

Income Statement

For the year ended 31 march	2020 (LKR'000)	2019 (LKR'000)
Gross Income	9,170,138	8,291,664
Interest income	8,105,612	7,229,169
Interest expenses	(3,719,331)	(2,802,086)
Net interest income	4,386,281	4,427,083
Fee and commission income	844,610	777,757
Fee and commission expenses	(160,405)	(152,805)
Net fee and commission income	684,205	624,952
Net interest, fee and commission income	5,070,486	5,052,035
Other Operating Income	219,915	284,738
Net mark to market valuation gain	178	(114)
Total operating income	5,290,579	5,336,659
Impairment Charges for Loans and Other Losses	(1,085,863)	(842,911)
Net operating income	4,204,716	4,493,748
Personnel expenses	(1,336,693)	(1,235,850)
Other expenses	(1,740,353)	(1,492,214)
Total operating Expenses	(3,077,046)	(2,728,064)
Operating Profit before Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services	1,127,670	1,765,684
Value Added Tax (VAT) and Debt Recovery Levy (DRL) on financial services	(442,188)	(455,742)
Nation Building Tax (NBT) on financial services	(25,834)	(48,011)
Operating Profit after Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on Financial Services	659,648	1,261,931
Income tax expenses	(239,133)	(431,336)
Profit for the year	420,515	830,595
Basic earnings per share	0.24	0.48

Statement of Financial Position

As at 31 March	2020 (LKR'000)	2019 (LKR'000)
ASSETS		
Cash and cash equivalents	1,502,773	1,371,096
Financial assets- Fair value through profit or loss	16,193	16,014
Financial assets at amortised cost -Loans and advances to customers	17,775,566	16,755,609
Financial assets at amortised cost - Lease rentals receivables and stock out on hire	9,942,882	8,073,390
Financial assets at amortised cost - Loans and advances to others	584,123	641,712
Financial assets measured at fair value through other comprehensive income	12,430	12,430
Financial assets at amortised cost - Debt and other instruments	4,231,143	2,487,353
Other Assets	421,097	492,795
Investment Properties	1,105,000	1,295,000
Intangible Assets	298,713	173,542
Property, Plant & Equipment	1,625,569	1,420,477
Right-of-use assets	286,728	-
Deferred Tax Assets	184,776	189,769
Total assets	37,986,993	32,929,187
LIABILITIES		
Financial Liabilities at Amortised cost - Due to Customers	27,528,790	22,632,142
Financial Liabilities at Amortised cost -Debt issued and other borrowed funds	3,822,043	4,217,580
Income Tax Payable	133,467	80,353
Value added tax payable	59,080	49,705
Other Liabilities	1,138,518	1,112,137
Retiring Benefit Obligation	260,518	207,803
Total liabilities	32,942,416	28,299,720
SHAREHOLDERS' FUND		
Stated Capital	223,545	223,545
General Reserve	82,898	82,898
Statutory Reserve Fund	1,091,098	1,006,996
Revaluation Reserve	591,714	591,714
Retained Earnings	3,055,321	2,724,314
	5,044,577	4,629,467
Total equity and liabilities	37,986,993	32,929,187

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 Prabath
Managing Director/Chief Executive Officer

18 August 2019

Signed - W.S.P Arangala
Chief Operating Officer


18 July 2019

Statement of Other Comprehensive Income

Year ended 31 March	2020 (LKR'000)	2019 (LKR'000)
Profit for the Year	420,515	830,595
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	(7,507)	9,816
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	2,102	(2,748)
Revaluation Reserve of free hold lands and buildings	-	225,622
Deferred tax effect on revaluation on lands and buildings	-	(63,174)
Other Comprehensive Income for the Year, Net of Tax	(5,405)	169,516
Total Comprehensive Income for the Year	415,110	1,000,111

Performance Indicators

	As at 31st March 2020	As at 31st March 2019
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital)	LKR'000 4,009,344	3,184,526
Total Capital Base	LKR'000 5,655,080	3,850,423
Core Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum Requirement 6.5%)	9.93	8.35
Total Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum Requirement 10.5%)	14.00	10.10
Capital Funds to deposit liabilities Ratio %	18.31	20.42
Regulatory Liquidity		
Required Minimum Amount of liquid Assets	LKR'000 3,085,967	2,769,828
Available Amount of Liquid Assets	LKR'000 5,513,734	3,526,094
Required Minimum Amount of Government Approved Securities	LKR'000 2,089,513	1,710,138
Available Amount of Government Approved Securities	LKR'000 2,116,172	1,760,047
Quality of Loan Portfolio		
Gross Non Performing Accommodations	LKR'000 3,861,048	2,461,066
Gross Non Performing Accommodations Ratio %	12.25	8.85
Net Non Performing Accommodations Ratio %	1.78	0.45
Profitability		
Interest Margin	15.54	17.22
Return on Average Assets (Profit before tax) (%)	1.86	4.33
Return on Average Equity (profit after tax)(%)	8.69	18.96
Memorandum Information		
Number of Employees	1965	1961
No of Branches	48	48
No of Service Centres	21	21



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
eysi@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF HNB FINANCE LIMITED
Report on the audit of the financial statements

Opinion

We have audited the financial statements of HNB Finance Limited ("the Company") which comprise the statement of financial position as at 31 March 2020, 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 2020, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for loans & advances to customers and lease rentals receivable & stock out on hire.	We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; these included the following procedures: <ul style="list-style-type: none"> We evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9, focusing on the oversight, review and approval of impairment policies by the board audit committee and management. We evaluated the model used to calculate impairment allowance to assess its appropriateness. We assessed the completeness and relevance of the underlying information used in the impairment calculations by agreeing details to source documents and information in IT systems; underlying calculations were also re-checked. We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios. We assessed the adequacy of the related financial statement disclosures as set out in note(s), 17 and 18 of the financial statements.
Management's assessment of possible effects of the COVID -19 outbreak on the nature and extent of risks arising from financial instruments and related disclosures.	Our audit procedures included the following: <ul style="list-style-type: none"> We gained an understanding of management's assessment of the possible impacts of the COVID -19 outbreak on the nature and extent of risks arising from financial instruments and developing related disclosures of the Group. We assessed the adequacy of qualitative disclosures made, in note(s) 44.3, 44.4 & 44.5 to the financial statements focusing on credit risk and liquidity risk in the light of the objective of SLFRS 7. In relation to significant judgments and estimates underpinning such disclosures, we assessed the reasonableness of those key assumptions considering related market information and internal decisions made by the Group.

Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance

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

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 Ms. R M Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D X Hulangama FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewa FCA N M Subraman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

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