

# THE POWER OF



HATTON NATIONAL BANK PLC  
INTEGRATED REPORT 2020

**BANKING**

**HNB**  
YOUR PARTNER IN PROGRESS



To view this report online  
Scan the QR Code with your smart device

or download it @  
<https://www.hnb.net/2020#integrated-report-2020>



Read our HNB Corporate Governance  
and Risk Management Report 2020.

or download it @  
<https://www.hnb.net/2020#corporate-governance-risk-management-report-2020>

# THE POWER OF TRANSFORMATIVE BANKING

A Transformative Effect on People.

A Transformative Influence on Business.

A Transformative Role in Technology.

A Transformative Catalyst in the Economy.

Over the years, HNB has continued to serve as a catalyst in the local economy - an agent of change that shapes the way Sri Lankans across the island live, work and play.

Our dynamic, transformative services extend beyond banking, and have been a growth catalyst for generations of customers, businesses and the economy. Intrinsicly linked with our nation's progress and development, the past 132 years have seen HNB embrace change, transforming ourselves to consistently deliver exceptional value to every stakeholder, and revolutionising the landscape in which we operate.

In the aftermath of a year filled with unprecedented challenges, your Bank's far-reaching influence and impact have never been more relevant. Armed with the power of transformative banking, we're poised to serve you with progressive, future ready strategies designed to empower a nation with new possibilities of growth.



YOUR PARTNER IN PROGRESS

# A TRANS FOR MA TIVE

EFFECT ON  
PEOPLE



## TOUCHING LIVES AT EACH STAGE

**252**

Branches

**162**

Student Savings Units

Over

**2.6 Mn**  
Customers

**51%**

Value distributed  
as interest

## EMPLOYMENT CREATION

**4,836**

Employees

**43%**

Females

## POWERING GROWTH

**10%**

Value  
distributed as  
Emoluments

**60%**

Virtual Training

# A TRANS FOR MA TIVE INFLUENCE ON BUSINESS

## POWERING GROWTH

Rs **235 Bn**  
MSME Lending

**> 250k**

Women Entrepreneurs  
supported by the Group

Capacity Building  
and  
Financial Literacy  
Programmes

## ACCESS TO MARKETS

### Digital Platforms

WebexPay  
Appigo  
ERP solutions

### Value Chain Financing



# A TRANS FORMATIVE MA TIVE

ROLE IN  
TECHNOLOGY

## TRANSFORMATIVE PRODUCTS AND SERVICES

SOLO

HNB  
FIT

MOBILE  
POS

Digital  
Platforms

**787**

Self Service Machines

**E-banking**

**24x7**

Omni Channel  
Contact Centre



# A TRANS FOR MA TIVE

CATALYST IN  
THE ECONOMY

## POWERING THE ECONOMY

**Rs 75 Bn**  
for Infrastructure  
Development

**Rs 12 Bn**  
for Renewable  
Energy

**Rs 70 Bn**  
Exports

**Rs 442 Bn**  
in Government Securities

**Rs 7.9 Bn**  
Taxes

**> 15%**  
of Remittances  
to the Country



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# About Our Report

Our 8th Integrated Annual Report in accordance with the Integrated Reporting Framework is also our 14th report in accordance with GRI Standards/ Framework setting out a balanced review of how Hatton National Bank PLC created value during the financial year ending 31st December 2020.

## Performance: Integrated Annual Report 2020

Primarily for providers of financial capital, this report will also be of interest to other stakeholders as it summarises information on the resources and relationships used and affected by the Bank and how interactions with the external environment and the capitals impacted the ability to create value over the short, medium and long term.

### Frameworks Applied

- » Companies Act No.7 of 2007
- » Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- » IR Framework issued by the International Integrated Reporting Council
- » GRI Standards
- » Sustainable Banking Principles issued by Sri Lanka Banks Association
- » Communicating Sustainability issued by the Colombo Stock Exchange

Assurance has been provided by KPMG on the Financial Statements including the Notes to the Accounts.

DNV has provided assurance on that the report is in compliance with the IR Framework

## Financial Stability: Corporate Governance, Risk & Capital Management Report

Provides deeper insights for providers of financial capital and regulators on the Bank's approach to managing risk and financial capital.

### Frameworks Applied

- » Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
- » Banking Act Direction No.11 of 2007 and subsequent amendments thereto
- » Directions issued by Central Bank of Sri Lanka on Risk Management including the Basle Capital Accord (II)
- » Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- » Companies Act No.7 of 2007

Assurance has been provided by KPMG to Central Bank of Sri Lanka on Compliance with the Banking Act Direction No.11 of 2007 and subsequent amendments.

## SCOPE & BOUNDARIES

Financial information is presented in accordance with regulatory requirements and present a view of both the Bank and the Group including all subsidiaries. Non-financial information presented within the report, unless explicitly stated, refers to information relating only to the Bank and excludes the subsidiaries as the Bank accounts for over 78% of Total Operating Income, PAT, Total Assets & Total Liabilities.

	2020 Rs Mn	Bank %	2019 Rs Mn	Bank %
Total Operating Income	72,074	78%	76,511	78%
PAT	13,662	84%	15,029	93%
Total Assets	1,371,483	94%	1,197,635	94%
Total Liabilities	1,211,823	96%	1,047,165	95%

## About Our Report

### FORWARD LOOKING STATEMENTS

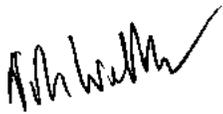
The report contains forward looking statements which are based on our perceptions, opinions and views which in turn rely on external and internal information available to us at present. These are included to support users of the report to assess the potential of the Group and our plans to create value. Inevitably, these statements, assessments and estimates have varying degrees of uncertainty associated with them which can be confirmed only with the benefit of hindsight as they relate to future events, outcomes and impacts which are beyond our control. The past two years witnessed unforeseen events which had a significant impact on many indicators, elevating downside risks and highlighting the fallibility of forecasts issued by even the most renowned think tanks of the world.

As economies all over the world are struggling to manage often conflicting priorities in the aftermath of the COVID-19 pandemic, we wish to advise users of the heightened levels of uncertainty in forward looking statements and the fluidity of markets and key economic indicators which remain extremely volatile. Users are advised to make their own judgements using the latest information available at the time of assessment. Any forward looking statements are provided without recourse or any liability whatsoever to the Board or other preparers of the Annual Report due to the relatively high levels of uncertainty regarding the same.

Management of the Hatton National Bank PLC have prepared and reviewed the Integrated Annual Report and the Corporate Governance, Risk & Capital Management Report and submitted the same to the Board Audit Committee who recommended the reports to the Board for approval in accordance with the delegation of authority.

The Board Acknowledges its responsibility to ensure that the Annual Integrated Report provides a balanced view of its performance in 2020 and is of the opinion that it addresses all material issues that it believes may have a bearing on the Group's capacity to create value over the short term.

The reports were unanimously approved by the Board on 19th February 2021 and is signed on its behalf by



**Dinesh Weerakkody**  
Chairman



**Devaka Cooray**  
Chairman  
Board Audit Committee



**Jonathan Alles**  
Managing Director/CEO

Colombo, Sri Lanka  
19th February 2021

# About Us

Hatton National Bank PLC has been a transformative force in Sri Lanka’s banking industry since its beginnings as the Hatton Bank in 1888. Focused on serving not only the plantation companies and executives but also the plantation workers, inclusive banking is hardwired into our DNA. HNB has changed the financial sector landscape of Sri Lanka through a range of first to market products such as ‘Pathum Vimana’ – the first incentivised savings product, ‘Shanthy Housing Loans’ and ‘Gami Pubuduwa’ – the barefoot banker programme for grassroots level to future ready digital products, connecting people to opportunities. Our own transformation as the most diversified and future ready financial services powerhouse has been possible due to uptake of our products by customers and we are committed to enriching the symbiosis built over 132 years.



VISION	MISSION	OUR VALUES
<p>To be the acknowledged leader and chosen partner in providing financial solutions through inspired people</p>	<p>Combining entrepreneurial spirit with empowered people and leading edge technology to constantly exceed stakeholder expectations</p>	<ul style="list-style-type: none"> <li>» Treasure professional and personal integrity at all times</li> <li>» Demonstrate mutual respect in all our interactions</li> <li>» Passionate about everything we do</li> <li>» Committed to being customer centric</li> <li>» Courage to change, challenge and be different</li> <li>» Demonstrate unity in diversity</li> </ul>

# Performance Highlights

## FINANCIAL

For the year ended 31st December	Bank			Group		
	2020 Rs Mn	2019 Rs Mn	Change %	2020 Rs Mn	2019 Rs Mn	Change %

### Financial Performance

Income	115,814	125,998	(8.1)	134,436	145,401	(7.5)
Net interest income	44,709	49,214	(9.2)	50,837	56,356	(9.8)
Net fee and commission income	7,545	8,993	(16.1)	8,026	9,977	(19.6)
Total operating income	56,328	59,788	(5.8)	72,074	76,511	(5.8)
Profit Before VAT & Tax	18,951	26,374	(28.1)	21,222	28,656	(25.9)
Taxation (Incl. VAT, NBT & DRL on Financial Services, Deferred tax)	7,488	12,341	(39.3)	7,967	13,814	(42.3)
Net profit after taxation	11,463	14,032	(18.3)	13,662	15,029	(9.1)
Profit Attributable to equity holders of the Bank	11,463	14,032	(18.3)	13,095	14,670	(10.7)

### Financial Position

Shareholders' funds (Capital and Reserves)	134,002	127,504	5.1	154,249	145,508	6.0
Deposits from customers	967,821	810,035	19.5	994,949	835,060	19.1
Gross loans and receivables to customers	814,543	771,939	5.5	846,721	802,707	5.5
Total assets	1,291,852	1,125,009	14.8	1,371,483	1,197,635	14.5

### Profitability

Return on assets (%)	0.95	1.27	(25.3)	1.06	1.28	(17.0)
Return on equity (%)	8.77	11.54	(24.0)	8.74	10.55	(17.2)
Cost to income ratio (%)	39.27	39.74	(1.2)	48.29	47.61	1.4

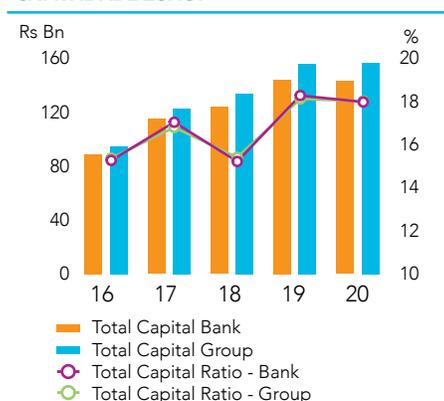
### Investor Information

Earnings per share (Rs)	22.39	27.41	(18.3)	25.58	28.65	(10.7)
Net assets per share (Rs)	261.73	249.04	5.1	301.28	284.21	6.0
Total Dividend per Share (Rs)	8.00	8.00				
Cash Dividend per Share (Rs)	4.50	4.50				

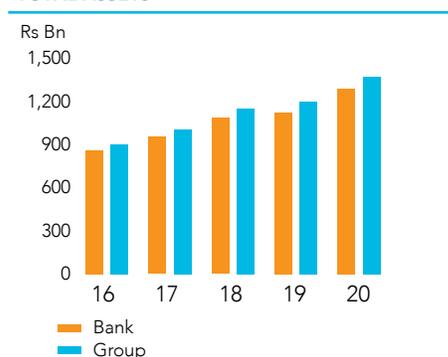
### Regulatory Ratios

Core capital ratio (%) (Minimum Req. - 2020 - 8.50%; 2019 - 9.50%)	14.73	14.57		14.99	14.74	
Total capital ratio (%) (Minimum Req. - 2020 - 12.50%; 2019 - 13.50%)	17.98	18.28		18.02	18.12	

### CAPITAL ADEQUACY



### TOTAL ASSETS



## SOCIAL PERFORMANCE

	KEY INDICATORS	UNIT	2020	2019
<b>Social &amp; Network Capital</b>	No. of Customers	No ('000)	2,663	2,623
	Branches per 1000 population	No	11	11
	Correspondent Banks	No	970	970
	Customer Satisfaction	%	77	64
	Strategic Philanthropy Spend	Rs Mn	25.1	6.6
<b>Human Capital</b>	No of Employees	No	4,836	4,913
	Retention Rate	%	94	93
	Investment in Training & Development	Rs Mn	13.3	48.2
	Gender Diversity Ratio (Male: Female)	Male: Female	57:43	57:43
	Employee Productivity (Revenue per Employee)	Rs Mn	23.9	25.6
<b>Intellectual &amp; Digital Capital</b>	Investments in IT: Hardware	Rs Mn	506.7	478.7
	Investments in IT: Software	Rs Mn	507.1	499.1
<b>Manufactured Capital</b>	Branches	No	252	252
	SSMs	No	787	780
	PPE (excluding IT infrastructure)	Rs Bn	19	19.4
	Disabled Access Availability	No of Branches	210	205
	Branches outside Western Province	No of Branches	148	148

## ENVIRONMENTAL IMPACT

	KEY INDICATORS	UNIT	2020	2019
<b>Natural Capital</b>	Online Transactions	No Mn	4.2	2.9
	Loans Screened for Environmental & Social Compliance	No	75	113
	Energy Consumption	kWh	14,949,271	16,699,874
	Solar Power Generated	kWh	2,945,624	2,815,749
	Solar Power Generated as a % of Energy Consumption	%	19.7	16.8
	Carbon Footprint	Kg/sqft	3.7	4.3
	Paper Reused/Recycled	%	100	100
	Loans Disbursed to Promote Renewable Energy	Rs Bn	1.7	1.1



## A COORDINATED RESPONSE TO COVID-19

HNB formed a COVID-19 Task Force as early as in January 2020 to monitor developments on the pandemic as it crossed borders from China to Italy with a view to understanding the potential threats and opportunities and formulating a holistic response addressing key concerns of stakeholders. This enabled us to respond in a timely and effective manner, when the pandemic struck the country in early March. The Bank was quick to reprioritise its focus and following were identified as key priorities as presented to the shareholders at the AGM held in May.

- » Ensure safety and well-being of staff and all stakeholders
- » Maintain liquidity of the Group
- » Improve asset quality, speed up recoveries
- » Support business revival
- » Drive digital usage and transformation
- » Intensify BPR, lean initiatives and cost optimisation
- » Continue critical investments in technology, strengthen cyber security and flexible working arrangements

This focus enabled us to find win-win solutions for stakeholders.



### INVESTORS

- » **Improved asset quality** through intense focus
- » Recording **strong liquidity levels** with LAR and LCR well above statutory requirements
- » Maintaining **one of the strongest capital levels** in the industry
- » **Improved cost to income ratio** through cost optimisation
- » **Upgrading the core banking solution** on schedule, rolling out the retail module of the new loan origination system, implementing business intelligence tool
- » Refining the branch operating model to improve efficiency
- » Successfully conducting the first hybrid AGM in the industry



### BUSINESS PARTNERS

- » **Timely settlement**
- » Driving payments through digital channels
- » Strengthening partnerships with merchants, service providers to deliver value to customers during the pandemic



### REGULATORS

- » **A key partner in facilitating working capital finance** to affected customers under the CBSL guidelines.
- » Providing relief to customers in line with the guidelines issued by the CBSL.
- » Adherence to statutory requirements



- » Interest and capital moratoria covering 40% of the loans under Phase I
- » Working capital financing totalling to over Rs 24 Bn under the CBSL Saubhagya scheme
- » Rs 5 Bn COVID fund established to provide working capital financing for customers who were not qualified under the CBSL scheme.
- » Access to alternative channels including ATMs and digital channels
- » 24x7 uninterrupted support through the dedicated omni channel contact centre
- » Access to branches even during the pandemic except for those in isolated areas or those shut down for health and safety of stakeholders
- » A range of digital payment solutions such as SOLO, MOMO, IPG, Appigo to facilitate transactions



CUSTOMERS

- » Health & safety protocols implemented, and personal protective equipment provided to ensure safety and well-being.
- » No reduction in remuneration structures
- » No downsizing
- » Secure connections provided to enable working from home
- » Learning and development activities by optimising virtual channels
- » Continuation of the career development process through virtual interviews
- » Continuation of the recruitment process
- » Virtual meetings



EMPLOYEES

- » Mobile ATM Units to facilitate access to cash and banking transactions across the country
- » Grant to 200 micro finance customers
- » Staff voluntary contribution matched 1:1 by the Bank for COVID assistance
- » Renovation of training facility and provision of fire extinguishers to IDH
- » Provision of PPE to many hospitals and support in various forms to community



COMMUNITY

# Chairman's Message



*Dear Shareholders,*

2020 has been a year unlike any other in recent memory as the COVID-19 Pandemic transformed the socioeconomic landscape dramatically, elevating uncertainty and risks at every level, both locally and globally. We proved our ability to adjust rapidly as we leveraged technology and adapted to live, earn and learn in a new norm, sharing the responsibility to stay safe as well as keep our communities safe.

Even before the onset of the Pandemic, our Economy was adversely affected due to the Easter Sunday bombings of 2019. The onset of the Pandemic aggravated our economic woes, straining cash flows, at Individual, Entity and National levels while paving the way for a disruptive transformation that vaulted us to a new era of exciting possibilities. At HNB, we have reset our agenda and will continue to do so going forward, embedding the new-found speed and agility into our ways of working and identifying the best ways to respond, making sure we sustain such best practices in our operations. Unlike ever before, we, as a leading bank, have a crucial role to play

in the task of restoring and supporting the livelihoods of our communities.

## **NAVIGATING 2020**

In hindsight, the commencement of our transformative journey in 2018 was timely as the completion of a number of projects prior to the onset of the Pandemic proved critical to navigating 2020. Early investment and considerable progress in the digital transformation by the onset of the Pandemic enabled the Bank to easily onboard customers to “future ready” digital platforms. Similarly, the new branch operating model facilitated the efficient processing of one of the highest number of loan moratoria by a single bank in the Country, easing pressure on customer cash flows. These initiatives also enabled the Hatna Team to work remotely when necessary, ensuring continuity of operations in a year marked by business interruptions.

The Board increased the rigour of oversight with the assistance of key Committees of the Board to ensure that internal controls remained effective in a new norm and that key risks to the Bank were identified and managed

in line with the Bank's risk appetite as COVID exacerbated existing risks and spawned new threats. The Board also readily approved a COVID Fund of Rs 5 Bn to assist customers who did not qualify for relief under the Government- assisted programmes.

Despite the disruptions of 2020, we maintained focus on our transformative Project Everest and the Board was pleased to note the realignment of goals to the new norm and the delivery of a number of initiatives. I have no doubt the transformation project created its own stimulus to remain on track as there were winnings for all stakeholders from the solutions implemented, which were viewed from multiple perspectives.

Increased emphasis on monitoring of Subsidiaries and Joint Ventures also enabled us to drive closer alignment to Group benchmarks on various aspects of performance. These initiatives have enabled us to improve synergies and strengthen the risk profiles of Group entities, adding lustre to our strong domestic franchise.

## PEOPLE FIRST

2020 was indeed a year for putting people first as we dealt with the Pandemic, ensuring access to cash, funding and other financial services while ensuring the health and safety of our employees, customers and other stakeholders. I congratulate the Hatna Team for the hard work and acts of caring and commitment, thereby demonstrating our Corporate values throughout the year, as people stepped up to maintain vital cash lifelines for the communities we operate in. These are the stories that enrich and shape our 130+ year legacy as we set new bars for conduct and performance amidst uncertainty. Plans for upskilling our Team for a new era of banking also gathered momentum with delivery increasingly shifting to digital platforms. I have no doubt that our Team achieved a paradigm shift for the Bank, shaping the future of Banking for a smarter future for all.

## ENVIRONMENT, SOCIAL & GOVERNANCE

The Board composition changed during the year as we welcomed Mr. Devaka Cooray and Mr. Dilshan Rodrigo. Mr. Devaka Cooray also took on the role of chairing the Audit Committee for which role he is eminently suited. Dr. Rohan Karunaratne and Mr. Asoka Peiris retired/resigned during the year and I wish to place on record the Board's appreciation of their valuable contributions.

The strides made during the year were possible due to the Bank's legacy; commitment to principles of good governance, prudent risk management and a strong financial position. The HNB Group adopts a progressive view, acknowledging wider responsibilities to multiple stakeholders as we commit to sustainable value creation, and 2020 was a year that needed re-calibration of Stakeholder concerns in response to seismic shifts in the operating landscape.

HNB championed the development of Sustainable Banking Principles which were issued by the Sri Lanka Banks' Association. The Group's compliance with these principles and our commitment to the UN Sustainable Development Goals are addressed in this Annual Report as testimony to our claim. Our journey in Integrated Reporting and Sustainability Reporting continues to take us along the path of integrated thinking which is evidenced in the re-alignment of priorities this year.

## OUTLOOK

In the months ahead and beyond, it is expected that the Pandemic will present a two-stage problem for banks. First to come would be the challenge for borrowers to service their loans, post moratoria, which will determine the trend for NPAs and credit impairments in the Industry, which will remain a challenge throughout 2021. Then, amidst a muted Global recovery, banks will face a continuing challenge to its ongoing operations, leading to significant pressure on the delivery of business results. The good news is that all banks and banking systems have remained resilient so far and will continue to be so in the future. Also, with the Authorities hopeful of muting the growth in COVID-19 rates to more manageable levels and the expected economic growth, we are optimistic that most customers would progressively recover by the end of the first quarter and loan recovery rates will be strong.

We expect to see an economic recovery in 2021 with a projected growth of approximately 4% on the lower base in 2020. This is likely to edge the interest rates upwards as Private Sector credit demand grows, supporting both opportunities for growth and profitability.

The Pandemic underlined the need for bigger and stronger banks for the country with strong capital bases to weather challenging times and drive economies of scale. Bank consolidation would strengthen the financial stability of the Industry and the Country. Additionally, efficient legal processes enabling timely recoveries from wilful defaulters would also support the Industry.

Opportunities for growth in the Micro-finance Sector remain high; however, interest rate 'caps' have made growth in this vital customer segment extremely difficult as default risks have increased significantly. It is imperative that the formal sector maintains and increases support to micro entrepreneurs taking a long term view, as alternative informal channels of finance will only increase their indebtedness, undoing the considerable progress made in recent years, to wean away such borrowers from the clutches of informal Money-Lenders.

Technology and Information assets will be the 'game changer' for the industry. Harnessing their power to create e-commerce solutions that enable faster, smarter decisions and customised solutions will create collaborative networks that will transform supply chains and how we transact. Banks, unlike ever before,

need to offer innovative customer friendly financial solutions leveraging on deep-rooted expertise, agile operational models and digital capabilities.

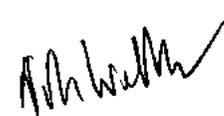
The capacity of raising debt capital in overseas markets for local banks will be hampered by the lower Sovereign Credit Ratings, making it more difficult and expensive for banks to obtain foreign funding."

Sound leadership will be key as we seek new solutions for the emerging challenges and those with which are familiar. Encouragingly, we have new tools and platforms offering innovative solutions for a new era of banking. It will need team-work, collaboration and an exemplary performance by all to realise our goals. As we stand at the beginning of 2021, we look forward to a better year; one of a gradual return to stability, growth and progress. We are encouraged by the progress being made in the distribution of a vaccine to mitigate the impact of the COVID-19 virus and the gradual opening up of Economies the world over.

## APPRECIATIONS

The Board joins me in commending the performance of the Hatna Team which will be called upon to navigate another challenging year in 2021 as we reach for loftier goals. We also commend the leadership provided by Mr. Jonathan Alles Managing Director/ CEO of the Bank and Chief Executives of the HNB Group Subsidiaries who have collectively transformed the Group to a future ready Financial Group, leading the transformation of the financial services sector of the Country.

I thank our customers and shareholders for their loyal patronage and our business partners for their unstinted support during 2020 and look to a journey of shared prosperity in 2021. In conclusion, I thank all our Stakeholders for their continued confidence in HNB in a very difficult year and commit to upholding their trust.



Dinesh Weerakkody  
Chairman

Colombo, Sri Lanka  
19th February 2021

# Managing Director/CEO's Message



*Dear Shareholders,*

As we step into a new decade, like Janus, it is worthwhile to pause a moment and reflect on the past as well as to see what the future holds. During the past decade, our total assets and deposits have more than quadrupled, as we undertook an arduous yet exhilarating climb to transform as a future ready bank while acquiring the agile mindset necessary to navigate the next decade.

The unwavering commitment to the SME and Microfinance portfolios hardwired into our DNA from the inception led us to address the root causes and transform our own structures and programmes to bring about transformative changes in this vital sector, innovating products and services around their needs. Today, HNB is a catalytic force that connects the rural farmer and the aspiring SME to global supply chains through its comprehensive future ready product portfolios, accelerating and supporting their journey to become future corporates.

By the end of 2019, we had undertaken transformations that would enable us to handle the macroeconomic stresses we expected in 2020 having stepped up to provide support in the aftermath of the terror attacks, droughts and floods experienced over the past few years of sluggish economic growth, and we embraced 2020 with much vigour and hope.

## **A WORLD RESET**

The beginning of 2020 saw seismic upheaval throughout the world as the COVID-19 pandemic crossed borders with ease, necessitating unprecedented border closures, business closures, job losses and heartrending tragedy throughout the world. Lifestyles changed dramatically as social distancing and working from home became the norm and all who could afford it embedded digital platforms into their lifestyles.

Governments around the world faced the unenviable task of balancing twin economic and health crises and adopted extraordinarily

accommodative stances on monetary policy which resulted in interest rates plummeting around the world. Governments provided extensive relief measures which included debt moratoria to support businesses stay afloat during this unprecedented time. Global trade declined, disrupting global supply chains and fuel prices nosedived as demand dynamics changed in the wake of the pandemic.

Sri Lanka was fortunate to emerge from the great lockdown of our time and commence economic activity in the third quarter until the second wave in the fourth quarter. However, there has been greater resilience with economic activity continuing, albeit at a slower pace as shutdowns were more localised. Interest rates declined sharply as policy rates were revised downwards to boost economic activity while wide-ranging import restrictions were implemented to manage pressure on the exchange rate. The sovereign rating downgrades were extremely unfortunate resulting in higher risk premiums, leading to greater dependency on domestic funding.

## STEPPING UP

Our agility has been tested in 2020 and we have stepped up to support our customers while delivering performance and stability, vaulting over multiple obstacles with aplomb. The foresight in setting up a COVID Task Force in January 2020 proved to be a blessing as we were able to action plans that were being formulated for the purpose. Upholding our covenants with customers was a key priority as an essential service. Selected branches remained open throughout the lockdown with additional safety measures in place and innovations such as Bank in a Box ensured access to cash while the call centre operated 24/7 throughout this time to support customers. Digital transformations over the years such as SOLO, MoMo, IPG and Appigo supported contactless transactions supporting social distancing.

