



YOUR PARTNER IN PROGRESS

Interim Financial Statements

For the year ended 31st December 2019

FINANCIAL COMMENTARY FOR THE YEAR ENDED 31ST DECEMBER 2019

- Posts Group PAT of Rs 15 Bn
- Total taxes of Rs 13.8 Bn including DRL Rs 2.8 Bn
- Best capitalized among peers
- Steady progress in Transformation

HNB PLC weathered external headwinds in 2019 to post Rs 15 Bn in Group Profit After Taxes (PAT) and Rs 14 Bn in Bank PAT and remains the best capitalized bank in the sector.

The sluggish economic conditions that prevailed resulted in a muted demand for credit, drop in margins due to the introduction of interest rate ceilings and the cautionary approach exercised by the Bank towards growth resulted in a subdued growth in Net Interest Income (NII). Accordingly, during the year, the NII grew by 3.4% to Rs 49.2 Bn for the Bank and by 5.1% to Rs 56.4 Bn for the Group.

The measures introduced to curtail import of motor vehicles and non-essential consumer goods, lower card and POS transactions due to drop in tourist arrivals resulted in the Bank's Net fee and Commission income dipping by 4.3% to Rs 9 Bn, for the year under review. At a Group level this gap narrowed to 1.2% due to contributions from Group companies. HNB Assurance recorded a modest growth of 12.6% in Net Insurance Premium income despite the challenging environment. The low volatility in the rupee during 2019 compared to 2018 and the slowdown in international trade resulted in the exchange income for the year being relatively low.

The impairment charges which rose significantly in 2018 with the implementation of the stringent SLFRS 9 standards increased by 3.9% YoY to Rs 9.7 Bn for the Bank. The greater level of stress in the micro finance segment resulted in the total impairment charge for the Group increasing to Rs 11.4 Bn for the year.

Operating expenses of the Bank increased by 7.6% YoY to Rs 23.8 Bn and the cost to income ratio slid to 39.7% from 36.4% in 2018, reflecting expenses incurred under the Bank's Transformation program and aggravated by the relatively low earnings growth in 2019. Increase in 'Benefits, Claims and Underwriting' expenses by 24.9% YoY to Rs 7.1 Bn, along with the increase in Bank expenses pushed Group operating costs up by 12.7% to Rs 36.4 Bn.

The taxes on financial services increased by 24.2% to Rs 7.9 Bn at Bank level while the Group reported an increase of 22.7% to Rs 8.4 Bn. However re-imposition of exemptions on interest income derived from SLDBs with retrospective effect from April 2018 resulted in the corporate taxes for the group reducing to Rs 5.4 Bn by 26% YoY.

Retail Banking saw a strong growth of 11.4% in loans and advances despite the market conditions. Nevertheless, due to the slowdown in demand for corporate loans and the Bank's cautious approach towards stressed sectors, overall levels of loans and advances remained flat at Rs 772Bn. Furthermore, the Bank was successful in improving its CASA ratio to 35.2%, despite the industry witnessing a negative trend. The capital position of the Bank was augmented by the debenture issue of Rs 10Bn in 2019 and HNB remains among the best capitalized in the industry with a Tier I Capital Ratio of 14.57% and a Total Capital Adequacy Ratios of 18.28% as at end 2019.

HNB declared a final dividend of Rs 7.00 per share consisting of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share, as a final dividend resulting in a total dividend of Rs 8.00 per share for the year 2019.

HNB was richly awarded in 2019, being adjudged as the Strongest Sri Lankan Bank by Balance Sheet by the prestigious Asian Banker Magazine. Euromoney Magazine bestowed upon HNB the honour of Best Bank in Sri Lanka, an award won for the third time in the Bank's history. Earlier in the year the Asian Banker Magazine bestowed upon HNB the award of 'Best Managed Bank in Sri Lanka'. Moreover, HNB was ranked no 1 in the Business Today Top 30 list for 2018-2019 and was amongst the Top Ten entities in the CIMA - ICCSL Most Admired Companies of Sri Lanka rankings for 2019. HNB's remarkable track record of excellence secured it the first place ranking ahead of all Sri Lankan banks included in the LMD Top 100 Club - a position which was evaluated based on its performance over the past 25 years. The Bank has additionally been recognized locally and internationally under diverse categories including business segments, human capital development, technology, corporate social responsibility, governance, corporate reporting and investor relations.

HNB is the first local Bank in Sri Lanka to receive an international rating on par with the sovereign from Moody's Investor Services and has a national long term rating of AA -(Ika) from Fitch Ratings. The Bank is also ranked amongst the 'Top 1000 World banks' as published by the prestigious Banker Magazine UK, a recognition bestowed upon HNB since 2017.

STATEMENT OF PROFIT OR LOSS

	BANK						GROUP					
	For the year ended 31st December			For the quarter ended 31st December			For the year ended 31st December			For the quarter ended 31st December		
	2019 (Audited) Rs000	2018 (Audited) Rs000	%Increase/ (Decrease)	2019 Rs000	2018 (Restated) Rs000	%Increase/ (Decrease)	2019 (Audited) Rs000	2018 (Audited) Rs000	%Increase/ (Decrease)	2019 Rs000	2018 (Restated) Rs000	%Increase/ (Decrease)
Gross Income	125,998,086	121,356,089	4	31,060,084	33,769,345	(8)	145,400,508	138,250,551	5	36,611,679	38,173,857	(4)
Interest income	115,210,769	108,104,923	7	27,996,093	29,816,470	(6)	124,888,717	116,488,588	7	30,950,232	31,950,877	(3)
Less : Interest expenses	65,997,133	60,525,342	9	16,615,120	16,306,724	2	68,533,206	62,852,424	9	17,460,530	16,846,672	4
Net interest income	49,213,636	47,579,581	3	11,380,973	13,509,746	(16)	56,355,511	53,636,164	5	13,489,702	15,104,205	(11)
Fee and commission income	9,206,399	9,540,862	(4)	2,371,698	2,645,365	(10)	10,333,772	10,382,030	-	2,643,349	2,903,143	(9)
Less : Fee and commission expenses	213,176	141,592	51	67,397	38,611	75	356,642	284,080	26	82,957	119,788	(31)
Net fee and commission income	8,993,223	9,399,270	(4)	2,304,301	2,606,754	(12)	9,977,130	10,097,950	(1)	2,560,392	2,783,355	(8)
Net interest, fee and commission income	58,206,859	56,978,851	2	13,685,274	16,116,500	(15)	66,332,641	63,734,114	4	16,050,094	17,887,560	(10)
Net gain/(loss) from trading	(2,280,969)	(356,594)	540	497,370	877,656	(43)	(2,263,453)	(396,918)	470	516,997	863,381	(40)
Net gain/(loss) from financial investments at fair value through other comprehensive income	187,512	215,551	(13)	-	3,000	(100)	190,283	217,896	(13)	235	(18,375)	101
Net insurance premium income	-	-	-	-	-	-	8,365,756	7,431,823	13	2,279,658	1,962,003	16
Net gains on derecognition of financial assets	-	-	-	-	-	-	82,348	72,150	14	53,239	9,143	482
Net other operating income	3,674,375	3,851,347	(5)	194,923	426,854	(54)	3,803,085	4,054,982	(6)	167,969	503,684	(67)
Total operating income	59,787,777	60,689,155	(1)	14,377,567	17,424,010	(17)	76,510,660	75,114,047	2	19,068,192	21,207,396	(10)
Less : Impairment charge for loans and other losses	9,656,010	9,292,421	4	1,543,714	4,498,157	(66)	11,426,824	9,784,052	17	2,311,006	4,413,177	(48)
Net operating income	50,131,767	51,396,734	(2)	12,833,853	12,925,853	(1)	65,083,836	65,329,995	-	16,757,186	16,794,219	-
Less : Operating expenses												
Personnel expenses	11,444,259	10,717,978	7	2,563,158	2,973,507	(14)	14,025,540	13,008,646	8	3,268,439	3,623,376	(10)
Depreciation and amortisation	2,246,114	1,354,762	66	1,094,309	360,719	203	2,703,591	1,826,468	48	1,138,998	514,651	121
Benefits, claims and underwriting expenditure	-	-	-	-	-	-	7,091,214	5,679,269	25	1,483,148	1,182,724	25
Other expenses	10,067,864	10,003,226	1	2,116,805	2,725,490	(22)	12,607,764	11,809,587	7	2,985,474	3,259,746	(8)
Total operating expenses	23,758,237	22,075,966	8	5,774,272	6,059,716	(5)	36,428,109	32,323,970	13	8,876,059	8,580,497	3
Operating profit before taxes on financial services	26,373,530	29,320,768	(10)	7,059,581	6,866,137	3	28,655,727	33,006,025	(13)	7,881,127	8,213,723	(4)
Less : Value Added Tax (VAT) on financial services	4,744,641	5,003,424	(5)	1,229,365	1,219,311	1	5,007,305	5,378,936	(7)	1,245,089	1,313,100	(5)
Less : Nation Building Tax (NBT) on financial services	579,061	667,123	(13)	110,357	162,574	(32)	608,006	715,376	(15)	106,275	174,930	(39)
Less : Debt Repayment Levy	2,586,825	698,721	270	667,484	698,721	(4)	2,782,543	748,501	272	725,635	748,501	(3)
Operating profit after taxes on financial services	18,463,003	22,951,500	(20)	5,052,375	4,785,531	6	20,257,873	26,163,212	(23)	5,804,128	5,977,192	(3)
Share of profit of joint venture (net of income tax)	-	-	-	-	-	-	186,884	303,092	(38)	42,339	158,156	(73)
PROFIT BEFORE INCOME TAX	18,463,003	22,951,500	(20)	5,052,375	4,785,531	6	20,444,757	26,466,304	(23)	5,846,467	6,135,348	(5)
Less : Income tax expense	4,430,751	7,433,297	(40)	(932,787)	1,259,173	(174)	5,415,685	7,316,842	(26)	(488,502)	321,308	(252)
PROFIT FOR THE YEAR	14,032,252	15,518,203	(10)	5,985,162	3,526,358	70	15,029,072	19,149,462	(22)	6,334,969	5,814,040	9
Profit attributable to:												
Equity holders of the Bank	14,032,252	15,518,203	(10)	5,985,162	3,526,358	70	14,670,104	17,635,774	(17)	6,264,493	4,902,490	28
Non-controlling interests	-	-	-	-	-	-	358,968	1,513,688	(76)	70,476	911,550	(92)
PROFIT FOR THE YEAR	14,032,252	15,518,203	(10)	5,985,162	3,526,358	70	15,029,072	19,149,462	(22)	6,334,969	5,814,040	9
Earnings per share												
Basic earnings per ordinary share (Rs)	28.04	31.01	(10)	11.96	7.05	70	29.32	35.25	(17)	12.52	9.80	28
Diluted earnings per ordinary share (Rs)	28.04	31.01	(10)	11.96	7.05	70	29.32	35.25	(17)	12.52	9.80	28

