

HNB Finance Limited

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FINANCIAL STATEMENTS AS AT 31ST MARCH 2019.
PUBLISHED IN TERMS OF FINANCE COMPANIES GUIDELINE NO. 2 OF 2006 OF CENTRAL BANK OF SRI LANKA
(PUBLICATIONS OF ANNUAL FINANCIAL STATEMENTS).

Income Statement

FOR THE YEAR ENDED 31 MARCH	2019 (LKR'000)	2018 (LKR'000)
Gross Income	8,291,664	7,482,548
Interest income	7,229,169	6,537,663
Interest expenses	(2,802,086)	(2,373,461)
Net interest income	4,427,083	4,164,202
Fee and commission income	777,757	702,442
Fee and commission expenses	(152,805)	(121,655)
Net fee and commission income	624,952	580,787
Net interest, fee and commission income	5,052,035	4,744,989
Other Operating Income	284,738	242,443
Net mark to market valuation gain	(114)	1,104
Total operating income	5,336,659	4,988,536
Impairment Charges for Loans and Other Losses	(842,911)	(685,270)
Net operating income	4,493,748	4,303,266
Personnel expenses	(1,235,850)	(1,108,124)
Other expenses	(1,492,214)	(1,167,909)
Total operating Expenses	(2,728,064)	(2,276,033)
Operating Profit before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services	1,765,684	2,027,233
Value Added Tax (VAT) and Debt Recovery Levy (DRL) on financial services	(455,742)	(392,263)
Nation Building Tax (NBT) on financial services	(48,011)	(52,302)
Operating Profit after Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services	1,261,931	1,582,668
Income tax expenses	(431,336)	(570,885)
Profit for the year	830,595	1,011,783
Basic earnings per share	0.48	0.59

Statement of Financial Position

As at 31 March	2019 (LKR'000)	2018 (LKR'000)
ASSETS		
Cash and cash equivalents	1,371,096	905,160
Financial assets- Fair value through profit or loss/ Financial assets held for trading	16,014	16,128
Financial assets at amortised cost -Loans and advances to customers/ members	16,755,609	14,009,773
Financial assets at amortised cost - Lease rentals receivables and stock out on hire	8,073,390	4,455,308
Financial assets at amortised cost - Loans and advances to others	641,712	579,593
Financial assets measured at fair value through other comprehensive income/ Financial investments - Available-For-Sale	12,430	12,430
Financial assets at amortised cost - Debt and other instruments/ Financial investments - Held-To-Maturity and loans and recivebles	2,487,353	2,522,431
Other Assets	492,795	242,604
Investment Properties	1,295,000	1,180,150
Intangible Assets	173,542	131,534
Property, Plant & Equipment	1,420,477	1,158,835
Deferred Tax Assets	189,769	124,849
Total assets	32,929,187	25,338,795
LIABILITIES		
Financial Liabilities at Amortised cost - Due to Customers	22,632,142	18,821,364
Financial Liabilities at Amortised cost -Debt issued and other borrowed funds	4,217,580	1,178,231
Income Tax Payable	80,353	203,496
Value added tax payable	49,705	(25,379)
Other Liabilities	1,112,137	849,771
Retiring Benefit Obligation	207,803	181,017
Deferred Tax Liability	-	-
Total liabilities	28,299,720	21,208,500
SHAREHOLDERS' FUND		
Stated Capital	223,545	223,545
General Reserve	82,898	82,898
Statutory Reserve Fund	1,006,996	840,876
Revaluation Reserve	591,714	429,266
Retained Earnings	2,724,314	2,553,710
	4,629,467	4,130,295
Total equity and liabilities	32,929,187	25,338,795

We, the undersigned, being the Managing Director/Chief Executive Officer and the Chief Operating Officer of HNB Finance Limited certify jointly that,

a) The above Statements have been prepared in compliance with the formats and definitions prescribed by the Central Bank of Sri Lanka.

b) The information contained in these Statements have been extracted from the Audited Financial Statements of HNB Finance Limited.

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

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

26 July 2019

26 July 2019

Statement of Other Comprehensive Income

Year ended 31 March	2019 (LKR'000)	2018 (LKR'000)
Profit for the Year	830,595	1,011,783
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	9,816	14,232
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	(2,748)	(3,985)
Revaluation Reserve of free hold lands and buildings	225,622	62,197
Deferred tax effect on revaluation on lands and buildings	(63,174)	(17,415)
Other Comprehensive Income for the Year, Net of Tax	169,516	55,029
Total Comprehensive Income for the Year	1,000,111	1,066,812

Performance Indicators

	As at 31st March 2019	As at 31st March 2018
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital)	LKR'000 3,184,526	3,406,730
Total Capital Base	LKR'000 3,850,423	3,389,800
Core Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum Requirement 6%)	8.35	15.71
Total Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum Requirement 10%)	10.10	15.63
Capital Funds to deposit liabilities Ratio %	20.42	21.95
Regulatory Liquidity		
Required Minimum Amount of liquid Assets	LKR'000 2,769,828	2,074,615
Available Amount of Liquid Assets	LKR'000 3,526,094	3,098,273
Required Minimum Amount of Government Approved Securities	LKR'000 1,710,138	1,278,182
Available Amount of Government Approved Securities	LKR'000 1,760,047	1,307,433
Quality of Loan Portfolio		
Gross Non Performing Accommodations	LKR'000 2,461,066	758,736
Gross Non Performing Accommodations Ratio %	8.85	3.79
Net Non Performing Accommodations Ratio %	0.45	-
Profitability		
Interest Margin	17.22	21.42
Return on Average Assets (Profit before tax) (%)	4.33	7.05
Return on Average Equity (Profit after tax) (%)	18.96	26.91
Memorandum Information		
Number of Employees	1961	1746
No of Branchers	48	48
No of Service Centres	21	21



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

Report on the audit of the financial statements

We have audited the financial statements of HNB Finance Limited ("The Company"), which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
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