Banks were called upon to provide debt moratoria to afflicted businesses for the second consecutive year in March 2020, prior to the expiry of the moratoria extended in the aftermath of the Easter Sunday terror attacks. HNB provided working capital finance of over Rs 24 Bn under the Saubhagya Renaissance relief scheme initiated by the CBSL and was proactive in establishing a Rs 5 Bn SME Fund for customers who did not qualify under the government scheme. Over 40% of the Bank's loan book was under moratorium during the first phase reflecting the commitment of HNB to support our customers.

Additionally, a grant of Rs 20 Mn was distributed to 200 microfinance customers to revive their livelihoods, as part of our strategic CSR programme.

## RECALIBRATING OUR GOALS

Once we addressed immediate concerns, we revisited our strategic priorities in light of the more challenging operating landscape and stakeholder expectations. Elevated uncertainties meant that business sustainability and health and safety formed the nucleus around which all other priorities could be structured.

Accordingly, we intensified our focus on managing asset quality and liquidity. We continued our process improvement initiatives and critically assessed avenues for cost optimisation. Simultaneously, we steered ahead with our digitalisation road map and the



implementation of our critical IT projects which saw the successful implementation of our core banking solution on schedule. Our team being at the heart of business, we leveraged on virtual channels to upskill, reskill and refit our staff to new roles, in line with the new norm.

## A RESILIENT PERFORMANCE

HNB Group and Bank recorded a profit after tax of Rs 13.7 Bn and Rs 11.5 Bn respectively in 2020 managing elevated risks through a year of extreme volatility. Declining interest margins and trade volumes contributed to a decrease of 11.3% in net interest, fee and commission income of the Group to Rs 58.9 Bn. Group impairment charge amounted to Rs 16.0 Bn, an increase of 40% over the previous year with the Bank accounting for Rs 15.3 Bn of this charge. The 58% increase in bank impairment charge reflects the prudent approach adopted for provisioning based on the prevailing environment. Consequently, Group Net Operating Income declined by 14% to Rs 56.0 Bn in a year that recorded overall deterioration in macroeconomic indicators.

Total Operating expenses declined by 4.5% to Rs 34.8 Bn as a group-wide effort was undertaken to trim expenses which are largely fixed in nature. These concerted efforts saw the operating expenses of the Bank declining by Rs 1.6 Bn to Rs 22.1Bn recording a 7% drop compared to previous year. As a result, the cost to income ratio improved 39.3% despite the drop in total operating income. Taxation declined due to both lower profits and the removal of NBT and Debt Repayment Levy imposed on Banks which alleviated certain level of stress in a year when banks stepped up to stabilise the economy.

Total Assets of the Group increased by 14.5% to Rs 1,371.5 Bn largely attributed to increased investments as loan growth was subdued due to the prevailing investment climate. Total deposit growth was encouraging at 19.5% for the Group and the Bank while CASA deposits grew by an outstanding 35% despite the lower interest rates, reflecting the trust earned by HNB over 132 years.

## MANAGING UNCERTAINTY

HNB prepared itself for a tough year in 2020 and this gave us a head start as the pandemic created extreme volatility across multiple risk factors. Credit quality was key, as we strengthened the credit culture and recoveries at the Bank. Separation of loan origination, appraisal and approval, administration and recoveries over the past two years paid dividends as it enhanced the process efficiencies and objectivity in portfolio management. Setting up Special Asset Management Units for Corporate Banking and SME also proved to be catalytic as we were able to proactively support clients through their stressful times on the road to recovery. The settlement of dues by a large State-Owned Enterprise also contributed greatly to the health of the asset portfolio. As a result, we were able to improve the NPA ratio to 4.3% compared to 5.9% reported as at end of year 2019.

Liquidity which could have been a potential threat was well managed by the Bank supported by strong deposit growth and modest loan growth and our liquidity ratios remained well above the regulatory requirements.

# Managing Director/CEO's Message

Given the shift to digital under the new norm, we strengthened our focus on managing operational risks. The increased level of threat on cyber and information security was addressed by the appointment of a Chief Information Security Officer and the implementation of Data Loss Prevention and Privilege Access Management systems.

Market risk factors remained volatile throughout the year as interest rates declined and the rupee came under pressure. HNB is presently the best capitalised among our peers due to sustained prudent capital management providing a strong foundation for growth.

### A TEAM TO COUNT ON

The HATNA Team spirit has been the common thread that connected all that we achieved, the transformation of the Bank and the support extended to customers which sustained businesses and livelihoods of people around the country. I am deeply aware that there were days when coming to work presented a risk, not just to the employee but also to their families. However, we did turn up,

changed our game and played on to achieve together as we understood and cared deeply about what was at stake. As stated above, our collective achievements are considerable and have had a transformative impact on individuals, businesses large and small, the banking industry and the country. I know this knowledge gives us the drive to stretch our boundaries to deliver the transformations needed to take our people and our country to a new era. Ensuring that employee remuneration and benefits remained intact was a key factor in driving the Bank forward through 2020.

Our own transformations were very much a part of our journey. Some of these started years ago with the identification of a talent pool who were given intensive training to become a catalytic force for change within the Bank, the transition to e-learning, development of the sales culture, our digitalisation and the implementation of the Branch Operating Model to name just a few. The focus on having the right person in the right place and programmes to bridge capability gaps and a learning and mentoring

culture within the Bank have all contributed to take the Bank to where it is today, underlining the importance of managing and developing talent to power the journey.

### A TRUSTED BRAND

Our deposit growth offers silent testimony to the trust placed by customers in our brand as it grew by over Rs 157Bn. Watchful oversight by the Board, sound corporate governance structures and prudent risk management which have evolved over 132 years underpin our brand, and we continue to nurture these in full understanding of its value. The awards and accolades add to the lustre of the brand each year and drives excellence on multiple fronts.

### BEYOND 2020

Vaccines are providing much needed positivity although it is amidst new strains and new waves. We expect the local and global economy to recover in 2021 and our plans are focused on strengthening business sustainability. Accordingly, we will focus on enhancing the governance framework, compliance, credit and overall

#### Technology Enablement

- » Stabilise core systems
- » Develop enabling systems
- » Data & Analytics

#### People Development

- » Capability Development
- » Strategic Workforce Planning
- » Succession Planning



#### Business Growth

- » New business
- » Relationship management & sales culture
- » Wallet share

#### Improve Customer Experience & Productivity

- » BPR
- » SLAs, TATs
- » Automation

risk management culture to ensure that our foundation remains solid. We will look to drive sustainable business growth through deeper relationships, customer acquisition and relevant innovation around new business. Customer experience will be a key focus and process improvements, digitalisation, automation and robotic process automation are on the radar. People development will be a key pillar, sustaining the momentum gathered over the past two years to encourage and empower our team. Technology enablement is also expected to provide deeper insights through data analytics while planned upgrades of core and enabling systems such as corporate module of the loan origination system, payment and cash management system and card system are expected to create considerable enhancements to the Bank's overall customer value proposition.

#### **ACKNOWLEDGEMENTS**

As we add to our annals the story of the most difficult year in our lifetime, it is necessary to record our appreciation of those who played a key role in navigating the course. I thank our Chairman and the Board for their advice and guidance throughout the year which proved invaluable in staying on the correct path, avoiding potential pitfalls. I thank my

team who demonstrated their commitment, compassion, determination and courage in numerous ways during the year, enriching our legacy. I also express my sincere appreciation of the counsel of the Central Bank Governor and the ready co-operation of his staff on regulatory matters. I thank our customers for their continued patronage and for placing their trust in our Group to support them on a transformative journey. Our business partners have played a key role in our transformation and I thank them for their expertise and diligence. I close by thanking our shareholders for their continued confidence in the HNB Group.



Jonathan Alles  
*Managing Director/CEO*

Colombo, Sri Lanka  
19th February 2021

# Board of Directors



**DINESH WEERAKKODY**  
Chairman



**JONATHAN ALLES**  
Managing Director /Chief Executive Officer



**RUSI CAPTAIN**  
Non-Executive Director



**AMAL CABRAAL**  
Non-Executive Director



**DULIKSHA SOOSAIPILLAI**  
Independent, Non-Executive Director



**A N DE SILVA**  
Independent, Non-Executive Director



**DAMIEN FERNANDO**  
Non-Executive Director



**MADU RATNAYAKE**  
Independent/Non-Executive Director



**DR HARSHA CABRAL PC**  
Independent/Non-Executive Director



**DEVAKA COORAY**  
Independent/Non-Executive Director



**THUSHARI RANAWEERA (MRS)**  
Company /Board Secretary



**DILSHAN RODRIGO**  
Executive Director / Chief Operating Officer



**PRAWIRA RIMOE SALDIN**  
Alternate Director to Mr Rusi Captain



**DR PRASAD SAMARASINGHE**  
Alternate Director to Mr Damien Fernando

## Board of Directors

### DINESH WEERAKKODY

Chairman Appointed: May 2018  
Independent, Non-Executive Director  
Appointed: June 2017

#### Skills & Experience:

A former Chairman of Commercial Bank of Ceylon PLC, Chairman of the National Human Resources Development Council of Sri Lanka and the Employees' Trust Fund Board of Sri Lanka and also the Chairman of the Government-appointed Committee to review the Banking Sector and Non-Banking Sector consolidation and the Committee appointed to review the budgetary allocation for education. He was also a Director of DFCC Bank, an Adviser to the Prime Minister and the Ministry of National Policies and Economic Affairs & Ministry of Finance. He was a member of the CIMA Asia Pacific Industry Advisory Body, Colombo Municipal City Development Committee and the National Health Development Fund.

Holds an MBA (University of Leicester, UK) and is a Fellow of the Chartered Institute of Management Accountants (UK) and of the Certified Management Accountants (Sri Lanka). Also holds a BTEC (UK) Certificate of Achievement in Computer Studies, an Advanced Diploma (Graduate) in Business Administration (ABE UK) and is a Professional Member of the Singapore Human Resource Institute, International Public Management Association - HR Certified Professional USA. He was conferred an honorary membership by the Institute of Personnel Management of Sri Lanka for his contribution to HR.

#### Current Appointments:

Chairman International Chamber of Commerce of Sri Lanka. Currently serves in a number of private sector and MNC boards and Chairs/Member of the Audit Committee and the Remuneration Committee in several of those Companies. He is the Vice Chairman (Banking Group) of the Employers' Federation of Ceylon and a council member of the Institute of Directors of Sri Lanka. Advisory Board Member of Caritas Sri Lanka-SEDEC, HR Cornucopia India and Financial Advisory Committee of Sri Lanka Cricket. Mr Weerakkody is also a world council member of the International Chamber of Commerce, Paris representative of Sri Lanka.

### JONATHAN ALLES

Managing Director /Chief Executive Officer  
Appointed: July 2013  
Executive Director Appointed: May 2013

#### Skills & Experience:

An experienced banker counting over 34 years in the industry with experience in both international and Sri Lankan Banks, within the country and overseas. Holds an MBA from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka.

#### Other Current Appointments:

Chairman of HNB Finance Plc and Acuity Partners (Pvt) Ltd and a Director of Lanka Financial Services Bureau Ltd, Lanka Ventures PLC, LVL Energy Fund and Sri Lanka Banks' Association. Appointed as the Chairman of Asian Bankers Association for the period 2018-2020.

Mr Alles is a dynamic Banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 253 customer centres, using cutting edge technological platforms and enabling a new paradigm in Sri Lanka's banking culture. Under his leadership, HNB has received recognition from numerous international and local institutions and continues to set new benchmarks in the Sri Lankan banking industry.

### RUSI CAPTAIN

Non-Executive Director  
Appointed: April 2012

#### Skills & Experience:

Experience gained in diverse business and leadership roles.

Secondary education at Millfield, U.K. and the University of Miami, Florida

#### Other Current Appointments:

Director of Polypak Secco Ltd, Paints & General Industries Ltd, Paints & General (Exports) Ltd, CIC Holdings PLC, Propertex Development Ltd, Austin Gloves (Ceylon) Ltd, CEI Plastics Ltd, Ranweli Ltd, Agriland Ltd, Polytex Properties & Investments Ltd, Forest Creek Park Ltd, Body Bar Ltd, Horahena Investments Ltd, Palmland Ltd, Parkland Ltd,

Cisco Specialty Packaging (Pvt) Ltd, Randiya Farms Ltd, Link Natural Products (Pvt) Ltd and Chacra Capital Holdings (Pvt) Ltd.

### AMAL CABRAAL

Non-Executive Director  
Appointed: April 2014

#### Skills & Experience:

Counts over 30 years of business experience in a multinational corporation in General Management, Marketing and Sales in Sri Lanka and overseas.

Executive Education Alumnus of INSEAD - France and holds a MBA from the University of Colombo. A Marketer by profession and a Fellow of the Chartered Institute of Marketing - U.K.

#### Other Current Appointments:

Non-Executive Chairman of Ceylon Beverage Holdings PLC, Lion Brewery (Ceylon) PLC, CIC Feeds Group and Silvermill Investment Holdings (Pvt) Ltd. Independent Non-Executive Director of John Keells Holdings PLC, Sunshine Holdings PLC, Sunshine Consumer Lanka Ltd, Daintee Ltd, Sunshine Healthcare Ltd, Healthguard Pharmacy Ltd, and a business advisor to a number of leading Companies. Committee Member of the Ceylon Chamber of Commerce and Management Committee of the Mercantile Services Provident Society.

#### Previous Appointments:

Chairman and CEO of Unilever Sri Lanka.

### DULIKSHA SOOSAIPILLAI

Independent, Non-Executive Director  
Appointed: April 2015

#### Skills & Experience:

Over 30 years' of experience in Finance, Strategy, Risk Management & Compliance in the financial services sector.

A Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.

**Other Current Appointments:**

Independent Non-Executive Chairman of Commercial Credit and Finance PLC and serves in many of its board sub-committees. Independent Non-Executive Director of Udapussellawa Plantations PLC and Hapugastenne Plantations PLC and serves on many of its Board Sub- Committees.

**Previous Appointments:**

Was engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management Project in 2012.

Managing Director of the Maldives Finance Leasing Company Pvt Ltd for more than 7 years and the Chief Executive Officer of Ceylease Financial Services Ltd a subsidiary of the Bank of Ceylon.

**A N DE SILVA**

Independent, Non-Executive Director  
Appointed: April 2015

**Skills & Experience:**

Over 45 years' experience in commercial banking, Bank Management and as a Director.

Elected an Associate of the Chartered Institute of Bankers, London, UK in December 1978, on successful completion of its professional examinations.

Received extensive training in Banking and Management both locally and overseas with Dresdner Bank, AG, Germany, National Institute of Bank Management, Pune, India, Centre for Financial Engineering in Development, Washington DC USA, Mt Eliza Campus - Monash University, Melbourne, Australia.

Team Member of HNB's User Group Heads who evaluated IT Systems in the U.K. and India.

Participated in a study tour of the South African Banking System organized by the Institute of Bankers, South Africa.

Played a key role in HNB's acquisitions of Indosuez Bank and Habib Bank AG Zurich.

**Other Current Appointments:**

Independent Non-Executive Director, Malwatte Valley Plantations PLC, Holco Ceylon (Private) Ltd & Expo Industrial Engineering (Pvt) Ltd.

**Previous Appointments:**

Former Acting Chief Executive Officer and Chief Operating Officer, Union Bank of Colombo PLC, former Director, Lanka Clear Limited and former Alternate Director, Credit Information Bureau of Sri Lanka (CRIB).

Former Deputy General Manager (Corporate Banking), Hatton National Bank PLC.

**DAMIEN FERNANDO**

Non-Executive Director  
Appointed : October 2018

**Skills & Experience:**

Mr Fernando is a Fellow member of Chartered Institute of Management Accountants of United Kingdom and was awarded a Masters Degree in Business Administration from Postgraduate Institute of Management, University of Sri Jayawardenapura in 1992.

**Other Current Appointments:**

Mr Fernando is the Consultant – Strategy of Melstacorp PLC. He is a Director of Addison (Pvt) Ltd, HealthCey (Pvt) Ltd, HNB Assurance PLC and HNB General Insurance Ltd. He has held Board and other positions in several sectors including Finance, Life & General Insurance, Assets management & Unit Trusts, Management of healthcare, food & beverages, manufacturing and in retail.

**Previous Appointments:**

Mr Fernando served as a non-executive Director in the HNB board from April 2012 to March 2017. He has also served as the executive Director of Sri Lanka Insurance Corporation Ltd from year 2003 – 2009. He was a Director of Distilleries Co. of Sri Lanka PLC from February 2006 – December 2008. Mr Fernando also served in the Director boards of Lanka Hospitals Corp. PLC (Sept.2006 – June 2009 and May 2009 – June 2016), Melstacorp PLC (June 2010 – Dec. 2011), Pelwatte Sugar PLC (April 2011 – Nov. 2011) and National Asset Management Ltd (Sept.2007 – April 2010).

**MADU RATNAYAKE**

Independent/Non-Executive Director  
Appointed : October 2018

**Skills & Experience:**

A Chartered Engineer, Group CIO and the Center Head for Virtusa Sri Lanka. He holds an MBA from the Postgraduate Institute of Management (Sri Jayawardenapura) and a First Class Honors Degree in Software Engineering from City University in London.

Has over 20 years' experience in IT, digital transformation, project and service delivery. He has experience in large scale business transformation program design and execution, driving corporate innovation, cyber security, solution architecture, customer support, consultancy and general management in UK, USA, Australia, India and Sri Lanka. He has delivered multi-million dollar projects to Fortune 1000 companies with geographically spread software teams.

**Other Current Appointments:**

Mr Ratnayake is an Independent/Non-Executive Director of Sri Lanka Cert (Pvt) Ltd.

Director of Information Communication Technology Agency (ICTA), the National Agency for Digital Government and a council member of Sri Lanka Institute of Information Technology (SLIIT) and Employers Federation of Ceylon (EFC).

Founder Director and former Chairman of Sri Lanka Association for Software and Services Companies (SLASSCOM), the industry body for IT and BPM in Sri Lanka and the former Chairman of Sarvodaya Fusion, the ICT4D arm of Sarvodaya, the largest NGO in Sri Lanka; He represents the IT industry on the boards of several leading universities/Institutions.

**Previous Appointments:**

Has served as a Director of Sanasa Development Bank from December 2014 to January 2016 and Sri Lanka Institute of Information Technology.

### DR HARSHA CABRAL PC

Independent/Non-Executive Director  
Appointed : September 2019.

#### Skills & Experience:

Dr. Cabral is a President's Counsel in Sri Lanka with thirty-three years' experience in the field of Company Law, Intellectual Property Law, Commercial Law, Securities Laws, International Trade Law & Commercial Arbitration. He has been a President's Counsel for sixteen (16) years' and commands an extensive practice in the Commercial High Courts and the Supreme Courts of Sri Lanka. He holds a Doctorate in Corporate Law from University of Canberra, Australia. Dr. Cabral is a Sitting member of the International Chamber of Commerce (ICC) International Court of Arbitration in Paris and a Representative Member of the Federation of Integrated Conflict Management (FICM) as well as a Representative Member of the International Commercial Disputes Tribunal (ICDT). He is also a Fellow of the Institute of Chartered Secretaries & Administrators (UK).

#### Other Current Appointments:

As a member of the Advisory Commission on Company Law in Sri Lanka, Dr. Cabral was one of the architects of the Companies Act No. 7 of 2007, the current Act. Dr. Cabral is also a member of the Board of Investment (BOI) of Sri Lanka, a member of the Law Commission of Sri Lanka, a member of the Intellectual Property Advisory Commission in Sri Lanka and a member of the Corporate Governance Faculty of the Institute of Chartered Accountants of Sri Lanka. Dr. Cabral is also a member of the Cabinet Appointed Committee to draft the National Trade Policy, Senior Advisor to the Ministry of Sports in drafting the new National Sports Law, Senior Advisor to the Ministry of Justice on the new House of Justice Project, Senior Advisor to the Ministry of Justice on Commercial Law Reform and the Chairman, Intellectual Property Law Reform Project of the Ministry of Justice. As a member of the Council of Legal Education in Sri Lanka, as a member of the Ministerial Committee appointed to reform Commercial Arbitration in Sri Lanka, as a Founder Board Member of the Sri Lanka International Arbitration Centre, as a member of the Corporate Governance Committee of the Institute of Chartered Accountants of Sri Lanka, as a member of the National Science Foundation, and as the current Vice President of BRIPASL (Business Recovery & Insolvency Practitioners

Association of Sri Lanka). Dr. Cabral has contributed immensely to the legal academia and the corporate community of Sri Lanka.

Dr. Cabral serves as the Chairman of the Tokyo Cement Group, which commands the largest market share for cement in Sri Lanka. He was the immediate past Chairman of LOLC Finance PLC, one of the largest Finance Companies in Sri Lanka. Dr. Cabral was a senior Director of the Union Bank of Sri Lanka. Dr. Cabral serves as Independent Non-Executive Director of DIMO PLC, Hayleys PLC, Alumex PLC, Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Company Lanka (Private) Limited, Tokyo Cement Power Lanka (Private) Limited, Tokyo Eastern Cement Company (Private) Limited, Tokyo Super Aggregate (Private) Limited, Tokyo Supermix (Private) Limited, World Export Centre Limited, CCC-ICLP Alternative Dispute Resolution Centre (Guarantee) Limited and Sri Lanka Institute of Information Technology (Guarantee) Limited (SLIIT) and he serves on several Audit Committees, Nomination Committees, Remuneration Committees and the Related Party Transaction Committee, chairing most of them.

Dr. Cabral has also authored several books in the field of Company Law, Intellectual Property Law and Commercial Arbitration.

### DEVAKA COORAY

Independent/Non-Executive Director  
Appointed: July 2020

#### Skills & Experience:

Mr Cooray is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of the United Kingdom.

#### Other Current Appointments:

Mr Cooray is the Managing Director of Management Systems (Pvt) Ltd and a Director of some of its Subsidiaries and also serves as a Director of Life Insurance Corporation (Lanka) Ltd, HVA Foods PLC and JAT Holdings (Pvt) Ltd

#### Previous Appointments:

He has worked with Ernst & Young for over 40 years of which 30 years was as a Senior Assurance and Talent Partner. He functioned as the Deputy Managing Partner from 2016 to 2019 and served as a member of Ernst

& Young's Management Committee from the time the Management Committee was established in 1998 until his retirement in 2019. Mr Cooray was instrumental in establishing the Ernst & Young Practice in the Republic of Maldives in 1995 and functioned as the Partner responsible for the overall management of the Maldivian Practice from its inception. He represented Sri Lanka and Maldives for a number of years in the EY ASEAN Regional Partner Forum. He was seconded to EY USA for a year, where practical experience was gained by being part of assurance teams that performed audit engagements on several large enterprises.

Mr Cooray also spearheaded the Ernst and Young Sri Lanka/ Maldives Family Business Centre for Excellence which was instrumental in sending several eminent second generation family members to business schools worldwide. He has also served as a member of the Council of the Chartered Institute of Management Accountants UK.

### DILSHAN RODRIGO

Executive Director / Chief Operating Officer  
Appointed : July 2020

#### Skills & Experience:

Mr Rodrigo is the Chief Operating Officer of HNB PLC with over 18 years' experience in the field of banking presently providing administrative leadership to Finance, Credit, Operations, Risk Management, Banking Services, Compliance and Internal Audit. He is overseeing the cross functional teams involved in improving governance and compliance by serving in several Board and Management committees in the Bank.

#### Other Current Appointments:

Mr Rodrigo has held many senior positions in multiple industries ranging from banking, insurance, investment banking and apparel. He is a Director of HNB Assurance PLC, HNB General Insurance Ltd., Guardian Acuity Asset Management, Sithma Development Ltd and Credit Information Bureau. He played a catalyst role in the Bank's transformation and cultural change by being the driving force towards centralisation, automation, outsourcing and process improvement initiatives and recognised for driving a performance culture through training and talent acquisition and introducing several breakthrough cost optimisation initiatives.

He possesses a wealth of experience encompassing both the retail business and support functions as deputy to the CEO. He has also been providing leadership to Bank's Recoveries vertical since early 2019.

Mr Rodrigo serves on the councils of the Sri Lanka Institute of Directors (SLID) and as the Chairman Policy Advocacy Committee of Asian Bankers Association (Taiwan) during 2011/12 and 2019/20. He has served on local councils of CIMA, ACCA and Risk Professional Forum the latter two as President for two year terms.

#### **Previous Appointments:**

He has served as a lecturer and examiner on various undergraduate (CIMA, ACCA) and postgraduate programs (PIM and University of Wales MBA programs) for over a decade and SLID as Lecturer Director Certification Program – Risk Management and Corporate Responsibility Modules. Also a presenter on technical papers in various forums locally and overseas on Strategy, Business Transformation and Risk Management.

#### **PRAWIRA RIMOESALDIN**

Alternate Director to Mr Rusi Captain – Director, HNB PLC  
Appointed: July 2018

#### **Skills & Experience:**

Appointed as alternate Director in July 2018. He is a fellow of the Institute of Chartered Accountants of Sri Lanka, an associate of Institute of Chartered Accountants of England and Wales, a fellow of the Chartered Institute of Management Accountants of London and a Certified Management Accountant Australia.

Mr Saldin has over 30 years of experience in Finance, Operations and General Management.

#### **Other Current Appointments:**

He is presently the Director/CEO of Polypak Secco Ltd, a Director of Paints & General Industries Ltd and Polytex Properties and Investments Ltd. He is also the Chairman of Chemanex PLC and a Director of CIC Holdings PLC and serves on the Board of Directors of a number of companies in the CIC Group.

Mr. Saldin is an alumni of the Asia Institute of Management.

#### **Previous Appointments:**

Mr.Saldin has served as the Commercial Director and Group Finance Director of CIC Holdings PLC for the period 1995-2005. He was the Country Controller & Group Finance Director for Shell Sri Lanka for the period 2005-2010 and also the Group Chief Operating Officer, Browns Group of Companies PLC and the Managing Director of Browns Investments PLC from 2010-2014.

#### **DR PRASAD SAMARASINGHE**

Alternate Director to Mr Damien Fernando – Director, HNB PLC  
Appointed: July 2019

#### **Skills & Experience:**

Appointed as alternate Director in July 2019. Dr Prasad Samarasinghe holds a doctorate in Telecommunications bestowed upon by Australian National University of Canberra. He achieved Master of Engineering and Bachelor of Science in Electronics and Telecommunications with a First Class from University of Moratuwa.

In addition, Dr Samarasinghe is a Licentiate of Institute of Chartered Accountants of Sri Lanka and the recipient of best achiever status from the Institute in Financial Accounting, Business Mathematics Statistics and Data Processing in the year 1991.