STATEMENT OF COMPREHENSIVE INCOME

	BANK						GROUP					
	For the year ended 31st December			For the quarter ended 31st December			For the year ended 31st December			For the quarter ended 31st December		
	2019 (Audited) Rs000	2018 (Audited) Rs000	%Increase/ (Decrease)	2019 Rs000	2018 (Restated) Rs000	%Increase/ (Decrease)	2019 (Audited) Rs000	2018 (Audited) Rs000	%Increase/ (Decrease)	2019 Rs000	2018 (Restated) Rs000	%Increase/ (Decrease)
PROFIT FOR THE YEAR	14,032,252	15,518,203	(10)	5,985,162	3,526,358	70	15,029,072	19,149,462	(22)	6,334,969	5,814,040	9
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods												
Change in fair value of investments in equity instruments												
designated at fair value through other comprehensive income	80,480	(1,203,893)	107	54,811	86,891	(37)	80,480	(1,203,893)	107	54,811	86,891	(37)
Gains realised on derecognition of equity instruments reclassified to retained earnings	136,920	-	-	136,920	-	-	136,920	-	-	136,920	-	-
Remeasurement of post-employment benefit obligations	(1,457,551)	(100,911)	1,344	(1,457,551)	(100,911)	1,344	(1,449,854)	(77,042)	1,782	(1,459,670)	(92,313)	1,481
Revaluation gain on freehold land & buildings	-	2,868,546	(100)	-	2,868,546	(100)	225,622	7,468,816	(97)	-	7,468,816	(100)
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	-	-	-	-	1,025	1,171	(100)	1,025	1,171	(100)
Less: Tax expense relating to items that will not be reclassified to profit or loss	-	(803,094)	(100)	-	(803,094)	(100)	(65,923)	(3,913,040)	(98)	-	(3,908,136)	(100)
Total other comprehensive income that will not be reclassified to profit or loss	(1,240,151)	760,648	(263)	(1,265,820)	2,051,432	(162)	(1,071,730)	2,276,012	(147)	(1,266,914)	3,556,429	(136)
Other comprehensive income that will be reclassified to profit or loss in subsequent periods												
Debt instruments at fair value through other comprehensive income:												
Net gains/(losses) on investments in debt instruments												
measured at fair value through other comprehensive income	1,576,638	(1,799,123)	188	(154,962)	(882,122)	(82)	2,064,768	(2,188,112)	194	(59,823)	(1,086,036)	(94)
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to statement of profit or loss	-	-	-	-	-	-	(79,393)	(72,150)	10	(50,284)	(9,143)	450
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	259,065	-	-	259,065	-	-	259,065	-	-	259,065	-	-
Transfer (to)/from life policy holder reserve fund	-	-	-	-	-	-	(370,100)	416,567	(189)	(47,913)	196,503	(124)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	-	-	-	-	(1,945)	66,368	(101)	1,819	34,748	(92)
Less: Tax expense relating to items that will be reclassified to profit or loss	(441,459)	503,754	(188)	43,389	246,994	(82)	(447,745)	512,042	(187)	46,550	251,038	(81)
Total other comprehensive income that will be reclassified to profit or loss	1,394,244	(1,295,369)	208	147,492	(635,128)	123	1,424,650	(1,265,285)	213	149,414	(612,890)	125
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	154,093	(534,721)	129	(1,118,328)	1,416,304	(179)	352,920	1,010,727	(65)	(1,117,500)	2,943,539	(138)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	14,186,345	14,983,482	(5)	4,866,834	4,942,662	(2)	15,381,992	20,160,189	(24)	5,217,469	8,757,579	(40)
Total comprehensive income attributable to:												
Equity holders of the Bank	14,186,345	14,983,482	(5)	4,866,834	4,942,662	(2)	14,912,884	18,651,179	(20)	5,147,800	7,847,594	(34)
Non-controlling interests	-	-	-	-	-	-	469,108	1,509,010	(69)	69,669	909,985	(92)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	14,186,345	14,983,482	(5)	4,866,834	4,942,662	(2)	15,381,992	20,160,189	(24)	5,217,469	8,757,579	(40)

STATEMENT OF FINANCIAL POSITION

	BANK			GROUP		
	As at 31.12.2019 (Audited) Rs.000	As at 31.12.2018 (Audited) Rs.000	% Increase / (Decrease)	As at 31.12.2019 (Audited) Rs.000	As at 31.12.2018 (Audited) Rs.000	% Increase / (Decrease)
ASSETS						
Cash and cash equivalents	29,089,189	25,141,890	16	30,263,654	24,966,831	21
Placements with banks	7,602,543	3,292,733	131	15,490,267	8,506,255	82
Balances with Central Bank of Sri Lanka	22,795,332	33,907,057	(33)	22,795,332	33,907,057	(33)
Reverse repurchase agreements	-	90,094	(100)	2,072,482	1,168,764	77
Derivative financial instruments	527,193	4,507,576	(88)	527,193	4,507,576	(88)
Financial assets measured at fair value through profit or loss	1,013,374	100,342	910	1,155,339	264,420	337
Financial assets measured at amortised cost - loans and advances to customers	741,769,073	749,048,820	(1)	769,392,169	770,263,000	-
Financial assets measured at amortised cost - debt and other instruments	149,720,834	160,145,680	(7)	156,511,277	165,821,983	(6)
Financial assets measured at fair value through other comprehensive income	127,694,982	69,436,989	84	133,953,117	76,005,258	76
Investment in joint venture	755,000	755,000	-	2,137,665	2,027,201	5
Investments in subsidiaries	3,017,285	3,017,285	-	-	-	-
Investment properties	480,444	325,818	47	1,026,050	1,107,472	(7)
Property, plant and equipment	21,076,762	21,304,370	(1)	42,452,617	42,417,126	-
Right-of-use assets	5,482,679	-	-	1,571,319	-	-
Intangible assets and goodwill	1,076,641	905,653	19	1,568,080	1,377,864	14
Other assets	12,907,234	14,509,951	(11)	15,467,912	16,273,512	(5)
Total assets	1,125,008,565	1,086,489,258	4	1,196,384,473	1,148,614,319	4
LIABILITIES						
Due to banks	86,396,304	77,492,582	11	87,212,970	77,976,010	12
Derivative financial instruments	573,365	2,519,172	(77)	573,365	2,519,172	(77)
Securities sold under repurchase agreements	17,569,394	16,678,946	5	17,569,394	16,678,946	5
Financial liabilities measured at amortised cost - due to depositors	810,035,114	799,975,357	1	835,060,146	818,041,962	2
Dividends payable	1,449,472	994,812	46	1,466,959	1,009,468	45
Financial liabilities measured at amortised cost - other borrowings	22,604,039	24,894,155	(9)	22,604,039	24,894,155	(9)
Debt securities issued	1,797,644	4,487,763	(60)	2,368,986	5,030,000	(53)
Current tax liabilities	5,348,985	9,184,814	(42)	5,621,389	9,559,852	(41)
Deferred tax liabilities	1,381,754	1,808,898	(24)	6,083,293	5,831,673	4
Insurance Provision -life	-	-	-	14,468,866	12,256,686	18
Insurance Provision -general	-	-	-	2,871,417	2,525,095	14
Other provisions	3,599,739	3,559,925	1	4,171,801	4,081,659	2
Other liabilities	14,053,378	6,908,911	103	12,495,406	8,944,789	40
Subordinated term debts	32,695,221	22,229,951	47	33,345,904	21,930,246	52
Total liabilities	997,504,409	970,735,286	3	1,045,913,935	1,011,279,713	3

