



# **H**atton **N**ational **B**ank PLC

**Interim Financial Statements**

**For the twelve months ended 31st December 2016**

## FINANCIAL COMMENTARY FOR THE 12 MONTHS ENDED 31ST DECEMBER 2016

- HNB Group PBT grows by 39.2% to Rs 22.5 Bn
- Group Assets exceed Rs 900 Bn
- Group PAT surpasses Rs 15.67 Bn
- Total VAT and Tax for the Group exceed Rs 11.6 Bn
- Bank NPA down to 1.8%
- Bank Cost to Income improves to 42.5%

An outstanding performance throughout 2016 on every front culminated in the HNB Group posting the best financial results in its history. Group Profit Before VAT, NBT and Taxes grew by 41.3% to Rs 27.1 Bn while Profit Before Tax (PBT) reached Rs 22.5 Bn with a 39.2% growth. Group Profit After Tax (PAT) witnessed an exceptional growth of 41.2% to be recorded at Rs 15.7 Bn. Group assets grew by 19.0% to cross the Rs 900 Bn mark, representing yet another historical milestone for HNB.

The remarkable performance by the Bank was the main contributor towards this exceptional performance by the Group. The Profit Before VAT, NBT and corporate taxes of the Bank increased by 37.1% to Rs 24.5 Bn while the PBT improved to Rs 20.1 Bn by 33.9% from Rs 15.1 Bn recorded in 2015, amidst a 54.7% increase in VAT and NBT charge due to the increase in the rate of VAT from 11% to 15%. The PAT for the Bank also recorded an outstanding growth of 35.4% to Rs 14.1 Bn for the year.

Prudent Asset and Liability Management (ALM) practices coupled with the timely repricing of the Bank's loan book and a simultaneous healthy growth of 17.3% in net advances enabled strong growth in income from Core Banking. Net Interest Income (NII) for the year grew by 30.5% to Rs 34.4 Bn, which is a substantial improvement over the 5.8% growth reported in 2015 while the Net Interest Margin for the Bank stood at 4.8%, compared to the level of 4.5% recorded the previous year..

Growth in net interest income was well complemented by a strong performance in Fee and Commission income which grew by 22.0% to exceed Rs 7 Bn. While Credit Cards along with Trade Finance, Guarantees and Remittances once again collectively constituted over 60% of fee income, there was substantial growth in fees from digital banking products and services.

The Bank reported a net trading loss of Rs 1.8 Bn due to higher swap cost incurred during the year on swaps taken to hedge foreign currency borrowings. The corresponding impact on on-balance sheet open positions as well as a significant growth in exchange income contributed to the growth in other operating income. Net gain from financial investments reduced to Rs 111.7 Mn from Rs 253.8 Mn recorded in the previous year, largely due to the dividend income from our quoted investments declining by more than Rs 140 Mn.

The pursuit of the Bank in achieving transformational improvements in asset quality through initiatives such as the centralization of Retail and SME credit evaluation, intense training on credit underwriting and rigorous focus on recoveries have yielded rich dividends with the NPA ratio declining to a historical low of 1.8%. The decline represents a drop of 186 bps over a four year period while the net NPA has improved from 1.82% in 2012 to 0.46% in 2016. The NPA position of the Bank also compares well against the industry averages of 2.6% and 1.3% recorded for gross NPA and net NPA respectively.

The recovery of large overdue facilities during the year led to a substantial decline of Rs 449.5 Mn in Impairment charges on individually significant loans while collective impairment charges declined by Rs 125.1 Mn.

The Bank's total operating expenses increased by 14.5% to Rs 18.3 Bn, while staff cost constituting 47.6% of expenses increased by 9.8% during 2016. Similar to our endeavors on other key value drivers, we have expended much effort towards enhancing operational excellence; moving towards centralization and digitization. As a result the Bank's cost to income ratio continued to decline steeply, dropping by 344 bps in 2016 to 42.51% while the decrease over a 4 year period exceeds 10.5 percentage points.

The growth of PAT in excess of 35% to Rs 14.1 Bn enabled to record a Return on Assets (ROA) of 1.79% and Return on Equity (ROE) of 19.91% which is a significant improvement from 1.61% and 16.59% posted during 2015.

The Balance Sheet of the Bank which grew by Rs 133.7 Bn to Rs 858.9 Bn, represented an 18.4% increase which surpassed industry growth of 12%. During the first half of the year, the Bank adopted a cautious approach in lending with the growth in loan book being subdued. Nevertheless, through its strategic focus on improving the sales culture and enhancing customer experience, the Bank was also able to grow its lending portfolio by 17.3% in line with the industry growth of 17.5% for the year. This represented an increase of Rs 86.1 Bn to Rs 584.4 Bn in net loans.

The total deposit base of the Bank grew by Rs 96.4 Bn to Rs 623.5 Bn, an 18.3% growth compared to the industry growth of 16.5%. Despite a shift into higher yielding deposits witnessed across the industry the Bank grew its CASA base to Rs 225.5Bn. During 2016, the Bank also raised Rs 13 Bn by way of two Subordinated Debentures issues of Rs 7 Bn and Rs 6 Bn. Further, the Bank also raised US\$ 100 Mn as long term debt from a foreign bank to support its balance sheet growth.

HNB Grameen yet again performed well to contribute strongly to Group results along with HNB Assurance and the Joint Venture Investment Bank, Acuity Partners also reporting results far superior to those recorded in the previous year. Group ROA and ROE were recorded at 1.89% and 17.69% respectively and similar to the Bank represented a marked increase from the levels of 1.64% in ROA and 14.71% in ROE achieved in 2015.

Bank's Tier I Capital Adequacy improved from 10.53% in 2015 to 11.22% while Total Capital Adequacy Ratio increased from 12.70% to 15.27%.

The Bank declared a final dividend of Rs 7.00 per both ordinary voting share and ordinary non-voting share consisting of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share in addition to the interim dividend of Rs 1.50 per share declared in December 2016. Accordingly the total Dividends for the year 2016 amounted to Rs 3.5Bn