#### **Other Current Appointments:**

Dr Samarasinghe is the Managing Director/ Director of Lanka Bell (Pvt) Ltd from July 2005 and also the Managing Director of Bell Active (Pvt) Ltd and Bell Solutions (Pvt) Ltd from September 2008.

Dr Samarasinghe is also a Director of Hayleys Fibre PLC, serving in its Board from September 2017. Dr Samarasinghe represents Mr Damien Fernando on the Boards of HNB Assurance PLC and HNB General Insurance, as his alternate Director.

He is holding a professional membership as a Board Director of TRACE, ICTISC and FITIS and as a member of the Engineering Faculty Board – University of Moratuwa. In addition he is a council member of CSSL.

#### **Previous Appointments:**

Dr Samarasinghe was a Director of LK Domain Registry (2017 – 2019) and a General council member of SLASSCOM from 2015 – 2016.

Dr Samarasinghe was holding the position as the Head – IT of Commercial Bank of Ceylon from May 2002 till September 2003. He was the Deputy General Manager (ICT) of Sri Lanka Insurance from 2003 to July 2005 and became the Chief Operating Officer (support services) of Sri Lanka Insurance in July 2005 and served till March 2008. Dr Samarasinghe had been a Director – E-Channelling (Pvt) Ltd from September 2004 to June 2009. He was the Managing Director of Bell Vantage (Pvt) Ltd from September 2008 to December 2011.

#### **THUSHARI RANAWEERA (MRS)**

Company /Board Secretary  
Appointed: January 2012

#### **Skills & Experience:**

She is an Attorney-at-Law and counts over 29 years of experience in Banking.

Mrs Ranaweera holds a Master's Degree in Law (LLM) – University of Cambridge, U.K. and a Diploma in International Affairs – Bandaranaike Centre for International Studies, Sri Lanka.

#### **Other Current Appointments:**

Deputy General Manager - Legal of HNB, a Director of Acuity Stock Brokers (Pvt) Limited, Vice President of Sri Lanka Bank Company Secretaries Association & a Council Member of Association of Professional Bankers of Sri Lanka (APB).

#### **Previous Appointments:**

Member of Board of Governors of Sri Lanka National Arbitration Centre (2012-2017).

# Corporate Management



**JONATHAN ALLES**

M.B.A. - Finance (Stirling), A.I.B. (Sri Lanka)  
Managing Director/Chief Executive Officer



**DILSHAN RODRIGO**

M.B.A. (Cranfield), F.C.M.A.(UK), C.G.M.A., F.C.C.A. (UK)  
Executive Director/Chief Operating Officer



**THUSHARI RANAWEERA**

Attorney at Law, LL.M. (Cambridge),  
Dip. in Int'l Affairs (BCIS)  
Deputy General Manager - Legal/Company  
Secretary



**RUWAN MANATUNGA**

FCMA (UK), CGMA, FCA (Sri Lanka)  
Chief Risk Officer/  
Deputy General Manager - Risk



**CHIRANTHI COORAY**

M.B.A. (Wales), S.C.P. SHRM (USA), I.P.M.A. - CP (USA)  
Chief Transformation Officer/  
Deputy General Manager



**NIROSHANA SENEVIRATNE**

F.C.A. (Sri Lanka), F.I.B. (Sri Lanka), C.P.A.(Sri Lanka),  
C.I.S.A. (USA)  
Chief Internal Auditor/Deputy General Manager  
- Internal Audit



**SANJAY WIJEMANNE**

B.Sc. Business & Finance (Mount Saint Mary's University, USA)  
Deputy General Manager - Retail Banking Group



**ASANGA UDUWELA**

M.B.A. (Sri J.), B.Sc. Special (Pera.)  
Deputy General Manager - Operations



**DAMITH PALLEWATTE**

M.B.A. (PIM-SJP), BSc. Mgmt. (Hons.) London School of  
Economics, ACMA (UK), CGMA, F.R.M. (GARP), A.C.I.  
Deputy General Manager  
- Wholesale Banking Group



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Deputy General Manager - Treasury & Markets



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Head of Custody and Trustee Services



**ROHAN BUULTJENS**

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University (Australia)

Chief Technology & Digital Officer



**NIROSH PERERA**

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Chief Credit Officer



**RAJIVE DISSANAYAKE**

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Chief Financial Officer



**JANATH ILANGANTILEKE**

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(Sri Lanka), A.C.M.A. (UK), C.G.M.A., C.P.A. (Australia)

Assistant General Manager - Compliance



**HISHAM ALLY**

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Assistant General Manager - Islamic Banking



**VINODH FERNANDO**

Assistant General Manager  
- Network Management



**MAJELLA RODRIGO**

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**PRASAD BASTIANZ**

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Dip in Credit Mgmt. (S.L.I.C.M.), A.M.C.I.P.M.

Head of Human Capital Management



**SISIRA ATAPATTU**

Head of Recoveries



**NEIL RASIAH**

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**SAUMYA ARYASINGHA**

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**SUPUN DIAS**

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**EOMAL MUNASINHA**

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**V T SAMPANTNER**  
Regional Business Head - Central Region



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Chief Manager - Operations



**DILUNIKA JAYASINGHE**  
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A.C.S.I. (UK)  
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**ANURADHI DELAGE**  
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ISO 27001 LA  
Chief Information Security Officer



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Public & Commissioner for Oaths, M.C.I.C.M. (UK),  
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## Senior Management



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Money Markets



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Region



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**DEEPAL UDUKUMBURA**

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Development (Pvt) Ltd / Senior Manager -  
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**VIRANGA GAMAGE**  
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 Head of Deposits



**VINDHYA WIJEGUNAWARDANE**  
*M.B.A. (Cardiff Metropolitan University)*  
 Head of Customer Experience



**PASINDU DHARMASIRI**  
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 Head of Payment & Cash Management



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*M.B.C.S. (UK)*  
 Senior Manager - Application Management



**ANGELINA DHARMARAJ**  
*M.B.A. (UK), A.C.I.S. (UK), A.I.B. (Sri Lanka)*  
 Senior Manager - Credit Administration



**UDARA PATHINAYAKE**  
*M.B.A. (Uni. of Preston - USA)*  
 Head of Pawning



**PUNYA JINADASA**  
 Senior Manager (Foreign) - Head Office Branch



**CHAMARA GUNAWARDENA**  
*Pg. Dip in Computer Science (Colombo), B.I.T. (Colombo)*  
 Head of Application Development & Maintenance



**BANDULA MONNEKULAMA**  
*N.D.T. (Agriculture)*  
 Regional Business Head - North Central Region



**UPUL ADIKARI**  
*M.B.A. (Sri J.), Chartered Marketer, M.C.I.M. (UK), M.S.L.I.M., P. Mkt (SL)*  
 Senior Manager - Marketing & Communications

## Senior Management



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**DAPHNE GAMAGE**

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Senior Manager - Inward Remittances/Swift & Card Back Office



**DILANKA DE SILVA**

A.C.I.M. (UK)

Senior Manager - Head Office Branch



**SUSITH PERERA**

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Regional Business Head - Uva/Sabaragamuwa Region



**SHIVASARAVANABAWAN  
SUNTHARESWARAN**

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Head of HR Business Partnering



**SHIROMI HALLOLUWA**

Attorney-at-Law & Nortary Public, Company Secretary

Head of Legal



**GAUTHAMI NIRANJAN**

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M.B.A. (Edith Cowan University - Australia)

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A.I.B. (Sri Lanka)

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**PRASANNA KUMARA**

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**VIRAJ MENDIS**  
Head of Credit Operations



**SHERAN PERERA**  
*M.B.A. (UK), A.I.B. (Sri Lanka)*  
Head of HR Operations



**TISSA NANAYAKKARA**  
Head of Card Operations



**AJITH FERDINANDO**  
Head of Centralised Operations



**ROZANNE DE ALMEIDA**  
*A.I.B. (Sri Lanka)*  
Head of Trade & Financial Institutions



**NELUKA FERNANDO**  
Senior Manager  
- Centralised Trade Processing



**SHANKAR DHARMARATNE**  
*B.Sc in Business Administration*  
*- University of Coventry (UK)*  
Head of Digital Services



**NIMAALI DE MEL**  
*A.I.B. (Sri Lanka)*  
Senior Manager - Outward Remittances

# Our Business Model

## OUR INPUTS

Capitals deployed to generate value to the Group and stakeholders



**Financial Capital**  
Financial assets and liabilities as set out in the financial statements



**Human Capital**  
The Hatna Team



**Social & Relationship Capital**  
Our customers, business partners, correspondents, suppliers, investors and communities we operate in.



**Intellectual Capital**  
Our brand, organisation structures, policy frameworks, systems and processes and the tacit knowledge of our team



**Digital Capital**  
Hardware, software and networks that enable digitalisation of our activities



**Manufactured Capital**  
ATM is digital capital, can we include a building for manufactured capital

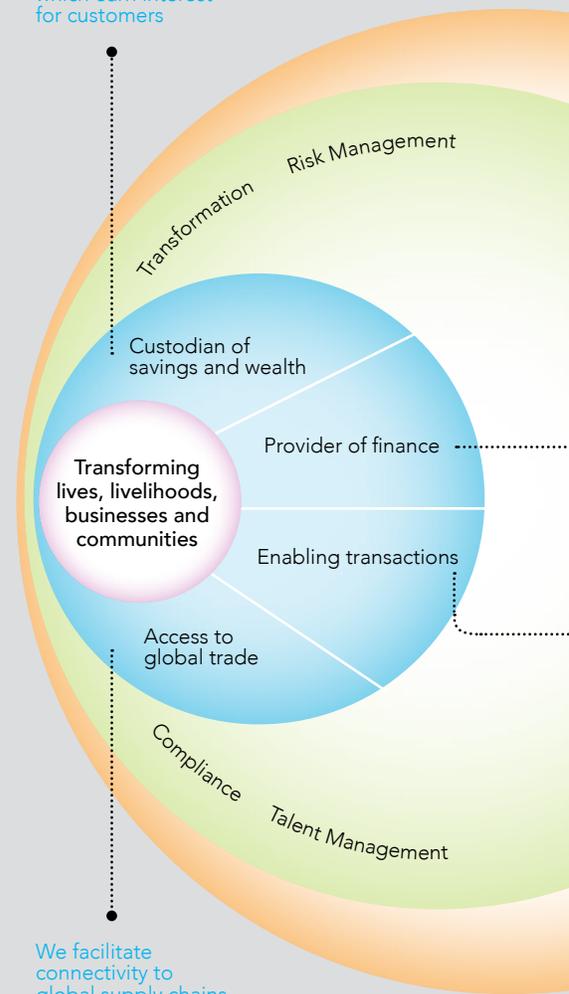


**Natural Capital**  
Natural resources consumed in carrying out our business activities

## CORE FUNCTIONS

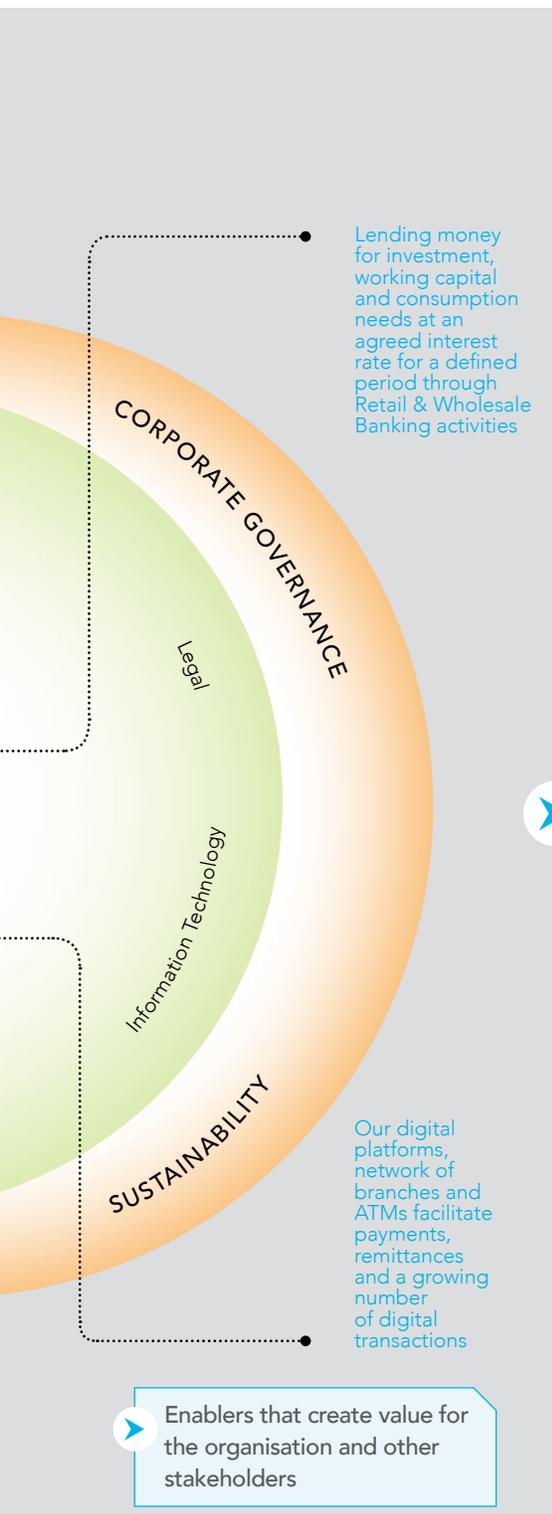
Business lines that create value to our customers

We mobilise deposits through a range of products which earn interest for customers



We facilitate connectivity to global supply chains through a network of correspondent banks and specialist services such as Trade Finance and Treasury

## & ENABLERS



## OUTPUTS

Products, services, by-products and waste

### For Customers

**Rs 815 Bn**

Gross Loans and Advances

**Rs 59 Bn**

Interest Paid

**Rs 198 Bn**

Imports

**Rs 70 Bn**

Exports

**Rs 203 Bn**

Remittances

### For Employees

**Rs 11.5 Bn**

Remuneration

**107,461 hours**

of training

### Business Partners

**Rs 250 Mn**

in Commissions

## OUTCOMES

Internal and external consequences for the capitals as a result of an organisation's business activities and outputs

### Social & Relationship Capital

Improved customer satisfaction

Convenience through digital channels

New business partnerships

### Financial Capital

Profit After Tax **Rs 11.5 Bn**

Improved CASA

Improved efficiency

Improved Asset quality

Strong capital

Improved Liquidity

### Human Capital

Employee satisfaction

Productivity

A skilled, trained and engaged team

### Digital Capital

Upgraded systems

Improved digital solution

Depreciation in value of digital capital

### Manufactured Capital

Wide spread presence

Safe environment

### Natural Capital

Reduced emissions by **13.9%**

Generated **2,945,624 kwh** of solar energy

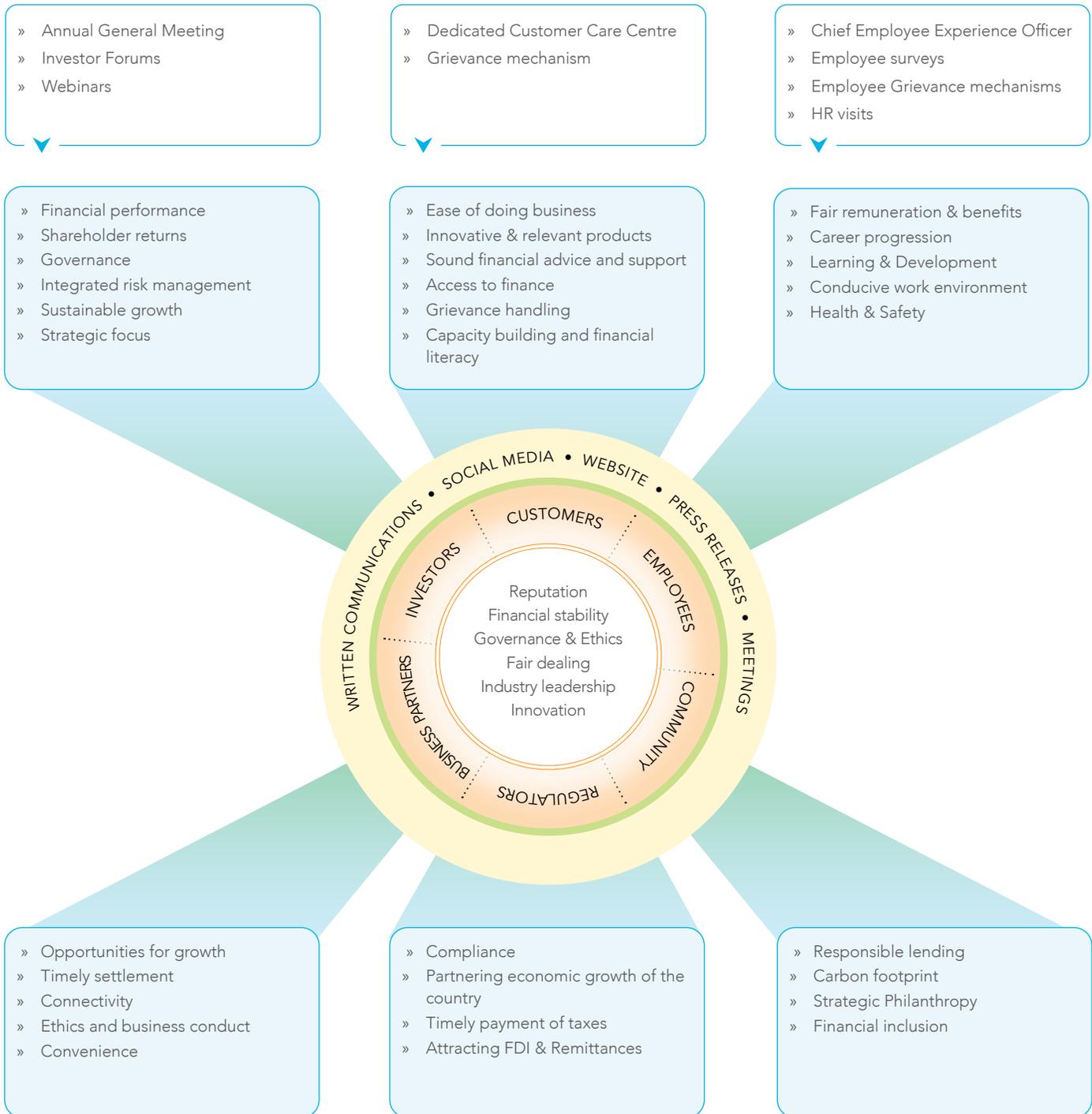
**100%** of paper recycled

**3.7 Kg/Sqft** Emissions

**90,049 Kg** of Paper usage

# Listening to Stakeholders

The future of industries is shaped by stakeholder expectations, changing lifestyles and 2020 heightened our awareness of this as we responded to people concerns with alacrity. Our investments on proactive listening to stakeholders and addressing their concerns enabled us to adapt to a new norm with relative ease and consolidate relationships as we facilitated responses to diverse concerns. Mechanisms set in place to enable the leadership team and the Board to understand concerns of our customers continue to highlight stakeholder concerns through common and dedicated channels or processes. As in previous years, the report highlights value delivered to stakeholders throughout the business line reviews and Capital Reports.



# Our Strategy

As we neared the summit of our journey, our long term strategy for the next few years was finalised summarising our aspirations and our plans to make them a reality.



**Most Admired Bank**  
**Most Customer Centric Bank**  
**Best Digital Bank**  
**Most Preferred Employer**

### Business Growth

- » Sustainable growth
- » Capture new business opportunities

### Improve Customer Experience & Productivity

- » Improve grievance handling mechanism
- » Cost optimisation
- » Improve turnaround time for key product propositions

### People Development

- » Refresh Performance Management
- » Capability development
- » Strategic Workforce planning

### Technology Enablement

- » Complete implementation of Core Banking System and key systems.
- » Improve stability and reliability of systems
- » Improve MI and analytics capability
- » Enhance mobile & internet banking propositions



#### Plan 2020

- » Focused on identified sectors and segments
- » Partnerships entered into with merchants to offer benefits to customers mainly in relation to leasing, credit cards and digital products
- » Revamped the minor savings proposition
- » Obtaining USD 60Mn from Proparco France to support SMEs

- » Implementation of Chatbots and RPA
- » Set up a service help desk
- » Introduced point of contacts from key areas for faster resolutions
- » Formation of service support group to implement service improvement initiatives
- » Critical reassessment of operating expenses

- » Setting up strategic work force planning
- » Review of key HC policies
- » Continuous learning through virtual platforms

- » Completed implementation of the core banking system on schedule
- » Rolled out retail module of the new loan origination system
- » Launch of the new Digital Banking App
- » Implemented a new business intelligence tool
- » Strengthened system stability



#### Wins

- » 16% retail loan growth
- » 35% CASA Growth
- » 19% Deposit Growth

- » NPS improved from 64% to 77%
- » Cost to income improved to 39.3%

- » Retention : 94%
- » Training hours / employee : 22.2
- » No of training participants : 16,921

- » Transactions through ATMs as a % of total transactions
  - » Withdrawals : 89%
  - » Deposits : 64%
- » 46% growth in ebanking transactions



#### Score

- » Capture new business opportunities
- » Relationship management
- » Improve sales culture

- » Continuous improvement of processes
- » Cost optimisation
- » Automation

- » Capability Development
- » Strategic Workforce Planning
- » Succession Planning

- » Stabilise core systems
- » Develop enabling systems
- » Improve analytics capability



#### Plan 2021

### Business Sustainability

#### Plan 2020

- » Improve asset quality
- » Enhance Governance
- » Strengthen data/information security

#### Wins

- » Review of credit policies in line with market condition
- » Setting up special asset management units and strengthening recovery process
- » Strengthening governance structures
- » Implementation of privilege access management and data loss prevention systems.

#### Score

- » NPA improved to 4.31% from 5.91% in 2019
- » LAR : 39.6% (statutory requirement 20%)
- » LCR : 290% (statutory requirement 90%)
- » CAR : 17.98% (statutory requirement 12.5%)

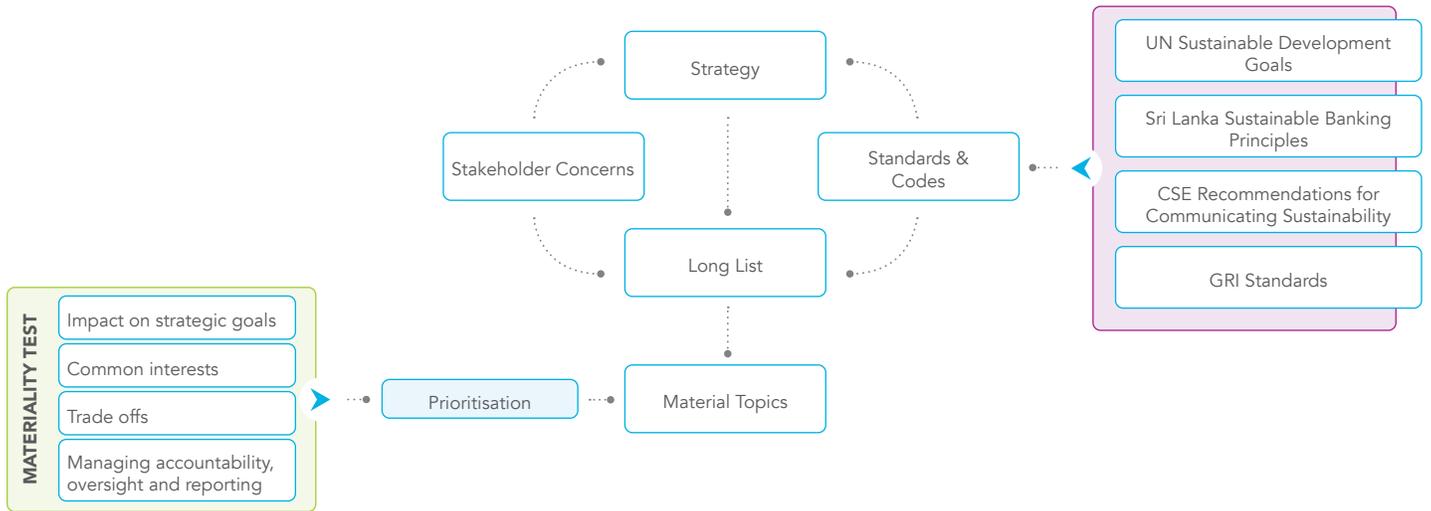
#### Plan 2021

- » Strengthen governance
- » Improve credit, compliance and risk management culture
- » Enhance cyber, information security

With the outbreak of the COVID-19 pandemic the Bank and the entire sector was impacted. Such impact on the Bank is discussed under the capital reports and the business reports from page 45 to 101.

# Determining Material Matters

Issues that significantly affect our ability to create long term value are considered to be material topics and we establish processes to measure and monitor these with a view to understanding their impact and managing the dynamics where possible. A long list of potential material matters are filtered using feedback from the stakeholder engagement process and our own strategic priorities using a 5 part materiality test as graphically depicted below. These material topics are monitored to identify potential opportunities and risks and to determine the level of reporting required.



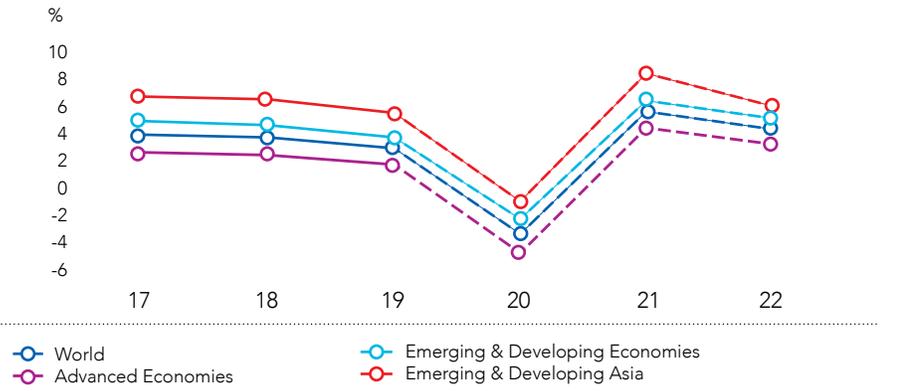
2020 Rank	Material Topic	Standards/ Goal/ Principles	2019 Rank	Rationale for movement
<b>EXTREMELY HIGH</b>	<b>Macroeconomic Performance &amp; Government Policy</b> Uncertainty regarding the duration of the pandemic and its humanitarian and economic impacts including policy options make this the single most important factor <i>Refer Market Review on page 40</i>	GRI; 201-1, 201-4, 203-1, 203-2, 207-1, 207-2, 207-3 UNSDG; 8, 17 SLSBP; 7, 9	#1	Although the ranking is the same as in 2019, the economic conditions have worsened exacerbating concerns
	<b>Stakeholder Health &amp; Safety</b> Health and safety protocols implemented to curtail the spread of contagion and potential risks to employees, customers and outsourced providers make this a top priority. <i>Refer Social and Network Capital and Human Capital Report on page 58 and 64</i>	GRI; 403, 416 UNSDG; 3 SLSBP; 3	Not included in 2019 as this was a stable factor	The highly contagious nature of the virus, its evolution and resurgence is a black swan event with its characteristic severity of impact
	<b>Customer Support &amp; Satisfaction</b> As we aspire to be recognised as the most customer centric bank, this is a high priority. <i>Refer Social and Network Capital Report on page 58</i>	GRI; 102-43, 102-44, 418-1 UNSDG; 10 SLSBP; 3	#2	Expanded caption to include support to customers which was a critical need in 2020 and likely to be a concern in 2021 as well.
	<b>Technology &amp; Future Readiness</b> Provides a platform for innovation and enhanced user experience while facilitating scalability and cost efficiencies. <i>Refer Digital Capital Report on page 54</i>	GRI; 203-1, 203-2 UNSDG; 9, 11, 17 SLBP; 4, 7, 8	#5	Technology became a lifeline for customers who were onboarded to our digital platforms to carry out transactions from the safety of their homes and offices
	<b>Integrated Risk Management</b> Risk management is key to understating potential impacts on our capitals, performance and financial stability and serves as the Bank's second line of defense. <i>Refer Risk Review on page 134</i>	GRI; 102-15, 102-30 UNSDG; 11 SLSBP; 1, 5, 10	#8	Ranked high due to extremely high levels of volatility and uncertainty globally and locally.