STATEMENT OF FINANCIAL POSITION

	BANK			GROUP		
	As at 31.12.2019 (Audited) Rs.000	As at 31.12.2018 (Audited) Rs.000	% Increase / (Decrease)	As at 31.12.2019 (Audited) Rs.000	As at 31.12.2018 (Audited) Rs.000	% Increase / (Decrease)
EQUITY						
Stated capital	33,820,905	32,338,026	5	33,820,905	32,338,026	5
Statutory reserve fund	7,060,000	6,260,000	13	7,060,000	6,260,000	13
Retained earnings	17,980,160	15,728,513	14	23,072,623	20,181,416	14
Other reserves	68,643,091	61,427,433	12	81,554,692	73,881,954	10
Total shareholder's equity	127,504,156	115,753,972	10	145,508,220	132,661,396	10
Non-controlling interests	-	-	-	4,962,318	4,673,210	6
Total equity	127,504,156	115,753,972	10	150,470,538	137,334,606	10
Total equity and liabilities	1,125,008,565	1,086,489,258	4	1,196,384,473	1,148,614,319	4
Contingent liabilities and commitments	673,230,813	763,214,236	(12)	673,230,813	763,214,236	(12)
Net assets value per share (Rs.)	254.80	231.32	10	290.78	265.11	10
Memorandum information						
Number of employees	4,912	4,781				
Number of branches	250	250				

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 2019 and its profit for the year ended 31st December 2019.

(Sgd.)

Anusha Gallage
Chief Financial Officer
20th February 2020

We the undersigned, being the Managing Director/Chief Executive Officer and the Chairman of Hatton National Bank PLC 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 the Bank, its Joint Venture and Subsidiary Companies.

(Sgd.)

Jonathan Alles
Managing Director/Chief Executive Officer
20th February 2020

(Sgd.)

Dinesh Weerakkody
Chairman
20th February 2020

STATEMENT OF CHANGES IN EQUITY - BANK

	Stated Capital			Other Reserves					Retained Earnings	Total
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	Available for Sale Reserve	Fair value Reserve	General Reserve	ESOP Reserve		
	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000		
Balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	8,725,542	4,166,167	-	43,100,000	93,186	15,193,585	108,147,599
Day 1 impact from the application of SLFRS 9	-	-	-	-	(4,166,167)	4,035,701	-	-	(4,042,519)	(4,172,985)
Restated balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	8,725,542	-	4,035,701	43,100,000	93,186	11,151,066	103,974,614
Total comprehensive income for the year										
Net profit for the year 2018	-	-	-	-	-	-	-	-	15,518,203	15,518,203
Other comprehensive income, net of tax	-	-	-	2,065,452	-	(2,499,262)	-	-	(100,911)	(534,721)
Total comprehensive income for the year	-	-	-	2,065,452	-	(2,499,262)	-	-	15,417,292	14,983,482
Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders										
Dividends to equity holders										
Interim dividend 2017 - Cash	-	-	-	-	-	-	-	-	(2,442,768)	(2,442,768)
Final dividend 2017 - Scrip	706,515	173,318	-	-	-	-	-	-	(977,592)	(97,759)
Interim dividend 2018 - Cash	-	-	-	-	-	-	-	-	(738,976)	(738,976)
Issue of shares under ESOP	31,442	4,708	-	-	-	-	-	-	-	36,150
Total contributions by and distributions to equity holders	737,957	178,026	-	-	-	-	-	-	(4,159,336)	(3,243,353)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	39,229	39,229
Transfers during the year 2018	11,478	1,446	800,000	-	-	-	6,000,000	(93,186)	(6,719,738)	-
Balance as at 31st December 2018	26,649,460	5,688,566	6,260,000	10,790,994	-	1,536,439	49,100,000	-	15,728,513	115,753,972
Balance as at 1st January 2019	26,649,460	5,688,566	6,260,000	10,790,994	-	1,536,439	49,100,000	-	15,728,513	115,753,972
Total comprehensive income for the year										
Net profit for the year 2019	-	-	-	-	-	-	-	-	14,032,252	14,032,252
Other comprehensive income, net of tax	-	-	-	-	-	1,352,578	-	-	(1,198,486)	154,092
Total comprehensive income for the year	-	-	-	-	-	1,352,578	-	-	12,833,766	14,186,344
Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders										
Dividends to equity holders										
Final dividend 2018 - Cash	-	-	-	-	-	-	-	-	(1,724,277)	(1,724,277)
Final dividend 2018 - Scrip	1,190,308	292,571	-	-	-	-	-	-	(1,724,277)	(241,398)
Interim dividend 2019 - Cash	-	-	-	-	-	-	-	-	(500,407)	(500,407)
Total contributions by and distributions to equity holders	1,190,308	292,571	-	-	-	-	-	-	(3,948,961)	(2,466,082)
Gains realised on derecognition of equity instruments reclassified to retained earnings	-	-	-	-	-	(136,920)	-	-	136,920	-
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	-
Transfers during the year 2019	-	-	800,000	-	-	-	6,000,000	-	(6,770,078)	29,922
Balance as at 31st December 2019	27,839,768	5,981,137	7,060,000	10,790,994	-	2,752,097	55,100,000	-	17,980,160	127,504,156