## STATEMENT OF PROFIT OR LOSS

	BANK						GROUP					
	For the 12 months ended 31st			For the 3 months ended 31st			For the 12 months ended 31st			For the 3 months ended 31st		
	December			December			December			December		
	2016	2015	% Increase/ (Decrease)	2016	2015	% Increase/ (Decrease)	2016	2015	% Increase/ (Decrease)	2016	2015	% Increase/ (Decrease)
Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000		
<b>Gross Income</b>	84,350,823	61,153,466	38	24,617,528	16,927,292	45	95,990,771	70,026,698	37	27,593,375	19,207,984	44
Interest income	75,608,193	52,615,463	44	22,039,225	14,476,748	52	81,533,502	56,893,956	43	23,639,746	15,629,636	51
Less : Interest expenses	41,236,605	26,279,934	57	12,608,008	7,510,203	68	42,444,643	27,200,236	56	12,900,901	7,758,695	66
<b>Net interest income</b>	34,371,588	26,335,529	31	9,431,217	6,966,545	35	39,088,859	29,693,720	32	10,738,845	7,870,941	36
Fee and commission income	7,139,253	5,874,928	22	1,976,392	1,654,326	19	7,905,879	6,426,080	23	2,261,687	1,822,556	24
Less : Fee and commission expenses	90,594	98,622	(8)	21,894	29,399	(26)	180,531	182,093	(1)	68,929	80,021	(14)
<b>Net fee and commission income</b>	7,048,659	5,776,306	22	1,954,498	1,624,927	20	7,725,348	6,243,987	24	2,192,758	1,742,535	26
<b>Net interest, fee and commission income</b>	41,420,247	32,111,835	29	11,385,715	8,591,472	33	46,814,207	35,937,707	30	12,931,603	9,613,476	35
Net gain/(loss) from trading	(1,795,691)	196,993	(1,012)	(544,869)	(498,371)	9	(1,824,452)	212,364	(959)	(551,929)	(593,089)	(7)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Net gain from financial investments	111,713	253,858	(56)	4,600	36,831	(88)	103,165	297,978	(65)	(8,080)	47,437	(117)
Net insurance premium income	-	-	-	-	-	-	5,490,712	4,679,897	17	1,453,052	1,293,277	12
Other operating income	3,287,355	2,212,224	49	1,142,180	1,257,758	(9)	2,781,965	1,516,423	83	798,899	1,008,167	(21)
<b>Total operating income</b>	43,023,624	34,774,910	24	11,987,626	9,387,690	28	53,365,597	42,644,369	25	14,623,545	11,369,268	29
<b>Impairment for loans and other losses</b>												
Individual Impairment	250,783	700,325	(64)	270,043	299,713	(10)	250,783	700,325	(64)	159,060	239,188	(34)
Collective Impairment	12,333	137,386	(91)	(137,158)	(1,144,801)	88	278,959	227,572	23	129,468	(1,054,615)	112
Others	(25,956)	94,214	(128)	(42,563)	60,217	(171)	(21,583)	94,214	(123)	(38,190)	60,217	(163)
<b>Net operating income</b>	42,786,464	33,842,985	26	11,897,304	10,172,561	17	52,857,438	41,622,258	27	14,373,207	12,124,478	19
<b>Operating expenses</b>												
Personnel expenses	8,703,575	7,927,695	10	1,934,196	1,661,824	16	10,416,099	9,155,160	14	2,468,753	1,960,683	26
Depreciation and amortisation	1,035,930	966,596	7	272,937	234,123	17	1,393,828	1,251,044	11	364,802	312,120	17
Benefits, claims and underwriting expenditure	-	-	-	-	-	-	4,571,389	4,211,996	9	886,260	953,084	(7)
Other expenses	8,548,374	7,084,343	21	2,537,465	1,781,346	42	9,391,316	7,842,092	20	2,657,293	2,019,866	32
<b>Total operating expenses</b>	18,287,879	15,978,634	14	4,744,598	3,677,293	29	25,772,632	22,460,292	15	6,377,108	5,245,753	22
<b>Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services</b>	24,498,585	17,864,351	37	7,152,706	6,495,268	10	27,084,806	19,161,966	41	7,996,099	6,878,725	16
Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services	4,352,756	2,814,334	55	1,497,985	948,819	58	4,734,949	3,061,783	55	1,629,360	1,009,300	61
<b>Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services</b>	20,145,829	15,050,017	34	5,654,721	5,546,449	2	22,349,857	16,100,183	39	6,366,739	5,869,425	8
Share of profit of joint venture (net of income tax)	-	-	-	-	-	-	148,790	60,085	148	8,770	1,353	548
<b>Profit before income tax</b>	20,145,829	15,050,017	34	5,654,721	5,546,449	2	22,498,647	16,160,268	39	6,375,509	5,870,778	9
Income tax expense	6,002,423	4,601,231	30	1,608,625	1,927,144	(17)	6,833,685	5,064,424	35	1,942,106	2,059,663	(6)
<b>Profit for the year</b>	14,143,406	10,448,786	35	4,046,096	3,619,305	12	15,664,962	11,095,844	41	4,433,403	3,811,115	16
<b>Profit attributable to:</b>												
Equity holders of the Bank	14,143,406	10,448,786	35	4,046,096	3,619,305	12	14,755,634	10,553,568	40	4,078,025	3,571,532	14
Non-controlling interests	-	-	-	-	-	-	909,328	542,276	68	355,378	239,583	48
<b>Profit for the year</b>	14,143,406	10,448,786	35	4,046,096	3,619,305	12	15,664,962	11,095,844	41	4,433,403	3,811,115	16
<b>Earnings per share on profit</b>												
Basic earnings per ordinary share (Rs)	34.25	25.41	35	9.79	8.78	11	35.73	25.67	39	9.86	8.66	14
Diluted earnings per ordinary share (Rs)	34.17	25.31	35	9.77	8.75	12	35.65	25.56	39	9.84	8.64	14

## STATEMENT OF COMPREHENSIVE INCOME

	BANK						GROUP					
	For the 12 months ended 31st			For the 3 months ended 31st			For the 12 months ended 31st			For the 3 months ended 31st		
	December			December			December			December		
	2016	2015	% Increase/ (Decrease)	2016	2015	% Increase/ (Decrease)	2016	2015	% Increase/ (Decrease)	2016	2015	% Increase/ (Decrease)
Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000		
<b>Profit for the year</b>	14,143,406	10,448,786	35	4,046,096	3,619,305	12	15,664,962	11,095,844	41	4,433,403	3,811,115	16
<b>Other comprehensive income for the year, net of tax</b>												
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>												
<b>Available-for-sale financial assets:</b>												
Net change in fair value during the year	(3,158,637)	(2,450,679)	29	(1,425,771)	(658,738)	116	(3,312,113)	(2,538,159)	30	(1,581,518)	(645,657)	145
Transfer to life policy holder reserve fund	-	-	-	-	-	-	134,781	97,098	39	133,116	5,507	2,317
Net amount transferred to profit or loss (available-for-sale financial assets)	-	-	-	-	-	-	14,467	(19,242)	(175)	14,467	(19,242)	175
Deferred tax effect on above	404,328	150,890	168	324,771	828	39,124	406,153	152,176	167	326,596	2,114	15,349
Share of other comprehensive income of equity accounted joint venture	-	-	-	-	-	-	(21,154)	17,041	(224)	5,713	32,436	(82)
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	(2,754,309)	(2,299,789)	20	(1,101,000)	(657,910)	67	(2,777,867)	(2,291,086)	21	(1,101,626)	(624,842)	76
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>												
Re-measurement gains / (losses) on defined benefit plans	361,720	(897,969)	(140)	361,720	(897,969)	(140)	377,525	(909,543)	(142)	364,603	(896,762)	(141)
Revaluation of freehold land & buildings	2,273,397	2,095,076	9	2,273,397	2,095,076	9	5,748,917	5,597,137	3	5,748,917	5,597,137	3
Deferred tax effect on above	(54,489)	(104,040)	(48)	(54,489)	(104,040)	(48)	(157,789)	(104,040)	52	(154,171)	(107,618)	43
Deferred tax effect on realisation of revaluation surplus	1,214	-	100	1,214	-	100	1,214	-	100	1,214	-	100
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	2,581,842	1,093,067	136	2,581,842	1,093,067	136	5,969,867	4,583,554	30	5,960,563	4,592,757	30
<b>Other comprehensive income for the year, net of tax</b>	(172,467)	(1,206,722)	(86)	1,480,842	435,157	240	3,192,000	2,292,468	39	4,858,937	3,967,915	22
<b>Total comprehensive income for the year</b>	13,970,939	9,242,064	51	5,526,938	4,054,462	36	18,856,962	13,388,312	41	9,292,340	7,779,030	19
<b>Total comprehensive income attributable to:</b>												
Equity holders of the Bank	13,970,939	9,242,064	51	5,526,938	4,054,462	36	17,865,820	12,855,605	39	8,862,103	7,540,105	18
Non-controlling interests	-	-	-	-	-	-	991,142	532,707	86	430,237	238,925	80
<b>Total comprehensive income for the year</b>	13,970,939	9,242,064	51	5,526,938	4,054,462	36	18,856,962	13,388,312	41	9,292,340	7,779,030	19