2020 Rank	Material Topic	Standards/ Goal/ Principles	2019 Rank	Rationale for movement
HIGH	<b>Brand &amp; Reputation</b> Our brand and reputation is critical as our growth is dependent on the trust of our stakeholders. <i>Refer Intellectual Capital Report page 68</i>	GRI; 102-2 UNSDG; 16 SLSBP; 6, 10	#3	While these topics are critical to our strategic goals and ability to create value, the urgency of the 5 issues ranked above take precedence at this point in time.
	<b>Talent attraction, development and retention</b> Dedicated resources nurture our value creators who propel our growth <i>Refer Human Capital Report on page 64</i>	GRI; 404-1, 404-2, 404-3, 405-1, 405-2, 412-2 UNSDG; 4, 5, 8 SLSBP; 8	#4	
	<b>Financial Stability &amp; Profitability</b> This is critical to our ability to create value to all stakeholders and secure the trust of our customers who entrust management of their wealth to us. <i>Refer Financial Capital Report on page 45</i>	GRI; 201-1 UNSDG; 8, 16, 17 SLSBP; 10, 11	#7	
FUNDAMENTAL	<b>Ethics, Governance &amp; Compliance</b> Sound governance, legal and regulatory compliance and ethics determine reporting lines, roles and responsibilities and shape our organisation culture <i>Refer Corporate Governance : Annual Report of the Board of Directors on the Affairs of the Company on page 102</i>	GRI; 102-16, 102-17, 102-18 UNSDG; 16 SLSBP; 1, 6, 10, 11	#9	These are core to building everything else and will always remain on our list of priorities.
	<b>Inclusive growth &amp; responsible lending</b> As custodians of wealth and providers of capital, we balance interests of depositors and lenders and manage risks associated with our business in a structured manner <i>Refer Risk Review on page 134 and Social and Network Capital Report on page 58</i>	GRI; 102-15, 201-1 UNSDG; 9, 10, 11, 12 SLSBP; 1, 4, 5, 6, 11	#6	
	<b>Business Innovation</b> Product and channel innovation provides a key competitive advantage as we strive to cater to changing customer demands <i>Refer Business Line Reviews on page 74</i>	GRI; 201-2 UNSDG; 9, 11 SLSBP; 9	#10	
	<b>Business network relationships</b> Managing relationships with correspondent banks, franchise owners, merchants, agents suppliers and other business partners enables us to provide a seamless service to our clients <i>Refer Social and Network Capital Report on page 58</i>	GRI; 102-12 UNSDG; 9, 17 SLSBP; 9	#11	
	<b>Climate Action</b> We screen investments for environmental compliance, manage our own consumption patterns and contribute positively to minimise impacts from climate change <i>Refer Natural Capital Report on page 70</i>	GRI; 201-2, 302-1,302-2, 302-3, 302-4, 302-5, 304-3, 305-1, 305-2, 305-4, 305-5, 306-2 UNSDG; 7, 12, 13, 14, 15 SLSBP; 1, 2, 5, 7	#12	

# Market Review & Outlook

## GLOBAL ECONOMY

### REAL GDP GROWTH

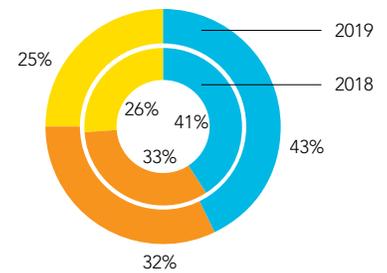


The COVID-19 pandemic impacted every aspect of the global economy in 2020 and is likely to remain a dominant factor in 2021 as new variants and waves continue to defer return to normalcy. Vaccines developed at a record pace are being rolled out across the globe, with front line workers in many countries having received their first dose by the date of this report, raising hopes tempered with a realisation of the mammoth task that lies ahead to inoculate the world. The upward revision of forecasts for 2021

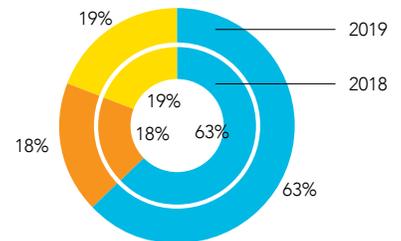
by the International Monetary Fund in its January 2021 outlook relative to its October 2020 outlook, albeit by 0.3%, strengthens our optimism for a forecast recovery of 5.5% in 2021 as we emerge from the recession estimated to be negative 3.5% in 2020. IMF also forecasts divergent recovery paths for countries with key factors impacting the path identified as access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis.

Globally, central banks adopted an accommodative stance, cutting policy rates in 2020 to provide relief to individuals and businesses impacted by the pandemic as global growth declined sharply and inflation expectations lowered.

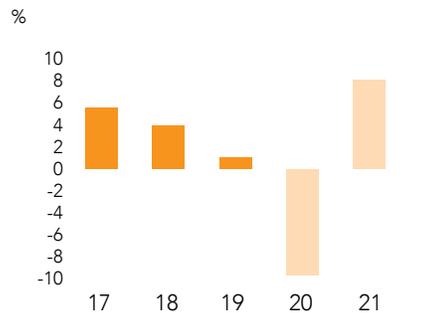
### GDP CONTRIBUTION 2018/19



### EXPORT OF GOODS & SERVICES 2018/19

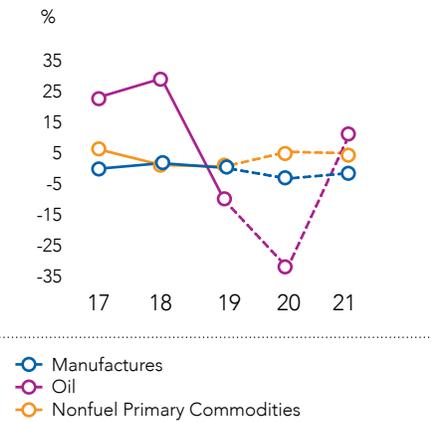


### WORLD TRADE VOLUME GROWTH

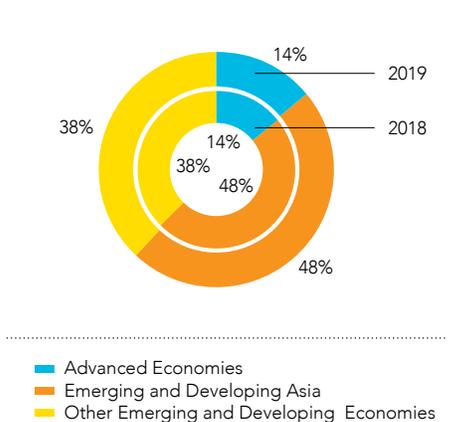


Source : IMF

### WORLD PRICES IN US\$: ANNUAL % CHANGE



### POPULATION 2018/19



## SRI LANKAN ECONOMY

Wide ranging measures to curtail the pandemic in March 2020 enabled a return to work by mid May supporting growth in the third quarter. The 2nd wave which commenced in the fourth quarter dampened growth and has proved more difficult to curtail as it became more widespread. Consequently, CBSL expects the economy to have contracted by 3.9% in 2020.

Moratoria extended to the tourism sector in response to the Easter Sunday attacks were extended and enhanced with the onset of the pandemic. CBSL introduced the Saubhagya relief scheme to support the affected businesses through a refinance and interest subsidy scheme. Other relief measures extended by banks included capping of interest rates charged on credit card payments, reduction of minimum monthly payment dues on credit cards for varying durations and waivers of penal charges on leasing facilities.

The regulator also implemented other regulatory measures to ease the pressure on the currency which depreciated by 2.6% during 2020. These included restrictions on imports, foreign currency investments, discretionary payments by banks and investments in GOSL international sovereign bonds by Banks.

The sovereign rating for the country was downgraded by three international rating agencies which cite the impact of the COVID-19 pandemic undermining the country's debt servicing capability which in turn is expected to increase pressure on the exchange rate.

The Colombo Stock Exchange witnessed an exodus of foreign funds during the year with the onset of the pandemic in line with many emerging market economies. Resultant low valuations and the low interest rate environment buoyed the stock market in the second half of the year with the benchmark

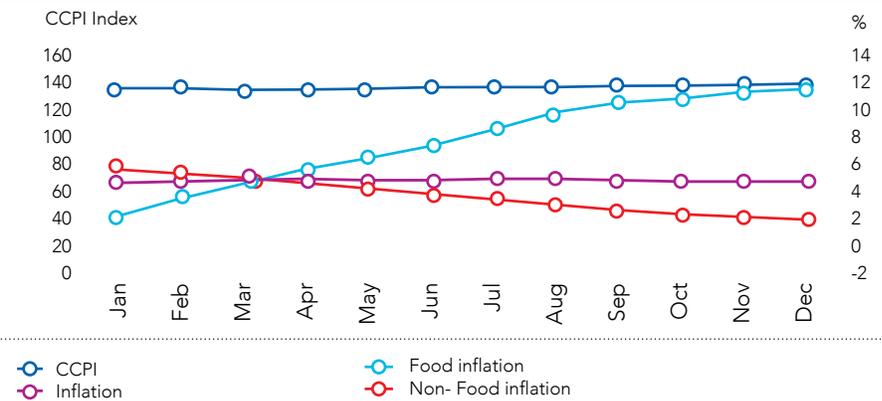
	End 2020	Year Ago
Standing Deposit Facility Rate	4.50%	7.00%
Standing Lending Facility Rate	5.50%	8.00%
Average Weighted Call Money Rate (AWCMR) (Weekly Average)	4.54%	7.27%

All Share Price Index gaining 10.5% in 2020 as retail investors sought higher yielding investments in the latter half of the year.

## REAL GDP GROWTH

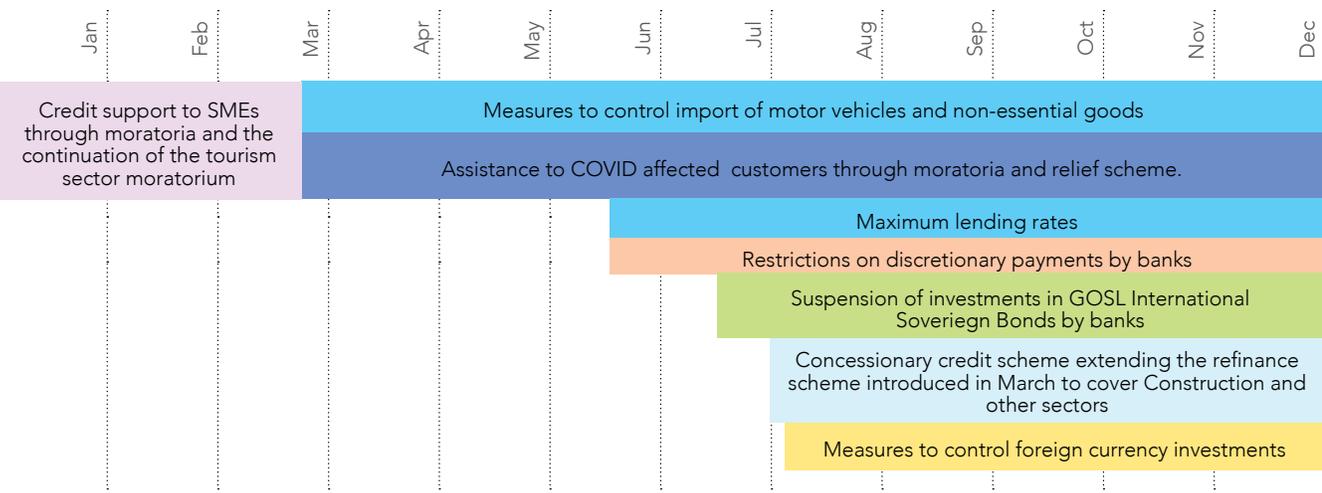
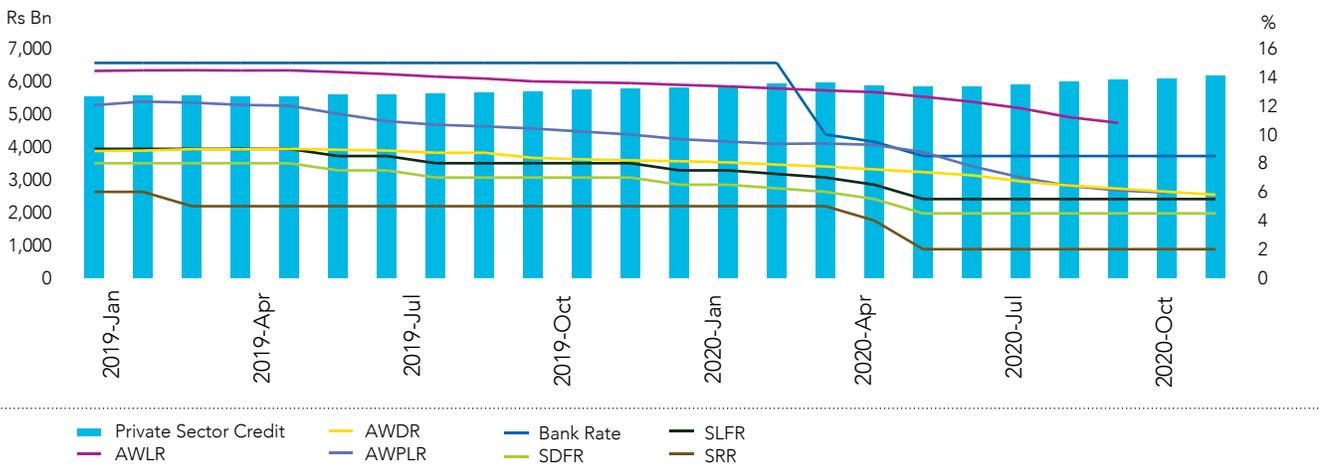


## INFLATION

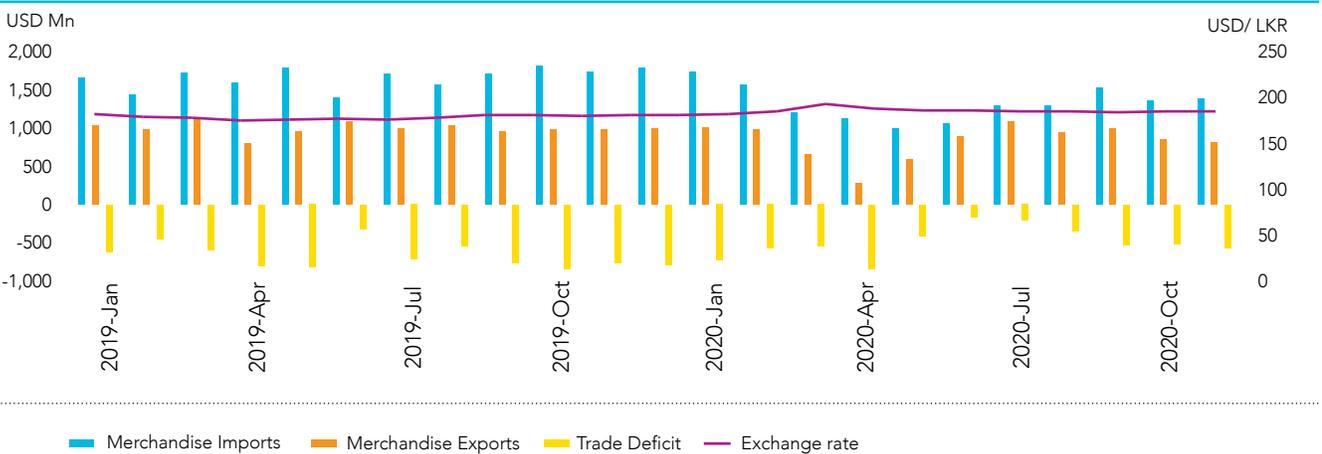


# Market Review & Outlook

## INTEREST RATES & PRIVATE SECTOR CREDIT DEMAND



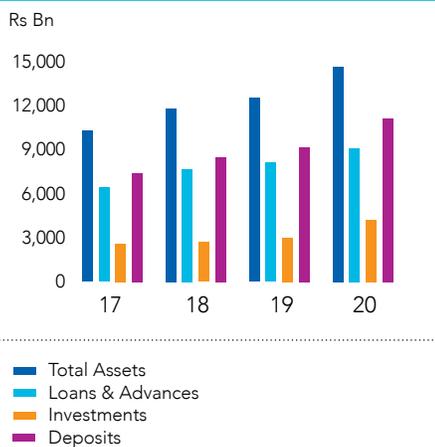
## EXTERNAL TRADE & EXCHANGE RATE MOVEMENT



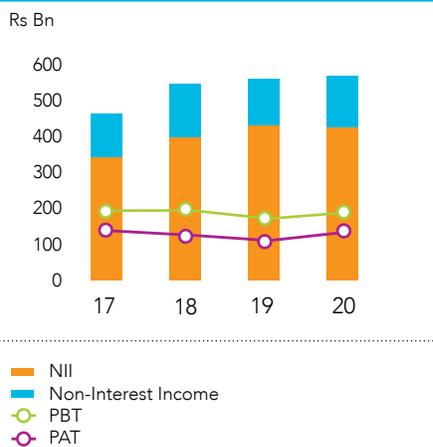
## BANKING INDUSTRY

The Banking sector in the country played a key role in supporting businesses stay afloat during the year by facilitating access to finance and providing moratoria on existing loans thereby easing cashflow pressures. The low rates of interest impacted the net interest income of the banking sector while lower trade volumes adversely impacted fee income.

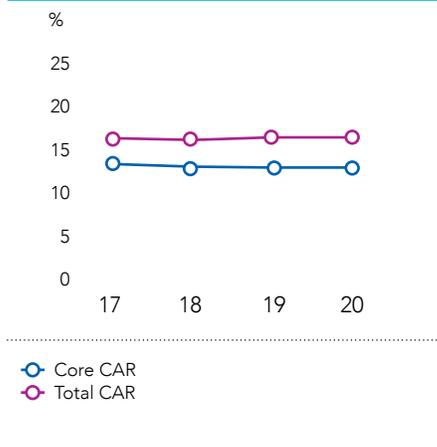
### GROWTH



### EARNINGS



### STABILITY



### Growth

The Banking sector assets grew by 17% to Rs 14.7 Tn as at end of 2020 while, gross loans and advances of the Banking sector growth was 12%. It is noteworthy that some sectors were buoyant during the year due to high demand for personal protective equipment, food and agriculture buttressing the impact of the business interruptions due to the pandemic. Inevitably asset quality declined during the year as Gross Non-Performing Advances ratio increased from 4.7% at the close of 2019 to 4.9% at the end of 2020.

Despite the lower interest rates, deposit growth recorded a 22% growth in 2020 compared to 8% recorded for 2019 reflecting the renewed trust in banks as depositors moved funds from institutions perceived to have higher risk to banks. CASA ratios improved to 35% with balances growing by a healthy 34% while time deposits also recorded strong growth of 15%.

### Opportunities & Challenges for HNB Group

Every crisis presents opportunities as we shift gears to seek new solutions for challenges presented. The pandemic sharpened minds and focus to find solutions across the world quickly.

Vaccines have been introduced, governments have developed varying protocols to cope

with the pandemic while e-commerce became mainstream.

The Bank saw customers embrace digital transaction platforms which is expected to transform the future of banking with win-win solutions for all stakeholders while it coped with the processing of moratoria, challenges in keeping branches open due to health and safety issues and providing access to cash and finance at a critical time.

Solutions rolled out by the Bank are testimony to its commitment to uphold stakeholder covenants as we provided much needed cash life lines to customers across multiple sectors, minimising the potential fallouts and supporting livelihoods of people during the crisis. Regulation and policy measures played a key role in maintaining an even keel as the sector worked with CBSL to avert potential threats. In hindsight, working through the challenges to support customers stay afloat is perhaps the biggest opportunity that presented itself in the guise of a challenge as it renewed trust in the Bank, forging relationships that increased our share of business.

Declining interest rates and net interest margins combined with elevated credit risk exerted pressure on earnings. Additionally, productivity was also impacted by the business interruptions and social distancing measures.

These were carefully managed during the year supported by sound governance and risk management processes to maintain a healthy bottom line.

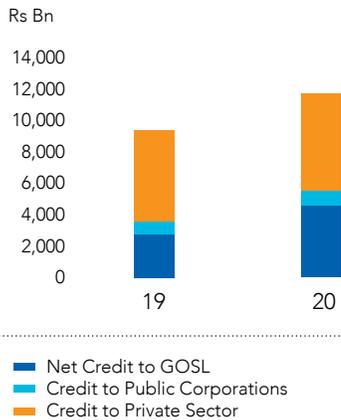
The global recession stemming from the pandemic resulted in subdued global demand evinced by the decline of global trade by 9.2% in 2020. Restrictions imposed on inputs needed for export industries exacerbated impact. Consequently, imports and exports declined by 20% and 17% respectively in 2020. Lower trade and card volumes together with low economic activity eroded the fee based income.

The lockdown presented an opportunity to onboard clients onto our digital platforms and we were able to gain momentum as client's mindsets were open to digital transformations in the wake of social distancing measures. Customers were on-boarded to payment and cash management system, mobile and Internet banking, e-commerce platforms and digital transactional products such as HNB Solo and MoMo.

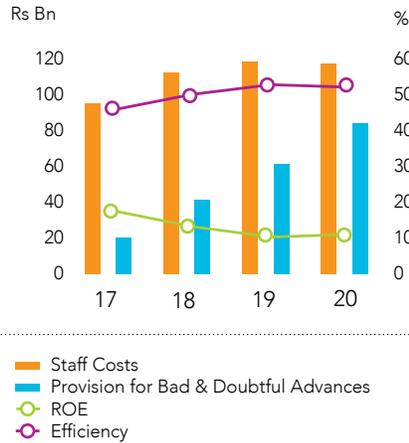
The lockdown was also an opportunity to accelerate digitalisation of numerous processes which supported remote working. Employees were as eager as customers to adapt to new ways and we were able to deliver a host of applications that increased productivity. It was also an opportunity to

# Market Review & Outlook

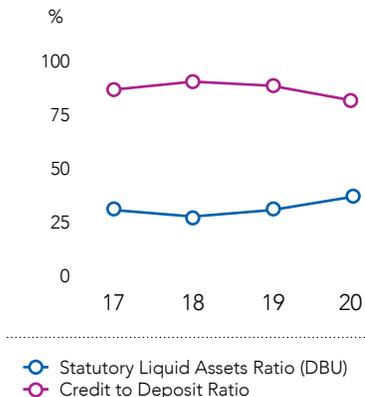
## CREDIT GROWTH



## KEY EXPENSES & RATIOS



## LIQUIDITY



mainstream e-learning and the catalog of courses available online was also extended, upskilling our people to future proof the Bank.

Financial inclusion is an opportunity for HNB with an island-wide presence and robust digital platforms. Microfinance, Retail and Islamic banking business lines continued its journey, albeit with caution to expand the footprint as we acquired new customers with a relevant and future ready portfolio of products.

Sri Lanka's sovereign rating downgrade by international credit rating agencies is likely to prove a challenge in 2021 as it increases the costs of foreign borrowings and necessitates a revisiting of our funding strategies.

The lower interest regime and attractive valuations saw the resurgence of the Colombo Stock Exchange in the latter half of 2020. Digital transformations at CSE including mandated inclusion of bank account numbers for CDS operations and allowed stockbrokers and custodian banks to open CDS accounts for their clients which provided a boost to custodian services and to the Investment Banking Group.

### Future Outlook

High levels of uncertainty surround any forecast into 2021 as recovery is fragile, the road to normalcy long and winding with potential surprises and pitfalls much like a childhood game of snakes and

ladders. The ladders we know are the roll out of vaccines, the accommodative policy stances adopted by governments, wider acceptance of digital solutions and renewed trust in banks. The pitfalls include the sovereign rating downgrade, looming debt repayments, pressure on the exchange rate and the potential fallouts after the end of the moratoriums in place.

Oil prices are also forecast to increase in 2021 which will also add to concerns over the trade balances. It is noteworthy that food inflation has increased since April 2020 which was offset by the decrease in non-food inflation and an increase in oil prices will change the dynamics, pushing inflation up. Other potential pitfalls such as climate risks must also be considered as it can impact food supply chains, power generation and ultimately the trade balance. Duration of the pandemic, the rollout and efficacy of vaccines together with policy measures will remain key to the profitability and stability of the banking sector and the country.

We continue to monitor developments closely and to adjust our models to fine tune stress scenarios to align our strategies to the opportunities and threats presented by the business landscape.

