099,781	770,337,308

28.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2017	Outstanding as at 31 March2016
2010	Seylan bank PLC	001	Secured	125,000,000	125,000,000
2010	Seylan bank PLC	002	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	003	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	004	Secured	140,000,000	140,000,000
2013	Prime lands (private) limited	001	Unsecured	100,000,000	100,000,000
				765,000,000	765,000,000

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

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

Notes to the Financial Statements

Year ended 31 March

			2017 LKR	2016 LKR
29.	**PROVISION FOR INCOME TAX**			
	Balance at the beginning of the year		278,240,026	109,483,565
	Provision for the year		665,720,164	383,361,840
	Over provision during previous year		(18,731,104)	-
			925,229,086	492,845,405
	Payment made during the year		(530,294,140)	(201,303,324)
	WHT paid		(11,090,158)	(1,129,598)
	Notional tax		(9,489,646)	(12,172,457)
	ESC receivables		(20,907,339)	-
	Balance at the end of the year		353,447,803	278,240,026
30.	**VALUE ADDED TAX PAYABLE**			
	Balance at the beginning of the year		41,305,715	114,718,215
	Provision made			
	VAT on financial services		331,394,045	234,120,096
			372,699,760	348,838,311
	Payment made during the year		(378,963,036)	(307,532,596)
			(6,263,276)	41,305,715
31.	**OTHER LIABILITIES**			
	Other financial liabilities	31.1	236,020,182	120,332,406
	Other non financial liabilities	31.2	32,133,763	30,528,538
			268,153,945	150,860,944
31.1	**Other Financial Liabilities**			
	Other payables		236,020,182	120,332,406
			236,020,182	120,332,406
31.2	**Other Non Financial Liabilities**			
	NBT payable		(739,435)	5,038,079
	WHT payable		1,901,413	1,499,027
	Other payables		30,971,785	23,991,432
			32,133,763	30,528,538

			2017 LKR	2016 LKR
32.	**RETIRING BENEFIT OBLIGATION**			
	Movements in present value of the the retirement benefit obligation are as follows.			
	Balance at the beginning of the year		134,383,355	119,196,601
	Add : Retiring gratuity expenses	32.1	26,825,923	18,768,967
			161,209,278	137,965,568
	Less : Benefits paid during the year		(3,700,400)	(3,582,213)
	Balance at the end of the year		157,508,878	134,383,355
32.1	**Retiring Gratuity Expense**			
	Current service cost		21,508,880	18,377,698
	Interest cost		14,110,252	13,312,948
			35,619,132	31,690,646
	Actuarial (gain) / loss		(8,793,209)	(12,921,679)
			26,825,923	18,768,967

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st March 2017 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	11.5%	10.5%
Retirement age	55 years	55 years
Future salary increase rate	10.0%	9.5%

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

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

Discount rate	Present value of defined benefit obligation
1% Less	168,992,085
1% More	147,376,721

Salary escalation rate	Present value of defined benefit obligation
1% Less	147,635,425
1% More	168,505,394

Notes to the Financial Statements

Year ended 31 March

		Issued and Fully Paid Voting Ordinary Shares Number	Issued and Fully Paid Non Voting Ordinary Shares Number	Total Number
33.	**STATED CAPITAL**			
	Balance on 01 April 2015	1,421,380,624	298,200,000	1,719,580,624
	Share Issued during the year	-	-	-
	Balance on 31 March 2016	1,421,380,624	298,200,000	1,719,580,624
	Share issued during the year	-	-	-
	Balance on 31 March 2017	1,421,380,624	298,200,000	1,719,580,624
		LKR	LKR	LKR
	Balance on 01 April 2015	913,806,240	2,982,000,000	3,895,806,240
	Share issued during the year	729,026,759	2,943,234,000	3,672,260,759
	Balance on 31 March 2016	184,779,481	38,766,000	223,545,481
	Share issued during the year	-	-	-
	Balance on 31 March 2017	184,779,481	38,766,000	223,545,481

The company carried out a capital reduction of LKR 3.6 Bn with the approval of shareholders, granted at the annual general meeting held 17 July 2015.

		2017 LKR	2016 LKR
34.	**GENERAL RESERVE**		
	Balance at the beginning of the year	**82,897,989**	82,897,989
	Balance at the end of the year	**82,897,989**	82,897,989

		Statutory Reserve Fund	Total
35.	**STATUTORY RESERVES FUND**		
	Balance on 01 April 2015	204,734,159	204,734,159
	Transferred during the year	222,018,641	222,018,641
	Balance on 31 March 2016	426,752,800	426,752,800
	Transferred during the year	211,766,837	211,766,837
	Balance on 31 March 2017	638,519,637	638,519,637

35.1 Statutory Reserve Fund

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

36. CAPITAL COMMITMENTS

There are no capital commitments as at 31th March 2017.

37. EVENTS AFTER THE REPORTING DATE

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

38. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2017.

39. RELATED PARTY TRANSACTIONS

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

39.1 Transactions With Parent Company and Related Companies

During the year ended 31 March 2017 and 2016, the Company has carried out transactions with it's related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

Notes to the Financial Statements

Year ended 31 March

39. RELATED PARTY TRANSACTIONS (Contd.)

39.1.1 Transactions with the Parent Company

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

	2017 LKR	2016 LKR
Statement of Profit or Loss		
Interest income - Financial investments - Held to Maturity	16,875,000	16,045,082
Interest income - Savings deposits	43,023,335	2,647,292
Interest income - Fixed deposits	34,760,274	
Interest expense - Other borrowings	24,020,871	7,376,090
Other expenses - Bank Charges	1,164,216	424,868
Statement of Financial Position		
Cash And Cash Equivalents - Balances with banks	600,548,285	116,603,679
Financial Investments - Held-To-Maturity - Fixed Deposits	750,000,000	1,000,000,000
Financial Investments - Held-To-Maturity - Debentures	150,000,000	150,000,000
Debt Issued And Other Borrowed Funds - Borrowings	533,743,002	84,997,000
Debt Issued And Other Borrowed Funds - Finance leases	-	24,606,557
39.1.2 Transactions with Related Companies		
Transactions with Prime Lands (Pvt) Ltd		
Statement of Profit or Loss		
Other Operating Income - Rent income	-	390,000
Interest expense - Debentures	17,000,000	17,046,575
Fixed Deposit interest expenses	2,244,510	3,144,086
Other expenses - Vehicle rent	2,358,790	2,721,096
Statement of Financial Position		
Debt Issued And Other Borrowed Funds - Redeemable debentures	100,000,000	100,000,000
Due To Customers - Fixed deposits	3,360,986	33,360,986
Debt Issued And Other Borrowed Funds - Other Borrowings	-	-
Transactions with HNB Assurance		
Statement of Profit or Loss		
Commission Income	8,278,958	5,211,475
Statement of Financial Position		
Commission Receivable	2,089,631	
Claim Receivable	12,310,082	-
HNB Assurance Premium	7,039,058	7,259,132

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

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

		2017 LKR	2016 LKR
39.2.1	Compensation Paid To Key Management Personnel of The Company		
	Balance as at 31 March		
	The following represents the compensation paid to Key Management Personnel of the company		
	Short-term Benefits	17,915,000	9,925,000
		17,915,000	9,925,000

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

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/Commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The Transactions didn't involve more than the normal risk of repayment or present other unfavourable features.

	2017 LKR	2016 LKR
Statement of Profit or Loss		
Interest expense - Deposits From Customers	18,407,200	6,207,805
Statement of Financial Position		
Due To Customers - Fixed Deposits	259,696,440	121,728,379
Due to customers - Interest Payable	8,594,485	-

40. PLEDGED ASSETS

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2017 LKR	2016 LKR	Included under
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties
Leased Assets	Charged over leased assets on finance lease liabilities	5,958,602	10,977,799	Property, Plant & Equipment

Notes to the Financial Statements

Year ended 31 March

41. FINANCIAL RISK MANAGEMENT

41.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

41.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

41.3 Credit Risk

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

a) Allowances for Impairment

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

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

b) Write-off Policy

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

Micro Finance Concept works with the Group Peer Pressure where members being pressurised by the other members to pay 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 pressurised to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2017 (2016: no collaterals held).

c) ***Management of Credit Risk***

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

1 Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

2 Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Committee which consists of two directors.

3 Reviewing and assessing credit risk. Company Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned.

4 Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Notes to the Financial Statements

Year ended 31 March

FINANCIAL RISK MANAGEMENT (Contd.)

	As at 31 March 2017	Current LKR	Overdue LKR	Impaired LKR	Total LKR
41.3.1	Credit Quality by Class of Financial Assets				
	Cash and cash equivalents	1,204,483,946	-	-	1,204,483,946
	Financial Assets Held for Trading	15,024,960	-	-	15,024,960
	Loans and advances to members	13,002,226,475	627,734,394	(369,229,044)	13,260,731,825
	Loans and advances to others	502,900,627	3,723,346	(3,589,635)	503,034,338
	Financial investments - loans & receivables	773,091,682	-	(465,978,912)	307,112,770
	Financial investments - available-for-sale	12,430,283	-	-	12,430,283
	Financial investments - held-to-maturity	1,743,275,943	-	-	1,743,275,943
	Other financial assets	94,051,089	-	-	94,051,089
	Total financial assets	17,347,485,005	631,457,740	(838,797,591)	17,140,145,154

As at 31 March 2017	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	353,516,352	56,101,985	37,865,032	180,251,025	627,734,394
Loans and advances to others	124,320	137,676	2,893,555	567,794	3,723,346
	353,640,672	56,239,661	40,758,587	180,818,819	631,457,740

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

As at 31 March 2016	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	114,954,289	30,323,207	19,093,733	141,245,961	305,617,190
Loans and advances to others	-	-	3,200,000	-	3,200,000
	114,954,289	30,323,207	22,293,733	141,245,961	308,817,190

41.3.2 Maximum Exposure Disclosure of Financial Assets

As at 31 March 2017	Gross carrying amount (Net of provision)	Net exposure
Cash and cash equivalents	1,204,483,946	1,204,483,946
Financial assets held for trading	15,024,960	-
Loans and advances to members	13,260,731,825	12,730,379,415
Loans and advances to others	503,034,338	310,921,094
Financial investments - loans & receivables	307,112,770	307,112,770
Financial investments - available-for-sale	12,430,283	-
Financial investments - held-to-maturity	1,743,275,943	-
Other financial assets	94,051,090	94,051,090
Total financial assets	17,140,145,154	14,646,948,314

As at 31 March 2016	Gross carrying amount (Net of provision)	Net exposure
Cash and cash equivalents	451,223,290	451,223,290
Financial assets held for trading	14,943,120	-
Loans and advances to members	8,759,039,215	8,322,161,877
Loans and advances to others	379,450,581	260,788,078
Financial investments - available-for-sale	12,430,283	-
Financial investments - held-to-maturity	2,639,328,475	735,428,906
Other financial assets	128,048,274	128,048,274
Total financial assets	12,384,463,238	9,897,650,425

41.4 Liquidity Risk

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

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

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 March

41. FINANCIAL RISK MANAGEMENT (Contd.)

41.4 Liquidity Risk (Contd...)

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

As at 31st March 2017	Carrying mounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Financial assets held for trading	15,024,960	16,250,272	-	-	16,250,272
Loans and advances to members	13,260,731,825	16,204,210,818	5,854,997,336	7,865,431,530	2,483,781,952
Loans and advances to others	503,034,338	637,552,840	31,141,644	96,314,551	510,096,645
Financial investments - loans & receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - available-for-sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - held-to-maturity	1,743,275,943	1,841,046,613	964,906,849	659,379,490	216,760,274
Other financial assets	94,051,089	94,051,089	35,654,897	30,476,983	27,919,207
	17,140,145,154	20,411,653,072	8,091,184,675	8,718,540,423	3,601,927,976
Due to customers	14,040,245,231	16,477,704,512	4,556,206,198	3,852,125,900	8,069,372,415
Debt issued and other borrowed funds	1,333,380,268	2,850,570,752	12,876,279	32,425,016	2,805,269,457
Other Financial Liabilities	236,020,182	236,020,182	202,866,863	15,767,987	17,385,332
	15,609,645,681	19,564,295,446	4,771,949,340	3,900,318,902	10,892,027,203
Liquidity gap related period	-	847,357,626	3,319,235,334	4,818,221,521	(7,290,099,227)
Liquidity gap cumulative	-	-	3,319,235,334	8,137,456,853	847,357,626

As at 31st March 2016	Carrying mounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	451,223,290	451,223,290	451,223,290	-	-
Financial assets held for trading	14,943,120	24,170,272	720,000	720,000	22,730,272
Loans and advances to members	8,759,039,215	10,357,833,260	3,938,123,440	5,985,666,228	434,043,593
Loans and advances to others	379,450,581	495,883,702	16,393,591	66,864,676	412,625,434
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,639,328,475	2,754,709,875	1,962,626,080	574,583,795	217,500,000
Other financial assets	128,048,274	128,048,274	128,048,274	-	-
	12,384,463,238	14,224,298,956	6,497,134,675	6,627,834,699	1,099,329,582
Due to customers	10,420,418,907	11,664,733,816	2,977,762,297	3,610,631,624	5,076,339,895
Debt issued and other borrowed funds	909,572,460	1,816,661,910	39,649,821	100,035,474	1,676,976,615
Other Financial Liabilities	120,332,406	120,332,406	120,332,406	-	-
	11,450,323,773	13,601,728,132	3,137,744,524	3,710,667,098	6,753,316,510
Liquidity gap related period	-	622,570,824	3,359,390,151	2,917,167,601	(5,653,986,928)
Liquidity gap cumulative	-	-	3,359,390,151	6,276,557,752	622,570,824