## STATEMENT OF FINANCIAL POSITION

	BANK			GROUP		
	As at 31.12.2016	As at 31.12.2015	% Increase / (Decrease)	As at 31.12.2016	As at 31.12.2015	% Increase / (Decrease)
	Rs.000	Rs.000 (Audited)		Rs.000	Rs.000 (Audited)	
<b>ASSETS</b>						
Cash and cash equivalents	17,511,446	14,909,598	17	18,668,703	15,419,654	21
Balances with Central Bank of Sri Lanka	33,777,614	20,096,090	68	33,777,614	20,096,090	68
Placements with banks	753,050	26,827	2,707	2,198,446	1,174,326	87
Reverse repurchase agreements	4,303,460	4,869,219	(12)	5,756,794	7,782,374	(26)
Derivative financial instruments	289,989	1,302,872	(78)	289,989	1,302,872	(78)
Financial investments - fair value through profit or loss	544,915	593,390	(8)	716,009	1,948,772	(63)
Non-current assets held for sale	-	20,151	-	-	20,151	-
Loans and receivables to customers	584,412,727	498,341,628	17	597,467,460	507,244,329	18
Financial investments - loans and receivables	99,260,698	84,206,702	18	102,063,229	87,087,205	17
Financial investments - available-for-sale	89,915,153	78,046,505	15	95,797,142	79,718,231	20
Financial investments - held to maturity	-	-	-	465,081	1,257,433	(63)
Investment in joint venture	755,000	655,000	15	1,450,806	1,253,370	16
Investment in subsidiaries	3,017,285	3,017,285	-	-	-	-
Investment properties	403,959	386,643	4	1,054,300	1,041,797	1
Property, plant and equipment	13,945,002	11,473,569	22	29,844,234	23,908,688	25
Intangible assets and goodwill	789,648	659,309	20	1,180,269	1,001,230	18
Other assets	9,193,879	6,602,922	39	10,720,506	7,328,053	46
<b>Total assets</b>	<b>858,873,825</b>	<b>725,207,710</b>	<b>18</b>	<b>901,450,582</b>	<b>757,584,575</b>	<b>19</b>
<b>LIABILITIES</b>						
Due to banks	69,928,789	58,232,034	20	69,964,380	58,283,838	20
Derivative financial instruments	665,890	304,485	119	665,890	304,485	119
Securities sold under repurchase agreements	13,458,127	16,630,201	(19)	13,458,127	16,630,201	(19)
Due to customers	623,494,969	527,126,181	18	635,371,097	536,132,789	19
Dividends payable	1,007,075	764,771	32	1,015,463	764,771	33
Other borrowings	27,130,358	26,833,109	1	27,130,358	26,833,109	1
Debt securities issued	4,653,057	4,490,742	4	5,115,801	4,913,751	4
Current tax liabilities	6,223,943	4,542,977	37	6,425,379	4,762,707	35
Deferred tax liabilities	231,364	378,820	(39)	824,778	579,102	42
Insurance provision - life	-	-	-	8,747,856	7,007,081	25
Insurance provision - general	-	-	-	1,921,567	1,546,266	24
Other provisions	3,158,444	2,538,111	24	3,407,050	2,746,294	24
Other liabilities	5,751,107	6,250,856	(8)	7,190,028	7,250,893	(1)
Subordinated term debts	26,153,476	12,064,370	117	25,901,110	12,085,598	114
<b>Total liabilities</b>	<b>781,856,599</b>	<b>660,156,657</b>	<b>18</b>	<b>807,138,884</b>	<b>679,840,885</b>	<b>19</b>

<b>STATEMENT OF FINANCIAL POSITION</b>						
	<b>BANK</b>			<b>GROUP</b>		
	<b>As at 31.12.2016</b>	<b>As at 31.12.2015 (Audited)</b>	<b>% Increase / (Decrease)</b>	<b>As at 31.12.2016</b>	<b>As at 31.12.2015 (Audited)</b>	<b>% Increase / (Decrease)</b>
	<b>Rs.000</b>	<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>	
<b>EQUITY</b>						
Stated capital	15,340,158	13,826,873	11	15,340,158	13,826,873	11
Statutory reserve	4,560,000	3,760,000	21	4,560,000	3,760,000	21
Other reserves	47,592,832	42,193,332	13	58,569,401	50,027,681	17
Retained earnings	9,524,236	5,270,848	81	12,821,116	7,949,848	61
<b>Total equity attributable to equity holders of the Bank</b>	<b>77,017,226</b>	<b>65,051,053</b>	<b>18</b>	<b>91,290,675</b>	<b>75,564,402</b>	<b>21</b>
<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,021,023</b>	<b>2,179,288</b>	<b>39</b>
<b>Total equity</b>	<b>77,017,226</b>	<b>65,051,053</b>	<b>18</b>	<b>94,311,698</b>	<b>77,743,690</b>	<b>21</b>
<b>Total liabilities and equity</b>	<b>858,873,825</b>	<b>725,207,710</b>	<b>18</b>	<b>901,450,582</b>	<b>757,584,575</b>	<b>19</b>
Contingent liabilities and commitments	502,372,909	343,386,012	46	502,372,909	343,386,012	46
Net assets value per share (Rs)	186.11	160.29	16	220.60	186.20	18
<b>Memorandum Information</b>						
Number of Employees	4,190	4,285				
Number of Branches	251	249				

## CERTIFICATION

I certify that the above financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007 and give a true and fair view of the state of affairs of Hatton National Bank PLC and the Group as at 31st December 2016 and its profit for the twelve months ended 31st December 2016.

(Sgd.)

**Anusha Gallage**

A G M - Finance

23rd February 2017

We the undersigned, being the Director and the Chairman of Hatton National Bank PLC certify jointly that :

- the above statements have been prepared in compliance with the formats and definitions prescribed by the Central Bank of Sri Lanka and Rule 7.4 of Colombo Stock Exchange.
- the information contained in these statements have been extracted from the unaudited financial statements of the Bank, it's Joint Venture and Subsidiary Companies unless indicated as audited.

(Sgd.)

**Rose Cooray**

Director

23rd February 2017

(Sgd.)

**Rienze Arseculeratne**

Chairman

23rd February 2017

## STATEMENT OF CHANGES IN EQUITY - BANK

	Stated Capital		Statutory	Other Reserves				Retained Earnings	Total
	Voting Shares	Non-Voting Shares	Reserve Fund	Capital Reserve	Available-for-Sale Reserve	General Reserve	ESOP Reserve		
For the 12 months ended 31st December 2015	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Balance as at 1st January 2015</b>	10,640,391	2,649,601	3,160,000	4,466,918	6,755,355	25,100,000	318,339	7,808,059	60,898,663
Super gains tax paid	-	-	-	-	-	-	-	(2,074,248)	(2,074,248)
<b>Balance as at 1st January 2015 - Adjusted</b>	10,640,391	2,649,601	3,160,000	4,466,918	6,755,355	25,100,000	318,339	5,733,811	58,824,415
<b>Total comprehensive income for the year</b>									
Net profit for the year 2015	-	-	-	-	-	-	-	10,448,786	10,448,786
Other comprehensive income, net of tax	-	-	-	1,991,036	(2,299,789)	-	-	(897,969)	(1,206,722)
<b>Total comprehensive income for the year</b>	-	-	-	1,991,036	(2,299,789)	-	-	9,550,817	9,242,064
<b>Transactions with equity holders, recognised directly in equity</b>									
<b>Contributions by and distributions to equity holders</b>									
Final dividend 2014 - Cash	-	-	-	-	-	-	-	(2,827,776)	(2,827,776)
Interim dividend 2015 - Cash	-	-	-	-	-	-	-	(608,548)	(608,548)
Issue of shares under ESOP	368,785	52,113	-	-	-	-	-	-	420,898
<b>Total contributions by and distributions to equity holders</b>	368,785	52,113	-	-	-	-	-	(3,436,324)	(3,015,426)
Transfers during the year 2015	101,513	14,470	600,000	(22,544)	-	6,000,000	(115,983)	(6,577,456)	-
<b>Balance as at 31st December 2015</b>	11,110,689	2,716,184	3,760,000	6,435,410	4,455,566	31,100,000	202,356	5,270,848	65,051,053
<b>For the 12 months ended 31st December 2016</b>									
<b>Balance as at 1st January 2016</b>	11,110,689	2,716,184	3,760,000	6,435,410	4,455,566	31,100,000	202,356	5,270,848	65,051,053
<b>Total comprehensive income for the year</b>									
Net profit for the year 2016	-	-	-	-	-	-	-	14,143,406	14,143,406
<b>Other comprehensive income, net of tax</b>	-	-	-	2,218,908	(2,754,309)	-	-	362,934	(172,467)
<b>Total comprehensive income for the year</b>	-	-	-	2,218,908	(2,754,309)	-	-	14,506,340	13,970,939
<b>Transactions with equity holders, recognised directly in equity</b>									
<b>Contributions by and distributions to equity holders</b>									
Final dividend 2015 - Cash	-	-	-	-	-	-	-	(1,421,200)	(1,421,200)
Final dividend 2015 - Scrip	1,022,473	256,607	-	-	-	-	-	(1,421,200)	(142,120)
Interim dividend 2016 - Cash	-	-	-	-	-	-	-	(620,387)	(620,387)
Issue of shares under ESOP	157,128	21,813	-	-	-	-	-	-	178,941
<b>Total contributions by and distributions to equity holders</b>	1,179,601	278,420	-	-	-	-	-	(3,462,787)	(2,004,766)
Transfers during the year 2016	48,444	6,820	800,000	(9,835)	-	6,000,000	(55,264)	(6,790,165)	-
<b>Balance as at 31st December 2016</b>	12,338,734	3,001,424	4,560,000	8,644,483	1,701,257	37,100,000	147,092	9,524,236	77,017,226