STATEMENT OF CHANGES IN EQUITY - GROUP

	Stated Capital			Other Reserves								Retained Earnings	Non Controlling Interest	Total
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	Available for Sale Reserve	General Reserve	Fair value Reserve	Life policy holder Reserve	Restricted Regulatory Reserve	ESOP Reserve	Exchange Equalization Reserve			
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000			
Balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	19,433,829	4,207,731	43,100,000	-	223,271	-	93,186	-	18,082,284	3,648,703	125,658,123
Day 1 impact from the application of SLFRS 9	-	-	-	-	(4,207,731)	-	4,058,756	(4,507)	-	-	-	(4,225,558)	(274,989)	(4,654,029)
Restated balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	19,433,829	-	43,100,000	4,058,756	218,764	-	93,186	-	13,856,726	3,373,714	121,004,094
Total comprehensive income for the year														
Net profit for the year 2018	-	-	-	-	-	-	-	-	381,156	-	-	17,254,618	1,513,688	19,149,462
Other comprehensive income, net of tax	-	-	-	3,560,681	-	-	(2,521,033)	-	-	-	66,368	(90,611)	(4,678)	1,010,727
Total comprehensive income for the year	-	-	-	3,560,681	-	-	(2,521,033)	-	381,156	-	66,368	17,164,007	1,509,010	20,160,189
Transactions with equity holders, recognised directly in equity														
Contributions by and distributions to equity holders														
Dividends to equity holders														
Interim dividend 2017 - Cash	-	-	-	-	-	-	-	-	-	-	-	(2,442,768)	(209,514)	(2,652,282)
Final dividend 2017 - Scrip	706,515	173,318	-	-	-	-	-	-	-	-	-	(977,592)	-	(97,759)
Interim dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	-	-	(738,976)	-	(738,976)
Issue of shares under ESOP	31,442	4,708	-	-	-	-	-	-	-	-	-	-	-	36,150
Total contributions by and distributions to equity holders	737,957	178,026	-	-	-	-	-	-	-	-	-	(4,159,336)	(209,514)	(3,452,867)
Transfer from life policy holder reserve fund	-	-	-	-	-	-	-	(416,567)	-	-	-	-	-	(416,567)
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	528	-	528
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	-	-	39,229	-	39,229
Transfers during the year 2018	11,478	1,446	800,000	-	-	6,000,000	-	-	-	(93,186)	-	(6,719,738)	-	-
Balance as at 31st December 2018	26,649,460	5,688,566	6,260,000	22,994,510	-	49,100,000	1,537,723	(197,803)	381,156	-	66,368	20,181,416	4,673,210	137,334,606
Balance as at 1st January 2019	26,649,460	5,688,566	6,260,000	22,994,510	-	49,100,000	1,537,723	(197,803)	381,156	-	66,368	20,181,416	4,673,210	137,334,606
Total comprehensive income for the year														
Net profit for the year 2019	-	-	-	-	-	-	-	-	-	-	-	14,670,104	358,968	15,029,072
Other comprehensive income, net of tax	-	-	-	68,488	-	-	1,359,060	-	-	-	12,010	(1,196,778)	110,140	352,920
Total comprehensive income for the year	-	-	-	68,488	-	-	1,359,060	-	-	-	12,010	13,473,326	469,108	15,381,992
Transactions with equity holders, recognised directly in equity														
Contributions by and distributions to equity holders														
Dividends to equity holders														
Final dividend 2018 - Scrip	1,190,308	292,571	-	-	-	-	-	-	-	-	-	(1,724,277)	-	(241,398)
Final dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	-	-	(1,724,277)	(140,000)	(1,864,277)
Interim dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	-	-	(500,407)	(40,000)	(540,407)
Total contributions by and distributions to equity holders	1,190,308	292,571	-	-	-	-	-	-	-	-	-	(3,948,961)	(180,000)	(2,646,082)
Transfer from life policy holder reserve fund	-	-	-	-	-	-	-	370,100	-	-	-	-	-	370,100
Gains realised on derecognition of equity instruments reclassified to retained earnings	-	-	-	-	-	-	(136,920)	-	-	-	-	136,920	-	-
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	-	-	29,922	-	29,922
Transfers during the year 2019	-	-	800,000	-	-	6,000,000	-	-	-	-	-	(6,800,000)	-	-
Balance as at 31st December 2019	27,839,768	5,981,137	7,060,000	23,062,998	-	55,100,000	2,759,863	172,297	381,156	-	78,378	23,072,623	4,962,318	150,470,538

STATEMENT OF CASH FLOWS

For the year ended 31st December	BANK		GROUP	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Cash flows from operating activities				
Interest receipts	111,784,834	105,939,151	121,530,536	114,385,642
Interest payments	(66,961,896)	(62,689,239)	(69,680,466)	(64,957,879)
Net commission receipts	8,914,171	9,330,648	9,947,911	10,087,205
Trading income	765,683	2,989,088	760,052	2,986,670
Payments to employees	(10,191,482)	(9,171,330)	(12,559,753)	(11,379,438)
Taxes on financial services	(7,765,237)	(6,244,330)	(8,314,417)	(6,590,515)
Receipts from other operating activities	3,586,902	1,935,073	12,588,445	9,861,573
Payments on other operating activities	(10,957,980)	(10,510,706)	(17,678,758)	(16,567,045)
Operating profit before change in operating assets and liabilities	29,174,995	31,578,355	36,593,550	37,826,213
(Increase)/decrease in operating assets				
Balances with Central Bank of Sri Lanka	11,111,725	4,703,883	11,111,725	4,703,883
Financial assets measured at amortised cost - loans and advances to customers	608,737	(121,270,426)	(7,300,063)	(128,173,581)
Reverse repurchase agreements	90,000	(90,000)	(903,812)	(396,668)
Other assets	2,297,875	(5,048,453)	1,575,136	(4,874,360)
	14,108,337	(121,704,996)	4,482,986	(128,740,726)
Increase / (decrease) in operating liabilities				
Financial liabilities measured at amortised cost - due to depositors	8,992,084	96,961,771	15,566,180	97,766,339
Financial liabilities measured at amortised cost - other borrowings	6,837,511	13,069,681	7,170,750	13,552,214
Securities sold under repurchase agreements	859,696	11,626,013	859,696	11,626,013
Other liabilities	(391,694)	1,108,990	(261,256)	2,529,775
	16,297,597	122,766,455	23,335,370	125,474,341
Net cash generated from operating activities before income tax	59,580,929	32,639,814	64,411,906	34,559,828
Income tax paid	(9,084,423)	(4,305,953)	(9,587,000)	(4,871,157)
Net cash generated from operating activities	50,496,506	28,333,861	54,824,906	29,688,671
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,148,451)	(1,553,961)	(1,443,788)	(1,708,263)
Proceeds from the sale of property, plant and equipment	21,530	4,803	28,928	8,171
Net proceeds from sale, maturity and purchase of financial investments	(46,300,862)	(16,147,250)	(46,790,203)	(18,392,639)
Net purchase of intangible assets	(499,080)	(382,545)	(599,991)	(497,025)
Dividend received from joint venture	75,500	33,220	75,500	33,220
Dividends received from investment in subsidiaries	236,794	221,095	-	-
Dividends received from other investments	148,843	187,905	154,008	192,639
Net cash used in investing activities	(47,465,726)	(17,636,733)	(48,575,546)	(20,363,897)
Cash flows from financing activities				
Net proceeds from the issue of ordinary shares	-	36,151	-	36,151
Net proceeds from the issue of subordinated debt	9,965,069	-	10,916,383	-
Repayment of subordinated debt / debt securities issued	(2,757,240)	(4,000,000)	(2,726,240)	(4,055,661)
Dividend paid to non controlling interest	-	-	(177,168)	(206,368)
Dividend paid to shareholders of the parent company	(1,981,500)	(3,220,833)	(1,981,500)	(3,220,833)
Net cash (used in) / generated from financing activities	5,226,329	(7,184,682)	6,031,475	(7,446,711)
Net increase in cash and cash equivalents	8,257,109	3,512,446	12,280,835	1,878,063
Cash and cash equivalents at the beginning of the year	28,434,623	24,922,177	33,473,086	31,595,023
Cash and cash equivalents at the end of the year	36,691,732	28,434,623	45,753,921	33,473,086
Cash and cash equivalents at the end of the year				
Cash and cash equivalents	29,089,189	25,141,890	30,263,654	24,966,831
Placements with banks	7,602,543	3,292,733	15,490,267	8,506,255
	36,691,732	28,434,623	45,753,921	33,473,086

ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK

As at 31st December 2019	Fair Value Through Profit or Loss	Amortised Cost	Fair Value Through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
Assets				
Cash and cash equivalents	-	29,089,189	-	29,089,189
Placements with banks	-	7,602,543	-	7,602,543
Balances with Central Bank of Sri Lanka	-	22,795,332	-	22,795,332
Derivative financial instruments	527,193	-	-	527,193
Financial assets measured at fair value through profit or loss	1,013,374	-	-	1,013,374
Financial assets measured at amortised cost - loans and advances to customers	-	741,769,073	-	741,769,073
Financial assets measured at amortised cost - debt and other instruments	-	149,720,834	-	149,720,834
Financial assets measured at fair value through other comprehensive income	-	-	127,694,982	127,694,982
Other financial assets	-	692,214	-	692,214
Total financial assets	1,540,567	951,669,185	127,694,982	1,080,904,734
Liabilities				
Due to banks	-	86,396,304	-	86,396,304
Derivative financial instruments	573,365	-	-	573,365
Securities sold under repurchase agreements	-	17,569,394	-	17,569,394
Financial liabilities measured at amortised cost - due to depositors	-	810,035,114	-	810,035,114
Dividends payable	-	1,449,472	-	1,449,472
Financial liabilities measured at amortised cost - other borrowings	-	22,604,039	-	22,604,039
Debt securities issued	-	1,797,644	-	1,797,644
Other financial liabilities	-	717,968	-	717,968
Subordinated term debts	-	32,695,221	-	32,695,221
Total financial liabilities	573,365	973,265,156	-	973,838,521
As at 31st December 2018				
	Fair Value Through Profit or Loss	Amortised Cost	Fair Value Through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
Assets				
Cash and cash equivalents	-	25,141,890	-	25,141,890
Placements with banks	-	3,292,733	-	3,292,733
Balances with Central Bank of Sri Lanka	-	33,907,057	-	33,907,057
Reverse repurchase agreements	-	90,094	-	90,094
Derivative financial instruments	4,507,576	-	-	4,507,576
Financial assets measured at fair value through profit or loss	100,342	-	-	100,342
Financial assets measured at amortised cost - loans and advances to customers	-	749,048,820	-	749,048,820
Financial assets measured at amortised cost - debt and other instruments	-	160,145,680	-	160,145,680
Financial assets measured at fair value through other comprehensive income	-	-	69,436,989	69,436,989
Other financial assets	-	466,252	-	466,252
Total financial assets	4,607,918	972,092,526	69,436,989	1,046,137,433
Liabilities				
Due to banks	-	77,492,582	-	77,492,582
Derivative financial instruments	2,519,172	-	-	2,519,172
Securities sold under repurchase agreements	-	16,678,946	-	16,678,946
Financial liabilities measured at amortised cost - due to depositors	-	799,975,357	-	799,975,357
Dividends payable	-	994,812	-	994,812
Financial liabilities measured at amortised cost - other borrowings	-	24,894,155	-	24,894,155
Debt securities issued	-	4,487,763	-	4,487,763
Other financial liabilities	-	12,951	-	12,951
Subordinated term debts	-	22,229,951	-	22,229,951
Total financial liabilities	2,519,172	946,766,517	-	949,285,689

ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - GROUP

As at 31st December 2019	Fair Value Through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS				
Cash and cash equivalents	-	30,263,654	-	30,263,654
Placements with banks	-	15,490,267	-	15,490,267
Balances with Central Bank of Sri Lanka	-	22,795,332	-	22,795,332
Reverse repurchase agreements	-	2,072,482	-	2,072,482
Derivative financial instruments	527,193	-	-	527,193
Financial assets measured at fair value through profit or loss	1,155,339	-	-	1,155,339
Financial assets measured at amortised cost - loans and advances to customers	-	769,392,169	-	769,392,169
Financial assets measured at amortised cost - debt and other instruments	-	156,511,277	-	156,511,277
Financial assets measured at fair value through other comprehensive income	-	-	133,953,117	133,953,117
Other financial assets	-	2,147,894	-	2,147,894
Total financial assets	1,682,532	998,673,075	133,953,117	1,134,308,724
LIABILITIES				
Due to banks	-	87,212,970	-	87,212,970
Derivative financial instruments	573,365	-	-	573,365
Securities sold under repurchase agreements	-	17,569,394	-	17,569,394
Financial liabilities measured at amortised cost - due to depositors	-	835,060,146	-	835,060,146
Dividends payable	-	1,466,959	-	1,466,959
Financial liabilities measured at amortised cost - other borrowings	-	22,604,039	-	22,604,039
Debt securities issued	-	2,368,986	-	2,368,986
Other financial liabilities	-	2,835,700	-	2,835,700
Subordinated term debts	-	33,345,904	-	33,345,904
Total financial liabilities	573,365	1,002,464,098	-	1,003,037,463
As at 31st December 2018				
	Fair Value Through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS				
Cash and cash equivalents	-	24,966,831	-	24,966,831
Placements with banks	-	8,506,255	-	8,506,255
Balances with Central Bank of Sri Lanka	-	33,907,057	-	33,907,057
Reverse repurchase agreements	-	1,168,764	-	1,168,764
Derivative financial instruments	4,507,576	-	-	4,507,576
Financial assets measured at fair value through profit or loss	264,420	-	-	264,420
Financial assets measured at amortised cost - loans and advances to customers	-	770,263,000	-	770,263,000
Financial assets measured at amortised cost - debt and other instruments	-	165,821,983	-	165,821,983
Financial assets measured at fair value through other comprehensive income	-	-	76,005,258	76,005,258
Other financial assets	-	1,322,063	-	1,322,063
Total financial assets	4,771,996	1,005,955,953	76,005,258	1,086,733,207
LIABILITIES				
Due to banks	-	77,976,010	-	77,976,010
Derivative financial instruments	2,519,172	-	-	2,519,172
Securities sold under repurchase agreements	-	16,678,946	-	16,678,946
Financial liabilities measured at amortised cost - due to depositors	-	818,041,962	-	818,041,962
Dividends payable	-	1,009,468	-	1,009,468
Financial liabilities measured at amortised cost - other borrowings	-	24,894,155	-	24,894,155
Debt securities issued	-	5,030,000	-	5,030,000
Other financial liabilities	-	2,124,432	-	2,124,432
Subordinated term debts	-	21,930,246	-	21,930,246
Total financial liabilities	2,519,172	967,685,219	-	970,204,391

SEGMENT REPORTING

As at 31st December	Corporate		Retail		SME		Micro		Treasury		Real Estate		Insurance		NBFI*		Eliminations / Unallocated		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	11,141,704	11,301,723	17,679,690	16,307,632	13,784,374	14,058,640	1,147,710	1,209,568	7,618,034	5,801,428	(78,412)	(145,999)	2,189,573	1,883,052	4,388,962	4,364,216	(1,516,124)	(1,144,096)	56,355,511	53,636,164
Foreign Exchange income	177,756	199,172	133,065	211,757	339,238	404,667	2,714	3,462	341,585	609,283	-	-	-	-	-	-	(68,076)	1,602,603	926,282	3,030,944
Net fee and commission income	2,841,476	2,934,595	2,182,053	2,218,498	3,579,467	4,071,324	157,399	170,867	895,877	813,430	-	-	170,992	172,647	812,915	526,033	(663,049)	(809,444)	9,977,130	10,097,950
Other operating income	-	-	-	-	-	-	-	-	720,630	465,027	986,972	982,561	8,589,241	7,561,152	332,747	152,791	(1,377,854)	(812,542)	9,251,737	8,348,989
Total operating income	14,160,936	14,435,490	19,994,808	18,737,887	17,703,079	18,534,631	1,307,823	1,383,897	9,576,126	7,689,168	908,560	836,562	10,949,806	9,616,851	5,534,624	5,043,040	(3,625,102)	(1,163,479)	76,510,660	75,114,047
Impairment charge for loans																				
and other losses	3,952,104	3,284,457	758,645	(1,067,700)	4,118,596	6,133,121	436,085	282,560	362,825	688,491	-	-	(224)	1,508	1,771,037	490,124	27,756	(28,509)	11,426,824	9,784,052
Net operating income	10,208,832	11,151,033	19,236,163	19,805,587	13,584,483	12,401,510	871,738	1,101,337	9,213,301	7,000,677	908,560	836,562	10,950,030	9,615,343	3,763,587	4,552,916	(3,652,858)	(1,134,970)	65,083,836	65,329,995
Profit from operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,257,873	26,163,212
Share of profit of joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186,884	303,092
Income tax expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,415,685)	(7,316,842)
Non - controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(358,968)	(1,513,688)
Net profit for the year attributable to equity holders of the parent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,670,104	17,635,774
Segment assets	340,545,982	358,189,322	177,165,905	158,967,812	241,037,135	239,988,582	25,386,323	27,290,808	299,091,764	226,287,172	10,266,129	10,240,586	26,620,723	22,274,327	36,664,705	29,808,927	37,468,142	73,539,582	1,194,246,808	1,146,587,118
Investment in joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,137,665	2,027,201	2,137,665	2,027,201
Total Assets	340,545,982	358,189,322	177,165,905	158,967,812	241,037,135	239,988,582	25,386,323	27,290,808	299,091,764	226,287,172	10,266,129	10,240,586	26,620,723	22,274,327	36,664,705	29,808,927	39,605,807	75,566,783	1,196,384,473	1,148,614,319
Segment liabilities	101,953,396	134,710,179	528,438,974	484,585,016	159,883,988	157,263,130	6,287,043	7,354,855	99,117,811	86,026,302	10,266,129	10,240,586	26,620,723	22,274,327	36,664,705	29,808,927	227,151,704	216,350,998	1,196,384,473	1,148,614,319
Total liabilities	101,953,396	134,710,179	528,438,974	484,585,016	159,883,988	157,263,130	6,287,043	7,354,855	99,117,811	86,026,302	10,266,129	10,240,586	26,620,723	22,274,327	36,664,705	29,808,927	227,151,704	216,350,998	1,196,384,473	1,148,614,319

* Business of HNB Finance Ltd.