41.5 **Market Risk**

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

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

41.5.1 Sensitivity Analysis

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

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2017
Interest earning assets					
Cash and cash equivalents	1,204,483,946	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	15,024,960
Financial investments - held-to-maturity	942,858,918	650,417,025	150,000,000	-	1,743,275,943
Loans and advances to members (gross)	4,967,622,864	6,738,024,795	1,920,726,034	3,358,454	13,629,732,147
Loans and advances to others (gross)	22,246,782	62,580,093	352,526,618	69,499,204	506,852,697
Financial investments - loans & receivables	-	128,848,614	515,394,455	128,848,613	773,091,682
Total interest earning assets	7,152,237,470	7,579,870,527	2,938,647,107	201,706,271	17,872,461,374
Interest bearing liabilities					
Due to customers	4,328,376,113	3,561,433,334	5,975,125,470	175,115,869	14,040,050,786
Debt issued and other borrowed funds	48,550,088	121,983,413	497,846,736	665,000,000	1,333,380,237
Total interest bearing liabilities	4,376,926,202	3,683,416,747	6,472,972,206	840,115,869	15,373,431,024
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,775,311,268	3,896,453,780	(3,534,325,098)	(638,409,599)	2,499,030,351
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect	27,753,113	38,964,534	(35,343,251)	(6,384,096)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect	(27,753,113)	(38,964,534)	35,343,251	6,384,096	-

Notes to the Financial Statements

Year ended 31 March

41. FINANCIAL RISK MANAGEMENT (Contd.)

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2016
Interest earning assets					
Cash and cash equivalents	451,223,290	-	-	-	451,223,290
Financial assets held for trading	14,943,120	-	-	-	14,943,120
Financial investments - held-to-maturity	1,954,113,933	535,214,542	150,000,000	-	2,639,328,475
Loans and advances to members (gross)	3,266,139,961	5,259,780,186	386,346,007	1,452,011	8,913,718,165
Loans and advances to others (gross)	10,019,859	38,373,324	277,381,238	57,272,876	383,047,297
Total interest earning assets	5,696,440,163	5,833,368,052	813,727,245	58,724,887	12,402,260,347
Interest bearing liabilities					
Due to customers	2,745,784,899	3,118,993,134	4,478,211,761	77,429,113	10,420,418,907
Debt issued and other borrowed funds	16,408,228	33,409,981	194,754,251	665,000,000	909,572,460
Total interest bearing liabilities	2,762,193,127	3,152,403,115	4,672,966,012	742,429,113	11,329,991,367
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,934,247,036	2,680,964,937	(3,859,238,767)	(683,704,226)	1,072,268,980
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect	29,342,470	26,809,649	(38,592,388)	(6,837,042)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect	(29,342,470)	(26,809,649)	38,592,388	6,837,042	-

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 March 2017	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	1,204,483,946							1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	-	-	-	15,024,960
Loans and advances to members	4,692,417,770	3,396,649,715	3,255,843,978	1,328,133,541	584,329,793	3,357,028	-	13,260,731,824
Loans and advances to others	18,428,423	19,520,162	43,059,931	225,679,204	126,847,415	69,499,204	-	503,034,338
Financial investments - loans & receivables	-	-	51,185,462	102,370,923	102,370,923	51,185,462	-	307,112,770
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	1,287,937,076	205,811,382	99,527,485	-	150,000,000	-	-	1,743,275,943
Other assets	121,858,703	36,021,779	20,442,235	27,454,658	2,532,049	2,302,150	-	210,611,574
Investment properties							1,049,600,000	1,049,600,000
Intangible assets							127,078,155	127,078,155
Property, plant & equipment							1,119,409,029	1,119,409,028
	7,340,150,878	3,658,003,039	3,470,059,091	1,683,638,326	966,080,180	126,343,843	2,308,517,467	19,552,792,824
Liabilities								
Due to customers	4,328,570,558	1,069,776,415	2,491,656,919	4,504,692,330	1,470433,140	175,115,869	-	14,040,245,231
Debt issued and other borrowed funds	48,550,119	41,697,699	80,285,713	399,115,742	98,730,994	665,000,000	-	1,333,380,268
Income Tax payable	90,162,428	263,285,375						353,447,803
Value Added Tax payable	(6,263,276)	-	-	-	-	-	-	(6,263,276)
Other liabilities	226,545,070	11,655,556	12,567,987	4,472,827	1,667,185	11,245,320	-	268,153,945
Retiring benefit obligation	-	-	-	-	-	-	157,508,878	157,508,878
Shareholder's Fund	-	-	-	-	-	-	3,390,204,237	3,390,204,237
Deferred tax liability							16,115,738	16,115,738
	4,687,564,899	1,386,415,045	2,584,510,619	4,908,280,899	1,570,831,319	851,361,189	3,563,828,853	19,552,792,824

Notes to the Financial Statements

Year ended 31 March

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd.)

As at 31 March 2016	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	451,223,290	-	-	-	-	-	-	451,223,290
Financial assets held for trading	14,943,120	-	-	-	-	-	-	14,943,120
Loans and advances to members	3,143,047,194	2,669,185,141	2,561,177,767	334,555,939	49,629,284	1,443,890	-	8,759,039,215
Loans and advances to others	6,423,142	11,986,693	26,386,632	149,946,326	127,434,912	57,272,876	-	379,450,581
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	1,954,113,933	19,631,477	515,583,065	-	150,000,000	-	-	2,639,328,475
Other assets	88,006,791	35,799,694	18,675,527	41,852,563	5,821,396	6,510,683	-	196,666,654
Investment properties	-	-	-	-	-	-	904,500,000	904,500,000
Intangible assets	-	-	-	-	-	-	67,807,042	67,807,042
Property, plant & equipment	-	-	-	-	-	-	950,441,553	950,441,553
	5,657,757,470	2,736,603,005	3,121,822,991	526,354,828	332,885,592	65,227,449	1,935,178,878	14,375,830,213
Liabilities								
Due to customers	2,745,784,896	946,793,068	2,172,200,067	3,763,159,491	715,052,271	77,429,113	-	10,420,418,906
Debt issued and other borrowed funds	16,408,228	11,103,119	22,306,862	168,457,751	26,296,500	665,000,000	-	909,572,460
Income Tax payable	-	278,240,026	-	-	-	-	-	278,240,026
Value Added Tax payable	41,305,715	-	-	-	-	-	-	41,305,715
Other liabilities	150,860,944	-	-	-	-	-	-	150,860,944
Retiring benefit obligation	-	-	-	-	-	-	134,383,355	134,383,355
Shareholder's Fund	-	-	-	-	-	-	2,392,022,626	2,392,022,626
Deferred tax liability	-	-	-	-	-	-	49,026,181	49,026,181
	2,954,359,783	1,236,136,213	2,194,506,929	3,931,617,242	741,348,771	742,429,113	2,575,432,162	14,375,830,213

43. FAIR VALUE OF ASSETS AND LIABILITIES

43.1 Assets and Liabilities Measured at Fair Value

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

43.1.1 Financial Investments – Available-For-Sale

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

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

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

43.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 43.4.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

43.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 43.4.1 and 43.4.2.

43.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

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

43.2.1 Loans and Receivables to Customers

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

43.2.2 Financial Investments Held to Maturity

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

43.2.3 Due to Customers

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

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

43.2.4 Debt Securities Issued

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

Notes to the Financial Statements

Year ended 31 March

43. FAIR VALUATION (Contd.)

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2017	Fair Value through Profit and Loss	Available for Sale	Amortised cost Loans and Receivable	Total carrying amount	Fair Value	"Increase/ Decrease) in Fair Value"	Fair Value Hierarchy
Cash & Cash Equivalents		-	1,204,483,946	1,204,483,946	1,204,483,946	-	
Investment Securities		-		-	-	-	
- Measured at Fair Value	15,024,960	-	-	15,024,960	15,024,960	-	
- Measured at Amortised Cost	-	-	298,170,601	298,170,601	298,170,601	-	
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	
Investment Fixed deposits	-	-	1,295,105,342	1,295,105,342	1,295,105,342	-	
Finance Lease Receivables		-	1,704,446,462	1,704,446,462	1,717,595,462	13,149,000	Level II
Advances & Other Loans	-	-	12,621,462,914	12,621,462,914	12,704,570,044	83,107,131	Level II
Financial investments - loan & receivables	-	-	307,112,770	307,112,770	307,112,770		
Other Financial Assets		-	94,021,922	94,021,922	94,021,922	-	
Due To Customers - Fixed deposits	-	-	5,092,059,583	5,092,059,583	4,744,511,719	(347,547,864)	Level II
Debt issued & Other borrowed Funds	-	-	1,327,326,382	1,327,326,382	1,329,333,700	2,007,318	Level II
Trade & Other Payables	-	-	236,020,182	236,020,182	236,020,182	-	

43.3 Fair value of Financial Assets and Liabilities

As at 31 March 2016	Fair Value through Profit and Loss	Available for Sale	Amortised cost Loans and Receivable	Total carrying amount	Fair Value	"Increase/ Decrease) in Fair Value"	Fair Value Hierarchy
Cash & Cash Equivalents			451,223,290	451,223,290	451,223,290	-	
Investment Securities				-			
- Measured at Fair Value	14,943,120		14,943,120	14,943,120			Level-1
- Measured at Amortised Cost			1,473,783,398	1,473,783,398	1,473,783,398	-	
Investment Fixed deposits			1,165,545,077	1,165,545,077	1,165,469,465	(75,612)	Level II
Investment in Shares		12,430,283		12,430,283	12,430,283	-	
Finance Lease Receivables			114,417,229	114,417,229	116,922,599	2,505,370	Level II
Advances & Other Loans			9,138,489,796	9,138,489,796	8,722,948,341	(415,541,455)	Level II
Other Financial Assets			128,048,274	128,048,274	128,048,274		
Due To Customers - Fixed deposits			10,420,418,906	10,420,418,906	10,418,220,834	(2,198,072)	Level II
Debt issued & Other borrowed Funds			909,572,460	909,572,460	897,267,738	(12,304,722)	Level II
Trade & Other Payables			120,332,406	120,332,406	120,332,406	-	

Notes to the Financial Statements

Year ended 31 March

43.4 Valuation of Non-Financial Assets

43.4.1 Changes in Value of Non-Financial Assets

As at 31 March 2017	Building	Extent	Cost/Carring Amount			Fair Value		
	Sq.ft	Perches	Land	Building	Total	Land	Building	Total
Property, Plant & Equipment								
No. 94 96/1, Kandy Rd, Kurunegala.	5,755	7.05	19,600,266	63,999,734	83,600,000	20,350,515	66,449,485	86,800,000
No. 46/A, Thangalle Rd, Hambanthota.	2,113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5,400	9.26	18,642,581	54,357,419	73,000,000	22,062,259	55,937,741	78,000,000
No. 168, Nawala Rd , Nugegoda.	30,887	25.9	138,805,759	371,194,241	510,000,000	143,483,594	490,116,406	633,600,000
			183,654,358	500,945,642	684,600,000	192,502,121	623,897,879	816,400,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24,952	39.6	156,474,658	407,525,342	564,000,000	205,133,851	482,366,149	687,500,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	-	12,800,000	15,400,000	-	15,400,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20,494	182.59	54,740,871	70,259,129	125,000,000	56,755,335	72,844,665	129,600,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8	28,439,640	92,560,360	121,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	20,000,000	-	20,000,000	25,000,000	-	25,000,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	34,500,000	-	34,500,000	36,800,000	-	36,800,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000	-	14,000,000	16,300,000	-	16,300,000
			329,955,169	570,344,831	900,300,000	398,174,753	651,425,247	1,049,600,000

As at 31 March 2016		Extent	Cost/Carring Amount			Fair Value		
		Perches	Land	Building	Total	Land	Building	Total
Property, Plant & Equipment								
No. 94 96/1, Kandy Rd, Kurunegala.	5,755	7.05	19,600,266	60,799,747	80,400,013	19,600,266	60,799,747	80,400,013
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	10,824,536	17,430,288	6,605,752	10,824,536	17,430,288
No. 677, William Gopallawa Mw, Kandy.	5,400	9.26	18,642,581	51,639,548	70,282,129	18,642,581	51,639,548	70,282,129
No. 168, Nawala Rd , Nugegoda.	30,887	25.9	138,805,759	352,634,529	491,440,288	138,805,759	352,634,529	491,440,288
			183,654,358	475,898,360	659,552,718	183,654,358	475,898,360	659,552,718
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24,952	39.6	151,063,000	407,937,000	559,000,000	156,474,658	407,525,342	564,000,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000		9,000,000	9,000,000		9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000		12,800,000	12,800,000		12,800,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20,494	182.59	49,008,000	71,992,000	121,000,000	54,740,871	70,259,129	125,000,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5,786	8	25,267,000	90,733,000	116,000,000	28,439,640	92,560,360	121,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	20,000,000		20,000,000	20,000,000		20,000,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	34,500,000		34,500,000	34,500,000		34,500,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000		14,000,000	14,000,000		14,000,000
Nalluruwa, Panadura.	Land	17.8	4,200,000		4,200,000	4,200,000		4,200,000
			319,838,000	570,662,000	890,500,000	334,155,169	570,344,831	904,500,000