## STATEMENT OF CHANGES IN EQUITY - GROUP

	Stated Capital		Statutory	Other Reserves							Total Equity Rs 000
	Voting Rs 000	Non-Voting Rs 000	Reserve Fund Rs 000	Capital Reserve Rs 000	Available for Sale Reserve Rs 000	General Reserve Rs 000	Life policy holder Reserve fund Rs 000	ESOP Reserve Rs 000	Retained Earnings Rs 000	Non Controlling Interests Rs 000	
<b>For the 12 months ended 31st December 2015</b>											
<b>Balance as at 1st January 2015</b>	10,640,391	2,649,601	3,160,000	8,792,778	6,806,191	25,100,000	40,748	318,339	10,396,517	1,734,132	69,638,697
Super gains tax paid	-	-	-	-	-	-	-	-	(2,093,074)	(12,551)	(2,105,625)
<b>Balance as at 1st January 2015 - Adjusted</b>	10,640,391	2,649,601	3,160,000	8,792,778	6,806,191	25,100,000	40,748	318,339	8,303,443	1,721,581	67,533,072
<b>Total comprehensive income for the year</b>											
Net profit for the year 2015	-	-	-	-	-	-	-	-	10,553,568	542,276	11,095,844
Other comprehensive income, net of tax	-	-	-	5,493,000	(2,287,750)	-	-	-	(903,213)	(9,569)	2,292,468
<b>Total comprehensive income for the year</b>	-	-	-	5,493,000	(2,287,750)	-	-	-	9,650,355	532,707	13,388,312
<b>Transactions with equity holders, recognised directly in equity</b>											
<b>Contributions by and distributions to equity holders</b>											
Final dividend 2014 - Cash	-	-	-	-	-	-	-	-	(2,827,776)	(75,000)	(2,902,776)
Interim dividend 2015 - Cash	-	-	-	-	-	-	-	-	(608,548)	-	(608,548)
Issue of shares under ESOP	368,785	52,113	-	-	-	-	-	-	-	-	420,898
<b>Total contributions by and distributions to equity holders</b>	368,785	52,113	-	-	-	-	-	-	(3,436,324)	(75,000)	(3,090,426)
Transfer to life policy holder reserve fund	-	-	-	-	-	-	(97,098)	-	-	-	(97,098)
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	9,830	-	9,830
Transfers during the year 2015	101,513	14,470	600,000	(22,544)	-	6,000,000	-	(115,983)	(6,577,456)	-	-
<b>Balance as at 31st December 2015</b>	11,110,689	2,716,184	3,760,000	14,263,234	4,518,441	31,100,000	(56,350)	202,356	7,949,848	2,179,288	77,743,690
<b>For the 12 months ended 31st December 2016</b>											
<b>Balance as at 1st January 2016</b>	11,110,689	2,716,184	3,760,000	14,263,234	4,518,441	31,100,000	(56,350)	202,356	7,949,848	2,179,288	77,743,690
<b>Total comprehensive income for the year</b>											
Net profit for the year 2016	-	-	-	-	-	-	-	-	14,755,634	909,328	15,664,962
Other comprehensive income, net of tax	-	-	-	5,518,506	(2,776,906)	-	-	-	368,586	81,814	3,192,000
<b>Total comprehensive income for the year</b>	-	-	-	5,518,506	(2,776,906)	-	-	-	15,124,220	991,142	18,856,962
<b>Transactions with equity holders, recognised directly in equity</b>											
<b>Contributions by and distributions to equity holders</b>											
Final dividend 2015 - Cash	-	-	-	-	-	-	-	-	(1,421,200)	(149,407)	(1,570,607)
Final dividend 2015 - Scrip	1,022,473	256,607	-	-	-	-	-	-	(1,421,200)	-	(142,120)
Interim dividend 2016 - Cash	-	-	-	-	-	-	-	-	(620,387)	-	(620,387)
Issue of shares under ESOP	157,128	21,813	-	-	-	-	-	-	-	-	178,941
<b>Total contributions by and distributions to equity holders</b>	1,179,601	278,420	-	-	-	-	-	-	(3,462,787)	(149,407)	(2,154,173)
Transfer to life policy holder reserve fund	-	-	-	-	-	-	(134,781)	-	-	-	(134,781)
Transfers during the year 2016	48,444	6,820	800,000	(9,835)	-	6,000,000	-	(55,264)	(6,790,165)	-	-
<b>Balance as at 31st December 2016</b>	12,338,734	3,001,424	4,560,000	19,771,905	1,741,535	37,100,000	(191,131)	147,092	12,821,116	3,021,023	94,311,698

## STATEMENT OF CASH FLOWS

For the year ended 31st December	BANK		GROUP	
	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000
<b>Cash flows from operating activities</b>				
Interest and commission receipts	77,766,617	57,870,224	84,142,896	62,541,611
Interest payments	(36,874,859)	(26,162,039)	(37,989,919)	(26,960,267)
Cash payments to employees	(8,610,079)	(7,787,955)	(10,255,904)	(9,016,129)
Cash payments to other operating activities	(12,385,159)	(9,658,598)	(16,156,447)	(13,221,249)
Receipts from other operating activities	3,152,693	2,486,728	9,035,322	7,422,487
Recovery of loans written off in prior years	34,014	19,989	52,881	33,267
<b>Operating profit before changes in operating assets and liabilities</b>	<b>23,083,227</b>	<b>16,768,349</b>	<b>28,828,829</b>	<b>20,799,720</b>
<b>(Increase) / decrease in operating assets</b>				
Deposits held for regulatory or monetary control purpose	(13,681,524)	(3,188,552)	(13,681,524)	(3,188,552)
Loans and receivables to customers	(85,148,644)	(102,633,950)	(89,595,887)	(106,052,373)
Reverse repurchase agreements	567,579	11,922,595	2,043,130	11,731,355
Other short term assets	(343,355)	(1,385,665)	(1,090,556)	(1,356,430)
	<b>(98,605,944)</b>	<b>(95,285,572)</b>	<b>(102,324,837)</b>	<b>(98,866,000)</b>
<b>Increase / (decrease) in operating liabilities</b>				
Deposits from customers	91,722,310	106,591,985	94,514,994	109,212,989
Securities sold under repurchase agreements	(3,446,549)	(342,332)	(3,446,549)	(342,332)
Other liabilities	(621,447)	686,371	(434,220)	696,755
	<b>87,654,314</b>	<b>106,936,024</b>	<b>90,634,225</b>	<b>109,567,412</b>
<b>Net cash generated from operating activities before income tax</b>	<b>12,131,597</b>	<b>28,418,801</b>	<b>17,138,217</b>	<b>31,501,132</b>
Income taxes paid	(3,447,705)	(2,142,303)	(3,949,092)	(2,340,344)
Super gains tax paid	-	(2,074,248)	-	(2,105,625)
<b>Net cash generated from operating activities</b>	<b>8,683,892</b>	<b>24,202,250</b>	<b>13,189,125</b>	<b>27,055,163</b>
<b>Cash flows from investing activities</b>				
Dividend income	886,229	1,236,084	145,082	298,749
Dividend income received from joint venture	-	-	30,200	30,130
Net proceeds from sale, maturity and purchase of financial investments	(28,227,265)	(61,270,205)	(30,271,537)	(62,764,719)
Proceeds from deemed disposal of subsidiary company by joint venture	-	-	-	9,830
Investment in joint venture company	(100,000)	-	(100,000)	-
Proceeds from sale of non-current assets held for sale	23,734	31,000	23,734	31,000
Proceeds from sale of property, plant and equipment	12,151	23,522	11,577	23,593
Purchase of intangible assets	(350,477)	(77,194)	(441,837)	(156,306)
Purchase of property, plant and equipment	(975,198)	(882,803)	(1,285,867)	(1,091,320)
Proceeds from sale of investment properties	-	-	3,650	-
Improvements to investment properties	(22,787)	-	(21,516)	(4,221)
<b>Net cash used in investing activities</b>	<b>(28,753,613)</b>	<b>(60,939,596)</b>	<b>(31,906,514)</b>	<b>(63,623,264)</b>
<b>Cash flows from financing activities</b>				
Dividends paid	(1,799,283)	(3,258,631)	(1,948,690)	(3,333,631)
Debenture issue expenses	(35,233)	-	(35,233)	-
Increase in subordinated term debts	13,000,000	-	12,750,000	-
Increase in long term borrowings	12,053,368	37,580,671	12,045,541	37,556,509
Proceeds from issue of shares under ESOP	178,940	420,898	178,940	420,898
<b>Net cash generated from financing activities</b>	<b>23,397,792</b>	<b>34,742,938</b>	<b>22,990,558</b>	<b>34,643,776</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>3,328,071</b>	<b>(1,994,408)</b>	<b>4,273,169</b>	<b>(1,924,325)</b>
Cash and cash equivalents at the beginning of the year	14,936,425	16,930,833	16,593,980	18,518,305
<b>Cash and cash equivalents at the end of the year</b>	<b>18,264,496</b>	<b>14,936,425</b>	<b>20,867,149</b>	<b>16,593,980</b>
<b>Cash and cash equivalents at the end of the year</b>				
Cash and cash equivalents	17,511,446	14,909,598	18,668,703	15,419,654
Placements with banks	753,050	26,827	2,198,446	1,174,326
	<b>18,264,496</b>	<b>14,936,425</b>	<b>20,867,149</b>	<b>16,593,980</b>

## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK

As at 31st December 2016	Fair Value Through Profit or Loss	Loans and Receivable	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Cash and cash equivalents	-	17,511,446	-	17,511,446
Balances with Central Bank of Sri Lanka	-	33,777,614	-	33,777,614
Placements with banks	-	753,050	-	753,050
Reverse repurchase agreements	-	4,303,460	-	4,303,460
Derivative financial instruments	289,989	-	-	289,989
Financial investments - fair value through profit or loss	544,915	-	-	544,915
Loans and receivables to customers	-	584,412,727	-	584,412,727
Financial investments - loans and receivables	-	99,260,698	-	99,260,698
Financial investments - available-for-sale	-	-	89,915,153	89,915,153
Other assets	-	2,308,521	-	2,308,521
<b>Total financial assets</b>	<b>834,904</b>	<b>742,327,516</b>	<b>89,915,153</b>	<b>833,077,573</b>
<b>Liabilities</b>				
Due to banks	-	69,928,789	-	69,928,789
Derivative financial instruments	665,890	-	-	665,890
Securities sold under repurchase agreements	-	13,458,127	-	13,458,127
Due to customers	-	623,494,969	-	623,494,969
Dividends payable	-	1,007,075	-	1,007,075
Other borrowings	-	27,130,358	-	27,130,358
Debt securities issued	-	4,653,057	-	4,653,057
Other liabilities	-	403,851	-	403,851
Subordinated term debts	-	26,153,476	-	26,153,476
<b>Total financial liabilities</b>	<b>665,890</b>	<b>766,229,702</b>	<b>-</b>	<b>766,895,592</b>
<b>As at 31st December 2015</b>				
	Fair Value Through Profit or Loss	Loans and Receivable	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Cash and cash equivalents	-	14,909,598	-	14,909,598
Balances with Central Bank of Sri Lanka	-	20,096,090	-	20,096,090
Placements with banks	-	26,827	-	26,827
Reverse repurchase agreements	-	4,869,219	-	4,869,219
Derivative financial instruments	1,302,872	-	-	1,302,872
Financial investments - fair value through profit or loss	593,390	-	-	593,390
Loans and receivables to customers	-	498,341,628	-	498,341,628
Financial investments - loans and receivables	-	84,206,702	-	84,206,702
Financial investments - available-for-sale	-	-	78,046,505	78,046,505
Other assets	-	1,565,169	-	1,565,169
<b>Total financial assets</b>	<b>1,896,262</b>	<b>624,015,233</b>	<b>78,046,505</b>	<b>703,958,000</b>
<b>Liabilities</b>				
Due to banks	-	58,232,034	-	58,232,034
Derivative financial instruments	304,485	-	-	304,485
Securities sold under repurchase agreements	-	16,630,201	-	16,630,201
Due to customers	-	527,126,181	-	527,126,181
Dividends payable	-	764,771	-	764,771
Other borrowings	-	26,833,109	-	26,833,109
Debt securities issued	-	4,490,742	-	4,490,742
Other liabilities	-	278,585	-	278,585
Subordinated term debts	-	12,064,370	-	12,064,370
<b>Total financial liabilities</b>	<b>304,485</b>	<b>646,419,993</b>	<b>-</b>	<b>646,724,478</b>

## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - GROUP

As at 31st December 2016	Fair Value Through Profit or Loss	Held to Maturity	Loans and Receivable	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>					
Cash and cash equivalents	-	-	18,668,703	-	18,668,703
Balances with Central Bank of Sri Lanka	-	-	33,777,614	-	33,777,614
Placements with banks	-	-	2,198,446	-	2,198,446
Reverse repurchase agreements	-	-	5,756,794	-	5,756,794
Derivative financial instruments	289,989	-	-	-	289,989
Financial investments - fair value through profit or loss	716,008	-	-	-	716,008
Loans and receivables to customers	-	-	597,467,460	-	597,467,460
Financial investments - loans and receivables	-	-	102,063,229	-	102,063,229
Financial investments - available-for-sale	-	-	-	95,797,141	95,797,141
Financial investments - held to maturity	-	465,081	-	-	465,081
Other assets	-	-	3,175,431	-	3,175,431
<b>Total financial assets</b>	<b>1,005,997</b>	<b>465,081</b>	<b>763,107,677</b>	<b>95,797,141</b>	<b>860,375,896</b>
<b>Liabilities</b>					
Due to banks	-	-	69,964,380	-	69,964,380
Derivative financial instruments	665,890	-	-	-	665,890
Securities sold under repurchase agreements	-	-	13,458,127	-	13,458,127
Due to customers	-	-	635,371,097	-	635,371,097
Dividends payable	-	-	1,015,463	-	1,015,463
Other borrowings	-	-	27,130,358	-	27,130,358
Debt securities issued	-	-	5,115,801	-	5,115,801
Other liabilities	-	-	1,295,848	-	1,295,848
Subordinated term debts	-	-	25,901,110	-	25,901,110
<b>Total financial liabilities</b>	<b>665,890</b>	<b>-</b>	<b>779,252,184</b>	<b>-</b>	<b>779,918,074</b>
<b>As at 31st December 2015</b>					
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>					
Cash and cash equivalents	-	-	15,419,654	-	15,419,654
Balances with Central Bank of Sri Lanka	-	-	20,096,090	-	20,096,090
Placements with banks	-	-	1,174,326	-	1,174,326
Reverse repurchase agreements	-	-	7,782,374	-	7,782,374
Derivative financial instruments	1,302,872	-	-	-	1,302,872
Financial investments - fair value through profit or loss	1,948,772	-	-	-	1,948,772
Loans and receivables to customers	-	-	507,244,329	-	507,244,329
Financial investments - loans and receivables	-	-	87,087,205	-	87,087,205
Financial investments - available-for-sale	-	-	-	79,718,231	79,718,231
Financial investments - held to maturity	-	1,257,433	-	-	1,257,433
Other assets	-	-	1,703,598	-	1,703,598
<b>Total financial assets</b>	<b>3,251,644</b>	<b>1,257,433</b>	<b>640,507,576</b>	<b>79,718,231</b>	<b>724,734,884</b>
<b>Liabilities</b>					
Due to banks	-	-	58,283,838	-	58,283,838
Derivative financial instruments	304,485	-	-	-	304,485
Securities sold under repurchase agreements	-	-	16,630,201	-	16,630,201
Due to customers	-	-	536,132,789	-	536,132,789
Dividends payable	-	-	764,771	-	764,771
Other borrowings	-	-	26,833,109	-	26,833,109
Debt securities issued	-	-	4,913,751	-	4,913,751
Other liabilities	-	-	715,537	-	715,537
Subordinated term debts	-	-	12,085,598	-	12,085,598
<b>Total financial liabilities</b>	<b>304,485</b>	<b>-</b>	<b>656,359,594</b>	<b>-</b>	<b>656,664,079</b>