# Financial Capital Report

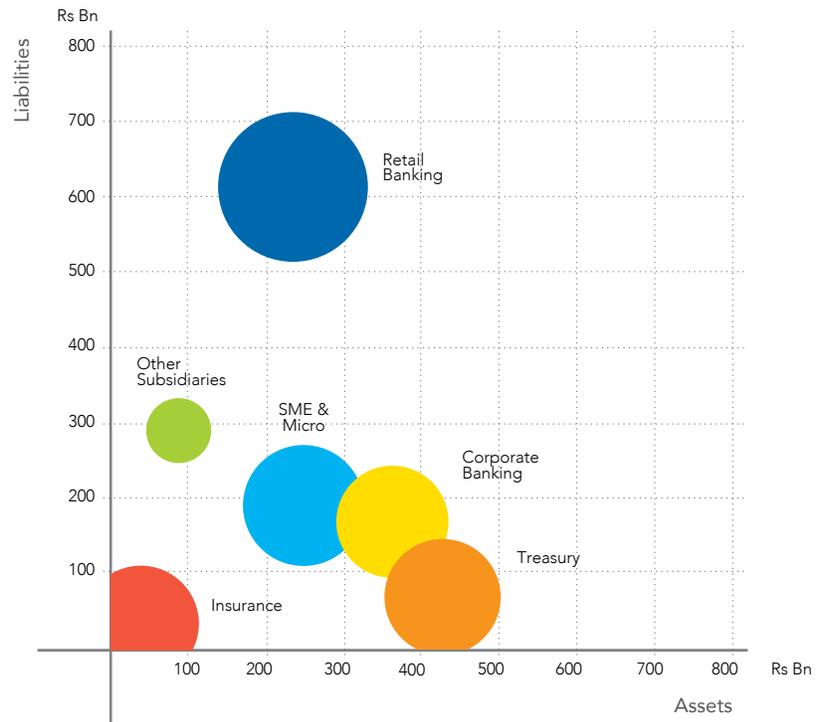


Hatton National Bank PLC Group recorded a profit after tax of Rs 13.7 Bn in a year marked by business interruptions, accelerated innovation and economic stress across the world which required a realignment of strategic priorities. Our focus was on ensuring that customers had access to necessary finance and cash to sustain their businesses and livelihoods; while simultaneously striving to maintain superior asset quality, operational excellence, liquidity and enhancing the sustainability of our business model.

Balance sheet growth was encouraging as Total Assets of the Group increased by 15% to Rs 1.4 Tn even as demand for private credit remained subdued and investments increased during the year. Deposit growth of 19% reflects the strength of the domestic franchise as this was achieved during a period of historically low rates of interest. Group Net Assets per share increased by 6% to Rs 301.28 as at end of 2020.

## HOW WE MAKE MONEY

Segment Contribution to Total Operating Income relative to Assets & Liabilities



Note: The size of the sphere indicates the contribution to Total Operating Income while the positioning of the sphere indicates the asset liability mix in the business line

## EARNINGS

### INCOME

**NET INTEREST INCOME** Rs 50.8 Bn + **NON INTEREST INCOME** Rs 21.2 Bn = **TOTAL OPERATING INCOME** Rs 72.1 Bn

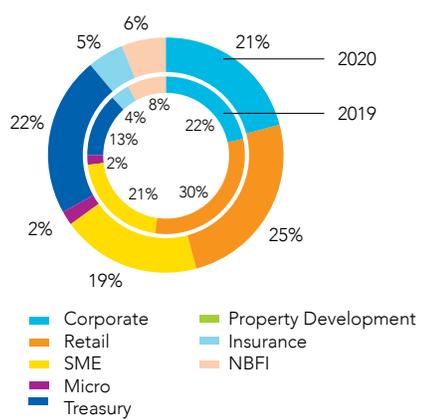


Net Interest Income (NII) declined by 9.8% to Rs 50.8 Bn during the year as Sri Lanka, akin to governments across the world, moved to low interest rates to support economic activity. Nevertheless, the demand for private credit remained subdued as customers focused on reviving their businesses and livelihoods. Net Interest Margins (NIM) also narrowed as the decline in deposit rates lagged the rapid decline in lending rates. However Bank level CASA growth of 34.7% cushioned HNB's NIMs.

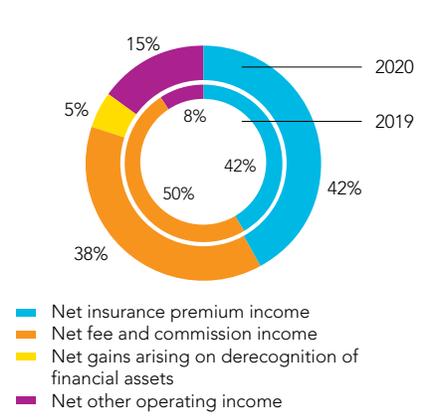
Non-Interest Income increased by 5.4% to Rs 21.2 Bn supported by lower swap costs and volumes and capital gains of Rs 1.1 Bn realised through disposal of GOSL securities which offset the decrease in net fee and commission income. Group Net fee and Commission income declined by 19.6% to Rs 8.0 Bn as trade volumes decreased due to decreased trade activity owing to wide-ranging import restrictions and depressed demand in export markets as well as markedly decreased credit card spends, particularly during the first wave of the pandemic. Insurance premium recorded by HNB Assurance Group maintained a steady growth trajectory increasing by 6.5% to Rs 8.9 Bn reflecting a prudent and targeted growth strategy aligned to the business landscape.

Accordingly, Total Operating income declined by 5.8% to Rs 72.1 Bn, despite being bolstered by other income as NII and Fee and Commission income waned in line with economic activity. The Bank's contribution to Total Operating Income remains steady at 78.2% while accounting for 87.9% and 94.0% of NII and Net Fee & Commission Income. The HNB Assurance Group contributed 12.4% through Net Insurance Premiums to Total Operating Income while other subsidiaries contribute the balance 9.4%. The charts below reflect the NII and Total Operating Income from the Group's key business lines and also provide a view of the components of Non-Interest Income.

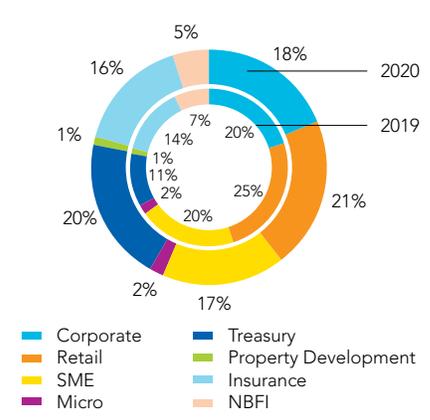
#### SEGMENTAL NII CONTRIBUTION



#### COMPOSITION OF NON INTEREST INCOME

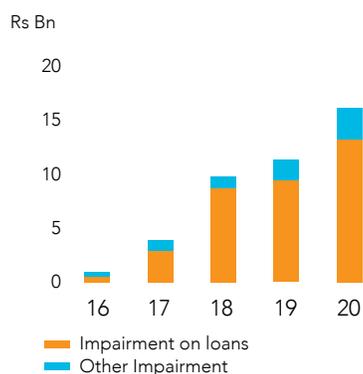


#### SEGMENTAL TOI CONTRIBUTION



## CHARGES AND EXPENSES

**IMPAIRMENTS**  
Rs 16.0 Bn



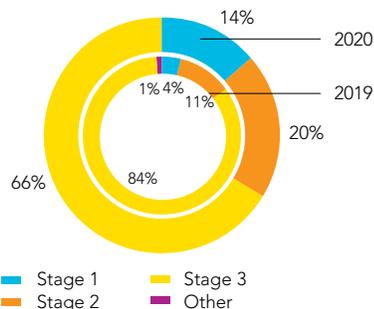
An increase in impairment was inevitable given the macroeconomic landscape. The individually significant portfolio (ISL) was evaluated stringently for any expected losses irrespective of the moratoria in effect.

The Bank also recognised substantial impairment charges on account of weak economic conditions and customers in elevated risk industries. Taking in to consideration the loans under moratoria and the impact once the moratorium period ends in March 2021, a significant allowance for overlay was taken into account.

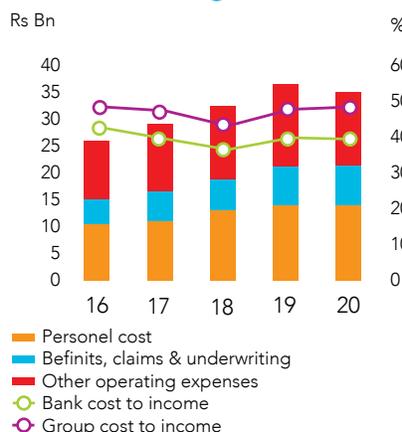
The impairment charges also included an amount of approximately Rs 2.6 Bn arising on account of the investments in dollar denominated government securities due to the sovereign downgrade by rating agencies. This accounted for 16.2% of the total Group impairment charge.

Consequently, impairments increased by 40.4% for the Group and 58.0% for the Bank to Rs 16.0 Bn and Rs 15.3 Bn respectively.

### IMPAIRMENT CHARGERS



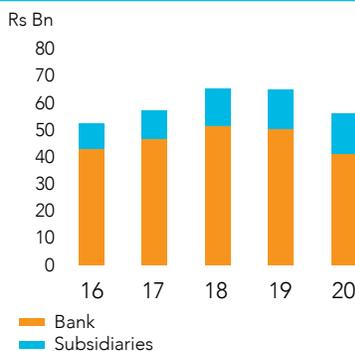
**OPERATING EXPENSES**  
Rs 34.8 Bn



Focused efforts on cost optimisation without any reduction in staff salaries or downsizing, supported the improvement in the cost to income ratio from 39.7% in 2019 to 39.3% by 2020 despite the decrease in the Bank's Total Operating Income by 5.8%. At Group level, overall cost efficiency remained in line with the previous year at 48.3%.

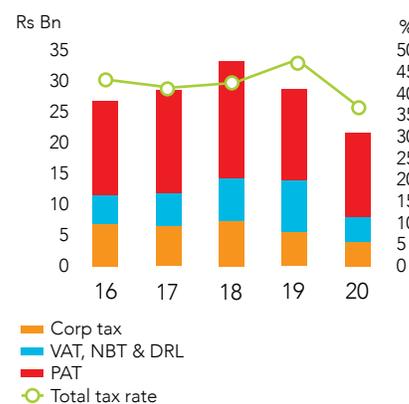
Operating Profit declined by 25.9% and 28.1% for the Group and Bank respectively to Rs 21.2 Bn and Rs 19.0 Bn as lower income and higher impairments overshadowed considerable gains in process efficiencies.

### NET OPERATING INCOME



## PROFITS

**PBT Rs 17.6 Bn**  
**PAT Rs 13.7 Bn**

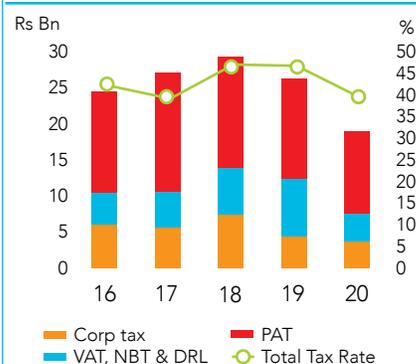


The share of profits from the joint venture increased by 117.9% to Rs 407.2 Mn due to strong performance of the primary dealership arm with the reduction in interest rates and stable performance of the venture capital company. Total Group level taxes and levies decreased by 42.3% to Rs 8.0 Bn due to lower profits and ceasing of the Debt Repayment Levy and the Nations Building Tax. Accordingly, Group Profit after tax declined by 9.1% to Rs 13.7 Bn.

The impact of decreased operating income and impairments on the Bank was higher with profits declining by 18.3% to Rs 11.5 Bn. Earnings per share for 2020 amounted to Rs 25.58.

Total Comprehensive Income for the Group declined 32.0% to Rs 10.5 Bn due to marked to market losses on equity and other financial assets fair valued through OCI and the drop in profits. Total Comprehensive Income for the Bank moved in line with a decline of 42.0% to Rs 8.2 Bn.

### BANK



# Financial Capital Report

## FINANCIAL POSITION & CASHFLOW

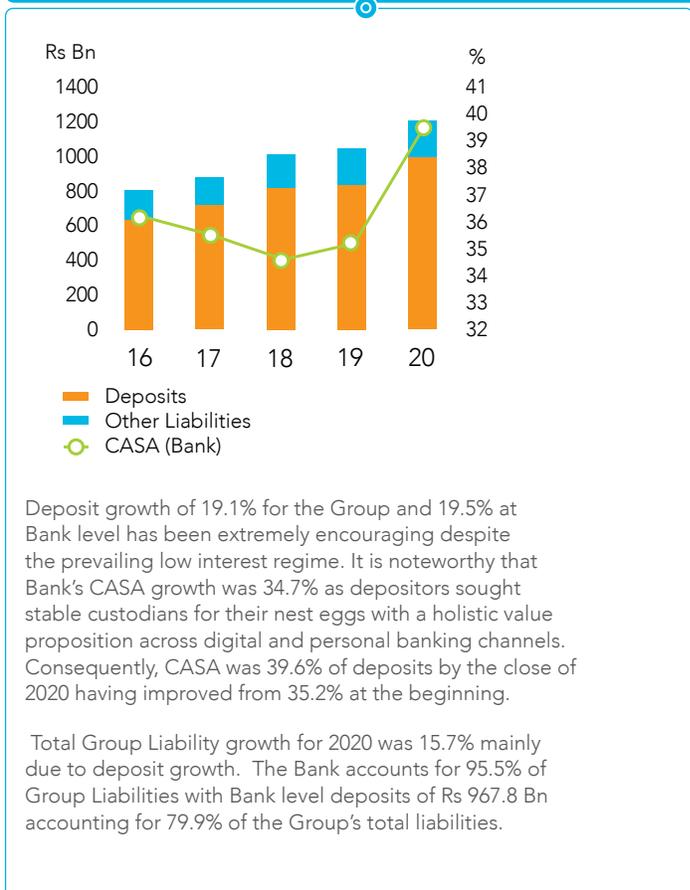
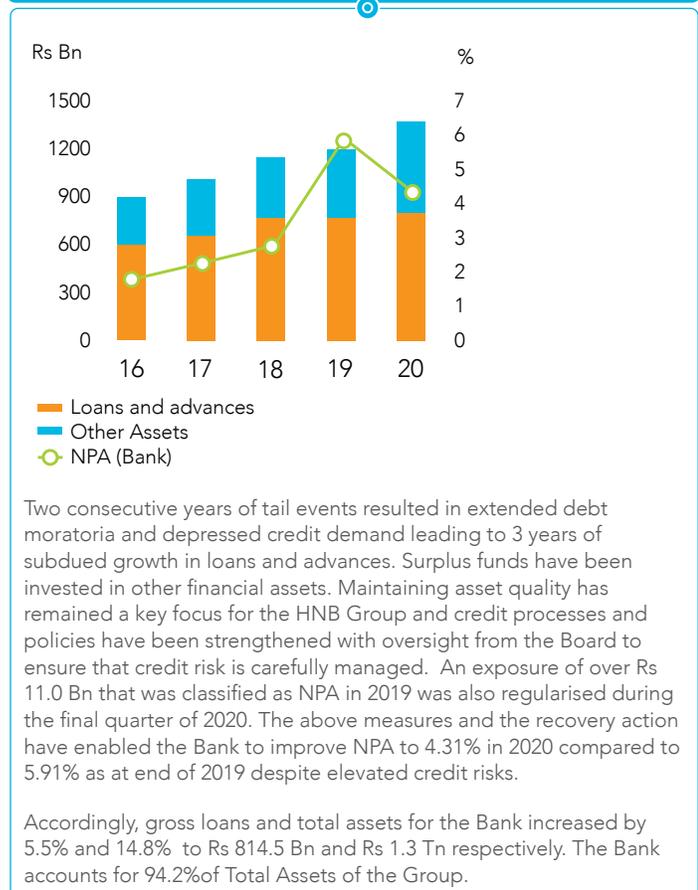
ASSETS

=

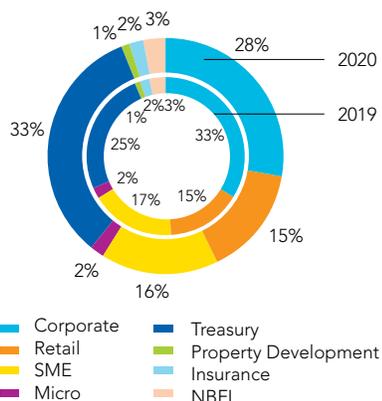
LIABILITIES

GROUP TOTAL ASSETS  
Rs 1,371.5 Bn

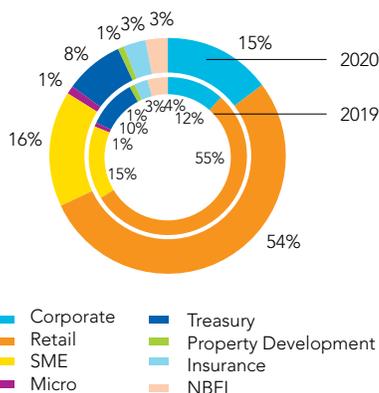
GROUP LIABILITIES  
Rs 1,211.8 Bn



### SEGMENTAL ASSETS

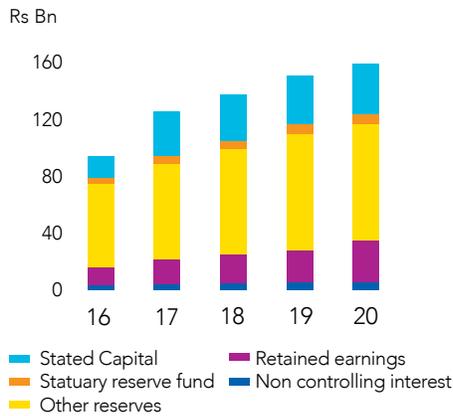


### SEGMENTAL LIABILITIES



## EQUITY

### SHAREHOLDER'S EQUITY Rs 159.7 Bn



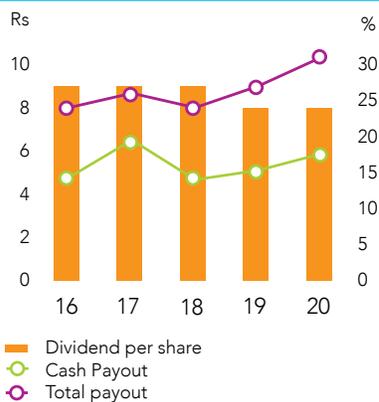
Total Equity attributable to Shareholders increased by 6.0% to Rs154.2 Bn supported by net growth in retained earnings of Rs 6.3 Bn after adjustments for final dividends in 2019 and other comprehensive income net of tax.

Stated share capital was shored up by the 2019 scrip dividend of 8,975,741 voting shares and 2,593,268 non-voting shares, valued at Rs 156.50 and Rs 133.70 per share respectively.

No interim dividends were paid during the year due to CBSL imposed restrictions on discretionary payments.

Subsequent to completion of the audit of the financials for the year ended 2020 the board of directors have declared a final dividend of Rs 8.00 per share consisting of a cash dividend of Rs 4.50 per share and a scrip dividend of Rs 3.50 per share for the year 2020.

### DIVIDENDS



# Financial Capital Report

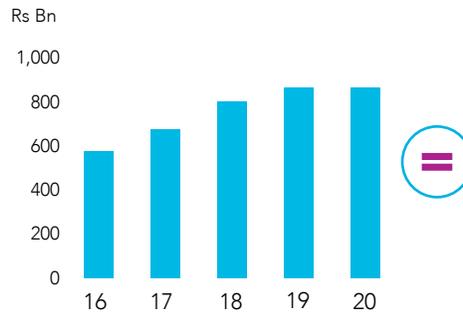
## BALANCING PERFORMANCE & STABILITY

### RETURN ON EQUITY

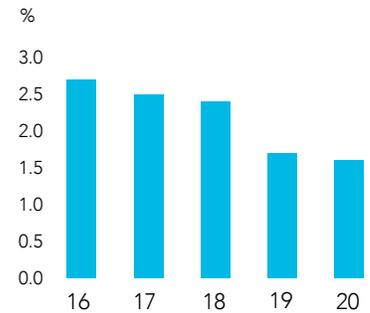
Return on equity is a widely used measure of value to shareholders and also the Bank's primary indicator for this purpose. Its components reflect on different aspects of the Bank's performance and facilitate comparison across peers and industry sectors. This enables shareholders to make informed judgments about their investments which is the main intent of this report..



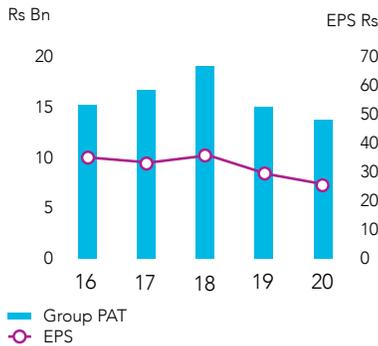
#### RISK WEIGHTED ASSETS



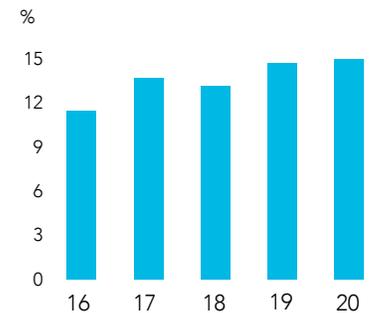
#### RETURN ON RISK WEIGHTED ASSETS



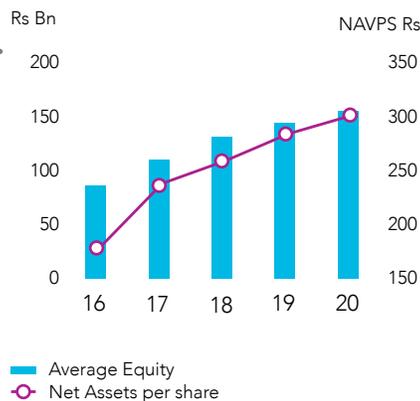
#### GROUP PAT



#### CORE CAPITAL RATIO



#### AVERAGE EQUITY



#### RETURN ON EQUITY/RETURN ON CORE CAPITAL



Group recorded a ROA of 1.06% and a ROE of 8.74% while the Bank recorded a ROA 0.95% and a ROE of 8.77%

**STABILITY**

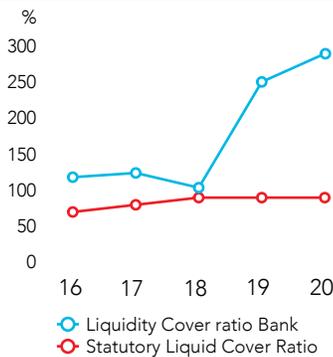
Maintaining financial stability is a key concern for the Board and the Board Integrated Risk Management Committee plays a vital role in ensuring that the Bank and Group Risk Appetite and Capital Management Plans are sufficiently robust.

**CAPITAL RATIO**



Liquidity is also an important aspect of stability and the relevant indicators are given below.

**LIQUIDITY**



	Bank		Licensed Commercial Banks	
	2020	2019	2020	2019
Core Capital (Tier 1 Capital) Adequacy Ratio	14.73%	14.57%	13.14%	13.05%
Total Capital Adequacy Ratio	17.98%	18.28%	16.65%	16.61%
Non-performing Loans to Total Loans and Advances	4.31%	5.91%	4.74%	4.61%
Liquid Assets Ratio	39.58%	29.55%	31.40%	27.11%
Loan to deposit ratio	84.16%	95.30%	86.46%	93.38%

The Group and Bank continue to maintain reassuring levels of liquidity and capital which are well above statutory requirements.

# Manufactured Capital

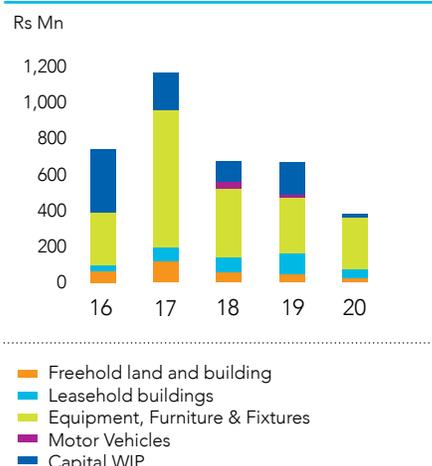


Investments in manufactured capital support our ability to deliver financial services and foster relationships throughout the island. Accordingly, it also enables enhancing of Intellectual as well as Social & Relationship Capital which underpin our ability to grow financial Capital.

## INVESTMENT IN MANUFACTURED CAPITAL



## ADDITIONS AND IMPROVEMENTS



### OVERVIEW

Our manufactured capital comprises one of the largest branch networks among private sector banks and other supportive elements that enables us to increase banking penetration in pursuit of our inclusive banking policies. The Bank owns the premises of 47 branches while 205 branches are on leased premises reflected in Right of Use Assets and Leasehold Assets. Modern buildings which reflect the brand located in prime locations in busy hubs of economic activity add visibility to the brand and are often landmarks in the community.

### STRATEGY

Having established an extensive branch network, the Bank's strategy has been to enhance the Bank's reputation and brand as well as to ensure that our workplaces are future ready and cost effective as set out alongside.

Our main concern in 2020 was the health and safety of employees, customers and outsourced service providers. Health and safety protocols were implemented throughout the entire branch network to minimise the potential threat of COVID-19. Measures included erecting barriers between staff and customers at counters, sanitising prior to entering premises, provision of PPE to employees, reinforcing hygiene practices throughout the day through visual and audio messaging, accelerating move to paperless office etc. In the few instances where our employees were diagnosed,

prompt communications providing relevant information was posted on electronic media and the affected premises were closed to minimise the contagion.

While footfall at branches has reduced significantly as customers moved to electronic platforms for transacting, the branch network still remains a focal point in customer relations and core to delivery of strategy due to current social norms. Many of our branches are smart workspaces that also testify to our concern for the people and the environment as we strive to create inspiring workspaces for our staff and maximise the use of natural light and energy efficient lighting and equipment. Additionally, initiatives such as stationing Bancassurance agents within our branches supported Group synergies by enhancing both the Group's top line as well as driving cost savings.

### NURTURING MANUFACTURED CAPITAL

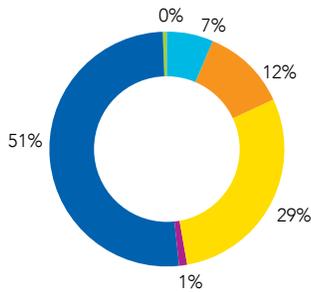
In the recent past, the emphasis of investments focused on digital channels which are segregated as Digital Capital as set out on page 54. With the onset of the pandemic and the social distancing measures put into place, customer migration to electronic platforms accelerated validating our strategic direction. The pandemic also resulted in the deferment of non-critical investments until a new norm is established in transactional and consumer behaviour patterns.

In line with our evolving brand proposition we rolled out our new branch concept, with the

### COMPONENTS OF MANUFACTURED CAPITAL

- » Investment Property
- » Property Plant & Equipment :
  - » Leasehold Land & Buildings
  - » Freehold Land & Buildings
  - » Equipment, Furniture & Fixtures
  - » Motor Vehicles
  - » Capital Work in Progress
- » Right of Use Assets

## DEPRECIATION & AMORTISATION



- Leasehold buildings
- Freehold land and building
- Equipments, Furniture & Fixtures
- Motor Vehicles
- Right to use assets
- Investment Properties

relocation of our branch at Katugastota, This new branch is designed to support the branch operating model developed in 2019 and to provide a convenient and enjoyable banking experience to our customers.