EXPLANATORY NOTES

- The figures are extracted from the audited financial statements for the year ended 31st December 2019. External Auditors of the Bank, M/s Ernst & Young carried out an audit for the year ended 31st December 2019 and expressed an unqualified opinion on the financial statements of the Bank and the Group for the year ended 31st December 2019.
- There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year 2018 except for the initial adoption of SLFRS 16 – “Leases” which became applicable for financial reporting periods beginning on or after 1st January 2019.

SLFRS 16 requires the recognition of lease liabilities and right of use of assets for leases previously classified as operating leases in accordance with LKAS 17 – “Leases”. The Group has adopted the modified retrospective approach in line with SLFRS 16 - “Leases” and recognised the right to use assets and the lease liability with regard to operating lease agreements.

- SLFRS 9 – “Financial Instruments” became applicable for financial periods beginning on or after 1st January 2018. However, Group presented the interim financial statements for the first three quarters of 2018 by applying LKAS 39 – “Financial Instruments – Recognition and Measurement” as permitted by the “Statement of Alternative Treatment (SoAT) on the Figures in the Interim Financial Statements” issued by CA Sri Lanka. However, the annual financial statements for the year ended 31st December 2018 were presented in line with SLFRS 9, where by the full annual impact of applying SLFRS 9 for 2018 was accounted for in the results presented for 4th quarter 2018. Since the comparative financial statements for the first three interim periods of 2018 were restated by incorporating the impact of adopting SLFRS 9, the comparative figures presented in these financial statements for the 4th quarter had been restated.
- There are no material changes during the period in the composition of assets, liabilities and contingent liabilities. and use of funds raised through debentures other than as disclosed in Note 6 below. All known expenditure items have been provided for.
- Funds raised in September 2019 through issue of debentures**

On 10th September 2019, the Bank opened the issuance of 50,000,000 BASEL III compliant – Tier 2, listed, rated, unsecured, subordinated redeemable debentures with a non-viability conversion at an issue price of Rs. 100/-with the option to issue further 20,000,000 of said debentures, at the discretion of the Bank in the event of an oversubscription of the initial issue, and with a further option to issue up to a further 30,000,000 of the said debentures in the event the first two tranches are oversubscribed to raise a maximum of Rs 10 Bn. The allotment and secondary trading of these debt securities are limited to qualified investors. The total issue of 100,000,000 of the said debentures was oversubscribed on the day of opening. Accordingly, the Bank allotted debentures amounting to Rs 10 Bn on 23rd September 2019 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 12.30% p.a and category B debentures having a maturity period of 7 years with interest payable annually at a rate of 12.80% p.a. The utilization of funds raised through these debentures are as follows.

Objective number	Objective as Per Prospectus	Amount allocated as Per prospectus in LKR	Proposed date of Utilization as Per prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amounts utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (eg: whether lent to related party)
1	Improve the tier II capital of the Bank	LKR 10 Bn	Upon the allotment of the Debentures to include the amount raised via the Debentures under Tier 2 Capital base.	LKR 10 Bn	100%	LKR 10 Bn	100%	N/A
2	Strengthen the balance sheet to support the demand for credit		Within 12 months from the date of Allotment of 23rd September 2019			LKR 10 Bn	100%	N/A

6. 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.

6.1 Proposed dividends

The Directors recommend that a final dividend of Rs. 7.00 per share (Rs. 3.50 in the form of cash and Rs. 3.50 in the form of scrip) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2019.

The final dividend is to be approved at the Annual General Meeting to be held on 30th March 2020. 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 2019.

6.2 Tax amendments subsequent to the Balance sheet date

(i) Reduction of income tax rate w.e.f. 1st January 2020

The Cabinet has approved the reduction of the income tax rate applicable to the Banking Sector to 24% from 28% with effect from 1st January 2020. The said amendment is yet to be approved by the Parliament and cannot be considered as a legislation. As such the Bank continued using 28% in calculating the deferred tax liabilities/assets as at 31st December 2019 as this amendment is not substantively enacted by the end of the reporting period. The Bank has a cumulative net deferred tax asset of Rs 3,018.7 Mn recognized through the Statement of Profit or Loss and net deferred tax liability of Rs 4,400.5 Mn recognized through OCI.

Had the Bank applied the reduced income tax rate of 24% to calculate deferred tax assets/liabilities as at 31st December 2019, the net deferred tax liability would have been decreased by Rs 197.3 Mn and the resulting charge to Statement of Profit or Loss and the reversal to Other Comprehensive Income for the year would have been Rs 431.2 Mn and Rs 628.6 Mn respectively.

(ii) Income tax treatment on income from SLDB investments

As per the announcement made by the Department of Inland Revenue on 12th February 2020, income earned from SLDB investments is exempted from income tax retrospectively with effect from 1st April 2018. This is a further clarification to the Inland Revenue Act No. 24 of 2017. Accordingly, income tax liability already recognised on income from such investments was reversed from the financial statements for the year ended 31st December 2019.

7. 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.
8. Where required, figures on the audited annual financial statements have been reclassified to conform to Central Bank of Sri Lanka publication requirements.
9. The consolidated financial statements of the Bank cover the Bank and its subsidiaries HNB Assurance PLC, Sithma Development (Pvt) Ltd, HNB Finance Ltd & the Group's interest in Joint Venture Acuity Partners (Pvt) Ltd.

SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

	As at 31.12.2019	As at 31.12.2018	As at 31.12.2019	As at 31.12.2018
	BANK		GROUP	
Regulatory Capital				
Common Equity Tier 1. Rs. Mn	115,072	104,029	126,476	114,423
Tier 1 Capital. Rs. Mn	115,072	104,029	126,476	114,423
Total Capital. Rs. Mn	144,326	123,725	155,544	134,012
Regulatory Capital Ratios				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2019 - 8.00%:2018 - 7.375%)	14.57%	12.80%	14.74%	13.16%
Tier 1 Capital Ratio (Minimum Requirement - 2019 - 9.50%:2018 - 8.875%)	14.57%	12.80%	14.74%	13.16%
Total Capital Ratio (Minimum Requirement 2019 - 13.50%:2018 - 12.875%)	18.28%	15.22%	18.12%	15.41%
Leverage Ratio (Minimum Requirement - 3%)	8.14%	8.33%	8.51%	8.80%
Assets Quality (Quality of Loan Portfolio)				
Gross Non-Performing Advances Ratio,% (net of Interest in Suspense)	5.91%	2.78%		
Net Non-Performing Advances Ratio,% (net of Interest in Suspense and provisions)	3.27%	1.11%		
Profitability (Annualised)				
Interest Margin, %	4.50%	4.64%		
Return on Assets (before Tax), %	1.69%	2.24%		
Return on Equity, %	11.57%	14.10%		
Regulatory Liquidity				
Statutory Liquid Assets, Rs. Mn				
Domestic Banking unit	242,986	187,213		
Off-Shore Banking Unit	42,308	38,402		
Statutory Liquid Assets Ratio (Minimum requirement 20%)				
Domestic Banking unit	27.09%	22.03%		
Off-Shore Banking Unit	53.01%	43.52%		
Total Stock of High-Quality Liquid Assets, Rs. Mn	140,423	90,942		
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 2019 -100%,2018 -90%)	465.37%	153.16%		
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 2019 -100%,2018 -90%)	251.07%	103.85%		
Net Stable Funding Ratio (Minimum Requirement 100%)	107.87%	100.22%		

LISTED DEBENTURE INFORMATION

Quarter ended 31st December	Market Value				Last Traded		Interest Yield as at Last Trade Done (%)		
	2019		2018		2019	2018	2019		2018
	Highest Rs.	Lowest Rs.	Highest Rs.	Lowest Rs.	Rs.	Rs.	Quarter ended 31st December		
HNB DEBENTURES 2006									
15 year Fixed Rate (11.00% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
HNB DEBENTURES 2007									
15 year Fixed Rate (16.75% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
HNB DEBENTURES 2011									
10 year Fixed Rate (11.50% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
HNB DEBENTURES 2013									
10 year Fixed Rate (14.25% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
HNB DEBENTURES 2014									
5 year Fixed Rate (7.75% p.a.)	N/A	N/A	N/T	N/T	N/A	N/T		N/A	N/T
10 year Fixed Rate (8.33% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
HNB DEBENTURES 2016									
5 year Fixed Rate (11.25% p.a.)	100.00	94.50	100.00	92.32	97.00	98.00		13.85	12.26
5 year Fixed Rate (11.75% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T		N/T	N/T
7 year Fixed Rate (13.00% p.a.)	N/T	N/T	100.00	100.00	N/T	100.00		N/T	12.99
HNB DEBENTURES 2019									
5 year Fixed Rate (12.30% p.a.)	N/T	N/T	N/A	N/A	N/T	N/A		N/T	N/A
7 year Fixed Rate (12.80% p.a.)	N/T	N/T	N/A	N/A	N/T	N/A		N/T	N/A