## SEGMENT REPORTING

For the 12 months ended 31st December	Banking		Leasing/Hire purchase		Property		Insurance		Others*		Eliminations / Unallocated		Consolidated	
	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000	2016 Rs 000	2015 Rs 000
Net interest income	32,246,731	24,335,892	2,185,546	1,994,644	-	-	1,130,726	814,610	3,559,806	2,582,316	(33,950)	(33,742)	39,088,859	29,693,720
Net fee and commission income	7,046,721	5,775,910	-	-	-	-	139,815	100,439	538,812	367,638	-	-	7,725,348	6,243,987
Net gain/(loss) from trading	(1,795,691)	196,993	-	-	-	-	(17,761)	30,263	(11,000)	(14,892)	-	-	(1,824,452)	212,364
Net gain/(loss) from														
financial investments	111,713	253,858	-	-	-	-	(8,548)	31,870	-	12,250	-	-	103,165	297,978
Net insurance premium income							5,490,712	4,679,897					5,490,712	4,679,897
Other operating income	3,251,305	2,182,111	-	-	193,836	194,444	19,063	44,076	238,122	60,650	(920,361)	(964,858)	2,781,965	1,516,423
Operating income by segment	40,860,779	32,744,764	2,185,546	1,994,644	193,836	194,444	6,754,007	5,701,155	4,325,740	3,007,962	(954,311)	(998,600)	53,365,597	42,644,369
Inter-segment revenue	(22,701)	35,502	-	-	746,739	676,104	142,809	74,476	63,050	(396)	(929,897)	(785,686)	-	-
Total operating income	40,838,078	32,780,266	2,185,546	1,994,644	940,575	870,548	6,896,816	5,775,631	4,388,790	3,007,566	(1,884,208)	(1,784,286)	53,365,597	42,644,369
Impairment charge for loans and other losses	278,785	385,300	(41,625)	546,625	-	-	4,434	350	266,565	89,836	-	-	508,159	1,022,111
Net operating income	40,559,293	32,394,966	2,227,171	1,448,019	940,575	870,548	6,892,382	5,775,281	4,122,225	2,917,730	(1,884,208)	(1,784,286)	52,857,438	41,622,258
Segment result	19,004,565	14,639,538	2,177,194	1,377,075	726,669	702,352	770,509	237,361	2,031,957	1,406,945	(967,209)	(1,012,044)	23,743,685	17,351,227
Unallocated operating expenses													(1,393,828)	(1,251,044)
Operating profit													22,349,857	16,100,183
Share of profit of associates and joint venture													148,790	60,085
Income tax expense													(6,833,685)	(5,064,424)
Profit for the year													15,664,962	11,095,844
Non-controlling interests													(909,328)	(542,276)
Profit attributable to the Equity														
Holders of the Bank													14,755,634	10,553,568
Profit for the year													15,664,962	11,095,844
Other comprehensive														
income ,net of tax	(172,467)	(1,206,722)	-	-	-	2,893,381	479	(10,608)	141,117	(9,207)	3,222,871	625,624	3,192,000	2,292,468
Total Comprehensive income													18,856,962	13,388,312
Non-controlling interests													(991,142)	(532,707)
Total comprehensive income attributable to the Equity														
Holders of the Bank													17,865,820	12,855,605
Segment assets	789,151,149	663,129,144	41,617,904	39,263,687	10,203,235	10,231,547	14,528,854	11,640,828	18,614,934	13,490,777	2,247,019	30,996	876,363,095	737,786,979
Investment in associates													1,450,806	1,257,433
Unallocated assets													23,636,681	18,540,163
Total Assets													901,450,582	757,584,575
Segment liabilities	723,866,762	606,417,435	41,617,904	39,263,687	625,296	609,327	11,831,797	9,356,883	15,292,385	11,400,854	(2,467,193)	(1,682,838)	790,766,951	665,365,348
Unallocated liabilities													16,371,933	14,475,537
Total liabilities													807,138,884	679,840,885
Cash flows from operating activities	11,575,535	42,749,948	(2,891,643)	(18,547,698)	717,134	712,160	1,292,190	1,169,770	(248,916)	792,988	2,744,825	177,995	13,189,125	27,055,163
Cash flows from investing activities	(28,753,613)	(60,939,596)	-	-	(84,534)	(3,638)	(953,592)	(767,836)	992,446	(665,479)	(3,107,221)	(1,246,715)	(31,906,514)	(63,623,264)
Cash flows from financing activities	23,397,792	34,742,938	-	-	(600,000)	(832,600)	(100,000)	(188,250)	382,056	(46,751)	(89,290)	968,439	22,990,558	34,643,776
Capital Expenditure	1,344,022	952,512	4,440	7,485	12,775	3,638	111,362	64,384	204,865	223,826	71,756	-	1,749,220	1,251,845
Depreciation	815,620	745,573	172	410	165,445	135,207	44,882	51,115	104,156	70,687	3,196	3,217	1,133,471	1,006,209
Amortization	200,413	202,452	19,725	18,161	67	67	20,106	17,225	20,046	10,024	-	(3,094)	260,357	244,835

\* Business of HNB Grameen Finance Ltd

## EXPLANATORY NOTES

1. There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year 2015.
2. There are no material changes during the period in the composition of assets, liabilities, contingent liabilities and use of funds raised through debentures. All known expenditure items have been provided for.
3. There are no material events that took place after the Balance Sheet date, which require adjustment or disclosure in the financial statements, other than those disclosed below.
- (a) The Directors recommend that a final dividend of Rs. 7.00 per share by way of Rs. 3.50 cash and Rs. 3.50 scrip on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2016.  
Further this dividend is to be approved at the Annual General Meeting to be held on 30th March 2017. In accordance with Sri Lanka Accounting Standard (LKAS 10) "Events after the reporting period", this proposed final dividend has not been recognised as a liability as at 31st December 2016.
4. These interim financial statements are presented in accordance with Sri Lanka Accounting Standard (LKAS 34) "Interim Financial Reporting" and provide the information as required in terms of Rule 7.4 of the Colombo Stock Exchange.
5. Where required, figures on the audited annual financial statements have been reclassified to conform to Central Bank of Sri Lanka publication requirements.
6. Details of Employee Share Option Plan (ESOP)

	2012 Allocation**		2013 Allocation***	
	Voting	Non voting	Voting	Non voting
No of options brought forward	1,120,852	195,408	1,579,169	371,140
No of options granted in 2016	-	-	-	-
No of options exercised during the period	(636,790)	(103,156)	(452,203)	(121,894)
No of options expired during the period	(51,540)	(10,101)	(33,156)	(4,154)
No of options remaining	432,522	82,151	1,093,810	245,092
Allotment price (Rs)	145.79	81.43	142.17	110.04
Average market price for the year ended 31st December 2016 (Rs)	212.70	180.56	212.70	180.56

\*These options were allocated on 30th March 2012 and the retention period ended on 30th March 2013.

\*\*These options were allocated on 5th June 2013 and the retention period ended on 4th June 2014.

The outstanding options can be exercised within four years from the end of retention period or at retirement, resignation or death whichever occurs first.

7. The consolidated financial statements of the Bank cover the Bank and its subsidiaries HNB Assurance PLC, Sithma Development (Pvt) Ltd, HNB Grameen Finance Ltd & the Group's interest in Joint Venture Acuity Partners (Pvt) Ltd.
8. Additional Information requested by the Banking Supervision Division of Central Bank of Sri Lanka by their circular dated 11th October 2013, has been given in the note to the financial statements.
9. On 25th October 2016, the Bank opened the issuance of 50,000,000 unsecured subordinated redeemable debentures to the public at an issue price of Rs. 100/-with the option to issue further 10,000,000 unsecured subordinated redeemable debentures in the event the initial issue is oversubscribed. The total issue of 60,000,000 unsecured subordinated redeemable debentures was oversubscribed on the day of opening. Accordingly, the Bank allotted debentures amounting to Rs 6 Bn under category A and category B with category A debentures having a maturity period of 5 years with interest payable annually at a rate of 11.75% p.a and category B debentures having a maturity period of 7 years with interest payable annually at a rate of 13% p.a.

## SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

	As at		As at	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	<b>BANK</b>		<b>GROUP</b>	
<b>Regulatory Capital Adequacy</b>				
Core capital (Tier 1 Capital) Rs. Mn	65,082	52,459	71,295	58,138
Total Capital Base. Rs. Mn	88,569	63,250	95,199	69,299
Core capital adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	11.22%	10.53%	11.51%	10.99%
Total capital adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	15.27%	12.70%	15.37%	13.10%

	31.12.2016	31.12.2015
	<b>BANK</b>	
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non-Performing Advances Ratio, % (net of Interest in Suspense)	1.80%	2.43%
Net Non-Performing Advances Ratio, % (net of Interest in Suspense and provisions)	0.46%	0.85%
<b>Profitability (Annualised)</b>		
Interest Margin, %	4.26%	4.10%
Return on Assets (before Tax), %	2.49%	2.34%
Return on Equity, %	20.24%	16.77%
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets, Rs. Mn		
Domestic Banking unit	159,581	136,406
Off-Shore Banking Unit	16,786	16,827
Statutory Liquid Assets Ratio % (Minimum requirement 20%)		
Domestic Banking unit	23.49%	23.89%
Off-Shore Banking Unit	26.46%	35.07%

## LISTED DEBENTURE INFORMATION

Quarter ended 31st December	Market Value				Quarter ended 31st December	Yield as at Last Trade Done	
	2016		2015			2016	2015
	Highest Rs.	Lowest Rs.	Highest Rs.	Lowest Rs.			
<b>HNB DEBENTURES 2006</b>					<b>HNB DEBENTURES 2006</b>		
15 year Fixed Rate (11.00% p.a.)	N/T	N/T	N/T	N/T	15 year Fixed Rate (11.00% p.a.)	N/T	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T	N/T	N/T	18 year Fixed Rate (11.25% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2007</b>					<b>HNB DEBENTURES 2007</b>		
10 year Fixed Rate (16.00% p.a.)	N/T	N/T	N/T	N/T	10 year Fixed Rate (16.00% p.a.)	N/T	N/T
15 year Fixed Rate (16.75% p.a.)	N/T	N/T	N/T	N/T	15 year Fixed Rate (16.75% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2011</b>					<b>HNB DEBENTURES 2011</b>		
10 year Fixed Rate (11.50% p.a.)	N/T	N/T	N/T	N/T	10 year Fixed Rate (11.50% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2013</b>					<b>HNB DEBENTURES 2013</b>		
5 year Fixed Rate (14.00% p.a.)	N/T	N/T	N/T	N/T	5 year Fixed Rate (14.00% p.a.)	N/T	N/T
10 year Fixed Rate (14.25% p.a.)	N/T	N/T	N/T	N/T	10 year Fixed Rate (14.25% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2014</b>					<b>HNB DEBENTURES 2014</b>		
3 year Fixed Rate (7.00% p.a.)	N/T	N/T	N/T	N/T	3 year Fixed Rate (7.00% p.a.)	N/T	N/T
5 year Fixed Rate (7.90% p.a.)	N/T	N/T	N/T	N/T	5 year Fixed Rate (7.90% p.a.)	N/T	N/T
10 year Fixed Rate (8.50% p.a.)	N/T	N/T	N/T	N/T	10 year Fixed Rate (8.50% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2016</b>					<b>HNB DEBENTURES 2016</b>		
5 year Fixed Rate (11.25% p.a.)	91.50	91.00	N/A	N/A	5 year Fixed Rate (11.25% p.a.)	13.98	N/A
5 year Fixed Rate (11.75% p.a.)	N/T	N/T	N/A	N/A	5 year Fixed Rate (11.75% p.a.)	N/T	N/A
7 year Fixed Rate (13.00% p.a.)	100.00	99.80	N/A	N/A	7 year Fixed Rate (13.00% p.a.)	12.98	N/A

N/T – Not Traded as at 31st December, N/A – Not Applicable as at 31st December

### Yield to Maturity of Last Trade Done (% p.a.)

Quarter ended 31st December	2016	2015
<b>HNB DEBENTURES 2006</b>		
15 year Fixed Rate (11.00% p.a.)	N/T	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2007</b>		
10 year Fixed Rate (16.00% p.a.)	N/T	N/T
15 year Fixed Rate (16.75% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2011</b>		
10 year Fixed Rate (11.50% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2013</b>		
5 year Fixed Rate (14.00% p.a.)	N/T	N/T
10 year Fixed Rate (14.25% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2014</b>		
3 year Fixed Rate (7.00% p.a.)	N/T	N/T
5 year Fixed Rate (7.90% p.a.)	N/T	N/T
10 year Fixed Rate (8.50% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2016</b>		
5 year Fixed Rate (11.25% p.a.)	14.02	N/A
5 year Fixed Rate (11.75% p.a.)	N/T	N/A
7 year Fixed Rate (13.00% p.a.)	13.00	N/A

N/T – Not Traded as at 31st December, N/A – Not Applicable as at 31st December

### RATIOS OF DEBT

	31.12.2016	31.12.2015
Debt Equity Ratio (%)	<b>119.84</b>	100.63
Interest Cover (Times)	<b>5.06</b>	5.78
Yield of Comparable Govt. Security for the following HNB Debentures (% p.a.)	<b>31.12.2016</b>	31.12.2015
2006 series 15 year maturity	<b>13.37</b>	10.72
2006 series 18 year maturity	<b>13.76</b>	11.18
2007 series 10 year maturity	<b>11.27</b>	8.73
2007 series 15 year maturity	<b>13.64</b>	10.80
2011 series 10 year maturity	<b>13.46</b>	10.68
2013 series 5 year maturity	<b>11.17</b>	8.47
2013 series 10 year maturity	<b>12.35</b>	9.98
2014 series 3 year maturity	<b>10.15</b>	8.21
2014 series 5 year maturity	<b>11.85</b>	9.25
2014 series 10 year maturity	<b>12.49</b>	9.97
2016 series 5 year maturity	<b>12.04</b>	N/A
2016 series 5 year maturity	<b>12.15</b>	N/A
2016 series 5 year maturity	<b>12.51</b>	N/A

## SHARE INFORMATION

As at	31-Dec-16	31-Dec-15
<b>Number of Shares</b>		
Voting	330,756,782	324,405,445
Non-voting	83,058,692	81,415,925
<b>Last Traded Price per share</b>		
Voting	225.00	210.60
Non-voting	190.00	177.90

For the Quarter Ended	31-Dec-16	31-Dec-15
<b>Highest price per share</b>		
Voting	235.00	222.00
Non-voting	202.00	183.40
<b>Lowest price per share</b>		
Voting	185.00	207.50
Non-voting	165.50	175.00

## PUBLIC SHAREHOLDING PERCENTAGE

As at	31-Dec-16
Voting	61% approx.
Non-voting	99% approx.

## NUMBER OF PUBLIC SHAREHOLDERS

As at	31-Dec-16
Voting	4,571
Non-voting	10,317

## DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

	Number of shares	
	31-Dec-16	31-Dec-15
1. Mr. Rienzie Arseculeratne	-	-
2. Mr. A.J. Alles *	101,959	2,000
3. Ms. M.A.R.C. Cooray	5,404	5,312
4. Dr. L.R. Karunaratne	1,034	1,018
5. Mr. L.U.D. Fernando	517	509
6. Mr. D.T.S.H. Mudalige	-	-
7. Miss. D.S.C. Jayawardena	508	500
8. Mr. R.S. Captain	6,104	6,007
9. Mr. D.A. Cabraal	-	-
10. Mr. P.S.C. Pelpola	-	-
11. Mr. E.D.P. Soosaipillai	-	-
12. Mr. A.H.D.A.N. De Silva	100	-

\* Chief Executive Officer



## 20 MAJOR SHAREHOLDERS (VOTING) AS AT 31ST DECEMBER 2016

	Name	No. of shares	% on total voting capital
1.	Employees Provident Fund	32,352,748	9.78
2.	Sri Lanka Insurance Corporation - Life Fund	32,014,697	9.68
3.	Milford Exports (Ceylon) Limited	26,247,009	*7.94
4.	Mr.Sohli Edelji Captain	24,089,530	7.28
5.	Stassen Exports Ltd	22,750,036	*6.88
6.	Sri Lanka Insurance Corporation - General Fund	16,393,058	4.96
7.	Sonetto Holdings Limited	14,936,204	4.52
8.	HSBC Int'l Nominees Ltd-JPMLU-Franklin Templeton Investment	11,084,554	3.35
9.	Distilleries Company of Sri Lanka PLC	10,178,656	*3.08
10.	National Savings Bank	9,523,878	2.88
11.	Standard Chartered Bank Singapore S/A HL Bank Singapore	6,270,219	1.90
12.	The Bank of New York Mellon SA/NV-CF Ruffer Total return Fund	5,221,591	1.58
13.	CitiBank Newyork S/A Norges Bank Account 2	3,558,424	1.08
14.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute return	3,504,886	1.06
15.	RBC Investor Services Bank - COELI SICAV I - Frontier Market	3,068,364	0.93
16.	Ms.Leesha Anne Captain	2,916,548	0.88
17.	HSBC Int'l Nom Ltd-JPMCB-Templeton Global Investment Trust	2,818,429	0.85
18.	Mrs.Cheryl Susan De Fonseka	2,763,993	0.84
19.	Citi Group Global Markets Ltd Agency Trading Prop.Sec.	2,731,986	0.80
20.	BNYM SA/NV-CF Ruffer Investment Funds:CF Ruffer Pacific	2,671,131	0.81