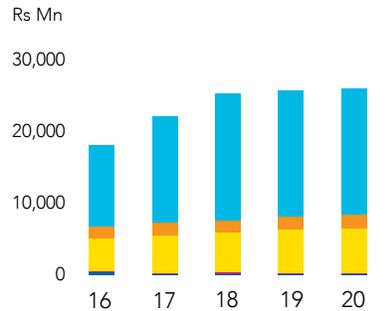
## MANAGING OUR CARBON FOOTPRINT

Increasing focus on minimising our carbon footprint underpinned our investments in installing solar panels in 94 branches and at Head Office. The Bank's installed solar power generation capacity is 2.4 Mw and we generated 2,946 MWh of electricity in 2020. Additionally, our energy consumption reduced significantly during the year due to lockdowns and health and safety precautions. The use of natural light, installation of LED lighting, state of the art building management systems, and energy-efficient lifts and chillers support a lower carbon footprint although implemented in prior years. These initiatives enabled the Bank to reduce emissions by 834 MTs CO<sub>2</sub> equivalents while the energy cost savings amounted to Rs 39 Mn during the year.

## BEYOND 2020

As the banking industry changes with the times, it is exciting to reimagine the purpose and workflow of a branch. The network of branches serves us well, playing a key role in the strong domestic franchise we enjoy at present. Our history is evidence of the impact of changing times. It is also vital that these premises provide inspiring, smart, and future-ready work environments. We believe that we

## INVESTMENT IN PPE



- Freehold land and building
- Leaseholds buildings
- Equipments, Furniture & Fixtures
- Motor Vehicles
- Capital WIP

## REPUTATION & BRAND

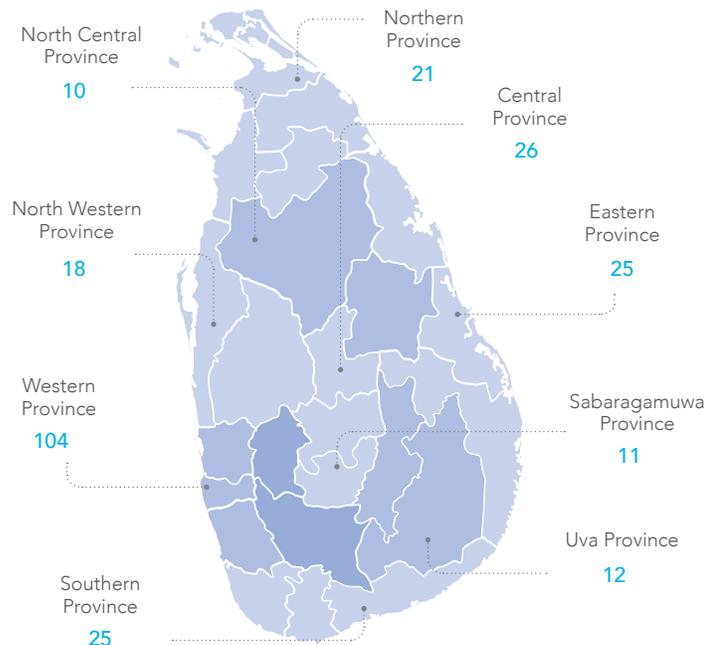
- » Health & Safety of stakeholders
- » Largest branch network
- » Inspiring workspaces

## FIT FOR THE FUTURE

- » Solar energy to reduce emissions
- » Disabled access
- » Smart buildings

## COST EFFICIENT

- » Energy efficient lighting
- » Increased use of natural light
- » Group synergies



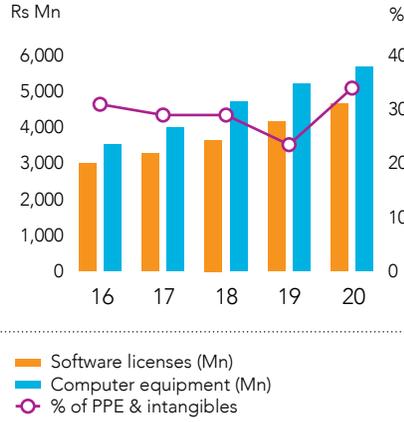
can create greater value for our stakeholders in these prime locations and are excited about envisioning the branch of the future which will be rolled out at a prudent pace, taking into consideration the changes in the operating landscape.

# Digital Capital - Future Ready

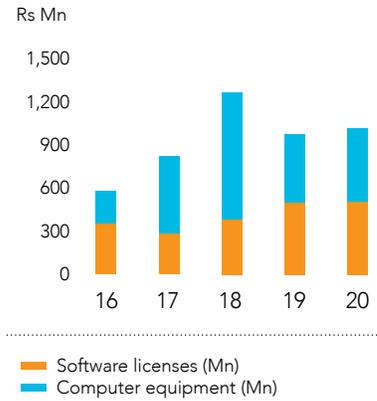


Digital capabilities of the Bank were key to strengthening and consolidating the strong competitive edge as it enhanced value propositions for stakeholders in 2020 as the pandemic transformed how we transact, work and learn. Employees and customers alike benefitted from the investments and on-boarding grew exponentially as the Bank transitioned into a digital era, spearheading the transformation of the country's banking sector.

## INVESTMENT IN DIGITAL CAPITAL

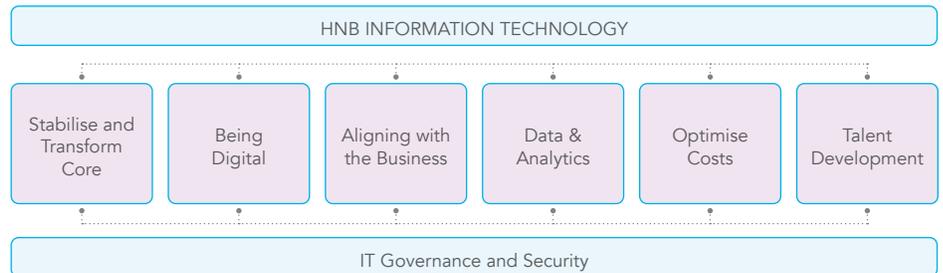


## ADDITIONS & IMPROVEMENTS



## IT VISION & STRATEGY

A vision of future proofing HNB by maximising the value of our assets, partnerships and capitalising the capability of our people underpins the Bank's IT strategy. The strategy has been designed taking into account industry trends, customer expectations and demographics and the Bank's long term strategic vision and goals. We also assessed maturity of technology, organisational processes, strategy and service levels across key functions and a prioritisation of main areas of concern which also formed part of the input to our strategy formulation process. The strategy designed through this process is graphically summarised below.



### COMPONENTS OF DIGITAL CAPITAL

- » Computer Equipment
- » Software Licenses
- » Operational Expenditure



## DELIVERING ACCELERATED TRANSFORMATION

Technology was key to the Bank's digital transformation and business continuity in 2020 as the world rebooted to a new norm overnight.

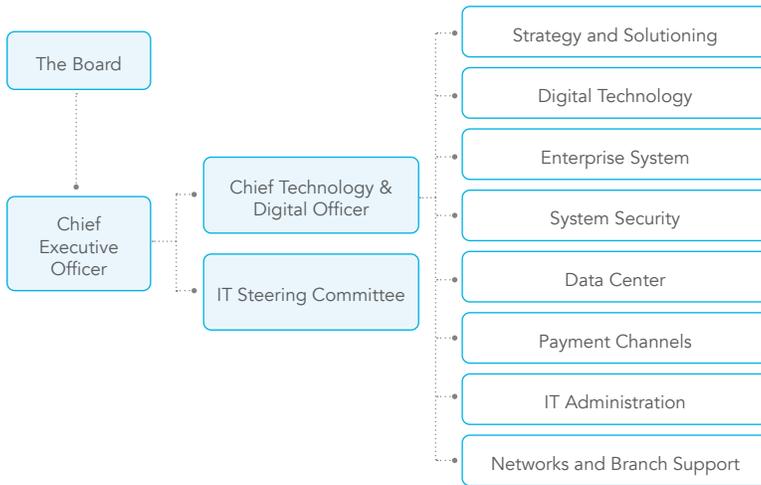
	STRATEGIC FOCUS	VALUE TO STAKEHOLDER	SIGNIFICANCE
STABILISE AND TRANSFORM CORE	<b>Core Banking System (CBS) upgrade</b> <ul style="list-style-type: none"> <li>» Technological improvements</li> <li>» Integrating Channels/ Third parties and other Finacle modules.</li> <li>» Exposing 500+ Finacle functionality / modules via API banking.</li> <li>» Finacle Solution Delivery Platform to support co-creation capabilities.</li> <li>» Enhanced Audit features</li> </ul>	New modules and over 200 enhancements enable to meet increasing customer and operational demands	Upgrade was completed on schedule in August despite the pandemic with the live migration performed remotely.  With the upgrade to the latest version, HNB has the most up-to-date version of the Finacle Core Banking solution (10.2.x) of Infosys in the country.
	<b>Loan Origination System</b> <ul style="list-style-type: none"> <li>» Retail module upgrade</li> </ul>	Improved turnaround times for retail credit applications for customers	Rolled out across the entire network in 2020
BEING DIGITAL	<b>SOLO</b>	Added features to enable <ul style="list-style-type: none"> <li>» bill payments</li> <li>» direct pay to customers</li> <li>» on-line account opening</li> <li>» biometrics</li> </ul>	Many new features were added during the year supporting our customers, non-customers and merchants to carry out transactions.
	<b>Digital Layer</b>	User interface changed to enable better user experience in the new Digital Banking App	The multipurpose Digital Layer which is being implemented will allow the bank to launch Digital Banking products in quick time to the market.  This will further enable the Bank to work closely with Fintechs in the market and carry out an easy technological collaboration for product /service launch.
DATA & ANALYTICS	<b>Business Intelligence (BI) implementation</b> <ul style="list-style-type: none"> <li>» Analytical models developed to drive business growth and support customer experience</li> </ul>	Improved information to enhance insights through analytics supporting decision making and improvement in multi stakeholder experiences	Implementation of a bank wide data governance programme is in progress to support the BI.
OPTIMIZE COSTS	<ul style="list-style-type: none"> <li>» Chatbots</li> <li>» Robotic Process Automation</li> <li>» Infrastructure consolidation</li> </ul>	<ul style="list-style-type: none"> <li>» Lower costs and improved turnaround times</li> <li>» Improved compliance</li> </ul>	Advanced technical capabilities to perform repetitive rule-based tasks to increase efficiency.
IT GOVERNANCE & SECURITY	<ul style="list-style-type: none"> <li>» Data Leakage Prevention</li> <li>» 24*7 Real-Time Security Monitoring</li> <li>» System security initiative especially in terms of providing WFH facilities to staff</li> </ul>	» Strengthened customer privacy	Safeguarding information assets of the Bank and mitigates reputation risks for the Bank.

# Digital Capital - Future Ready

## IT GOVERNANCE

IT Governance is critical to the Bank’s digital future and the Board has set in place a robust IT Governance structure and a comprehensive policy framework which articulate the Bank’s priorities, facilitates resource allocation and supports the overall internal control framework of the Bank. Collectively, the Board has the requisite skills and competence to assess and constructively challenge matters related to technology in exercising oversight.

### Governance Structure



### Policy Framework

- ▶ **INFORMATION SECURITY POLICY**  
Sets out a framework for classification and safeguarding of information assets of the Bank
- CYBER SECURITY POLICY**  
Set out the Bank’s approach to cyber security and defines expected user behaviours
- IT RECOVERY POLICY**  
Set clear plans for Disaster recovery in line with the Bank’s overall BCP
- IT SERVICE MANAGEMENT POLICY**  
Implementing service standardisation with SLAs defined for service delivery

## EXPANDING OUR DIGITAL PLATFORMS

In response to the increased demand for online and mobile banking we launched our new HNB Digital Banking Application during the year and continue to expand the range of services available through the APP. Our digital payment solutions SOLO, IPG and MOMO witnessed significant growth during the year due to surging consumer demand for online transactions during and post-COVID. We continued to expand our reach adding over 2,932 merchants to SOLO and over 319 merchants to MOMO. In order to provide our customers the convenience of making school fee payments online we entered into an exclusive partnership with the first and only local education payment platform, myfees.lk.

We also partnered with several essential service providers to provide our customers safe access to essential services during the lockdown period. To this end, we launched the Solo contactless payment option at over 47 Lanka IOC stations across the island while also partnering with Pick Me to offer discounts

when using their services for delivery of essential groceries.

We also fast-tracked the roll out of our revolutionary e-commerce platform “AppiGo” in order to support Small and Medium enterprises rapidly establish an e-commerce presence during the lockdown period. Since its launch in May 2020 AppiGo has enabled over 70 businesses establish e-commerce sites.

Ensuring the security and privacy of customer information is a priority as we rapidly expand our digital and online services. Latest security protocols such as multi-level authentication and one-time password (OTP) SMS system are in place to ensure complete security across every transaction. Our information systems are ISO 27001:2013 certified and we implemented a data loss prevention solution and a privileged access management system during the year to strengthen information security and to align with global best practices. There were no incidents of customer privacy or security breaches during the year.

**MOBILISING MOBILE AND CASHLESS SERVICES**

We mobilised mobile ATMs across 714 locations in Colombo, Gampaha, Kalutara, Puttlam, Kandy and Jaffna districts during the lock down period in order to support the Government in its efforts to control the pandemic and in order to offer our customers the convenience of carrying out banking transactions at their very door step. We also introduced a system where customers could transfer cash to any mobile and where the beneficiary can withdraw the same from any ATM without a debit card.

**INTERNET PAYMENT GATEWAY**

Our payment gateway was enhanced in partnership with Cyber Source, part of the Visa Group which supported growth of transaction volumes by nearly 800%.

**WORKING FROM HOME**

The onset of the pandemic made working from home a necessity in order to safeguard the health and safety of our staff while ensuring that we functioned throughout the lockdown periods, enabling customers to access cash,

carry out their transactions and access finance as needed. Our focus on digital transformation over the past few years supported the accelerated transition to working from home and we invested in providing them the necessary devices, systems, security, bandwidth and training to enable continued functioning of the Bank. Consequently, we now have an extremely flexible team that is able to work remotely at a moment's notice.

**OUTLOOK**

HNB has revised its strategy for 2021 to focus on future proofing HNB. We have undertaken a review of factors that we need to drive to run the business and those that are needed to change the business. The scorecard for IT will reflect these key priorities ensuring that we allocate resources accordingly. We will continue to enhance our capacity and capability to deliver on digital requirements of the Bank by inspiring, training and rewarding our talent pool to consolidate and sharpen our competitive edge as banking continues to transform. Success is a shared journey and we plan to ensure that the entire Hatna team is engaged, aligned and committed to future proofing the Bank.

**appiGo**

- » End-to-end e-Commerce capabilities for SMEs
- » Free and fast registration process
- » Nominal transaction costs, zero monthly/annual fees
- » Customisation capabilities
- » Back-end systems for tracking delivery
- » Real time dash board to track inventory
- » Responsive website across all devices
- » Online payments
- » Loyalty programs

**SOLO** by HNB

**2,932** New Vendors onboarded

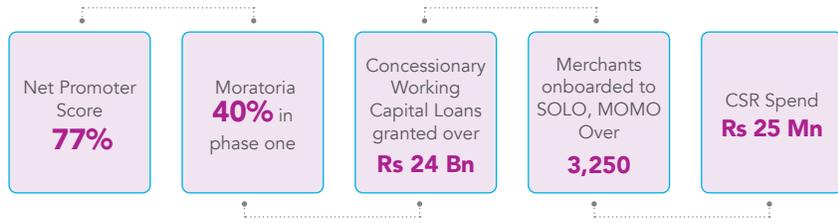
**103%** Increase in traffic

**HNB** MOMO MORE BUSINESS MORE MONEY  
YOUR PARTNER IN PROGRESS

**319** New Vendors onboarded



# Social and Relationship Capital



Our proactive and empathetic response to the COVID-19 crisis has enabled us to deepen our relationships with our customers, business partners and community. We continued to standby our clients throughout the crisis period, ensuring that their financial requirements were met with minimal disruption and by proactively responding to their evolving needs. We continued to work closely with our business partners to drive greater synergies and find innovative solutions to address the unprecedented challenges faced during the period. We also understood the need for HNB to play a catalytic role in economic revival and continue to work closely with the Government and other stakeholders to re-build the economy and face the "new normal".

## SUPPORTING OUR CUSTOMERS

As the COVID-19 pandemic began to unfold, we immediately activated our business continuity plan to ensure minimal disruption in the delivery of banking services to our customers. Our key focus was enabling customers to fulfil their financial needs in a safe and convenient manner and supporting our customers through this tumultuous period. We focused on strengthening our digital and online platforms and taking our services to our customers' doorsteps. We continued to support our customers through this unprecedented situation by continuously engaging with them to understand their requirements and assist them in transitioning to digital platforms.

The growth in demand for digital solutions and online connectivity, has also made us re-look at our customer value proposition. Technology is fuelling an 'on-demand' and 'one-click' mindset where customers expect faster and easier services for routine transactions and more personalised financial solutions.

We are therefore focused on transitioning from an account-based view of our customers, to knowing them as individuals and enhancing the customer experience with relevant, convenient and personalised products and services.

## LOAN REPAYMENT FLEXIBILITY AND CONCESSIONARY WORKING CAPITAL

As part of our initial efforts to support smaller businesses ride this crisis period, we granted debt moratoria covering 40% of our loan book during the first wave of the pandemic. Approximately 85% of the micro finance loan book and 53% of the SME book were under moratorium during this first phase. We also facilitated concessionary working capital loans amounting to over Rs 24 Bn through Saubhagya COVID-19 Renaissance facility introduced by CBSL. Meanwhile in order to support SMEs not eligible under the Saubhagya Scheme, we established our own "HNB COVID Relief fund" of Rs 5 Bn to disburse loans at a concessionary interest rate of 8% for a period of upto 2 years. Apart from this, HNB successfully launched a Rs 20 Mn grant fund to support 200 microfinance customers who were affected by the ongoing COVID-19 pandemic. The fund, established through the HNB Sustainability Foundation, offers microfinance customers up to Rs100,000 for business revival and working capital requirements. Funds were granted to select microfinance customers who were badly affected by the pandemic to help revive their businesses back to pre-pandemic levels.

## ACCESS TO LONG TERM FINANCE AND TECHNICAL SUPPORT

Whilst our main focus during the year was to support our SME clients through the crisis period that followed the COVID-19 pandemic, our ongoing efforts to address the key barriers of access to long term finance, access to Markets and Access to technical Knowledge continued through the year. In October 2020, HNB secured a USD 60 Mn SME funding line from PROPARCO, the private sector funding arm of the French Development Bank Agence Française de Développement (AFD). Through this long-term funding line HNB will be in a position to extend its support to a wider

## RE-BUILDING THE ECONOMY POST COVID-19

We remain committed to supporting the Government in its efforts to rebuild the economy in the wake of COVID-19. To this end, we focused our efforts on driving revival from the grassroots by ramping up our support for the SME sector, a space we are ideally positioned to assist given our pioneering role and vast client network in the sector.

**COMMUNITY INVESTMENTS**

**Rs 25 Mn**

COMMUNITY INVESTMENTS

**12,940**

NO. OF PEOPLE IMPACTED

**462 Hours**

STAFF VOLUNTEERISM

**Rs 15.4 Mn**

COVID 19 CONTRIBUTION BY STRATEGIC CSR

## DRIVING REVIVAL FROM THE GRASS ROOTS



cross section of SME's. We also continued to conduct awareness sessions for SME's and Micro entrepreneurs on a wide range of topics including export readiness, financial literacy, understanding and mitigating risks in cross border trade to logistics and supply chain management. Several physical sessions were carried out prior to March 2020, after which we carried out several webinars.

### SUPPORTING SME'S NAVIGATE THE "NEW NORMAL"

As the world gradually moved toward a "New Normal", characterised by significant growth in e-commerce, we continue to pro-actively support SME's in their growth journey by providing innovative banking solutions that would propel them to the next level. From payment solutions such as MOMO and SOLO to our revolutionary e-commerce platform "AppiGo", we continue to enable our SME clients to transition smoothly to emerging e-commerce platforms and access new markets.

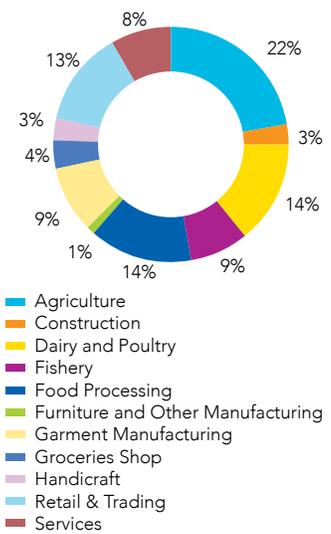
### SUPPORTING SUSTAINABLE DEVELOPMENT GOALS

As a systematically important bank in Sri Lanka we actively contribute to achieving the United Nations Sustainable Development Goals through our extensive lending portfolio. Meanwhile specific CSR initiatives targeting health, education, entrepreneurship and environment are directly relevant to UNSDGs.

### Customer Engagement

We continued to engage with our customers through multiple channels as part of our efforts to provide reassurance and assistance during the lockdown period. Our call center,

### MICROFINANCE GRANT SECTOR CATEGORY



"HNB Connect" continued to operate 24/7 educating and providing assistance to customers in using our digital platforms. We also revamped the "contact-us" option on our corporate website and established a separate hotline for moratorium customers in order that our customers can contact us seamlessly. We also commenced a program to proactively contact our customers to understand their financial needs and provide necessary support in this time of need. Meanwhile as part of our product responsibility ethos, we continued to ensure that updated information regarding fees and charges, product features, terms and conditions etc were easily accessible through our corporate website. There were no reported incidents of non-compliance concerning products and service information or marketing communications during the year.



## Social and Relationship Capital

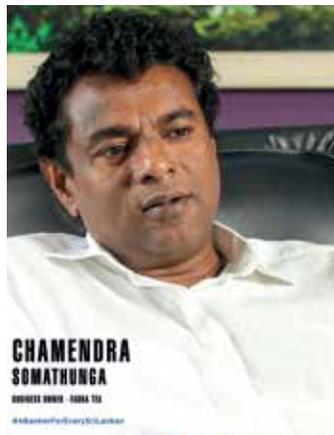


**DAMAYANTHI WIMALAWEERA**

MANAGER - BEAUTY - DAMAYANTHI BEAUTY CENTRE  
#HNBPartnerEverywhere

Damayanthi Beauty Centre is more than a passion project for this #HNBSME Customer. Her journey to success was fraught with challenges, but with the staunch support of her husband, Damayanthi has grown from strength to strength.

"Once I had built my customer base, I was finally ready to open my own salon but I had many financial constraints. I went from bank to bank looking for support and it was only #HNB that was willing to help me with the Rs 25,000 loan that I required at the time".



**CHAMENDRA SOMATHUNGA**

MANAGER - TEA - FADNA TEA  
#HNBPartnerEverywhere

Fadna Tea is Chamendra Somathunga's vision come to life. Chamendra became a #HNBSME customer, after kick-starting his business on a small scale, initially operating out of his own home, supported by just 3-4 employees. Chamendra knew that to start a business, you need capital, but what he had was not nearly enough at the time.

"On top of that, doing business here is not easy at all because we don't have proper systems to facilitate new businesses. This tends to discourage people from even trying. It was really an uphill battle. Thankfully, I began banking with HNB the same year I started my business and they provided financial support to help me get my business off the ground, when few others could see its potential."



**PREMALAL SILVA**

MANAGER - HST - HST INDUSTRIES AND PINSARA TEXTILE  
#HNBPartnerEverywhere

"I started my business 20 years ago and at the time, I managed to purchase a machine that cost Rs 4,500 and started doing some work," recalls Premalal. Today, Premalal Silva, a #HNBSME customer, is the owner of two successful businesses - HST Industries and Pinsara Textile.

Premalal was given the opportunity to make 100 samples of brush handles for a factory. He took up the challenge and when the factory was satisfied with his work, they gave him the chance to start supplying handles. "This is when I decided that I needed to start out on my own, so I took out a joint loan with my brother for Rs 1 Mn from #HNB. With this, I purchased my very first machine."



**SARATH NANDASENA**

MANAGER - KUSHAN - KUSHAN ENGINEERING WORKS  
#HNBPartnerEverywhere

What was once a workshop on borrowed premises is now a sizeable enterprise; #HNBSME customer Sarath Nandasena went against all odds to kickstart Kushan Engineering Works, providing services to some of the leading companies in the country.

"Today, Kushan Engineering Works, does everything from lathe work to milling work, and even repairs of industrial machine parts. But back in the day, I started off with a machine purchased with the help of a loan from HNB!"

As his business continued to develop and expand, he again utilised financial support from HNB, who he has been banking with for over 25 years.

### Service excellence

Service excellence forms the basis of our customer value proposition, and is a key element of our transformational journey. Despite the challenges faced during the year, we did not lose sight of our end goal and continued to introduce process and technology improvements with the aim of simplifying transactions and providing our customers a seamless banking experience. (Refer Intellectual capital on page 68 for details of process and technology improvements implemented during the year). Meanwhile we continued to emphasise on the importance of a sales and service culture through ongoing training for employees across the Bank.

We also strengthened our grievance handling mechanism, by setting up a service help desk, assigning points of contact for faster resolution and forming a service support group.

### SUPPORTING OUR BUSINESS PARTNERS

Our network of business partners consisting of correspondent banks, POS merchants and suppliers is a vital element of our operating eco-system. Strengthening these partnerships and driving greater synergies through these relationships has become even more important.

### Exchange Houses

We continue to strengthen existing relationships whilst expanding our network of exchange houses. During the year HNB

was tied-up with five leading global exchange houses. These tie ups further ease Sri Lankan expatriates of UK, Cyprus, USA, Hong Kong & UAE to remit money directly to their local bank accounts instantly at lesser cost with utmost security.

### Merchant Network

Our merchant network continues to grow, propelled by a strong value proposition based on seamless, secure and robust payment infrastructure combined with mutually beneficial relationships. In addition to onboarding over 3,250 merchants through multiple platforms such as SOLO and MOMO we also entered into several exclusive partnerships that continue to drive mutual value during the year.

We continue to introduce new technology to our merchants through ongoing investments in infrastructure and technology. Further to launching "Visa Cybersource", the world-class Internet Payment Gateway (IPG) solution last year, we introduced several value-added features to the IPG, enabling enterprises to optimise their payment process by further streamlining and automating transactions.

### Suppliers

Our suppliers consist of over 300 utility service suppliers, material suppliers, transport providers and maintenance service providers. We ensure transparent procurement practices as per procurement guidelines as per our board approved procurement policy. All new suppliers go through a thorough assessment to ensure compliance with social and environmental criteria and are requested to submit their Green policy as part of the registration process. Larger contracts also go through an independent financial evaluation. Since implementing our e-tendering system in 2017, all tender calling, supplier registration and renewal is carried out online. During the year we onboarded 59 new suppliers and service providers. Total payments to suppliers during the year amounted to Rs 7,527 Mn.