43.4 Valuation of Non-Financial Assets (Contd..)

43.4.2 Valuation details of Non-Financial Assets

	Valuation Method	Range of estimates for unobservable inputs				
		Value per Perch (Land)	Value per sq. ft. (Building)	Estimated rent per month	Discount Rate	Rate per perch for land
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	Cost approach	2,500,000	10000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	350,000	4000	73,000	-	-
No. 677, William Gopallawa Mw, Kandy.	Cost approach	2,300,000	10000	300,000	-	-
No. 168, Nawala Rd , Nugegoda.	Income approach	4,750,000	12000	2,000,000	20%	-
Investment Properties						
No.67/1, Mahinda Place, Kirulapone, Colombo-05.	Income Approach			450,000	20%	
No.249, Stanly Thilakarathna Mw, Nugegogda.	Income Approach			1,700,000	20%	
No.465/1, Old Police Station Road , Kahathuduwa, Polgasovita.	Income Approach			450,000	20%	
No.64 , Abaya Place , Anuradapura.	Market Comparable method					1,850,000
No. 37, Vihara Mw, Matale.	Market Comparable method					600,000
No. 340, Galle Road, Katubedda , Moratuwa.	Market Comparable method					1,600,000
No.56 ,Sewa Mw, Puttalam .	Market Comparable method					600,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market Comparable method					22,500

Notes to the Financial Statements

Year ended 31 March

44. SEGMENT REPORTING

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

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

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

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

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

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2015/16 and 2016/17 financial years.

44. SEGMENT REPORTING (Contd.)

	Financial		Leasing		Others		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Interest Income	3,685,455,325	2,757,899,776	72,949,776	1,244,385	102,994,750	151,398,200	3,861,399,851	2,910,542,361
Net Fee and Commision Income	577,254,372	409,498,264	(5,430,358)	794,238			571,824,014	410,292,502
Net Gain /(Loss) from Trading					81,840	(24,791,650)	81,840	(24,791,650)
Net Gain /(Loss) from Financial Investments						(1,787,152)	-	(1,787,152)
Other operating income	61,731,214	18,454,352		86,090	175,065,249	74,522,146	236,796,463	93,062,588
Total Operating Income	4,324,440,910	3,185,852,392	67,519,418	2,124,713	278,141,839	199,341,544	4,670,102,167	3,387,318,649
Impairment charges for Loan & Other Losses	(241,204,462)	(110,452,151)	(324,926)		(465,978,912)		(707,508,300)	(110,452,151)
Net Operatig Income	4,083,236,448	3,075,400,241	67,194,492	2,124,713	(187,837,073)	199,341,544	3,962,593,868	3,276,866,498
Operating Profit/(Loss)	1,802,971,491	1,347,112,837	11,246,456	(1,612,243)	(187,837,073)	199,341,544	1,626,380,875	1,544,842,138
Income Tax Expenses	(563,753,094)	(378,654,222)	(3,793,595)		-	(56,094,711)	(567,546,689)	(434,748,933)
Profit/(Loss) for the Year	1,239,218,397	968,458,615	7,452,862	(1,612,243)	(187,837,073)	143,246,833	1,058,834,186	1,110,093,205
Total Assets	15,743,297,427	11,537,130,808	1,744,081,723	118,322,268	2,065,413,674	2,720,377,138	19,552,792,824	14,375,830,213
Total Liabilities	13,066,746,966	10,784,016,556	1,734,412,729	119,934,511	1,361,428,892	1,079,856,522	16,162,588,587	11,983,807,587

Share Information

Ten Largest Shareholders - Voting

No	Shareholders Name	31st March 2017 No of Shares	31st March 2017 %	31st March 2016 No of Shares	31st March 2016 %
1	Hatton National Bank PLC	724,904,118	51.00	724,904,118	51.00
2	Prime Lands (Private) Limited	562,391,533	39.57	675,091,533	47.50
3	DWM Funds S.C.A, SICAV - SIF	112,700,000	7.93	-	-
4	B. M. D. C. Prabhath	1,000,000	0.07	1,000,000	0.07
5	H. M. U. Senevirathna	150,000	0.01	150,000	0.01
6	W. S. P. Arangala	110,000	0.01	110,000	0.01
7	S. L. Y. Liyanawatte	102,500	0.01	102,500	0.01
8	S. T. D. Peris	101,000	0.01	101,000	0.01
9	J. S. B. Galagoda	101,000	0.01	101,000	0.01
10	W. B. A. Fernando	100,500	0.01	100,500	0.01
	Sub Total	1,401,660,651	98.61	1,401,660,651	98.61
	Others	19,719,973	1.39	19,719,973	1.39
	Total	1,421,380,624	100.00	1,421,380,624	100.00

Largest Shareholders - Non Voting

No	Shareholders Name	31st March 2017 No of Shares	31st March 2017 %	31st March 2016 No of Shares	31st March 2016 %
1	Seylan Bank PLC	233,200,000	78.20	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67	37,772,148	12.67
3	Prime Grameen Class A Non-Voting Share Trust	27,227,852	9.13	27,227,852	9.13
	Total	298,200,000	100.00	298,200,000	100.00

Distribution of Shareholders - Voting

Shareholding Range	As at 31st March 2017				As at 31st March 2016			
	No. of shareholders	%	No. of Shares	%	No. of shareholders	%	No. of Shares	%
1 - 1,000	99,530	99.156	16,997,804	1.20	99,530	99.157	16,997,804	1.20
1,001 - 10,000	810	0.807	1,573,143	0.11	810	0.807	1,573,143	0.11
10,001 - 100,000	25	0.025	948,426	0.07	25	0.025	948,426	0.07
100,001 - 1,000,000	9	0.009	1,865,600	0.13	9	0.009	1,865,600	0.13
Over 1,000,000	3	0.003	,399,995,651	98.50	2	0.002	,399,995,651	98.50
Total	100,377	100.00	1,421,380,624	100.00	100,376	100.00	1,421,380,624	100.00

INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2019

HNB FINANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME

Period ended	**FOR THE 6 MONTHS ENDED**		
	30/09/2019 LKR	**30/09/2018 LKR**	**Variance %**
Income	**4,539,287,677**	**3,824,510,861**	18.69
Interest Income	3,986,607,520	3,446,380,933	15.68
Interest Expenses	(1,830,422,025)	(1,279,084,269)	43.10
Net Interest Income	**2,156,185,495**	**2,167,296,664**	(0.51)
Fee and Commission Income	445,462,674	301,901,892	47.55
Other Operating Income	107,217,482	76,228,037	40.65
Total Operating Income	**2,708,865,652**	**2,545,426,592**	6.42
Impairment Charges and Other Losses	(330,010,139)	(303,564,507)	8.71
Net Operating Income	**2,378,855,512**	**2,241,862,085**	6.11
Operating Expenses			
Personnel Expenses	(750,651,006)	(617,359,562)	21.59
Depreciation of Property, Plant and Equipment	(70,214,693)	(66,259,516)	5.97
Amortisation of Intangible Assets	(29,859,582)	(20,967,611)	42.41
Other Operating Expenses	(801,603,536)	(634,892,531)	26.26
Operating Profit before Tax on Financial Services	**726,526,695**	**902,382,865**	(19.49)
Tax on Financial Services	(191,636,282)	(213,620,222)	(10.29)
Debt Repayment Levy	(91,690,142)	-	
Profit before Taxation	**443,200,271**	**688,762,643**	(35.65)
Income Tax Expense	(127,278,878)	(214,380,618)	(40.63)
Profit for the Period	**315,921,393**	**474,382,025**	(33.40)
Basic Earnings Per Share (Rs.)	**0.18**	**0.28**	(33.40)
Other Comprehensive Income			
Other Comprehensive Income to be reclassified to Profit or Loss			
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	
Other Comprehensive Income that will never be Reclassified to Income Statement			
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	-	-	
Other Comprehensive Income for the Period, Net of Tax	-	-	
Total Comprehensive Income for the Period, Net of Tax	**315,921,393**	**474,382,025**	(33.40)
Attributable to:			
Equity Holders of the Company	315,921,393	474,382,025	(33.40)
Non-Controlling Interest	-	-	
Total Comprehensive Income for the Period, Net of Tax	**315,921,393**	**474,382,025**	(33.40)

HNB Finance Limited
True Copy
Authorized Signature

HNB FINANCE LIMITED
STATEMENT OF FINANCIAL POSITION
As at

	30/09/2019 LKR	Audited 31/03/2019 LKR
Assets		
Cash and Cash Equivalents	1,035,443,355	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 Receivables	17,935,397,681	16,755,608,663
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	9,267,641,959	8,073,389,558
Financial assets at amortised cost - Loans and advances to others	626,181,735	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/ Financial investments	2,896,650,998	2,487,353,578
Other Financial Assets	230,609,565	267,253,609
Other Non Financial Assets	294,937,439	225,541,063
Investment properties	1,151,000,000	1,295,000,001
Property, Plant and Equipment	1,605,124,358	173,541,897
Intangible Assets	224,536,468	1,420,476,897
Deferred Tax Assets	189,768,514	189,768,514
Total Assets	**35,485,736,755**	**32,929,187,275**
Liabilities		
Due to Banks	493,327,572	-
Financial Liabilities at Amortised Cost - Due to Depositors	25,033,018,333	22,632,141,889
Debt Instruments Issued and Other Borrowed Funds	3,026,134,757	4,217,579,835
Other Financial Liabilities	1,501,965,534	1,026,950,339
Other Non Financial Liabilities	67,782,713	85,186,782
Current Tax Liabilities	188,789,850	130,058,403
Post Employment Benefit Liability	229,329,397	207,802,822
Total Liabilities	30,540,348,156	28,299,720,069
Equity		
Stated Capital	223,545,481	223,545,481
Reserves	1,681,607,451	1,681,607,451
Retained Earnings	3,040,235,666	2,724,314,274
Total Equity Attributable to Equity Holders of the Company	4,945,388,598	4,629,467,206
Non Controlling Interest		
Total Equity	4,945,388,598	4,629,467,206
Total Liabilities and Equity	**35,485,736,755**	**32,929,187,275**
Net Asset Value per Share (Rs.)	**2.88**	**2.69**
Commitments and Contingencies	-	-

The information contained in these statements have been extracted from the unaudited Financial Statements unless indicated as "Audited".

CERTIFICATION:

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

H.D.S.C Gunasekara
Chief Accountant/Head of Finance

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

B M D C Prabhath
Managing Director/CEO

Director

30/12/2019

HNB Finance Limited
True Copy
Authorized Signature

HNB FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserve Rs.	Fair Value Reserve Rs.	Total Equity Rs.
Balance as at 01 April 2018	**223,545,481**	**2,052,770,431**	**840,876,301**	**512,164,180**	**3,629,356,393**
Net profit for the Period	-	474,382,025	-	-	474,382,025
Other Comprehensive Income, net of Tax	-	-	-	-	-
Transfers During the Period	-	-	-	-	-
Balance as at 30 September 2018	**223,545,481**	**2,527,152,456**	**840,876,301**	**512,164,180**	**4,103,738,418**
Balance as at 01 April 2019	**223,545,481**	**2,724,314,273**	**1,006,995,465**	**674,611,986**	**4,629,467,205**
Net profit for the Period	-	315,921,393	-	-	315,921,393
Other Comprehensive Income, net of Tax	-	-	-	-	-
Transfers During the Period	-	-	-	-	-
Balance as at 30 September 2019	**223,545,481**	**3,040,235,666**	**1,006,995,465**	**674,611,986**	**4,945,388,598**