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

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

RATIOS OF DEBT		
	31.12.2019	31.12.2018
Debt Equity Ratio (%)	69.53	78.38
	31.12.2019	31.12.2019
Interest Cover (Times)	4.25	4.71
	31.12.2019	31.12.2018
Yield of Comparable Govt. Security for the following HNB Debentures (% p.a.)		
2006 series 15 year maturity	8.49	11.31
2006 series 18 year maturity	9.57	11.59
2007 series 15 year maturity	8.86	11.51
2011 series 10 year maturity	8.57	11.35
2013 series 10 year maturity	9.41	11.51
2014 series 5 year maturity	N/A	11.01
2014 series 10 year maturity	9.64	11.60
2016 series 5 year maturity	8.49	11.31
2016 series 5 year maturity	8.64	11.49
2016 series 7 year maturity	9.41	11.54
2019 series 5 year maturity	9.55	N/A
2019 series 7 year maturity	9.75	N/A

Quarter ended 31st December	Yield to Maturity of Last Trade Done (% p.a.)	
	2019	2018
HNB DEBENTURES 2006		
15 year Fixed Rate (11.00% p.a.)	N/T	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T
HNB DEBENTURES 2007		
15 year Fixed Rate (16.75% p.a.)	N/T	N/T
HNB DEBENTURES 2011		
10 year Fixed Rate (11.50% p.a.)	N/T	N/T
HNB DEBENTURES 2013		
10 year Fixed Rate (14.25% p.a.)	N/T	N/T
HNB DEBENTURES 2014		
5 year Fixed Rate (7.75% p.a.)	N/A	N/T
10 year Fixed Rate (8.33% p.a.)	N/T	N/T
HNB DEBENTURES 2016		
5 year Fixed Rate (11.25% p.a.)	11.25	11.25
5 year Fixed Rate (11.75% p.a.)	N/T	N/T
7 year Fixed Rate (13.00% p.a.)	N/T	13.00
HNB DEBENTURES 2019		
5 year Fixed Rate (12.30% p.a.)	N/T	N/A
7 year Fixed Rate (12.80% p.a.)	N/T	N/A

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

SHARE INFORMATION

As at	31-Dec-19	31-Dec-18
Number of Shares		
Voting	401,343,863	395,451,248
Non-voting	99,062,844	97,199,341
Last Traded Price per share		
Voting	172.20	214.00
Non-voting	135.50	168.50

For the Quarter Ended	31-Dec-19	31-Dec-18
Highest price per share		
Voting	188.00	222.00
Non-voting	144.00	174.00
Lowest price per share		
Voting	153.00	200.00
Non-voting	133.70	150.00

PUBLIC SHAREHOLDING PERCENTAGE

	31-Dec-19		31-Dec-18	
	Number	%	Number	%
Number of shareholders representing the public holding (Voting)	5,369	69% approx.	4,648	69% approx.
Number of shareholders representing the public holding (Non Voting)	10,418	99% approx.	10,234	99% approx.
Compliant under Option 1 - Float Adjusted Market Capitalization	Rs. 47.7 Bn		Rs. 58.4 Bn	

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

	Number of shares	
	31-Dec-19	31-Dec-18
1. Mr.D.S.Weerakkody	2,089	2,050
2. Mr.A.J.Alles *	125,452	123,504
3. Ms.M.A.R.C.Cooray **	N/A	7,068
4. Dr.L.R.Karunaratne	1,070	1,055
5. Mr.D.T.S.H.Mudalige***	N/A	-
6. Mr.R.S.Captain	7,379	7,271
7. Mr.D.A.Cabraal	-	-
8. Mr.P.S.C.Pelpola	-	-
9. Mr.E.D.P.Soosaipillai	-	-
10. Mr.A.H.D.A.N.De Silva	102	101
11. Mr.L.U.D.Fernando	624	615
12. Mr.W.M.M.D.Ratnayake	-	-
13. Mr.H.A.Pieris****	-	-
14. Dr.L.J.S.H.Cabral*****	-	-
15. Mr.P.R.Saldin*****	-	-
16. Dr.T.K.D.A.P.Samarasinghe*****	-	-

* Chief Executive Officer

** Retired w.e.f.15.02.2019

*** Resigned w.e.f.29.03.2019

**** Appointed w.e.f.01.04.2019

***** Appointed w.e.f.26.09.2019

***** Alternate Director to Mr. Rusi Captain w.e.f.26.07.2018

***** Alternate Director to Mr. L.U.D.Fernando w.e.f.05.07.2019

20 MAJOR SHAREHOLDERS (VOTING) AS AT AS AT 31ST DECEMBER 2019

	Name	No. of shares	% on total voting capital
1.	Employees Provident Fund	39,119,092	9.75
2.	Sri Lanka Insurance Corporation Ltd - Life Fund	33,180,391	8.27
3.	Milford Exports (Ceylon) (Pvt) Limited	31,736,382	**7.91
4.	Stassen Exports (Pvt) Limited	27,508,042	**6.85
5.	Mr.Sohli Edelji Captain	26,129,128	6.51
6.	Sonetto Holdings Limited	19,725,642	4.91
7.	Sri Lanka Insurance Corporation Ltd - General Fund	16,989,898	4.23
8.	Distilleries Company of Sri Lanka PLC	12,307,446	**3.07
9.	JPMLU-Franklin Templeton Investment Funds	11,799,126	2.94
10.	National Savings Bank	11,515,728	2.87
11.	Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	7,532,868	1.88
12.	Ms.Leesha Anne Captain	7,500,710	1.87
13.	SSBT-AI Mehwar Commercial Investments LLC	7,292,350	1.82
14.	RBC Investor Services Trust - RBC Emerging Markets Small-CAP Equity Fund	7,102,292	1.77
15.	HSBC Intl Nom Ltd-CMG First State Global Umbrella Fund PLC - CMG First State Indian Subcontinent Fund	6,386,194	1.59
16.	BNYM SANV Re-IF Ruffer Total Return Fund	6,313,648	1.57
17.	JPMCB-Scottish Orf SML TR GTI 6018	5,382,872	1.34
18.	RBC Investor Services Bank - COELI SICAV I - Frontier Markets Fund	4,991,023	1.24
19.	CitiBank Newyork S/A Norges Bank Account 2	4,945,634	1.23
20.	Morgan Stanley and Co.LLC - RWC Frontier Markets Equity Master Fund	4,237,905	1.06

** 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 17.83% 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 AS AT 31ST DECEMBER 2019

	Name	No. of shares	% on total non-voting capital
1.	Citi Bank Newyork S/A Norges Bank Account 2	9,987,885	10.08
2.	UBS AG Zurich	8,781,597	8.86
3.	JPMLU-Franklin Templeton Investment Funds	6,270,268	6.33
4.	BNYM SA/NV Re-Frontaura Global Frontier Fund LLC	5,480,087	5.53
5.	Akbar Brothers Pvt Ltd A/c No.01	3,915,474	3.95
6.	BNYM SA/NV Re-Neon Liberty Lorikeet Master Fund LP	3,670,992	3.71
7.	BNYM SA/NV Re-IF Ruffer Total Return Fund	3,171,728	3.20
8.	BNYM SA/NV Re-IF Ruffer Absolute Return Fund	2,112,783	2.13
9.	CB Europe PLC LUX S/A Dunross & Co. AB	2,048,024	2.07
10.	Mr. Sohli Edelji Captain	1,533,976	1.55
11.	Rubber Investment Trust Limited A/c No.01	1,453,990	1.47
12.	BNYM SANV Re-IF Ruffer Investment Funds:IF Ruffer Pacific Fund and Emerging Markets Fund	1,254,145	1.27
13.	Employees Trust Fund Board	1,247,347	1.26
14.	Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	1,053,788	1.06
15.	Union Assurance PLC - Universal Life Fund	927,041	0.94
16.	Union Assurance PLC A/c No. 5 (Unit-Linked Life Insurance Fund-Equity Fund)	899,601	0.91
17.	Hatton National Bank PLC A/c No. 2	712,874	0.72
18.	Saboor Chatoor (Pvt) Ltd	671,124	0.68
19.	Mr. E Chatoor	641,131	0.65
20.	The Ceylon Investment PLC A/c No. 2	586,085	0.59