### EXCLUSIVE PARTNERSHIPS



Special interest rates and attractive benefits for Prime Group properties



Exclusive leasing options for Mercedes-Benz and Jeep vehicles



Offers on heavy machinery



Launch Solo contactless payment option at Lanka IOC stations



Offers on DFSK and Z100 range of vehicles



Exclusive partnership with myfees.lk



Offers on Kubota, Agrotech and Farmtrac vehicles



Special leasing offers on unregistered vehicles and Foton trucks



Offers on agricultural equipment



Free delivery through the service provider's app.



# Supporting Our Business Partners

## OUR CONTRIBUTION TO UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS



**Impact created to the provinces below the poverty line in 2020**

**TOTAL LOANS TO THE PROVINCES BELOW THE POVERTY LINE IN 2020**

Mn	Eastern	Northern	Uva
1,500	~900	~1,300	~200

**Paddy cultivation**

	Gross Income to farmers (Rs mn)	Employment Generation (man days)
Northern	631	57,100
Eastern	2,242	202,880
Uva	168	15,180
All provinces	5,475	495,340

**\*\* Assumptions for the above calculations**

- Cost of cultivation is based on the cost cultivation with irrigated water
- Total cost including cost of farmer owned inputs
- To find out employment generation only consider hired labour (excluding family labour)

\* Used information for calculations

Cost per cultivation of one hectare of paddy  
Average yield per hectare  
Employment requirements per hectare  
Gross return per hectare

Source - Socio Economics and Planning Centre of the Department of Agriculture, Peradeniya



- Personal loan scheme to install solar panels on houses- Rs 81.48Mn
- Investment of sustainable energy projects- Rs 1.7Bn

Contribution to sustainable energy generation (Please refer Natural capital pg 70)



**Food production from our lending in 2020**

	Area cultivated (ha)	production (Mt)
Paddy	24,767	130,354
Minor foods*	1,819	9,095

**\*\* Big Onions, Chillies, Potatoes, Red Onions, Cowpea, Green Gram, Ground Nuts, Kurakkan and Maize**

91,157 Mt of Rice from paddy production. It could produce the equivalent of 310 million meals in 2020, or enough food to feed approximately 851,934 people per year.

\*\*\*Used information for calculations

Cost per cultivation of one hectare of paddy  
Average Yield per hectare  
Cost of cultivation of minor food crops and average yield per hectare

Sources- Socio Economics and Planning Centre of the Department of Agriculture, Peradeniya

Assumption-Total rice production use only for human consumption

Used information for calculations  
1 MT rice = 1.43 MT paddy (paddy conversion factor)  
Source: Central Bank of Sri Lanka  
Rice per capita consumption  
Total Population in Sri Lanka  
Source: Department of Census and Statistics Sri Lanka



**FACILITIES EXTENDED TO EDUCATION**

Category	Percentage
Development of Primary and Secondary Education	18%
Development of Tertiary Education	9%
Other Education Developments Activities	73%

- Supported over 200 Nenapubuduwa school libraries
- Facilitated SLBA Website for E Learning for employees on sustainable banking



**HEALTHCARE DEVELOPMENT**

Category	Percentage
Lending for Healthcare Development Projects	78%
Pharmaceutical and Healthcare Product Manufacturing	14%
Pharmaceutical Imports	8%

Financial assistance is provided to 100 cancer patients annually to help meet additional health expenses

Donation of an ACT to the Lady Ridgeway Cardiology unit to strengthen the cardiothoracic unit of the hospital

Surgical equipment & accessories donated to the Accident Ward of the National Hospital Sri Lanka



The COVID- 19 Business Support Grant supported 200 micro finance customers with grants upto Rs. 100,000 to upscale their businesses and work towards achieving SME status.

Sponsorships for the Yarl Geek Challenge 2020 to promote innovation and entrepreneurship amongst youth.

Sponsored webinar session organized by CSR Sri Lanka on Economic Development through Social Entrepreneurship.



We finance drinking water supply development projects in the country. In 2020, Rs 16,475Mn disbursed to construction of water supply projects.

In partnership with AIESEC Sri Lanka, the University of Moratuwa, successfully completed safe drinking water projects in 3 schools the Anuradhapura area.



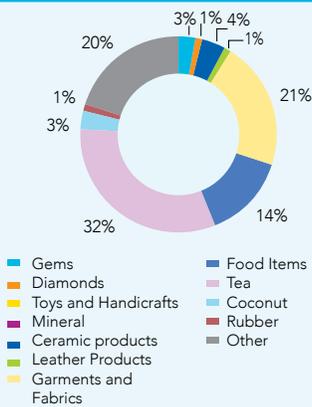
### Impact created to the provinces below the poverty line in 2020

- » Total wages and benefits to employees Rs 11.5 Bn
- » Cash and scrip dividend paid to shareholders Rs 2.3 Bn and Rs 1.8 Bn
- » Taxes paid to GOSL Rs 9.8 Bn

### Financing to main export crops

Crop	Amount of Lending for production related activities (Rs Mn)	Production from Lending	Lending for export (Rs Mn)
Tea	11,050	22,841 Mt	6,658
Coconut	2,920	159 No Mn nuts	675
Rubber	3,121	10,508 Mt	186

### FINANCING FOR EXPORTERS



\*\* Used information for calculations

#### Tea

Total cost of production per one kg tea

Source: Sri Lanka Tea Board

#### Coconut

Total cost of production per one nut

Source: Coconut Development Authority

#### Rubber

Total cost of production per one kg rubber

Source: Sri Lanka Rubber Research Institute



As per the Bank environmental and social policy we don't finance to illegal fishing methods such as "Drift net fishing in the marine environment using nets in excess of 2.5 km. in length" to ensure the sustainable use of marine resources.

A sea turtle hatchling release took place at Urawatta Beach, Ambalangoda on the World Wildlife Day on 3rd March 2020, with participation of HNB staff and 'Plan My Gap Year' members.



Facilities extended to

- » Road Development projects Rs 28,545 Mn
- » Telecommunication sector development Rs 2,479 Mn
- » Development of Information Technology and Communication sector Rs 3,842 Mn



- » 75 projects evaluated for social and environmental criteria in line with the Bank's ESMS Policy to ensure there was no adverse impact on the environment
- » The Kanneliya Conservation project initiated to develop a biodiversity credit accrual system for Sri Lanka continued during the year
- » Protected catchment of Thundola (Galle) which is conducive habitat for aquatic species
- » Sponsored World Habitat Day 2020, Art competition organised by the Urban Settlement Development Authority (USDA)
- » HNB does not finance commercial logging operations for use in primary tropical moist forest, production or trade in wood or other forestry products other than from sustainably managed forests and trade in wildlife or wildlife products regulated under CITES.



- » Over 252 customer contact points are spread out across the island giving wide spread access to financial services



- » Value of Rs 17,136Mn Housing loans and Rs 4,148Mn for residential property development.
- » Improve public transport- Rs 545Mn



- » We do not provide financial support for production or activities involving harmful or exploitative forms of forced labour or harmful child labour.



Partnerships for COVID -19 Relief Efforts

- » Donated essential items to the Karapitiya Teaching Hospital during the COVID-19 pandemic.
- » Donated 64 fire extinguishers to protect the medical stores at IDH. We also supported the installation of plastic water tanks for a supplementary water distribution system and to improve air flow by providing insulated flexible ducts.
- » Provision of essential furniture and fittings for the training centre at the Infectious Diseases Hospital (IDH) with employee's voluntary contribution
- » 300 packs of dry rations were distributed to residents in COVID isolated areas with voluntary contributions by employees.
- » Donated personal protective equipment (PPE) for personnel at the Kurunegala Teaching Hospital
- » Donated packs of face masks for the use of medical officers of the CMC at the Colombo MOH office

# Human Capital



**Ensuring the health and safety of our employees and assisting our employees adjust to the new normal was our priority amidst the unprecedented circumstances of COVID-19. We however remained steadfast in our commitment to building a future-fit team, equipped with the right skill-set and mind-set to embark on our digital transformational journey in a post COVID economy.**

## HUMAN CAPITAL GOVERNANCE

We strive to incorporate Human Capital best practices through a comprehensive Human Capital policy framework and robust processes and procedures that are continuously reviewed and updated. During the year we revised our Promotion and Mobility policies to address certain pain points identified through the Everest Project. Work is also underway to fine-tune several other policies including Prevention of Harassment Policy, Anti-Corruption Policy, Whistle Blower Policy and Talent Acquisition Policy.

The Bank's overall Human Capital function is handled by the Human Capital Department with oversight and guidance provided by the CEO and Board through the Remuneration Committee and Nomination Committee. In 2019, the Bank embarked on an effort to decentralise the Human Capital function to ensure a higher degree of customisation in the delivery of Human Capital functions across regions. Accordingly, design, customisation and delivery of Human Capital functions across the branch network are carried out through three separate verticals of the Human Capital Department and the Human Capital Business Partner role was introduced across the regions to drive greater alignment between Human Capital strategy and implementation.

## TALENT MANAGEMENT

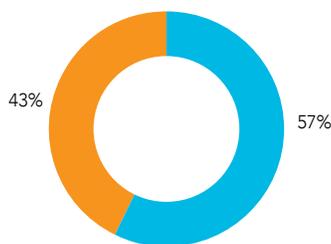
Notwithstanding the uncertainty that prevailed during the year, we remained focused on building a flexible, future ready team able to navigate a new normal post COVID-19. Accordingly, we embarked on Strategic Workforce Planning aimed at ensuring the right person for the right job. We continued with our recruitment efforts by leveraging digital platforms and virtual interview mechanisms. We also continued to explore alternative resourcing options such as graduate and school leaver internship programmes, fixed term contract employment and outsourcing non-core functions to meet our staffing needs. During the year we on-boarded a total of 788 new employees using multiple resourcing models.

Meanwhile we continued to fine-tune our talent-fitment process by mapping employees to different roles based on their affinities and capabilities. As part of this exercise 862 talent movements were effected across the network enabling us to fill several key positions from our available resources.

The promotion and career development process for Junior Executive and Executive grades continued with virtual interviews being conducted for over 850 employees.

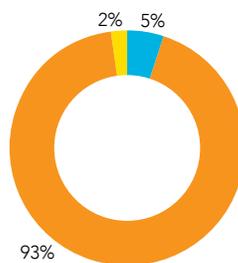


### BY GENDER



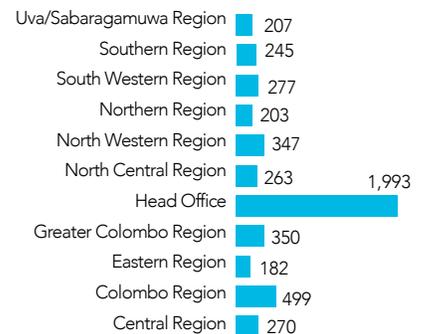
Male  
Female

### NEW RECRUITMENTS BY AGE



30 to 50 years  
Under 30  
Over 50

### BY REGION



We recognise the importance of creating a diverse team and have in place stringent policies against any form of discrimination based on gender, age, race, religion or any other factor. We actively promote gender parity at the workplace by striving to provide a level playing field for women throughout their professional lives. The “Ongoing Women at Work initiative” continued providing our female employees ongoing career development opportunities and a valuable support system. Females are represented at every level of the Bank and we are proud to note that women accounted for 22% of senior management and above categories. This is a true testament of the policy of meritocracy we adopt. Meanwhile we continue to review our Human Capital policies to ensure a conducive working environment for our female employees. During the year we amended our Mobility Policy to provide special consideration for pregnant women, those with young children and children with special needs. We continue to create a culture of acceptance and non-discrimination through awareness sessions, stringent policies and a robust grievance mechanism. There were no incidents of discrimination or human rights violations during the year.

Retaining our talent within the organisation is an important aspect of building a strong team and we are proud to note that we continue to achieve high levels of retention across all levels of employment. We ensured that no jobs were eliminated as a result of COVID-19. Employee turnover during the year was 6%, of which the highest turnover levels were recorded in the fixed term clerical staff category, primarily in the less than 30 age group.

### Talent Development

We remained committed to developing our talent, and put forward a range of innovative learning solutions aimed at ensuring continued learning amidst travel restrictions, limitations to classroom learning and other disruptions caused by COVID-19.

In spite of the pandemic, 16,921 participants received opportunities to Learn, Improve and Grow, compared to a previous 3-year average of 11,089. This was largely due to the benefits of virtual learning which facilitated greater reach and coverage through every program. 74% of participants engaged in training

virtually, whilst 52% of the programmes, usually delivered through classroom training, were delivered virtually during 2020.

The ‘bite-size’ nature of virtual learning, resulted in training hours dropping to 107,461 compared to a previous 3-year average of 165,204. Classroom and virtual training contributed 58,437 hours, down from the 120,019 hours delivered during the previous year. Online learning via the cloud-based ‘Talent Space’ solution contributed 47,421 hours with external training (in-person, virtual and webinars) accounting for the remainder. 60% of the total training hours recorded during the year were through virtual mediums.

The total number of programs delivered via classroom and virtual channels were at 390, higher than the previous 3-year average of 322. In addition to this, 66,780 engagements were recorded on the online learning system ‘Talent Space’ with 154 courses and quizzes being active as at year end. The activity on Talent Space included (but not limited to) quizzes to compliment Virtual Learning sessions, Leader Boards to create competition and many exciting Game Based Learning solutions.

With the focus of consumers shifting towards technology and digital solutions, talent development initiatives during the year were aimed at equipping our employees with the skills and knowledge required to support customers in this transition. 32% of the learning solutions focused on technology enablement while a greater part of the Business Growth related training also focused on the delivery of our digital solutions, SOLO, MOMO, Appigo and eBanking solutions. Business Sustainability training focused on strengthening governance, enhancing asset quality and building a compliance culture. Business Sustainability training also included training on implementing and managing moratoriums as per Central Bank guidelines as well as learning modules aimed at supporting front-line personnel navigate a volatile, uncertain, complex and ambiguous business environment.

The pandemic posed many challenges in delivering learning solutions in its traditional form. Undeterred, the Talent Centre continued to inspire continuous learning and growth through innovative learning solutions.

## RECRUITMENT HIGHLIGHTS



**369**  
School Leaver Interns



**33**  
Graduate Interns



**862**  
Talent Movements



**177**  
Fixed Term Contract Recruitments

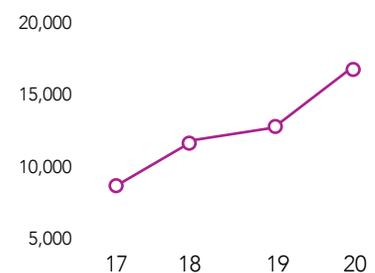


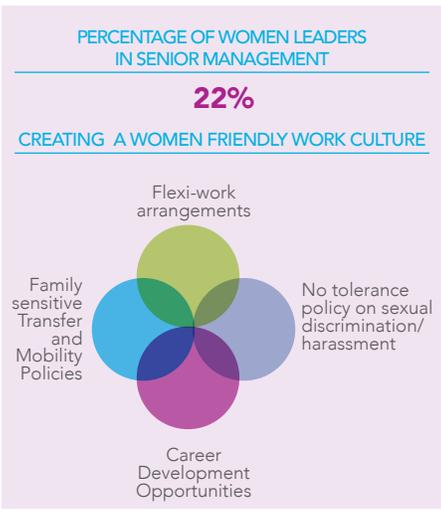
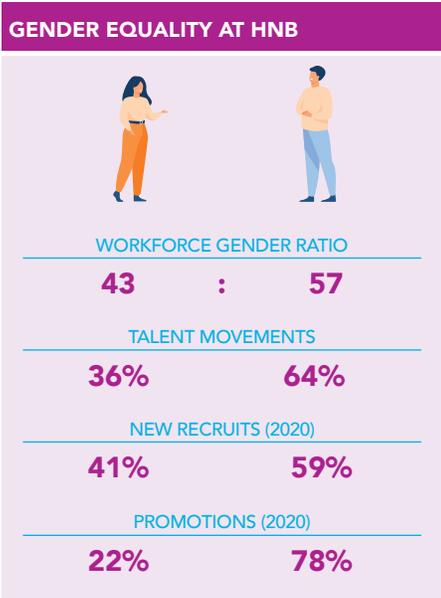
**41**  
Permanent staff recruitments



**168**  
Outsourced staff

## PARTICIPANTS COVERED





COMMUNICATION CHANNELS OPEN TO EMPLOYEES DURING COVID-19

### Creating a culture of ethical behaviour

Banking with integrity and professionalism are the cornerstones of the HNB Brand, and we strive to instil these values in all our employees. Training and special lectures were carried out throughout the year, emphasising the values of the Bank and creating awareness on ethical behaviour. We continue to monitor our operations in order to ensure that our employees adhere to the highest ethical standards at all times. In the rare occasion of a transgression, we swiftly address the issue with the respective employee, providing counselling and support to understand the implications of such conduct and if necessary disciplinary action.

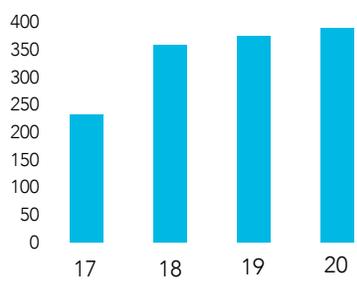
### Employee Health and Safety

Ensuring the health and safety of our employees was our utmost priority in the wake of the COVID-19 pandemic. A special COVID-19 Committee was formed as early as January 2020 to formulate an action plan and to support staff during the pandemic. Once the lockdown was imposed the bank operated with a skeleton staff with strict health and safety guidelines in place. We also implemented a work-from-home (WFH) policy for the remainder of our staff with alternate teams working from home or Disaster recovery sites to maintain business continuity whilst ensuring the safety of our people. Staff required to report to work were provided office transportation and protective gear. Meanwhile several health and wellness programs including a series on mind management and psychological wellbeing were conducted online as part of our ongoing efforts to encourage healthier lifestyles.

### OUR EFFORTS TO CREATE A HEALTHIER WORKFORCE

- » Health camps conducted at head office and branches for general check ups
- » Monthly consultations with a General Physician at the Bank premises free of charge
- » Partnered with five leading hospitals to provide discounts for Executive check ups

### NUMBER OF PROGRAMMES



### LEARNING HOURS PER EMPLOYEE (LHPE)



○ Industry Norm  
 ○ HNB LHPE

### #LEARNING VIRUS

e-flyers with tips, do's & don't, and summarised guidelines on current and critical topics were circulated through WhatsApp Groups, digital screens and the online learning platform.

### GAME-BASED LEARNING

Six new game-based learning solutions were launched during the year, adding to the array of gamified learning solutions available on the eLearning platform; Talent Space. Topics covered include HNB products, digital banking, ethics in banking etc. A total of 8 game-based learning solutions were active during the year.

### ANIMATED VIDEO CLIPS

Six animated videos were developed in-house, using mobile phone technology to share key messages and leadership thoughts. Videos included the "Future of work series" and the 'Chau and How' series aimed at creating awareness about different approaches one needs to take to be successful during challenging times



### ONLINE TOOLS FOR GREATER EFFECTIVENESS OF ONLINE TRAINING

Crowd-sourcing and polling tools were increasingly utilised to obtain ideas from employees

## EMPLOYEE ENGAGEMENT

Ensuring strong communication channels and maintaining a high degree of engagement were a key elements of being able to continue to operate under the challenging conditions posed by COVID-19. We maintained a constant dialogue with our employees throughout the lockdown period ensuring regular communication through multiple channels including webinars, MS Teams, social media and e-mail. As a part of managing work and deliverables during the pandemic and effectively monitoring individual deliverables, the Business Transformation Department of the Bank also developed and introduced the 'Effime' tool, a tool developed to support individuals in managing day to day activities and plan deliverables in a transparent manner. Meanwhile we continue to share information and knowledge across branches through ongoing initiatives such as the Everest Newsletter, "From the CEO's Desk" newsletter, HATNA magazine and other communication channels. We also continue to put in place mechanisms to ensure that our employees' voices are heard and that their issues and pain points are addressed to the extent possible. Two key pain points raised in the "Voice

of HNB" employment engagement survey carried out in 2018 were addressed through the updated Mobility Policy and Promotion Policy.

We also continued to engage closely with trade union representatives to ensure the employee concerns were addressed in a mutually acceptable manner and all operational changes were communicated with adequate notice. 72% of our staff were members of the Ceylon Bank Employees Union (CBEU) and the HNB Officers' Union as at the end of 2020. There were no incidents of industrial action during the year.

## RECOGNITION AND REWARDS

Recognising and rewarding our employees is our way of acknowledging the invaluable contribution our people continue to make on all aspects of our operation. In addition to performance-based pay, awards and accolades Corporate Communications also runs several recognition programmes that highlight high performers and staff contributions. Staff who stepped up to the unprecedented challenges and went out of their way to carry out their duties amidst the pandemic were recognised

through coverage in the HATNA Magazine, Everest Newsletter and through social media throughout the year.

## REMUNERATION AND BENEFITS

Despite the business impact from COVID-19 we remained committed to ensuring no job losses to our permanent employees and no reductions to remuneration packages. Furthermore we strive to ensure that our remuneration and benefits are on par with industry standards and that they continue to attract, motivate and retain valuable talent. In addition to a guaranteed fixed pay component, all permanent employees are entitled to a variable pay component that is linked to performance of the individual and the Bank. Specific KPI's are identified and communicated to employees at the beginning of the year and monitored through the performance management system. In addition to remuneration, permanent employees are offered a wide range of benefits including loans at concessionary rates, medical allowances, holiday allowances and subscriptions among others.

# Intellectual Capital



**Our intellectual capital consisting of systems and processes, collective knowledge, organisational culture and brand value continue to drive our Bank Transformation Project; enabling us to think out of the box, re-imagine and reframe the future of banking particularly in the context of new normal.**

## TRANSFORMING HOW WE DO THINGS

Ongoing transformation initiatives taking place in the core areas of strategy, IT, digital, customer experience and people continue to change how we do things; bringing about greater efficiencies and propelling us to greater heights in service and operational excellence.

With the spread of the COVID-19 global pandemic, the Bank took early steps to address the challenges of continuing engagement with international consultants in the face of mobility constraints. Consequently, with the direction and sponsorship provided by the Board of Directors, we took over the remainder of the transformation project to ensure that we stay on track.

All the project charters were re-fitted to reflect the new normal market dynamics.

Our responsiveness and ability to rapidly adapt to changing requirements during COVID-19 pandemic is a true testament to the commitment of our staff, robustness and flexibility of our systems and processes and a reflection of how we have internalised change. We were among the first and most active in ensuring that customers island-wide were able to access essential banking and transactional services through digital platforms while also successfully launching several innovative digital banking solutions as discussed under digital capital.

## LEVERAGING OUR TACIT KNOWLEDGE

The tacit knowledge and collective experience of our team of 4,836 employees is a vital component of our intellectual capital. We continue to harness this wealth of knowledge and experience through formalised training programmes, by providing opportunities for talent mobility within the organisation and by promoting a culture of mentoring. A key initiative carried out during the early part of the year was the "Narrator", a series of workshops aimed at providing employees the opportunity to share their growth stories and

develop the internal brand personality for HNB.

Meanwhile the talent fitment exercise which commenced last year continued throughout the year. The exercise involves tabulating knowledge, skills and experience of every staff member and matching it against their performance and psychometric assessments in order to assess the "best fit" role. This process of ensuring the right person is doing the right job while enabling employees to perform at their optimal capacity has enabled us to harness our team's full potential.

We are also increasingly using data analytics to drive strategy. Several initiatives were launched to enhance business growth and customer experience by leveraging data analytics.

## PROMOTING A CULTURE OF INNOVATION

We continue to push the boundaries of banking, re-imagining and reframing the future of banking. We promote a culture of innovation and encourage our people to think out of the box in anticipating customer requirements which has resulted in innovative products such as SOLO, MOMO and AppiGo among others.

## IMPROVING OUR SYSTEMS AND PROCESSES

Refining our systems and processes continue to be a key driver to improve risk management, productivity and overall customer experience. During the year, we further refined our branch operating model launched in 2019 for optimal results.

We also revamped our home loan process and the private banking customer servicing model (for high networth individuals).

Our ongoing transformational journey saw us deploying chatbots to respond to on-line customer queries under phase I of the project. We also launched robotic process automation to carry out a few repetitive rule based tasks. Going forward we will leverage on these technologies to deliver higher productivity.



## TAKING OUR BRAND TO GREATER HEIGHTS

The HNB Brand continues to be recognised for its resilience, strength and innovative spirit both locally and internationally. HNB is consistently ranked among the top 10 most valuable brands in Sri Lanka by Brand Finance, with a brand equity of Rs 23,148 Mn and a AA rating. We continue to be among the top 3 under the 'Business Today Top 30' and 'Ten Most Admired Companies in Sri Lanka' organised jointly by CIMA and ICCSL. During the year, we were recognised as the "Best Retail Bank in Sri Lanka" a true testament to our unwavering commitment to be the best. Meanwhile we continue to gain recognition internationally as well, rising 39 positions in its global rankings of Top 1,000 World Banks by the UK's prestigious Banker magazine. 2020 is the fourth consecutive year HNB PLC was ranked among the Top 1,000 World Banks by Banker magazine UK. Key awards and accolades received during the year are alongside.

- » Top 1000 World Bank by the UK based The Banker magazine
- » 'Best Managed Bank During COVID-19 in Sri Lanka' by the prestigious Asian Banker Magazine. The Managing Director and CEO Mr Jonathan Alles, was awarded the Leadership Achievement Award for having delivered the Best CEO response to the COVID-19 pandemic.
- » Best Retail Bank in Sri Lanka for the 11th time in 2020 by Asian Banker Magazine
- » No 3 Company in Sri Lanka in the 'Business Today' Top 30 Rankings
- » 'Top 10' most admired companies in Sri Lanka – by CIMA and ICCSL for the third consecutive year
- » Ranked amongst the 'Most Awarded companies' by LMD
- » Best Sub-Custodian Bank in Sri Lanka at Global Finance Awards 2020
- » Recognised at the Best Corporate Citizen Sustainability Awards 2020 as  
Winner - Top Ten Corporate Citizens  
Consistent Commitment and Continuous Improvement - Economic Contribution
- » Market Leader in Trade Finance and Best Service in Trade Finance by Euromoney for the second consecutive year
- » Top 10 Best Integrated Report' by CMA for the 4th consecutive year
- » Certificate of Merit in Private Sector Banks Category and 'SAARC Anniversary Award for Corporate Governance' at the SAFA Best Presented Annual Report Awards 2020





Managing our natural capital is an integral element of our sustainability agenda. Over the years we have carefully identified the areas most affected by our operation and the areas in which we can have the greatest impact. We work diligently towards achieving environmental sustainability in the long term.