HNB Finance Limited
True Copy
Authorized Signature

HNB FINANCE LIMITED		
CASH FLOW STATEMENT		
Period ended	**30/09/2019**	**30/09/2018**
	LKR	**LKR**
Cash Flows from/(Used in) Operating Activities		
Profit and Other Comprehensive Income/(Expenses) before Taxation	**443,200,271**	**688,762,643**
Adjustments for		
Depreciation of Property, Plant and Equipment	70,214,693	66,259,516
Amortisation of Intangible Assets	29,859,582	20,967,611
Impairment Charges and Other Losses	330,010,139	303,564,507
Loss/(Profit) on Disposal of Property, Plant and Equipment	-	-
Provision/(Reversal) for Defined Benefit Plans	24,052,000	24,105,000
Dividend Received	-	-
Interest Income on Investing Activities	(142,935,703)	(73,930,631)
Provision for value added tax	169,001,327	188,356,134
Provision for Debt Recovery Levy	91,690,142	-
Crop insurance levy	3,050,000	4,150,000
Provision for nation building tax	22,634,955	25,264,087
Operating Profit before Working Capital Changes	1,040,777,407	1,247,498,868
(Increase)/Decrease in Loans and Receivables	(1,179,789,018)	(609,762,897)
(Increase)/Decrease in Lease Rentals Receivable and Stock out on Hire	(1,002,277,560)	(2,216,946,460)
(Increase)/Decrease in Other Financial Assets	(36,644,044)	(15,974,137)
(Increase)/Decrease in Other Non Financial Assets	69,396,376	(7,525,459)
Increase/(Decrease) in Amounts Due to Customers	2,388,881,318	(421,921,683)
Increase/(Decrease) in Other Financial Liabilities	475,015,195	75,221,968
Increase/(Decrease) in Other Non Financial Liabilities	(17,404,069)	28,807,469
Cash Generated from Operations	1,737,955,605	(1,920,602,331)
Retirement Benefit Liabilities Paid	(2,954,425)	(3,816,500)
value added tax Paid	(162,612,655)	(148,123,566)
Debt Recovery Levy Paid	(122,156,241)	-
Crop insurance levy Paid	(3,907,461)	(4,112,733)
Nation building tax Paid	(22,599,589)	(23,206,571)
WHT Paid	(15,183,869)	(2,756,347)
Income Tax Paid	(66,920,184)	(275,461,205)
ESC Paid	(22,208,942)	(20,065,416)
Net Cash from/(Used in) Operating	1,319,412,240	(2,398,144,669)
Cash Flows from/(Used in) Investing Activities		
Acquisition of Property, Plant and Equipment	(96,482,003)	(63,242,502)
Acquisition of Intangible Assets	(80,854,153)	(79,145,264)
Proceeds from Sale of Property, Plant and Equipment		
Net of investment in Financial assets at amortised cost - government security	(86,791,778)	(264,487,578)
Net investment in Financial assets at amortised cost - fixed deposits	(330,076,274)	773,125,342
Interest Received	128,307,618	118,625,391
Dividend Received	-	-
Net Cash Flows from/(Used in) Investing Activities	(465,896,591)	484,875,389
Cash Flows from/(Used in) Financing Activities		
Net Cash Flow from Syndicated Loans and Other Bank Facilities	(1,189,168,665)	1,875,414,674
Net Cash Flow from Debt Issued and Other Borrowings	-	(100,000,000)
Dividends Paid	-	-
Net Cash Flows from/(Used in) Financing Activities	(1,655,065,256)	2,260,290,063
Net Increase in Cash and Cash Equivalents	(335,653,017)	(137,854,606)
Cash and Cash Equivalents at the Beginning of the Period	1,371,096,372	905,159,755
Cash and Cash Equivalents at the End of the Period	**1,035,443,355**	**767,305,149**
CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT		
Notes and Coins Held	210,897,770	117,157,282
Balances with Banks	1,464,813,367	650,147,867
Treasury Bills Repurchase Agreements	2,097,922,600	1,846,917,587
Bank Overdrafts	493,327,572	124,627,713
Net Cash and Cash Equivalents	**4,266,961,309**	**2,738,850,449**

HNB Finance Limi
True Cop
...rized Signat

HNB FINANCE LIMITED
SEGMENTAL INFORMATION

	Loans and Receivables		Leasing & Stock out on Hire		Gold Loan		Others		Total	
	30/09/2019 LKR	30/09/2018 LKR	30/09/2019 LKR	30/09/2018 LKR	30/09/2019 LKR	30/09/2018 LKR	30/09/2019 LKR	30/09/2018 LKR	30/09/2019 LKR	30/09/2018 LKR
Interest Income	2,865,817,269	2,833,270,063	880,936,687	510,114,462	30,157,763	-	176,315,752	102,996,407	3,953,227,471	3,446,380,932
Interest Expenses	(1,148,698,852)	(914,585,269)	(502,007,615)	(271,269,147)	(14,656,583)	-	(161,052,602)	(92,696,766)	(1,826,415,652)	(1,278,551,183)
Net Interest Income	**1,717,118,418**	**1,918,684,794**	**378,929,072**	**238,845,315**	**15,501,180**	-	**15,263,150**	**10,299,641**	**2,126,811,820**	**2,167,829,749**
Fee and Commission Income	372,255,078	246,087,442	12,992,466	12,814,450	46,415	-			385,293,959	258,901,892
Net Trading Income and Other Operating Income	117,009,914	73,745,618	83,589,678	45,482,419	166,655	-	-	-	200,766,247	119,228,037
Impairment Charges and Other Losses	(190,208,254)	(206,883,726)	(139,801,886)	(96,680,781)	-	-			(330,010,139)	(303,564,507)
Net Operating Income	**2,016,175,155**	**2,031,634,128**	**335,709,330**	**200,461,403**	**15,714,250**	-	**15,263,150**	**10,299,641**	**2,382,861,886**	**2,242,395,171**
Other Costs	(1,256,450,903)	(1,105,550,679)	(260,606,372)	(147,234,499)	(39,203,190)		-	-	(1,556,260,465)	(1,252,785,178)
Depreciation	(96,169,593)	(86,162,128)	(1,738,133)	(1,065,000)	(2,166,998)				(100,074,725)	(87,227,128)
Operating Profits Before Taxes	**663,554,659**	**839,921,321**	**73,364,825**	**52,161,903**	**(25,655,939)**	-	**15,263,150**	**10,299,641**	**726,526,696**	**902,382,865**
Taxes	-	-	-	-			-	-	(410,605,302)	(428,000,840)
Profits for the Period	**663,554,659**	**839,921,321**	**73,364,825**	**52,161,903**	**(25,655,939)**	-	**15,263,150**	**10,299,641**	**315,921,393**	**474,382,025**
Non Controlling Interest	-	-	-	-			-	-	-	-
Profit Attributable to Equity Holders of the Company	-	-	-	-			-	-	-	-
Profits for the Period	**663,554,659**	**839,921,321**	**73,364,825**	**52,161,903**	**(25,655,939)**	-	**15,263,150**	**10,299,641**	**315,921,393**	**474,382,025**
Segmental Assets	**22,304,826,609**	**18,603,702,417**	**9,310,485,941**	**6,527,013,187**	**500,362,386**		**2,912,665,398**	**2,021,506,204**	**35,028,340,334**	**27,152,221,808**
Segmental Liabilities	**19,613,741,863**	**15,438,003,825**	**9,728,482,113**	**6,439,788,567**	**71,393,352**		**669,351,286**	**669,751,106**	**30,082,968,614**	**22,547,543,498**

HNB Finance Limited
True Copy
Authorized Signature

HNB Finance Limited - Interim Financial Statements

Shareholders' Information

Ordinary Voting Shares as at 30th September 2019

No	Name	No of Shares	%
1	HATTON NATIONAL BANK PLC	724,904,118	51.000%
2	PRIME LANDS (PRIVATE) LIMITED	562,391,533	39.567%
3	DWM FUNDS S.C.A, SICAV - SIF	112,700,000	7.929%
4	B.M.D.C. PRABHATH	1,000,000	0.070%
5	H.M.U. SENEVIRATHNA	150,000	0.011%
6	W.S.P. ARANGALA	110,000	0.008%
7	S.L.Y. LIYANAWATTE	102,500	0.007%
8	S.T.D. PERIS	101,000	0.007%
9	J.S.B. GALAGODA	101,000	0.007%
10	W.B.A. FERNANDO	100,500	0.007%
11	S.A.R. FERNANDO	100,500	0.007%
12	B.S. SENEVIRATNE	100,100	0.007%
13	R.P.K. GALLAGE	100,000	0.007%
14	E.A.D. SILVA	100,000	0.007%
15	R.D.S. MUNASINGHE	100,000	0.007%
16	W.D. WIJESINGHE.	50,500	0.004%
17	R.M.M. TISSA	50,500	0.004%
18	R.K.M. PRIYANGA	50,200	0.004%
19	J.M.R. FONSEKA	50,100	0.004%
20	C.G.S.H.(. LTD.	50,000	0.004%
		1,402,412,551	98.666%
	Others	18,968,073	1.334%
	Total	1,421,380,624	100.00%

Ordinary Non Voting Shares as at 30th September 2019

No	Name	No of Shares	%
1	Seylan Bank PLC	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67
3	Wealth Guard Private Ltd	27,227,852	9.13
	Total	**298,200,000**	**100.00**

Directors' and Chief Executive Officer's Shareholding as at 30th September 2019

Ordinary Voting Shares

Name	No of Shares	%
Mr B.M.D.C Prabhath	1,000,000	0.070

HNB Finance Limited
True Copy
Authorized Signature

EXPLANATORY NOTES

01) The financial statements of the Company are prepared on the basis of the accounting policies and methods of computation applied in the year ended March 31, 2019 and are in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS). The interim financial statements are prepared in compliance with Sri Lanka Accounting Standard (LKAS) 34 - Interim Financial Reporting.

02) There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

03) All known expenses have been provided in these financial statements and management fees are not applicable to the Company

04) Number of Shares as at 30th September 2019 is as follows

Ordinary Voting Shares	1,421,380,624
Ordinary Non Voting Shares	298,200,000

05) During the period there were no material changes in the composition of assets, liabilities and contingent liabilities and there is no seasonality and cyclicality affecting the interim operation.

INFORMATION ON SHARES

Market prices for the quarter ended 30 September 2019

	Ordinary Voting Shares		Ordinary Non Voting Shares	
	30th Sep 2019	30th Sep 2018	30th Sep 2019	30th Sep 2018
Highest Price	N/A	N/A	N/A	N/A
Lowest Price	N/A	N/A	N/A	N/A
Last Traded	N/A	N/A	N/A	N/A

Market Capitalization as at 30th September 2019	30th Sep 2019	30th Sep 2018
Ordinary Voting Shares	N/A	N/A
Ordinary Non Voting Shares	N/A	N/A

HNB Finance Limited
True Copy
Authorized Signature

INFORMATION ON LISTED DEBENTURES

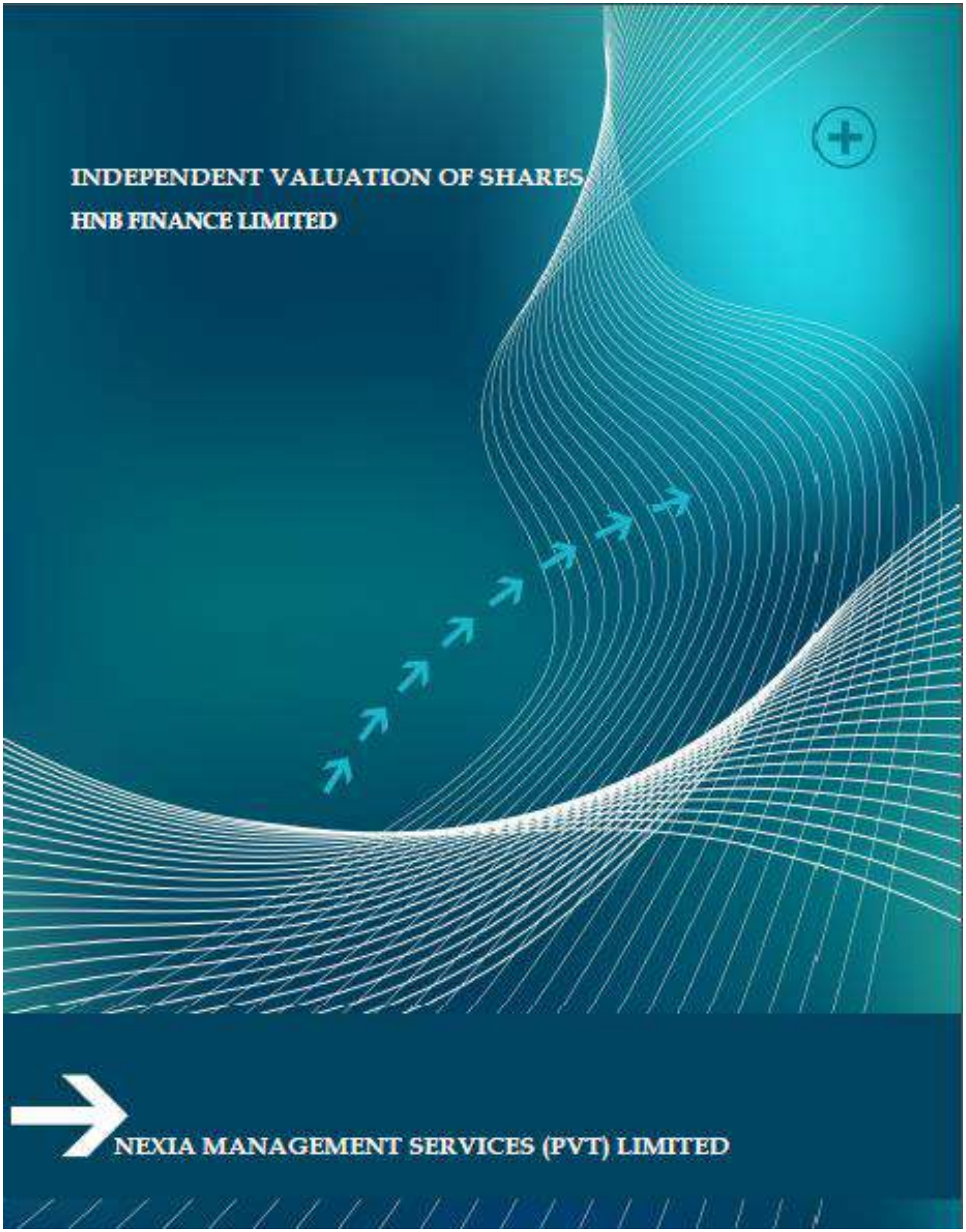
There have been no listed Debentures as at 30th September 2019

SELECTED PERFORMANCE INDICATORS

	As at 30th Sep 2019	As at 30th Sep 2018
Capital Adequacy		
Core Capital to Risk Weighted Asset Ratio	9.20%	9.48%
Total Capital to Risk Weighted Asset Ratio	10.23%	10.40%
Capital Funds to Total Deposit Liabilities Ratio	19.73%	25.14%
Profitability		
Return on Avg Shareholders' Funds (After Tax) - Annualized	13.20%	21.72%
Return on Avg Assets (After Tax) - Annualized	1.85%	3.61%
Liquidity (Rs. Mn)		
Required Minimum Amount of Liquid Assets	2,953	2,214
Available Amount of Liquid Assets	3,079	2,424
Required Minimum Amount of Government Securities	1,823	1,492
Available Amount of Government Securities	1,851	1,532
Other ratios		
Debt Equity Ratio	5.78	4.92
Quick Asset Ratio	0.23 : 1	0.16 : 1

HNB Finance Limited
True Copy
Authorized Signature

ANNEXURE D: INDEPENDENT VALUATION REPORT TO ASCERTAIN THE VALUE OF THE ORDINARY VOTING SHARES and THE ORDINARY NON-VOTING SHARES ISSUED BY THE INDEPENDENT VALUER TO THE OFFER



NEXIA MANAGEMENT SERVICES (PVT) LTD.