\* Pursuant to the provisions of the Banking Act Directions No. 1 of 2007, the total collective voting rights in the Bank, of Milford Exports (Ceylon) Limited, Stassen Exports Limited and Distilleries Company of Sri Lanka (who collectively hold 17.90% of the voting shares of the Bank) are limited to 10% of the total voting rights of the Bank with effect from 15th March 2012 as the voting rights in excess of such percentage is deemed invalid from that date.

## 20 MAJOR SHAREHOLDERS (NON-VOTING) AS AT 31ST DECEMBER 2016

	Name	No. of shares	% on total non-voting capital
1.	HSBC Int'l Nom Ltd-UBS AG Zurich	7,203,090	8.67
2.	CITI Bank Newyork S/A Norges Bank Account 2	6,125,146	7.37
3.	HSBC Intl nominees Ltd-JPMLU-Franklin Templeton Invest	5,778,350	6.96
4.	BNYM SA/NV-Frontaura Global Frontier Fund LLC	4,339,801	5.23
5.	The Bank of New York Mellon SA/NV-CF Ruffer Total Return Fund	2,601,605	3.13
6.	BNYM SA/NV-Neon Liberty Lorikeet Master Fund LP	2,576,898	3.10
7.	Akbar Brothers Pvt Ltd A/c No.01	2,478,154	2.98
8.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return	1,733,008	2.09
9.	Mr.Sohli Edelji Captain	1,467,949	1.77
10.	Rubber Investment Trust Limited A/c # 01	1,184,341	1.43
11.	Union Assurance PLC No. 1 A/c	1,131,457	1.36
12.	BNY-CF Ruffer Investment Funds:CF Ruffer Pacific Fund	1,028,711	1.24
13.	Mr.Jayampathi Divale Bandaranayake	1,002,077	1.21
14.	Northern Trust Company S/A Polar Capital Funds PLC	977,006	1.18
15.	Employees Trust Fund Board	909,800	1.10
16.	CITI Bank NY S/A Forward International Dividend Fund	801,235	0.96
17.	The Ceylon Guardian Investment Trust PLC A/c #02	750,857	0.90
18.	Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	749,353	0.90
19.	The Ceylon Investment PLC A/c No.2	614,227	0.74
20.	Hatton National Bank PLC A/c No.2	584,735	0.70

## NOTES TO THE FINANCIAL STATEMENTS

As at	BANK		GROUP	
	31.12.2016 Rs.000	31.12.2015 Rs.000	31.12.2016 Rs.000	31.12.2015 Rs.000
<b>1) Loans and Receivables to Customers</b>				
Gross loans and receivables	595,513,919	509,525,467	608,965,683	518,586,177
Less : Individual impairment	(3,366,278)	(3,345,714)	(3,366,278)	(3,345,714)
Collective impairment	(7,734,914)	(7,838,125)	(8,131,945)	(7,996,134)
<b>Net loans and receivables</b>	<b>584,412,727</b>	<b>498,341,628</b>	<b>597,467,460</b>	<b>507,244,329</b>
<b>2) Loans and Receivables to Customers - By product</b>				
<b>By product-Domestic Currency</b>				
Overdrafts	90,479,762	71,116,853	90,471,621	71,116,853
Bills of exchange	875,321	1,042,923	875,321	1,042,923
Commercial papers	153,972	161,270	153,972	161,270
Short term loans	56,342,739	49,986,757	56,462,680	50,078,749
Credit Cards	6,061,567	4,548,110	6,061,567	4,548,110
Trust receipts	22,529,322	21,956,493	22,529,322	21,956,493
Packing credit loans	360,888	698,384	360,888	698,384
Staff loans	11,430,637	10,875,391	11,975,374	11,339,787
Term loans	249,690,118	199,275,891	261,318,923	207,777,654
Lease rentals receivable	42,517,424	40,287,937	43,683,846	40,290,496
Housing loans	32,657,439	29,633,094	32,657,439	29,633,094
Pawning advances	14,010,152	16,439,602	14,010,152	16,439,602
Securitised notes	179,359	371,682	179,359	371,682
<b>Sub total</b>	<b>527,288,700</b>	<b>446,394,387</b>	<b>540,740,464</b>	<b>455,455,097</b>
<b>By product-Foreign Currency</b>				
Overdrafts	613,418	449,581	613,418	449,581
Bills of exchange	2,038,299	2,072,263	2,038,299	2,072,263
Short term loans	4,219,372	895,123	4,219,372	895,123
Trust receipts	2,356,391	1,713,228	2,356,391	1,713,228
Packing credit loans	10,532,884	8,718,595	10,532,884	8,718,595
Term loans	47,051,799	48,053,396	47,051,799	48,053,396
Lease rentals receivable	104,476	53,659	104,476	53,659
Housing loans	1,308,580	1,175,235	1,308,580	1,175,235
<b>Sub total</b>	<b>68,225,219</b>	<b>63,131,080</b>	<b>68,225,219</b>	<b>63,131,080</b>
<b>Total</b>	<b>595,513,919</b>	<b>509,525,467</b>	<b>608,965,683</b>	<b>518,586,177</b>
<b>3) Movements in Individual and Collective Impairment during the period for Loans and Receivables to Customers</b>				
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Individual impairment</b>				
Opening balance at 01st January	3,345,714	2,645,389	3,345,714	2,645,389
Charge/(Write back) to income statement	225,581	662,538	225,581	662,538
Amounts written off	(230,219)	-	(230,219)	-
Interest accrued on impaired loans and receivables	25,202	37,787	25,202	37,787
<b>Closing balance as at 31st December</b>	<b>3,366,278</b>	<b>3,345,714</b>	<b>3,366,278</b>	<b>3,345,714</b>
<b>Collective impairment</b>				
Opening balance at 01st January	7,838,125	8,008,889	7,996,134	8,718,377
Charge/(Write back) to income statement	12,333	137,386	278,959	227,572
Amounts written off	(115,544)	(308,150)	(143,148)	(949,815)
<b>Closing balance as at 31st December</b>	<b>7,734,914</b>	<b>7,838,125</b>	<b>8,131,945</b>	<b>7,996,134</b>
<b>Total impairment</b>	<b>11,101,192</b>	<b>11,183,839</b>	<b>11,498,223</b>	<b>11,341,848</b>
<b>4) Due to Customers - By product</b>				
<b>By product-Domestic Currency</b>				
Current account deposits	34,256,113	31,932,263	33,973,012	31,649,897
Savings deposits	159,484,011	157,972,669	160,860,604	159,382,475
Time deposits	325,957,667	245,363,599	336,798,439	253,330,243
Certificates of deposit	957,804	1,092,264	957,804	1,092,263
Margin deposits	1,513,014	1,892,466	1,513,014	1,892,467
<b>Sub total</b>	<b>522,168,609</b>	<b>438,253,261</b>	<b>534,102,873</b>	<b>447,347,345</b>
<b>By product- Foreign Currency</b>				
Current account deposits	2,419,687	2,026,434	2,419,687	2,026,434
Savings deposits	29,361,173	26,232,225	29,351,297	26,225,880
Time deposits	69,524,852	60,581,727	69,476,592	60,500,595
Margin deposits	20,648	32,534	20,648	32,535
<b>Sub total</b>	<b>101,326,360</b>	<b>88,872,920</b>	<b>101,268,224</b>	<b>88,785,444</b>
<b>Total</b>	<b>623,494,969</b>	<b>527,126,181</b>	<b>635,371,097</b>	<b>536,132,789</b>