ANALYSIS OF LOANS & ADVANCES AND IMPAIRMENT

As at	BANK		GROUP	
	31.12.2019 (Audited) Rs.000	31.12.2018 (Audited) Rs.000	31.12.2019 (Audited) Rs.000	31.12.2018 (Audited) Rs.000
	Gross loans & advances to customers	771,939,001	771,692,625	802,707,092
Less: Accumulated impairment under stage 1	3,343,678	3,336,650	4,063,981	4,013,171
Accumulated impairment under stage 2	4,827,329	3,714,854	5,210,363	3,940,900
Accumulated impairment under stage 3	21,998,921	15,592,301	24,040,578	16,498,029
	741,769,073	749,048,820	769,392,169	770,263,000
1) Product-wise Gross loans and advances to customers				
By product-Domestic Currency				
Overdrafts	112,713,896	119,831,175	112,583,260	119,621,682
Bills of exchange	749,689	841,909	749,689	841,909
Commercial papers	154,658	154,193	154,658	154,193
Short term loans	93,003,988	86,203,919	93,329,295	86,447,031
Credit Cards	9,365,055	7,926,448	9,365,055	7,926,448
Trust receipts	32,322,448	44,398,097	32,322,448	44,398,097
Packing credit loans	1,747,211	1,652,797	1,747,211	1,652,797
Staff loans	14,713,352	13,139,967	15,679,793	13,830,322
Term loans	307,978,718	301,545,505	326,683,590	316,207,450
Lease rentals receivable	52,420,198	49,608,345	62,451,328	57,244,901
Housing loans	35,825,186	34,106,316	35,825,186	34,106,316
Pawning advances	20,389,354	17,449,986	21,260,331	17,449,986
Leased back securities	2,381,690	605,111	2,381,690	605,111
Sub total	683,765,443	677,463,768	714,533,534	700,486,243
By product-Foreign Currency				
Overdrafts	1,502,467	2,751,256	1,502,467	2,751,256
Bills of exchange	1,767,664	1,659,634	1,767,664	1,659,634
Short term loans	1,885,191	1,717,758	1,885,191	1,717,758
Trust receipts	3,161,038	4,628,051	3,161,038	4,628,051
Packing credit loans	14,343,465	16,954,308	14,343,465	16,954,308
Term loans	62,706,644	64,003,962	62,706,644	64,003,964
Lease rentals receivable	214,732	316,345	214,732	316,345
Housing loans	2,592,357	2,197,543	2,592,357	2,197,543
Sub total	88,173,558	94,228,857	88,173,558	94,228,859
Total	771,939,001	771,692,625	802,707,092	794,715,102
2) Movements in stage-wise impairment of loans & advances during the year				
	BANK			
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Opening balance as at 1st January 2018	2,604,416	2,445,544	9,208,508	14,258,468
Net impairment charge for the year	732,234	1,269,310	6,242,192	8,243,736
Write-offs during the year	-	-	(475,069)	(475,069)
Other movements	-	-	616,670	616,670
Closing balance as at 31st December 2018	3,336,650	3,714,854	15,592,301	22,643,805
Opening balance as at 1st January 2019	3,336,650	3,714,854	15,592,301	22,643,805
Net impairment charge for the year	7,028	1,112,475	6,801,030	7,920,533
Write-offs during the year	-	-	(363,160)	(363,160)
Other movements	-	-	(31,250)	(31,250)
Closing balance as at 31st December 2019	3,343,678	4,827,329	21,998,921	30,169,928
	GROUP			
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Opening balance as at 1st January 2018	3,334,240	2,616,773	9,670,494	15,621,507
Net impairment charge for the year	678,931	1,324,127	6,685,934	8,688,992
Write-offs during the year	-	-	(475,069)	(475,069)
Other movements	-	-	616,670	616,670
Closing balance as at 31st December 2018	4,013,171	3,940,900	16,498,029	24,452,100
Opening balance as at 1st January 2019	4,013,171	3,940,900	16,498,029	24,452,100
Net impairment charge for the year	50,811	1,269,463	8,095,724	9,415,998
Write-offs during the year	-	-	(521,925)	(521,925)
Other movements	-	-	(31,250)	(31,250)
Closing balance as at 31st December 2019	4,063,982	5,210,363	24,040,578	33,314,923

ANALYSIS OF COMMITMENTS, CONTINGENCIES AND IMPAIRMENT

As at	31.12.2019 Rs.000	31.12.2018 Rs.000	31.12.2019 Rs.000	31.12.2018 Rs.000
Gross commitments and contingencies	673,230,813	763,214,236	673,230,813	763,214,236
Less: Accumulated impairment under stage 1	810,503	771,580	810,503	771,580
Accumulated impairment under stage 2	201,327	230,064	201,327	230,064
Accumulated impairment under stage 3	1,123,884	274,280	1,123,884	274,280
	671,095,099	761,938,312	671,095,099	761,938,312
3) Product-wise commitments and contingencies				
By product - domestic currency				
Documentary credit	1,313,902	1,450,717	1,313,902	1,450,717
Guarantees	56,898,799	63,566,164	56,898,799	63,566,164
Acceptances	22,445	51,870	22,445	51,870
Bills for collection	228,467	289,156	228,467	289,156
Forward exchange contracts				
Forward exchange sales	-	-	-	-
Forward exchange purchases	45,514,841	56,150,044	45,514,841	56,150,044
Cheques sent on clearing	5,236,930	7,581,336	5,236,930	7,581,336
Undrawn credit lines	302,373,055	357,998,170	302,373,055	357,998,170
Sub total	411,588,438	487,087,457	411,588,438	487,087,457
By product - foreign currency				
Documentary credit	23,692,559	28,310,054	23,692,559	28,310,054
Guarantees	64,055,869	77,786,353	64,055,869	77,786,353
Acceptances	16,583,808	19,014,038	16,583,808	19,014,038
Bills for collection	13,248,527	14,118,765	13,248,527	14,118,765
Forward exchange contracts				
Forward exchange sales	43,950,802	38,199,566	43,950,802	38,199,566
Forward exchange purchases	23,363,808	29,121,059	23,363,808	29,121,059
Cheques sent on clearing	-	23,404	-	23,404
Undrawn credit lines	76,747,002	69,553,540	76,747,002	69,553,540
Sub total	261,642,375	276,126,779	261,642,375	276,126,779
Total	673,230,813	763,214,236	673,230,813	763,214,236
4) Movements in stage-wise impairment of commitments & contingencies during the year				
		BANK / GROUP		
	Stage 1	Stage 2	Stage 3	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Opening balance as at 1st January 2018	623,967	102,614	180,389	906,970
Net impairment charge for the year	147,613	127,450	93,891	368,954
Write-offs during the year	-	-	-	-
Other movements	-	-	-	-
Closing balance as at 31st December 2018	771,580	230,064	274,280	1,275,924
Opening balance as at 1st January 2019	771,580	230,064	274,280	1,275,924
Net impairment charge for the year	38,923	(28,737)	849,604	859,790
Write-offs during the year	-	-	-	-
Other movements	-	-	-	-
Closing balance as at 31st December 2019	810,503	201,327	1,123,884	2,135,714

ANALYSIS OF DEPOSITS

	BANK		GROUP	
	31.12.2019 Rs.000	31.12.2018 Rs.000	31.12.2019 Rs.000	31.12.2018 Rs.000
5) Due to customers - by product				
By product-domestic currency				
Current account deposits	42,405,362	39,706,969	42,090,185	39,220,539
Savings deposits	194,914,147	187,874,484	197,711,495	190,175,309
Time deposits	426,439,801	408,457,297	449,220,299	424,883,992
Certificates of deposit	385,196	407,482	385,196	407,482
Margin deposits	1,334,003	4,034,869	1,334,003	4,034,869
Sub total	665,478,509	640,481,101	690,741,178	658,722,191
By product- foreign currency				
Current account deposits	7,387,838	5,234,158	7,387,838	5,234,158
Savings deposits	40,084,161	43,766,109	40,032,679	43,738,792
Time deposits	97,003,304	110,132,028	96,817,149	109,984,860
Margin deposits	81,302	361,961	81,302	361,961
Sub total	144,556,605	159,494,256	144,318,968	159,319,771
Total	810,035,114	799,975,357	835,060,146	818,041,962