No.22/4, Vijaya Kumaranatunga Mawatha, Colombo 05.
Tel : + 94-11-4-510368, +94-11-4-510268, +94-11-2-513420-2 Fax : +94-11-4-512404

The Board of Directors,
HNB Finance Ltd,
No. 168, Nawala Road,
Nugegoda.

Dear Sirs,

VALUATION OF EQUITY SHARES - HNB FINANCE LIMITED

As requested by you, we have carried out a detailed analysis of the operations of HNB Finance Ltd (HNBF) to arrive at the fair value of HNBF's shares based on valuation methodologies considered as appropriate for the purpose of this valuation.

We believe that the information and explanations obtained from the management of HNBF were sufficient for us to arrive at an independent opinion on fair value of shares of HNBF.

Further, we confirm that Nexia Management Services (Pvt) Ltd is not a related party of HNBF nor has significant interest in or financial connection with the HNBF or any of its group companies.

The detailed valuation report is enclosed herewith for your reference.

Thanking you.

Yours faithfully,

S. Bandara

Director
NEXIA MANAGEMENT SERVICES (PVT) LTD.

Date 22/01/2020

Directors - N.S.C. De Silva FCA, FCMA(UK), L.C. Piyasena FCA, L.L.S. Wickremasinghe FCA, F.S.N. Marikkar FCA, S.M.S.S. Bandara MBA, FCA, D.S. De Silva LLB, Attorney-at-Law,ACA, ACMA(UK)

TABLE OF CONTENTS

GLOSSARY

HNBF	HNB Finance
PER	Price-earnings Ratio
RI	Residual Income
IPO	Initial Public Offering
EBITDA	Earnings before Interest, Tax, Depreciation & Amortisation
EBIT	Earnings before Interest & Tax
TTM	Trailing Twelve Months
EPS	Earnings per Share
PAT	Profit after Tax
BV	Book Value
PV	Present Value
NI	Net Income
AWPLR	Average Weighted Primary Lending Rate
LKR	Sri Lankan Rupee

1. SUMMARY OF VALUATION RESULTS

We have carried out a detailed analysis of the business operations of HNBF to arrive at the fair value of HNBF's shares based on the three methodologies and the results have been summarized below.

Valuation Methodology	*Value Per Share (LKR)*
1. *Peer Group PE*	2.88
2. *Residual Income*	5.32
3. *Discounted Future Earnings*	8.16
Weighted Average Value Per Voting Share	6.13
Price per non-voting share (Range)	2.10 - 5.96

Based on the valuation results, we believe that HNBF shares (Ordinary Voting Shares) would have a fair value in the range of LKR 2.88 - LKR 8.16 per share, given the company's business fundamentals and the industry dynamics in Non-Bank Financial Institution Sector.

Considering healthy marketability of shares, we recommend base limit for share value of HNBF of LKR **6.13 per ordinary voting share** for the purpose of the IPO.

Based on the valuation results, we believe that HNBF shares (Ordinary Non-Voting Shares) would have a fair value in the range of LKR 2.10 - LKR 5.96 per share, given the company's business fundamentals and the industry dynamics in Non-Bank Financial Institution Sector.

Considering healthy marketability of shares, we recommend base limit for share value of HNBF of LKR **4.47 per ordinary non-voting share** for the purpose of the IPO.

2. TERMS OF REFERENCE

HNB Finance Limited, a subsidiary of Hatton National Bank PLC, is a Licensed Finance Company domiciled in Sri Lanka. The company commenced its operations in year 2000 with the main focus on women in rural areas and promoting financial inclusion through a hybrid model of the Grameen micro finance concept.

The company has achieved a rapid growth since its incorporation and the Board of Directors has now decided to list the company on Colombo Stock Exchange.

In compliance with listing regulations, the management has decided to obtain the services of an independent party for the purpose of justifying the IPO Offer Price. Accordingly, the management has requested Nexia Management Services (Pvt) Ltd to carry out an independent valuation of the company shares.

3. VALUATION METHODOLOGY

There are three basic ways of valuing a business.

1. Earnings based valuation
2. Market based valuation
3. Asset based valuation

A number of valuation techniques are available under each method. However, considering the industry & the business model of the HNBF, the valuation team determined Residual Income method, Peer PE method and Discounted Profit after Tax method as appropriate methods for valuing HNBF.

We did not consider Assets Based Valuation method since Net Asset Value may not be suitable for a company which operates as a going concern.

3.1 Residual Income Method

Residual income is net income less a charge (deduction) for common shareholders' opportunity cost in generating that income. Traditional financial statements are prepared to reflect earnings available to owners. Net income includes an expense to represent the cost of debt capital (interest expense). Dividends or other charges for equity capital are not deducted. Traditional accounting leaves to the owners the determination as to whether the resulting earnings are sufficient to meet the cost of equity capital. The economic concept of residual income, on the other hand, explicitly considers the cost of equity capital.

The Residual Income for a given year is determined as below;

$RI_t = E_t - (r \times B_{t-1})$

where;

RI_t = residual income in year t

E_t = expected earnings for year t

r = required return on equity

B_{t-1} = book value of equity in year t-1

In the Residual Income Model (RIM) of valuation, the intrinsic value of the firm has two components:

1. The current book value of equity, plus

2. The present value of future residual income

This can be expressed algebraically as:

$$P_0 = B_0 + \sum_{t=1}^{t-1} \left[\frac{RI_t}{(1+r)^t} \right] + TV_t$$

Where,

P_0 = intrinsic value in year 0

B_0 = book value of equity in year 0

RI_t = residual income in year t

r = required return on equity

TV_t = terminal value at year t

The Terminal Value at year t (TV_t) in a continuing residual income model is calculated using the following standard formula.

$$TV_t = \frac{RI_t}{(1+r-\omega)(1+r)^{t-1}}$$

Page 6 of 29

Where,

TV_t = terminal value at year t

RI_t = residual income in year t

r = required return on equity

ω = persistence factor

The persistence factor determines the sustainability of excess net income over required rate of return. If the excess net income is expected to continue perpetually then the persistent factor is assumed as "1". Accordingly, if it is expected to diminish just after the initial forecast period persistent factor is assumed as "0". The persistence factor could be any value between "0" and "1" depending on the estimate on firm's ability to persist with its competitive advantage.

The RI method was considered as an appropriate technique, taking into account the fact that it is an ongoing business, dealing primarily in financial assets.

3.2 Market Multiples Method

Value multiples such as Value to EBITDA or Value to EBIT cannot be easily adapted to value financial service firms, because neither value nor operating income can be easily estimated for these companies. Hence, for the valuation of shares we have used Market Multiples approach which takes into account the market multiples of listed peer companies. Price-earnings ratio (PER) and the Price-to-book value ratio (PBV) are commonly used market multiples in business valuation. The PBV was not considered since assets of HNBF was not utilized at optimal levels until recently. Therefore, we have used PER for the valuation purposes.

The two most common variations of PER based valuation are trailing 12-month price-earnings ratio and forward price-earnings ratio: The first is calculated by dividing the current price by the earnings per share for the trailing 12 months (TTM P/E), the second by dividing the current price by the estimated earnings per share for the next fiscal year (forward P/E). We have considered the forward P/E method for the valuation of HNBF shares.

We used forward P/E method as it considers future growth/earning potential of the company's operation. Which is the most suitable basis for investment decisions.

The share value under PER is calculated as follows:

Share Price = *Forward EPS* for next year (Note-1) × *Peer group PER* (Note-2)

(Note-1, forward EPS calculated here in is for 2019/20 financial year and this is given in page no. 26)

(Note-2 "peer group PER" calculated here in this report is based on the historical financial information of peer group companies and this figure is given in page no. 09)

Where,

EPS = earnings per share

PER = Price-to-Earnings ratio

3.3 Discounted Earnings After Tax

Estimating cash flows for finance companies is problematic since measuring reinvestment, i.e. net capital expenditure & working capital, in these firms is difficult. Hence, an alternative approach is required to estimate cash flows. For financial service firms, operating cash flows are not separately computed and Profit after Tax (PAT) is considered a close substitute to operating cash flows. Therefore, we have considered the discounted PAT as a suitable method for valuing equity of HNBF.

We have used discounted Profit After Tax in calculating share price of HNBF as banks and non-bank financial institution sectors are not mainly assets based operation. We did not consider EBITDA in determining share price as it is not a mainly considered figure in banking industry.

The first step in valuing equity shares under this method is to estimate the future earnings of the company. The future earnings are split into two stages, i.e. the earnings during the planning horizon and the terminal earnings. The perpetuity formula is used to estimate the terminal value of equity.

The projected earnings attributable to equity holders are then discounted at cost of equity of the firm. The share value is calculated as follows:

$$Share\ Value = \frac{(PV\ of\ earnings\ during\ planning\ Horizon + PV\ of\ terminal\ earnings)}{No\ of\ shares\ outstanding}$$

4. VALUATION RESULTS

4.1 Peer Group Price Earnings (PE) Method

Valuation of shares based on sector multiples may not be feasible if the companies are different in respect of size, products offered, profitability, etc. Therefore, in order to derive value based on market multiples, it would be more meaningful to consider closely related companies (peer group) with similar characteristics.

Based on our analysis, following five companies were selected as peer companies and their PER was computed based on EPS for the 12 months ended 31st March 2019 and share prices as at 24th July 2019 as published by Colombo Stock Exchange.

Company	EPS as at 31/03/2019	Closing market price as at 24/07/2019 (Rs)	PE Ratio
Commercial Credit & Finance PLC	6.54	29.50	4.5
Citizen Development Business Finance PLC	31.49	81.50	2.6
Nation Lanka Finance PLC	0.16	0.80	5.0
Arpico Finance Company PLC	50.10	145.00	2.9
Asia Asset Finance PLC	0.94	8.00	8.5
Mean PER			**4.70**

A discount rate of 10% has been applied for a lack of comparability and the size of the business. We have not factored the discount for the lack of marketability as HNBF will get listed in the near future.

HNBF EPS (forward) Note - 1	0.68
Mean PE of the peer group	4.7x
Discount for lack of comparability & size	10%
Post discount PE	4.2x
Value per share (LKR)	**2.88**

Note - 1: this is expected EPS for financial year 2019/20 as per forecasted financial statements of the HNBF (1,164,748,202/1,719,580,624 = 0.68).

4.2 Residual Income Method

(LKR)	2018/19 A	2019/20 F	2020/21 F	2021/22 F (a)
Net Income	830,595,822	1,164,748,202	1,519,850,549	2,162,753,701
Book Value of Common Equity	4,629,467,204	5,468,016,380	6,866,278,885	8,704,619,530
Beginning BV of Common Equity		4,629,467,204	5,468,016,380	6,866,278,885
(Beginning BV of Equity) X (Cost of Equity)		833,304,097	984,242,948	1,235,930,199
Residual Income		**331,444,105**	**535,607,600**	**926,823,501**
Discount Factor @ 18%		0.847	0.718	0.609
Present Value of Residual Income		**280,884,835**	**384,665,039**	**564,093,396**

Return on Common Equity:

Cost of Equity:	18%
Present Value of Equity Calculations:	
Current Value of Equity: (LKR)	4,629,467,204
Sum of PV of Residual Income: (LKR)	1,229,643,270
Terminal Growth Rate: (LKR) *(Please refer section 4.3)*	5.00%
Estimated Year 3 NI to Common: (LKR) (a)	2,162,753,701
Residual Income Terminal Value: (LKR)	5,415,845,156
PV of Res. Inc. Terminal Value: (LKR) (b)	3,296,250,563
Present Value of Equity: (LKR) (c)	9,155,361,038
Shares Outstanding	1,719,580,624
Implied Share Price (LKR)	**5.32**

Page 10 of 29

Note: Estimated year 3 NI to common equity, PV of residual income terminal value and present value of equity were calculated as follows;

(a.) Estimated year 3 NI to common equity

Forecasted Net Income (Profit) in 2021/22 financial year. This Rs. 2,162,753,701 /=

(b.) PV of residual income terminal value

PV of residual income terminal value = RI terminal value / (1+COE) ^3
= 5,415,845,156 / (1+0.18) ^3
= 3,296,250,563

(c.) Present value of equity

Present value of Equity = Current Value of common equity + sum of PV of RI + PV of RI terminal value
= 4,629,467,204 + 1,229,643,270 + 3,296,250,563
= 9,155,361,038

4.3 Discounted Future Earnings Method

(LKR)	2019/20	2020/21	2021/22
Earnings attributable to equity holders	1,164,748,202	1,519,850,549	2,162,753,701
Discount factor	0.847	0.718	0.609
Discounted Earnings	987,074,747	1,091,533,000	1,316,318,672

Discount factor (cost of equity)	18%
Terminal growth rate	5%
No of shares	1,719,580,624
Total PV of earnings (LKR) **(a)**	3,394,926,419
Terminal value (LKR) **(b)**	17,468,395,275
PV of terminal value (LKR) **(c)= (b x 0.609)**	10,631,804,660
Equity value (LKR) **(d)=(a + c)**	14,026,731,079
Implied Share Price (LKR)	**8.16**

Note: Terminal Value, PV of Terminal Value and Equity Value were calculated as follows;

(b.) *Terminal Value (LKR)*

Terminal Value = Net Income in year 2021/22 (1+K) / (K – g)
= 2,162,753,701 x (1+0.18) / (0.18 - 0.05)
= 17,468,395,275

(c.) *PV of Terminal Value (LKR)*

PV of Terminal Value = Terminal Value x discount factor in 2021/22 at 18%
= 17,468,395,275 x 0.609
= 10,631,804,660

(d.) *Equity Value (LKR)*

Equity Value = Total PV of PAT + PV terminal value
= 3,394,926,419 + 10,631,804,660
= 14,026,731,079

Non-bank financial institutions sector is generally considered to be positively correlated with the GDP growth. Sri Lanka achieved a GDP growth in excess of 5% for last ten years and it is expected to grow at 4.8% by 2024 as per the IMF report issued in May 2019. We are of the view that the industry growth would coincide with the GDP growth rate during next five years and hence the industry would, at a minimum, be able to maintain a 5% growth rate.

(Source: https://www.imf.org › media › Files › Publications)

4.4 The Weighted- Average Share Price

The weight for the share value derived from each method is determined according to the relative suitability of the valuation method for a finance company.

Valuation Method	Share Price (LKR)	Weight	Weighted Price (LKR)
Residual Income	5.32	25%	1.33
Peer Group PER	2.88	25%	0.72
Discounted Future Earnings	8.16	50%	4.08
Weighted Average Share Price			**6.13**

4.5 Valuation of Non-Voting Shares

A company's voting shares and non-voting shares are often identical except for the difference in voting rights granted to each class of shares. Hence, a discount for lack of voting rights (DLVR) is often applied to the value of voting equity in order to derive the value of non-voting equity.

One way to estimate the DLVR is to analyze the trading price of the shares of publicly traded companies. As at 23rd September 2019, 21 listed companies had non-voting shares according to Colombo Stock Exchange. We have analyzed the share price difference between voting & non-voting shares of these companies for trailing 6 months in order to arrive at the average trading discount for non-voting shares. Accordingly, the average discount for lack of voting rights was estimated at 27% per share *(Note)* and the value per non-voting share of HNBF is as follows.

Valuation method	Peer Group	Residual Income	Discounted future earnings
Price per voting share (LKR)	2.88	5.32	8.16
Discount for lack of voting rights @ 27%	(0.78)	(1.44)	(2.20)
Price per non-voting share	**2.10**	**3.88**	**5.96**

(Source: Nexia analysis based on trading data retrieved from www.cse.lk)

Note: Discount for Lack of Voting Right (DLVR) was calculated as follows:

S/N	Company Name	Average price in last 06 months		Lack of voting right
		Voting Shares	Non-Voting shares	
1	Blue Diamonds Jewellery Worldwide PLC	0.59	0.27	54%
2	Ceylon Hospitals PLC	75.43	70.28	7%
3	CIC Holdings PLC	46.22	34.26	26%
4	Citizens Development Business Finance PLC	82.86	63.90	23%
5	Commercial Bank of Ceylon PLC	98.04	84.60	14%
6	Hatton National Bank PLC	157.39	135.35	14%
7	Laufs Gas PLC	16.72	13.20	21%
8	Maleatte Valley Plantations PLC	6.56	4.20	36%
9	Renuka Holdings PLC	15.27	10.53	31%
10	SMB Leasing PLC	0.44	0.25	44%
11	Seylan Bank PLC	58.64	34.65	41%
12	Toyota Cement Company (Lanka) PLC	25.74	21.35	17%
13	Celinco Insurance PLC	1,920.64	802.97	58%
14	Lucky Lanka Milk Processing Company PLC	1.26	0.79	38%
15	Renuka Foods PLC	15.76	10.19	35%
16	Morision PLC	728.53	578.67	21%
17	Nations Trust Bank PLC	83.55	80.23	4%
18	Serendib Hotels PLC	17.35	13.12	24%
19	Tess Agro PLC	0.47	0.41	11%
20	The Finance Company PLC	No trading in last 06 months		-
21	Agstar PLC	No trading in last 06 months (Non-V)		-
	Average lack of Voting Rights			27%

Page 14 of 29

5. FORECASTING METHODOLOGY & ASSUMPTIONS

5.1 Forecasting Methodology

The Residual Income & Free Cash Flows based valuation methods discussed in the foregoing section of this report require forecasting of financial statements in order to obtain necessary input data for the valuation. The management of HNBF has prepared forecasted financial data for three years as part of their *Strategic Business Plan (2019 -2022)*.

We have analyzed these projections with the supporting computations and underlying assumptions used by the management to determine whether said projections are appropriate for the valuation purposes. We satisfy with the underlying assumptions and projections made by the management in Section 5.2 of this report.

We have used following sources of information & methodology to analyze the financial projections of the management:

1. The Audited Financial Statements were analyzed in order to review the historical performance of HNBF and to identify possible trends and key performance indicators.

2. The projected financial statements were assessed in light of the future outlook of Non-bank Finance Sector.

3. The key growth strategies included in the Strategic Business Plan (2019 - 2022) of the company was discussed with the management to determine the feasibility of these strategies.

4. The underlying assumptions and the resultant financial projections were discussed with the management, analyzed with data collected independently, and modified where necessary to ensure projections remain relevant & appropriate for the purpose of this valuation.

Key excerpts from the above analysis are set out in the next section of this report together with main assumptions used by the management in projecting financial statements.

5.2 Review of underlying forecast assumptions based on industry/company analysis

5.2.1 Industry Analysis

Overview

The Non- Bank Financial Institutions (NBFI) sector comprised of 43 Licensed Finance Companies (LFCs) and 5 Specialized Leasing Companies (SLCs) by the end of 2018. At end 2018, there were 1,373 branches and 658 other outlets of the LFCs and SLCs sector, out of which 927 branches (68 per cent) were concentrated outside the Western Province. *(source: www.cbsl.lk annual report 2018).*

The recent performance of Non-Bank Finance Institutions (NBFI) sector was not impressive with low credit growth, reducing profits, and increase in non-performing loans. This moderate growth was mainly due to fiscal & macro-prudential policy measures introduced by the government to curtail importation of motor vehicles, moderate economic growth, and natural hazards such as floods & drought prevailed during recent times.

However, the key performance indicators of the NBFI sector in respect of capital, liquidity & profitability remained positive.

We have used information published by CBSL up to December 2018 (CBSL Annual Report-2018) for industry analysis. Assuming no significant changes in 1st quarter of 2019 financial year (Jan-Mar 2019) in Non-Bank Financial Institution sector, forecast for financial year 2019/20 was analyzed.

Profitability

The net interest income of the Non-Bank Financial Institution sector (NBFI) increased at a slower rate than in 2017, recording a growth of 6% with aggregate net interest income recorded at Rs. 108.8 billion in 2018. *(source: www.cbsl.lk annual report 2018)*

The slowdown of net income growth rate can be attributed to rising interest rates. Rising interest rates result in finance companies' deposit base re-pricing faster than its assets as bulk of the assets continue to be in leasing where interest rates are fixed for an average 5 years while over 90% of the deposits are 1 Year which re-price at a faster pace. Several of the Finance companies have successfully moved to loans and advances, however still around 50% of the portfolio is concentrated in leasing and hire purchase (Chart -2).

Non-interest income of the sector increased by 11.9 per cent mainly due to the increase in default charges and other service charges, while non-interest expenses also increased by 1.5 per cent, affecting adversely towards sector profitability, mainly due to the increase in staff costs. *(source: www.cbsl.lk annual report 2018)*

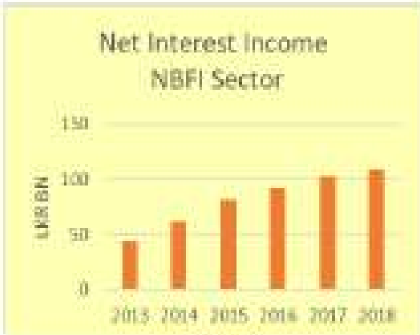


Chart -1

(Source: Central Bank annual reports 2013-18)

Chart -2

(Source: Central Bank annual report 2018)

Assets

The total asset base of the NBFI sector at the end of 2018 was Rs. 1,431.3 Mn. Out of the total assets, Loans & Advances accounted for 79.4% (Rs. 1,136.4 Mn). As Indicated by chart -3, the loans & advances portfolio has expanded at a slower rate than in 2017. Given the monetary tightening measures, new LTV (loan-to-value) rules and the currency depreciation, vehicle leasing segment is likely to register a slowdown while loans and advances segment record the bulk of the growth. *(source: www.cbsl.lk annual report 2018)*

Due to the increase in duty on vehicles, the new registrations of vehicles have dropped significantly (chart -4). Further, revision of the LTV ratio of Motor Vehicles upwards to 25% for three wheelers and 50% for Cars also negatively affect the growth in leasing and Hire Purchase for new vehicles. *(source: www.cbsl.lk annual report 2018)*

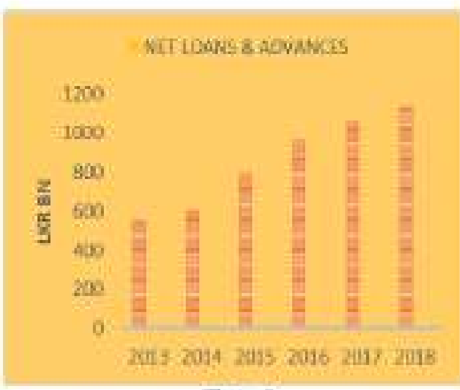


Chart -3

(Source: Central Bank Annual Reports 2013-18)

Chart -4

(Source: www.transport.gov.lk/statistics)

Liabilities

Customer deposits accounted for 50.1% of the total liabilities of NBFI sector in 2018. As indicated by chart -5, the deposits grew at a slower rate in 2018 compared to the growth rate in 2017. Time deposits accounted for 95% of the total deposits. *(source: www.cbsl.lk annual report 2018)*

The second largest constituent of the sector liabilities was the borrowings which accounted for 29.2% of total liabilities. Borrowings recorded a growth of 17.1 per cent (Rs. 67.8 billion) in 2018, a shift from the negative growth recorded in the year 2017. Deposit growth slowed down to 4.4 per cent, compared with the growth of 29.4 per cent recorded in the corresponding period of 2017. *(source: www.cbsl.lk annual report 2018)*

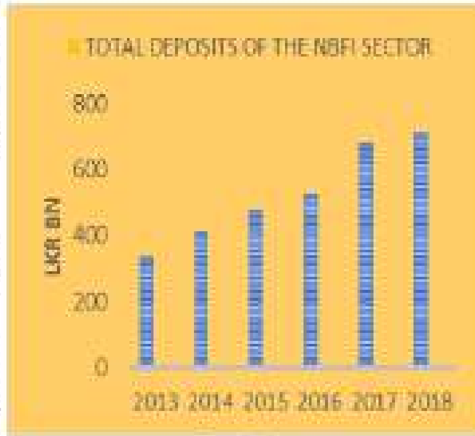


Chart -5
(Source: Central Bank Annual Reports 2013-18)

5.2.2 Review of Key Assumptions

Next three years forecast is prepared by the HNBF management based on the following assumptions. We did not use any assumption and we analyzed the assumptions made by the management based on the future strategic plans and historical data provided by HNBF.

Net Interest Income

According to the Strategic Business Plan for 2020-2022, the management expects to introduce new financial products (Trade finance, housing loans, personal loans, gold loan, Islamic loan etc) and move into new sectors (hardware & construction, fisheries, etc). The income expected from these initiatives have been factored into the projections. For existing products, current growth rates are assumed to be continued into the future.

Management further expects that the industry will be turnaround during 2020-2022, thereby, they have increased the loan targets as per below table. In order to counter act to the government macro & prudential measures in the recent past, company had introduced new products such as Gold Loans and also increase the dependence on the SME sector whilst taking steps to rationalize exiting product portfolio. Management's expected future disbursement from leasing is focus on the existing vehicle market & moreover micro leasing to be promoted. Hence, curtailment of the government action to shrink the vehicle importation may have not impacted in a significant manner.

Projected product wise loan disbursements

Product	2020	2021	2022
Loan - Diriya	22,262,380,000	25,539,567,373	28,189,850,507
Loan - Sahana	2,571,000,000	2,688,846,850	2,716,653,250
Loan -Divisaru	3,168,650,000	3,802,380,000	4,334,850,450
Loan - EZY	3,410,751,249	3,772,172,833	4,502,270,800
Loan -Abhilasha	2,502,400,000	2,681,113,425	3,292,098,558
Loan -Swashakthi	838,175,000	927,935,261	1,077,602,238
Loan - SME Saviya	2,015,000,000	2,620,800,000	3,276,000,000
Loan - Cooperate Relax	162,000,000	162,000,000	362,000,000
Loan - Housing Niwahana	930,000,000	1,209,600,000	1,209,600,000
Disbursment - Leasing	10,661,000,000	14,040,000,000	16,800,000,000
Gold Loan	944,200,000	2,280,960,000	2,509,056,000
Total	**49,465,556,249**	**59,725,375,742**	**68,269,981,803**

Further, the management expects to earn future interest income from their existing product portfolio and from the new products as disclosed below.

Interest income from Existing Product

Product	2020	2021	2022
Interest Income - DIRIYA	4,220,277,988	4,552,618,583	5,125,077,423
Interest Income - SAHANA	232,207,500	239,607,848	244,498,793
Interest Income - EASY	600,772,187	634,994,570	767,514,592
Interest Income - Abhilasha	516,240,533	523,502,447	615,789,860
Interest Income - Swashakthi	150,550,340	179,472,344	210,095,223
Interest Income -SME Saviya	340,858,429	667,086,389	989,394,868
Interest Income Cooperate - Relax	76,759,112	87,808,039	102,115,780
Interest Income - Housing Niwahana	170,090,384	335,115,726	472,814,328
Interest Income Loan - Against Deposit	6,693,780	7,289,935	7,290,079
Interest Income - Personal Loan	71,222,963	73,345,944	74,966,914
	6,385,673,215	**7,300,841,826**	**8,609,557,860**

Page 19 of 29

Interest income from recently implemented and new Product

Product	2020	2021	2022
Interest Income - Leasing	2,317,989,163	4,166,292,850	5,956,699,640
Interest Income - Divisaru	401,386,144	682,251,535	823,298,681
Interest Income - Gold Loan	87,834,000	490,905,600	1,063,426,560
	2,807,209,307	5,339,449,985	7,843,424,882

Interest Income from Investments

Investment	2020	2021	2022
Interest Income -Treasury Bill	139,889,278	318,639,278	484,013,088
Interest Income - Treasury Bonds	2,496,268	2,496,268	2,408,245
Interest Income - Debenture	16,875,000	16,875,000	15,468,750
Interest Income - Fixed Deposit	23,000,000	23,000,000	21,083,333
Interest Income - Saving	72,000,000	72,000,000	72,000,000
	254,260,546	433,010,546	594,973,417
Total	9,447,143,068	13,073,302,357	17,047,956,158

Interest Income on Gold Loans

As of March 2019, the company has started gold loan product within 26 branches. The management is expecting to expand this product to other branches also. According to company's plan, by end of 2019/20 Financial Year, this product will be introduced to 24 new branches and by end of 2020/21 Financial Year, total braches will be 69.

In addition to the above the company is expecting to open up Gold Loan Centers in following areas by end of 2020/21 financial year.

Piliyandala, Wellawatte, Kotahena, Kiribathgoda, Sea Street, Aluthgama, Grandpass, Battaramulla, Kandana.

Leasing

Management has started Leasing in 2016 and the ground work for a massive expansion is expected to be materialized from 2020-22 financial years. Following specific strategies will be executed to increase the volume.

- will increase the sales force of Leasing staff adequately in high potential areas to exploit opportunities to enhance volume of sales.
- Plan to have more strategic alliances with the major vehicle dealers in key provinces.
- The Document Management System will be introduced to reduce the lead time and increase efficiency in approvals process.
- Plan to introduce new incentive systems for dealers and marketing staff.
- Identify new needs of micro level customers in untapped markets by using our micro finance experience.
- New targets will be set to the entire branch network by giving a high weightage to improve the leasing sales.
- Existing Sales staff are screened and evaluated to identify any special training requirements to enhance their efficiency.
- Plans to introduce new incentive scheme to recruitment partners to head hunt high caliber talents /staff.

Divisaru

So far management has conducted microfinance product based on the group concept method. Demographical changes in the recent past required critically evaluate the group concept method. Hence, they have introduced Divisaru where microfinance customers do not require to participate for the group meeting but, it will be promoted as a new personalized loan product from 2020.

Existing meeting centers totaling 10,200 will be rationalized, reshuffled and reduced to 6,500 to be more efficient and effective. We will also approach new customers by introducing new Divisaru product. Current existing field offices will be scientifically and methodically deployed in appropriate geographical areas also using GPS /Google mapping to ensure that we harness full potential of staff as well as business in key locations.

The management also expects to change the funding mix by increasing more saving deposits with low interest cost. By doing this, the management expects to minimize the interest costs and increase the net income. For interest expenses projections, following rates were assumed.

Fixed deposits mobilizing rate - 15.33% for 5 year FD
Borrowing rate - IRR rate for Loan:13.50%

Moving to the bank loan from fixed deposits since it is assumed that cost on bank loan is beneficial to income statement than fixed deposits (based on current situation).

Interest Expenses on Funding

Funding Type	2020	2021	2022
Fixed Deposit Interest Expenses	2,726,817,454	4,119,360,366	5,210,674,610
Debenture Interest	270,161,458	286,862,500	286,862,500
Interest Expenses - Saving	262,025,568	532,175,333	823,204,891
Interest Expenses on Borrowing	452,451,903	1,295,771,926	1,826,429,921
	3,711,456,383	6,234,170,125	8,147,171,921

Net Fee & Commission Income

The management assumed that fee & commission income will be earned at rates consistent with existing rates.

The fee & commission expenses comprised of commission paid for introducing fixed deposits. The management expects to pay commission at 0.75%.

Further, recent imposition of interest rate cap by CBSL resulted in the reduction in the effective interest rate from 47% to 35% where HNBF had to increase their volume of the loans to compensate the margins reduced due to the interest rate. For example, documents charges considered as Fee Income thereby increase in Fee Income. In addition, Divisaru new products also plan to increase in volume which would attract new fee base income.

Newly introduced utility bill payments facility also will help in increasing the Fee Based Income.

Other Operating Income

This includes interest income from investment in financial instruments, rent income, commissions, etc. The investment in financial assets is expected to maintain in par with the liquidity levels required by central bank regulations. Following interest rates are used for forecasting interest on financial assets.

Annual interest rate on T- Bill investment	7.50%
Annual interest rate on T-Bond Investment	6.50%
Annual interest rate on debenture investment	11.25%
Annual interest rate on Money market savings	7.50%
Annual interest rate on fixed deposits	11.00%

Page 22 of 29

Personnel Cost

The estimated number of staff and their pay rates are available in the Human Resource budget of the company.

The annual pay increment is assumed to be 15%. It includes 7% increment to compensate for inflation and 8% premium.

Reduction in manpower through effective digitization & operational excellence will reduce the payroll cost for new recruitments by 2022.

Other Operating Expenses

Other operating expenses are expected to increase in line with the general inflation rate plus the expenditure required to support the projected growth. By 2022, management is expecting to decline the expenses growth due to the operational excellence efficiencies and digitalization efforts of the company.

Loans and Advances

The management plans to increase collateral based lending to meet 50% component of such products in the total portfolio of the company by 2021. The Micro products will continue at current growth rates. According to the strategic business plan, the leasing portfolio is expected to grow at higher rates during the period 2019-2021 to bring the leasing portfolio to 50% of total portfolio by 2021. Accordingly flowing growth rates are used in forecasting the leasing portfolio:

1st year growth rate - 129%
2nd year growth rate - 70%
3rd year growth rate is - 21%

Impairment gain / (loss) on Loan Portfolio

The impairment provision on loan portfolio is expected to decrease gradually as collateral based lending increases. Accordingly, the management expects impairment at 2% in first year of forecast and 1.75% in the second year and 1.5% thereafter.

Financial investments, Held - to- Maturity (HTM)

This category includes investment in treasury bonds & debentures and the management expects to invest in these instruments only to meet the regulatory requirements of liquid assets. Hence the investment portfolio for this category will not change in future years.

Financial investments, Available- for- Sale (AFS)

The ASF category includes investment in unquoted shares. The management expects no additional investment or disposals during projected period.

Investment properties and Property Plant & Equipment (PPE)

The PPE purchases are forecasted as per capital expenditure budget of the company. The management has no plans to acquire investment properties during next three years. Current depreciation rates will not change neither PPE nor investment properties will be revalued during projected period.

Borrowings

Management has planned to issue a debenture amounting to Rs. 2 Bn from 2020 to 2021. This is purely to meet regulatory capital requirements.

Cost of Equity

We have used the Capital Assets Pricing Model (CAPM) to determine the cost of equity.

$$K_e = R_f + \beta\ (R_m - R_f)$$

Where,
Ke, is the cost of equity
Rf, is the risk free rate
β , is the equity beta
(Rm -Rf), is the equity market risk premium

- Latest ten-years Treasury Bond rate was considered as the risk free rate. This rate as of 24th July 2019 was 10.15% according to the Central Bank of Sri Lanka.
  (Source: www.cbsl.lk.)

- Since company's shares are currently not publicly traded, we have considered the average beta of following companies closely related and categorized as peers of HNBF.

Company	Beta
Commercial Credit & Finance PLC	0.71
Citizen Development Business Finance PLC	0.12
Nation Lanka Finance PLC	3.25
Arpico Finance Company PLC	0.07
Asia Asset Finance PLC	-0.16
Average beta	0.80

(Source: www.cse.lk, beta against S&P SL 20 as of 2nd quarter of 2019)

Page 24 of 29

This average beta was then adjusted to remove company specific financing side risk and readjusted to reflect the gearing level of the HNBF.

Adjusted Beta – 0.67

- Equity risk premium (rm – rf) in the most developed economy in the USA is 5.96% (January 2019). It represents the difference between total market rate and risk free rate. Rating agencies set long term rating of each country for investors. It represents the portion of a risk connected to the investment in given area. Sri Lanka was given a rating of B2 – by rating agency Moody's. It represents the extra premium for the risk of Sri Lanka of 6.25% as of January 2019.

(Source: Stern School of Business, New York University publications available at www.stern.nyu.edu)

To convert country equity risk premiums to corporate equity risk premiums, one of the three approaches described below can be used.

Approach 1: Assume that every company in the country is equally exposed to country risk.

Approach 2: Assume that a company's exposure to country risk is similar to its exposure to other market risks.

Approach 3: Treat country risk as a separate risk factor & allow firms to have different risk exposures to country risk (e.g. based on the proportion of their revenue come from non-domestic sales).

We have used the approach 2 to determine the cost of equity of HNBF. Accordingly, the cost of equity is:

Ke = Rf + β (US premium + Country premium)
Ke = 10.15% + 0.67 (5.96% + 6.25%)
Ke = 18%

Page 25 of 29

6. FORECASTED FINANCIAL STATEMENTS

Income Statement

	2019/20 Rs.	2020/21 Rs.	2021/22 Rs.
Interest Income	9,447,143,068	13,073,302,357	17,047,956,158
Interest Expenses	(3,712,706,098)	(6,242,418,413)	(8,153,921,921)
Net Interest Income	**5,734,436,970**	**6,830,883,944**	**8,894,034,237**
Fee and commission Income	1,114,296,794	1,350,300,895	1,630,830,007
Net Interest Income ,fee and commission income	**6,848,733,764**	**8,181,184,839**	**10,524,864,243**
Other Operating Income	334,527,967	353,762,656	373,149,738
Total Operating Income	**7,183,261,731**	**8,534,947,496**	**10,898,013,981**
Impairment gain / (loss) on loans and receivables	(594,000,000)	(709,600,000)	(849,600,000)
Net operating Income	**6,589,261,731**	**7,825,347,496**	**10,048,413,981**
Less - Operation Expenses	(3,606,197,085)	(4,115,325,567)	(4,447,880,317)
Operating profit/ (loss) before Value Added Tax (VAT)	**2,983,064,646**	**3,710,021,929**	**5,600,533,665**
VAT & NBT Financial Service , Debt Repayment Levy	(886,108,742)	(1,030,789,527)	(1,687,613,194)
Operating profit/ (loss) after Value Added Tax (VAT)	**2,096,955,904**	**2,679,232,402**	**3,912,920,471**
Provision For Income Tax	(932,207,702)	(1,159,381,853)	(1,750,166,770)
Profit / (Loss)	**1,164,748,202**	**1,519,850,549**	**2,162,753,701**
Earnings Per Share	**0.68**	**0.88**	**1.26**

Page 28 of 29

Statement of Financial Position

	2019/20	2020/21	2021/22
	Rs.	Rs.	Rs.
Assets			
Cash and Cash Equivalents	242,211,776	417,630,236	324,837,724
Loans and advance	40,605,705,586	55,776,456,695	70,326,428,691
Financial investment - Loan & Receivable	307,112,771	307,112,771	307,112,771
Financial investments- available-for- sale	12,430,283	12,430,283	12,430,283
Financial investments- held - to-maturity	3,006,030,529	7,226,590,529	8,597,150,529
Other Receivables	68,803,491	83,803,491	92,703,491
Other Assets / Prepayments	256,281,605	241,281,605	232,381,605
Investment Properties	1,295,000,000	1,295,000,000	1,295,000,000
Intangible Assets	381,994,082	313,108,866	225,173,650
Property Plant and Equipment	1,847,645,154	1,659,485,412	1,452,194,909
Total Assets	**48,023,215,275**	**67,332,899,887**	**82,865,413,651**
Liabilities			
Bank Overdraft	202,390,579	377,390,579	349,590,579
Due to customers	31,367,434,676	42,960,523,224	55,587,509,420
Other Borrowings	8,806,572,803	14,881,978,179	15,632,898,216
Taxation	184,747,768	138,947,768	120,997,368
Other Liabilities	1,748,583,818	1,822,712,001	2,137,809,287
Retiring Benefit Obligation	229,353,511	268,953,511	315,873,511
Differed Tax Liabilities	16,115,738	16,115,738	16,115,738
Total Liabilities	**42,555,198,894**	**60,466,621,001**	**74,160,794,120**
Shareholders' funds			
Stated Capital	223,545,481	223,545,481	223,545,481
General Reserve	82,897,989	82,897,989	82,897,989
Statutory Reserve Fund	638,519,637	638,519,637	638,519,637
Revaluation Reserves	589,484,031	589,484,031	589,484,031
Accumulated Profit / Losses	3,933,569,242	5,331,831,747	7,170,172,392
Total Shareholders' funds	**5,468,016,380**	**6,866,278,885**	**8,704,619,530**
Total Liabilities & Shareholders' funds	**48,023,215,275**	**67,332,899,887**	**82,865,413,651**

Page 27 of 29

7. VALUATION TEAM

Sanjaya Bandara – Director

Mr. S. M. S .S. Bandara FCA, MBA, B.sc (Acc), is specialized in all technical matters relating to Accounting, especially IFRS's. Ha has vast experience in financial consulting and business valuation. Sanjaya is a council member of the Institute of Chartered Accountants of Sri Lanka. He has an honors degree in Accountancy from the University of Sri Jayewardenepura and a MBA from the University of Colombo.

Tharindu Dananjaya - Manager

Mr. Tharindu Dananjaya B.sc (Acc) Sp., counts over eight (08) years of experience in financial risk management, business valuation and auditing. He has an honors degree in Accountancy from the University of Sri Jayewardenepura.

The valuation team/personal possesses required qualifications, experience and the exposure in preparing valuation reports for similar nature in compliance with the CSE listing rules.

8. LIMITING CONDITIONS & DISCLAIMER

8.1 The conclusion of value as reported herein this report is valid only for the specific purpose as of the date of the valuation.

8.2 We have relied on the financial forecasts and other related information provided by HNB Finance Ltd or its representatives, in the course of our valuation process, as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. ***We have not audited, reviewed, or verified the correctness of the financial information provided to us and, accordingly, we express no opinion or any other form of assurance on this information.***

8.3 Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

8.4 The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

8.5 Neither all nor any part of the contents of this report (especially the conclusion of value), should be disseminated to the public through any means of communication without our prior written consent and approval.

8.6 No change of any item in this appraisal report shall be made by anyone other than us and we shall have no responsibility for any such unauthorized change.

8.7 Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future change in state, or local legislation.

8.8 The valuation contemplates facts and conditions existing as of the valuation date. Events and conditions occurring after that date have not been considered, and we have no obligation to update our report or calculation of value for such events, happenings, and conditions. Also, we have no obligation to update the report or the calculation of value for information that comes to our attention after the date of the valuation report.

8.9 Due to inherent uncertainties and unforeseen factors affecting a share valuation, we do not accept responsibility or liability for any loss or damage whatsoever which may arise as a result of the contents of this report. All responsibility and liability is expressly disclaimed by Nexia Management Services (Pvt) Ltd.

8.10 The valuation report is valid for a period of three months (03) from the date of approval of the CSE.

22 /4 , Vijaya Kumaranatunga Mw., Colombo 05, Sri Lanka.
Telephone : +94 112 513 420 - 22, +94 114 510 268, Fax : +94 114 512 404
E-mail : brds@eureka.lk, Web : www.brdesilva.com

ANNEXURE E: COLLECTION POINTS

Copies of the Prospectus and Introductory Document and the Application Form can be obtained free of charge from the following collection points.

Managers to the Offer

Acuity Partners (Private) Limited
53, Dharmapala Mawatha,
Colombo 03.
T: +94 11 2206206

Members and Trading Members of the CSE

Acuity Stockbrokers (Private) Limited
53, Dharmapala Mawatha,
Colombo 03.
T: +94 11 2206206

Asha Securities Limited
60, 5th Lane,
Colombo 03.
T: +94 11 2429100

Asia Securities (Private) Limited
4th Floor, Lee Hedges Tower,
349, Galle Road,
Colombo 03.
Tel. +94 11 7722000

Assetline Securities (Private) Limited
120, 120A, Pannipitiya Road,
Battaramulla.
T: +94 11 4700100

Bartleet Religare Securities (Private) Limited
Level G, 'Bartleet House',
65, Braybrooke Place,
Colombo 02.
T: +94 11 5220200

Candor Equities Limited
Level 8, South Wing, 'Millennium House',
46/58, Nawam Mawatha,
Colombo 02.
T: +94 11 2359100

Capital Alliance Securities (Private) Limited
Level 5, 'Millenium House',
46/58, Navam Mawatha,
Colombo 02.
T: +94 11 2317777

Capital Trust Securities (Private) Limited
42, Mohamed MacanMarkarMawatha,
Colombo 03.
T: +94 11 2174174-5

CT CLSA Securities (Private) Limited
4-14, Majestic City,
10, Station Road,
Colombo 04.
T: +94 11 2552290-4

Enterprise Ceylon Capital (Private) Limited
73/1, Dharmapala Mawatha,
Colombo 07.
T: +94 11 2445644

First Capital Equities (Private) Limited
02, Level 02, Deal Place,
Colombo 03.
T: +94 11 2639898

First Guardian Equities (Private) Limited
32nd Floor, East Tower, World Trade Centre,
Echelon Square,
Colombo 01.
T: +94 11 5884400

J B Securities (Private) Limited
150, St. Joseph Street,
Colombo 14,
T: +94 11 2490900, +94 77 2490900

John Keells Stockbrokers (Private) Limited
186, Vauxhall Street,
Colombo 02.
T: +94 11 2306250

Lanka Securities (Private) Limited
228/1, Galle Road,
Colombo 04.
T: +94 11 4706757, +94 11 2554942

LOLC Securities Limited
481, T B Jayah Mawatha,
Colombo 10.
T: +94 11 5889889

Nation Lanka Equities (Private) Limited
44, Guildford Crescent,
Colombo 07.
T: +94 77 7630624, +94 77 3030885, +94 77 6521001

Navara Securities (Private) Limited
12 B, Gregory's Road,
Colombo 07.
T: +94 77 2358700, +94 11 2358720

NDB Securities (Private) Limited
Level 2, NDB capital Building, No 135 Bauddhaloka Mawatha,
Colombo 04.
T: +94 11 2131000

Richard Pieris Securities (Private) Limited
310, High Level Road,
Nawinna, Maharagama.
T: +94 11 4310500

SC Securities (Private) Limited
05th Floor, 26 B, Alwis Place,
Colombo 10.
T: +94 11 4711000, +94 11 4711001

SMB Securities (Private) Limited
02, Gower Street,
Colombo 05.
T: +94 11 5388138

Softlogic Stockbrokers (Private) Limited
Level 16, One Galle Face Tower, Galle Road,
Colombo 03.
T: +94 11 7277000

Somerville Stockbrokers (Private) Limited
1A, Park Way, Park Road,
Colombo 05.
T: +9411 2502852, +9411 2502854, +9411 2502858, +94 11 2502862

Taprobane Securities (Private) Limited
2nd Floor, 10, Gothami Road,
Colombo 08.
T: +94 11 5328200, +94 11 5328100

TKS Securities (Private) Limited
4th Floor, 245, Dharmapala Mawatha,
Colombo 07.
T: +94 11 7857799

Bankers to the Offer

Branch Name	Branch Address	Telephone
Bambalapitiya	285, Galle road, Colombo 04.	+94 11 2501698
Borella	53/1, D S Senanyake Mawatha, Borella, Colombo 08.	+94 11 2696929
Cinnamon Gardens	85A, 87A, Barnes Place, Colombo 07.	+94 11 2681718
City Office	16, Janadhipathi Mawatha, Colombo 01.	+94 11 2421466
Gampaha	148, Colombo road, Gampaha.	+94 33 2222520
Green Path	38, Ananda Coomaraswamy Mawatha, Colombo 03.	+94 11 5382300
Head Office Branch	479, T B Jayah Mawatha, Colombo 10.	+94 11 2660160
Kiribathgoda	141, Kandy road, Kiribathgoda.	+94 11 2914414
Kotahena	280, George R De Silva Mawatha, Colombo 13.	+94 11 2472068
Maharagama	145, Colombo Road, Maharagama.	+94 11 2851468
Mount Lavinia	605, Galle Road, Mount Lavinia.	+94 11 2739121
Narahenpita	255/2, Kirula Road, Narahenpita, Colombo 05.	+94 11 2369913
Negombo	18, Rajapakse Broadway, Negombo.	+94 31 2222585
Nugegoda	190, 190/1, High Level Road, Nugegoda.	+94 11 2853887
Panadura	402-404, Galle Road, Panadura.	+94 38 2235249
Pettah	149-151, Main Street, Colombo 11.	+94 11 2343800
Sri Jayawardenapura Kotte	1424, Kotte road, Rajagiriya.	+94 11 2867357
Thalangama	253, Kaduwela Road, Koswatte, Thalangama.	+94 11 2788430
Wattala	270-270/1, Negombo road, Wattala.	+94 11 2931385
wellawatte	100 & 102, Galle Road, Wellawatte.	+94 11 2588702

ANNEXURE F: CUSTODIAN BANKS

Bank of Ceylon
11th Floor, 04, Bank of Ceylon Mawatha,
Colombo 01.
T: +94 11 204064

Banque Indosuez
251, Dharmapala Mawatha,
Colombo 07.
T: +94 11 2681720

Citi Bank, N A
65 C, Dharmapala Mawatha,
Colombo 07.
T: +94 11 4794728

Commercial Bank of Ceylon PLC
Commercial House,21, Bristol Street,
Colombo 01.
T: +94 11 2440010

Deutsche Bank AG
86, Galle Road,
Colombo 03.
T: +94 11 2447062, +94 11 2438057

Hatton National Bank PLC
HNB towers, 479, T.B. Jayah Mawatha,
Colombo 10.
T: +94 11 2661762

The Hong Kong and Shanghai Banking Corporation Limited
24, Sir Baron Jayathilake Mawatha,
Colombo 01.
T: +94 11 2325435, +94 11 2446591, +94 11 2446303

Nations Trust Bank PLC
256, Sri Ramanathan Mawatha,
Colombo 15.
T: +94 11 4313131

Pan Asia Banking Corporation PLC
450, Galle Road,
Colombo 03.
T: +94 11 2565565

People's Bank
Head Office – Treasury, 5th Floor, 75, Sir Chittampalam A Gardiner Mawatha,
Colombo 02.
T: +94 11 2206782

Public Bank Berhad
340, R A De Mel Mawatha,
Colombo 03.
T: +94 11 2576289, +94 11 7290200, +94 11 7290207

Sampath Bank PLC
110, Sir James Peiris Mawatha,
Colombo 02.
T: +94 11 5331458, +94 114730662

Seylan Bank PLC
Level 08, Ceylinco Seylan Towers,
90, Galle Road,
Colombo 03.
T: +94 11 4701812, +94 11 4701819

Standard Chartered Bank
37, York Street,
Colombo 01.
T: +94 11 42480450

State Bank of India
16, Sir Baron Jayathilake Mawatha,
Colombo 01.
T: +94 11 4622350

Union Bank of Colombo PLC
64A, Galle Road,
Colombo 03.
T: +94 11 2374205

ANNEXURE G: INDEX ON FIGURES AND TABLES ILLUSTRATED IN THE PROSPECTUS AND INTRODUCTORY DOCUMENT

List of Figures

LIST OF TABLES