**OUR ENVIRONMENTAL AGENDA**

Our environmental agenda revolves around achieving sustainable development goals managing our environmental footprint and promoting sustainable environmental practices within and outside our organisation. We continue to review our environmental and social policy in order to ensure that it addresses emerging challenges and remains relevant. Accordingly, The Bank's Environmental and Social policy was revised and approved by the Board of Directors in 2020.

**MANAGING OUR ENVIRONMENTAL FOOTPRINT**

We are committed to reducing our environmental footprint by incorporating environmentally friendly practices into all aspects of our operations.

**Ethics, Governance and Compliance**

- » CBSL Sustainable Finance Roadmap
- » International best practices
- » Country laws and regulations
- » SLBA Sustainable Banking Principles

**3**

**2**

**Managing our Environmental Footprint**

- » Responsible sourcing
- » Supply chain management
- » Capacity building
- » Environment compliance
- » E&S risk assessment
- » Promoting green economy
- » Energy, material & waste management
- » Strategic CSR



**1**

**Environmental and social frameworks**

- » Strategy
- » E&S policy
- » Green pledge

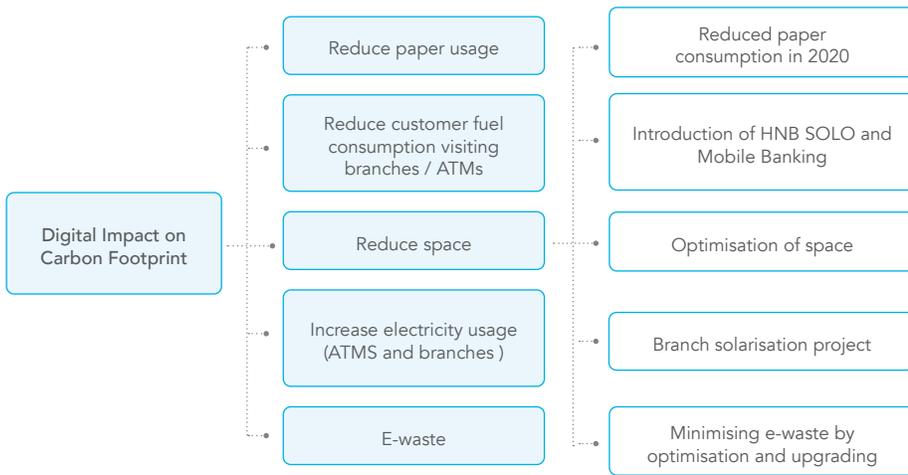
### HNB Green Pledge

Environmentally sustainable practices are built into the culture of HNB through the HNB Green Pledge - a promise by every HNB employee to integrate environmentally friendly practices into their daily activities at work and at home. The initiative now in its 12th year, continues to educate employees on environmental responsibility ethics and garner support for various initiatives carried out by the Bank to address climate change. All incoming employees to the Bank mandatorily take the Green Pledge.

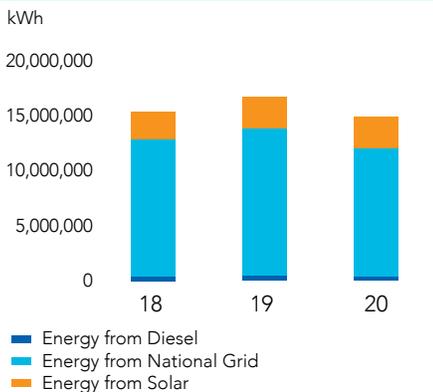
### Energy Management

Total energy consumption during the year amounted to 14,949,271 kWh while total energy costs accounted for almost 1.3% of total operating costs. We continue to focus

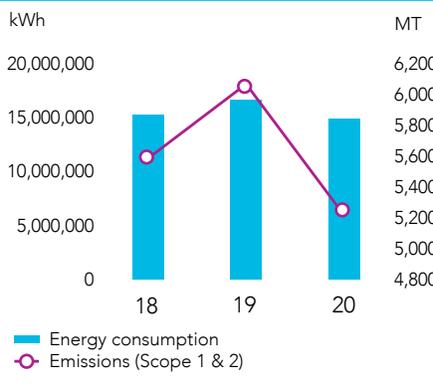
on achieving greater energy efficiency by gradually moving towards renewable sources such as solar power and by investing in energy efficient technology wherever possible. The total number of solarised branches at the end of 2020 stood at 95 and our solar generation capacity increased to 2,945,624 kWh. Meanwhile ongoing initiatives such as the use of natural light, installation of LED lighting, use of building management systems and energy efficient lifts and inverter air-conditioning have also contributed to greater energy efficiency. We are proud to note that these on-going efforts to incorporate greener technology have resulted in our carbon footprint declining by 13.9% to 3.7 Kg/sqft in 2020. Meanwhile our total energy cost saving due to working from home and energy saving initiatives amounted to Rs 39 Mn during the year.



### ENERGY MIX



### CARBON FOOTPRINT



### ENERGY EFFICIENCY

#### BRANCH SOLARISATION PROJECT

Total number of solarised branches **95**

#### INVESTMENT IN ENERGY EFFICIENT TECHNOLOGY

Investment in LED lighting and other energy efficient equipment **Rs 6.6 Mn**

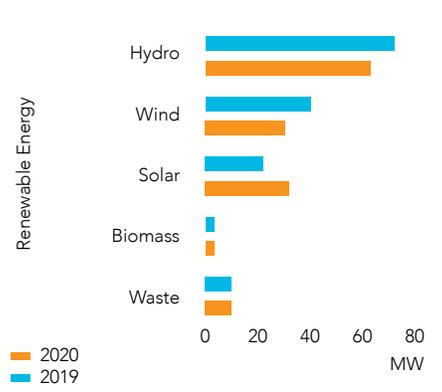
#### IMPACT

Energy Cost Saving **Rs. 39 Mn**



Carbon Footprint Scope 1 & 2 **4.3 Kg/sqft** **3.7 Kg/sqft**

### RENEWABLE ENERGY BY CAPACITY



## Natural Capital

ENERGY EFFICIENCY		
	2019	2020
Paper Usage	233,820 Kg	90,049 Kg
Paper Recycled	100%	100%
Paper Disposed	69,012 Kg	25,148 Kg

- » Our investment in paper recycling translates to the impact saving of
  - » 428 trees
  - » 44,135 L of oil
  - » 799,203 L of water
  - » 100,592 kWh electricity
  - » 75 m<sup>3</sup> of landfill
  - » Reduce GHG emission by 25,148 kg's of carbon equivalent

- ### KEY DEVELOPMENTS DURING THE YEAR
- » Digital account opening, document archiving and retrieval (No) 9,214
  - » Launch of HNB Digital Banking Application – online balance confirmation, e-passbook, online fund transfers (No) 44,365
  - » Installation of Deposit Machines in 2020 (No) 62
  - » E-statement Conversion (No) 138,027
  - » Virtual training and e-learning (hrs) 64,641
  - » Online registration of suppliers (%) 100

### EFFICIENT MATERIAL MANAGEMENT

We continue to monitor the usage of key materials such as paper, electronic equipment and computer equipment and strive to ensure the most efficient use of these resources. The paper-less initiative which commenced in 2015 and aims to reduce paper usage to a minimum showed steady progress with total paper consumption reducing by 61.4% during the year due to ongoing digitisation, recycling efforts and remote work.

Increased level of digitisation and the frequent need for upgrading equipment has led to an increase in e-waste therefore we started tracking e-waste from 2020. During the year a total of 2,581 Kg of e-waste was generated across the branch network.

Recycling is a key aspect of our material management process. Authorised recyclers are contracted to provide a total recycling solution to our branch network which includes the collection, shredding, recycling as well as collection of and disposal of waste including electronic waste.

### RESPONSIBLE SOURCING

We make every effort to source environmentally friendly products and services in a responsible manner. Suppliers and vendors are requested to submit their Company Green policy as part of the registration process which enables us to assess our suppliers commitment to environmentally friendly practices. We have also introduced e-procurement since 2017 which in addition to being a faster and more transparent system is also a greener method due to the reduction of paper required for the registration and tendering process.

### ENVIRONMENTAL COMPLIANCE

As a responsible organisation we ensure that we adhere to all environmental laws and regulations of the country. There were no instances of non-compliance with environmental laws and/or regulations during the year.

### SUSTAINABILITY REPORTING

Monitoring and reporting on our performance against sustainability KPI's is an important part of our sustainability journey. The CEO's sustainability dashboard introduced in 2016

reports on key E & S indicators such as carbon footprint, material usage and disposal, supply chain assessments and risks etc. Progress is monitored on a quarterly basis and reported to the HNB Sustainability Foundation bi-monthly. A sustainability audit (external) is conducted annually for the Annual Report and is carried out by DNV-GL. During the year we also started a pilot project to measure the contribution of the bank's loan portfolio to achieve Sustainable Development Goals (please refer page 62 of this report for more information).

### CAPACITY BUILDING

We continue to develop the internal capacity required to identify, assess and manage the Environmental and Social risks (E&S) and opportunities associated with our business operations. The Bank's Environmental and Social risk Management (ESMS) unit is a separate unit with the required technical knowledge and experience to carry out detailed E & S evaluations. Meanwhile all credit officers are provided training on environmental and social risk management. A specific online training module is available on our e-learning and 54 staff was completed e-learning course in addition to class room training opportunities provided throughout the year. During the year a total of 21 officers were trained in E & S risk management.

### PROMOTING AN ENVIRONMENTALLY SUSTAINABLE ECONOMY

As a systemically important bank in Sri Lanka, we recognize the unique role we can play in steering the economy towards a more sustainable future. We remain committed to creating awareness on environmental and social implications and remain focused on driving positive change in the wider economy.

### ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

Our environmental risk management process ensures that environmental and social impacts of our customers and partners are accurately identified, assessed and addressed on an ongoing basis. All lending projects are first checked against the Bank's exclusion list which defines business activities the Bank does not finance due to severe environmental and social risks. Projects are then categorised as high, medium or low risk with the assistance

of an analytics tool. Projects categorised as high risk are then escalated to the specialised ESMS unit for a detailed due diligence that involves checking the project's compliance with national laws and regulations and IFC performance standards advising customer to avoid, minimize or mitigate the E&S risks and providing an action plan to the customer if required. A total of 75 lending projects were evaluated by the central ESMS unit during the year, out of which 5 were rejected on the basis that they did not comply with our ESMS standards. Regional ESMS evaluation are carried out as a part and parcel of the lending process. Category B projects are evaluated by the staff at branches following the guidelines provided to them.

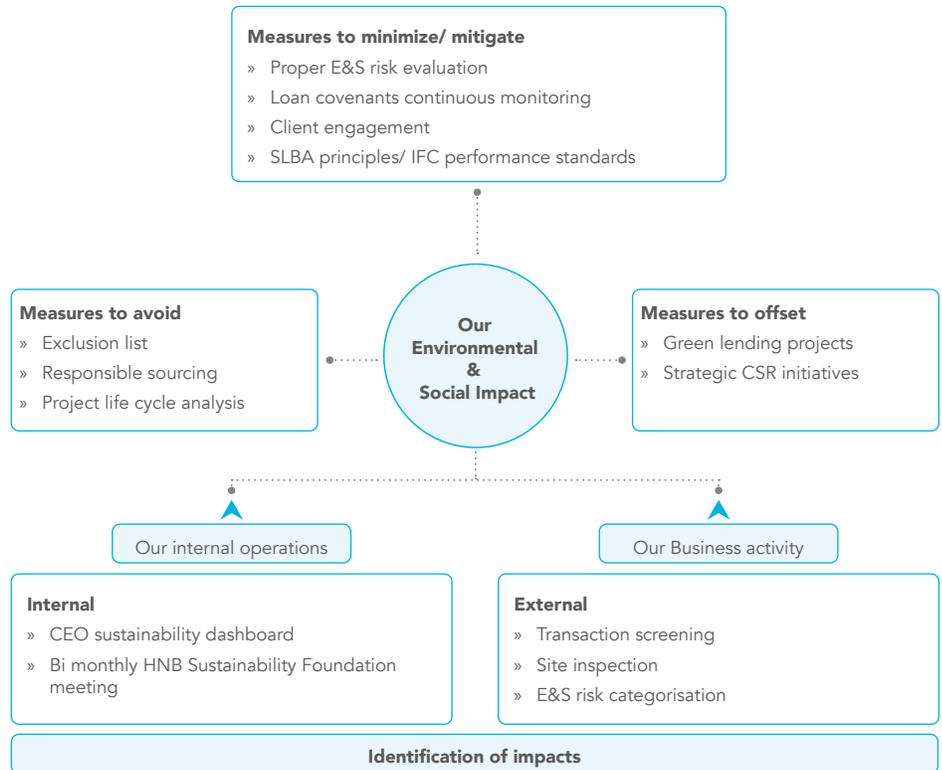
We also build in environmental and social considerations into our loan agreements with specific covenants that address social and environmental risks. Adherence to these covenants are strictly monitored through regular site visits and ongoing client engagement.

### COMBATING CLIMATE CHANGE

We remain committed to combating climate change by promoting projects and activities that contribute to a greener, more sustainable economy in Sri Lanka. Our renewable energy loan portfolio continued to grow during the year with several large renewable energy projects locally and overseas. Meanwhile the personal loan scheme introduced to install domestic rooftop solar systems also continued during the year with 102 additional personal loans.

### CSR INITIATIVES

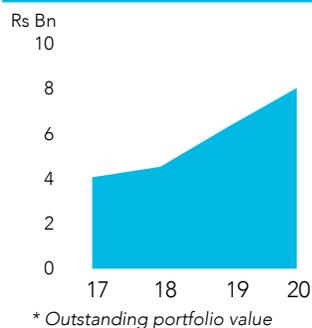
Over the years the Bank has undertaken numerous projects including tree planting campaigns, e-waste campaigns and awareness programs as part of its corporate social responsibility environmental agenda. One of our key long-term projects, the award winning Thundola Conservation Project undertaken in collaboration with Wildlife Conservation Society – Galle. We continued our partnership with Biodiversity Sri Lanka and the Forest Department aims to develop a biodiversity credit accrual system for Sri Lanka through the reforestation of Kanneliya forest. (Refer page 63 of Social and Relationship Capital for full list of CSR projects carried out under the "environment" pillar).



### ENVIRONMENTAL AWARENESS PROGRAMS FOR SME/ BUSINESS PARTNERS

Creating awareness and educating our customers and business partners on the benefits of environmental and socially sustainability and supporting them in their journey towards a more environmentally friendly operation is an important way in which we can have a positive impact on our community.

### RENEWABLE ENERGY PORTFOLIO



### LANDMARK PROJECTS

- » Lead arranger of the syndicated loan for Sri Lanka's first ever waste to energy project at Kerawalapitiya.
- » 10 MW solar power project in Vavuniya and Hambantota
- » 3.3 MW biomass project in Dehiattakandiya
- » 2.8 MW hydro power project in Panwila, Kandy
- » 10 MW solar and 7.8 MW hydro power project in Uganda

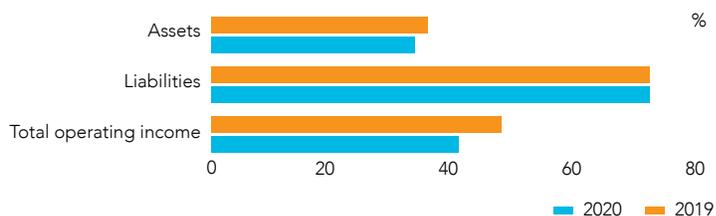
# Business Line Reviews

## RETAIL BANKING

Retail Banking goes beyond the traditional banking model to provide the widest range of financial solutions for aspiring professionals and entrepreneurs, supporting their growth, transactional and wealth management needs

- » Liability Products
  - Current accounts
  - Savings products
  - Term Deposit Products
  - Investment products
- » Loans & Advances
  - Housing Loans
  - Credit Cards
  - Leasing
  - Personal Loans
  - Pawning
  - Microfinance loans
  - SME loans

- » Transactional Products
  - Payment Gateway
  - HNB Momo
  - HNB Solo – Digital Wallet
  - Internet Banking
  - Mobile Banking

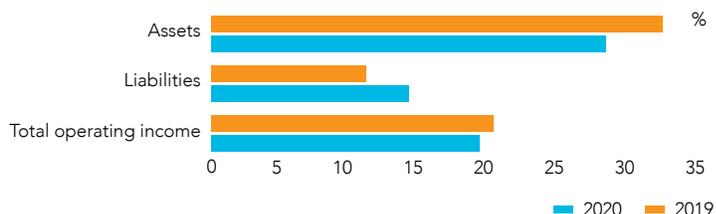


## WHOLESALE BANKING

Wholesale Banking provides solutions for large enterprises using highly specialised and customised products, leveraging our global networks and our extensive customer touchpoints. Our extensive retail banking footprint strengthens our corporate banking value proposition

- » Liability Products
  - Current accounts
  - Savings products
  - Term Deposit Products
  - Investment products
- » Loans & Advances
  - Working capital funding
  - Long term loans
  - Project finance
  - Foreign currency loans

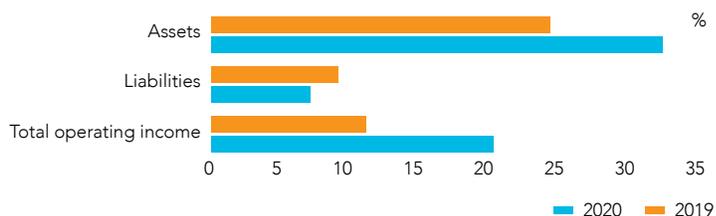
- » Transactional Products
  - Treasury Products
  - Trade Finance
  - Guarantees
  - Payment and Cash Management
  - Custody and Trustee Services



## TREASURY

Treasury offers investment options, forex transactions and a range of derivate products including interest rate swaps, forward contracts etc to enable customers to hedge their market risk.

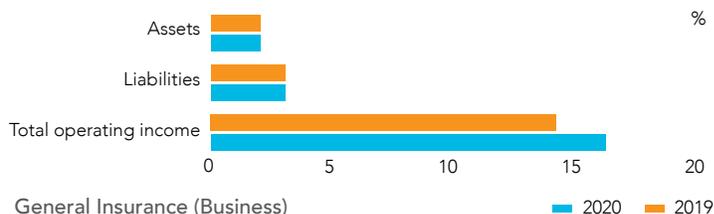
- » Transactional Products
  - Derivate products
  - Repurchase and Reverse Repurchase agreements
  - Forex Transactions



## INSURANCE BUSINESS

Insurance business is conducted by our subsidiary HNB Assurance and HNB General Insurance facilitating safety nets for customers, complementing the financial services product portfolio

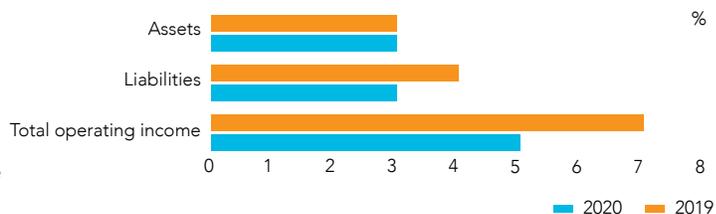
- » Life Insurance
  - Protection
  - Health
  - Savings
  - Mortgage Protection
  - Retirement
- » General Insurance (Personal)
  - Motor
  - Medical
  - Home
  - Travel
- » General Insurance (Business)
  - Motor
  - Marine
  - Fire



## FINANCE BUSINESS

HNB Finance caters to the needs of the self employed, microentrepreneurs and SMEs using specialised products which are linked to a range of additional features that cater to the needs of this customer group

- » Savings
- » Fixed Deposits
- » Leasing
- » Microfinance
- » SME Finance
- » Pawning



## INVESTMENT BANKING

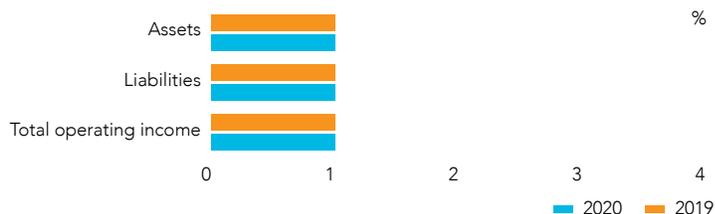
The Investment Banking Group caters to more complex and large scale funding requirements and specialised transactions while offering wealth management opportunities to high net worth and institutional clients

- » Assets management
- » Structuring debt
- » Corporate advisory services
- » Venture capital
- » Stock broking
- » Research & market insights
- » Primary dealership

## REAL ESTATE

Our real estate venture owns and manages the A grade smart building which houses the Head Office and other clients. A reputation for excellence in building management makes our premises a sought after location amongst corporate clients.

- » Rental of office premises
- » Building management
- » Supplies management



# Retail Banking Group

With 252 branches across the country, we take pride in connecting communities to opportunities for managing their financial aspirations and facilitating everyday transactions through relevant financial products. This is how we deliver value to our stakeholders.



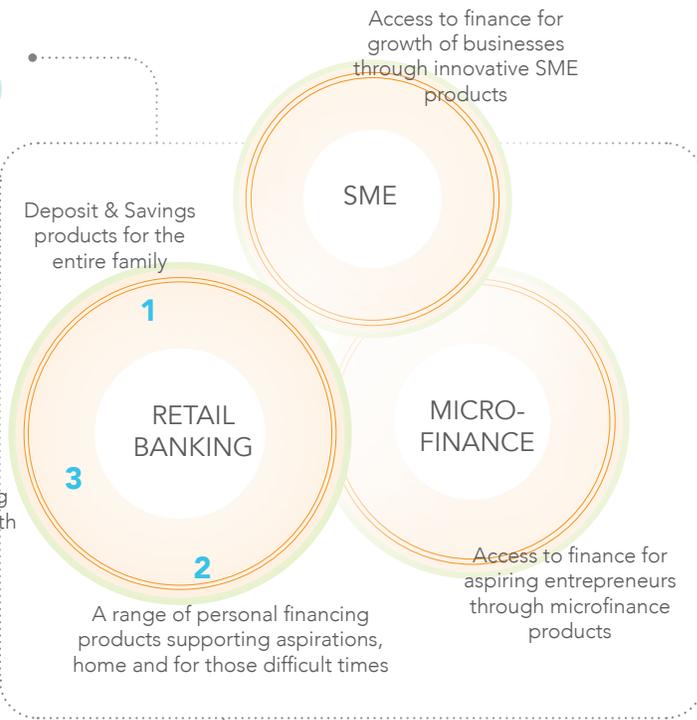
### A TRUSTED CUSTODIAN OF WEALTH

A prudent risk appetite and a strong compliance culture supports our financial stability as we align our strategy to honour the trust our depositors have placed in us.



### A TRUSTED FINANCIAL INTERMEDIARY

We combine our global networks and payment platforms to facilitate financial transactions, supporting remittances and trade



Private Banking for high networth individuals



### PROVIDING ACCESS TO FINANCE

We provide access to finance for customers to realise their dreams and aspirations be it their first vehicle, home or entrepreneurial venture.



### A TRUSTED ADVISER

As a micro-entrepreneur or an aspiring corporate, you will need support to grow and we have dedicated professionals who will support you through the journey. Customers who shared their journey with us will stand as testimony to this.

## STRENGTHS

- » Domestic franchise built over 132 years
- » Island wide presence facilitating access to financial services for all Sri Lankans
- » Future ready digital transaction platforms supporting ease and speed of transactions
- » An innovative culture focused on customer expectations and needs
- » Focus on financial inclusion from inception
- » Product spectrum supporting engagement throughout customer's life and lifecycle
- » Global correspondent bank network facilitating integration to global supply chains
- » Innovative and relevant product portfolio
- » Island-wide reach through branch network to support local supply chains

# Retail Banking

Retail Banking upheld the trust of its customers in 2020, supporting their cashflows and transactional needs with access to cash, moratoria and innovative transactional products as unprecedented uncertainties exerted considerable pressure on cashflows on individuals and businesses alike.

## PERFORMANCE HIGHLIGHTS

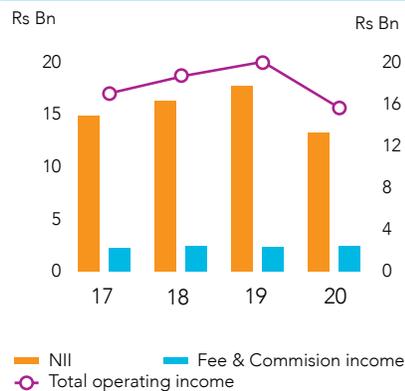
Rs Mn	2020	2019	Change
NII	13,163	17,680	-25.5%
Fee & Commission Income	2,423	2,315	4.7%
Total Operating Income	15,586	19,995	-22.0%
Advances	205,465	177,166	16.0%
Deposits	614,178	528,228	16.3%
NPA	3.0%	3.0%	



**Best Retail Bank in Sri Lanka**  
The Asian Banker Magazine

## PERFORMANCE

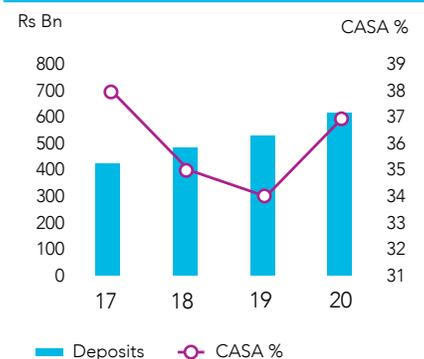
### EARNINGS



### ADVANCES



### DEPOSITS & CASA



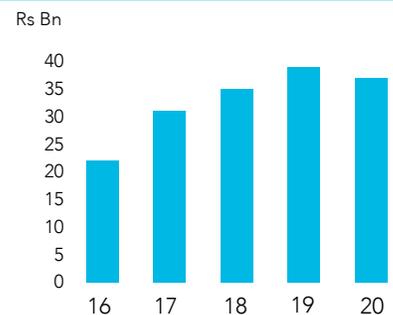
## VALUE TO CUSTOMERS

Accelerated transformative innovation



Access through  
**252** branches  
**787** Self Service Units  
Digital Banking App  
**24x7** Call Centre

### INTEREST PAID TO CUSTOMERS



## TRANSFORMING

Innovation was accelerated on key products required, enabling entrepreneurs to ply their trade and customers to access goods and services required to support their livelihoods and lifestyles. 2020 was characterised by a shift to digital solutions facilitating a smarter economy supported by high levels of smart mobile and computer penetration in the country as work and education shifted online for many. Our key

innovations such as enhanced SOLO and Digital Banking app which supported the new norm are captured in the Digital Capital Report and value added to customers is evident in the growing number of users of these innovative products.

# Retail Banking

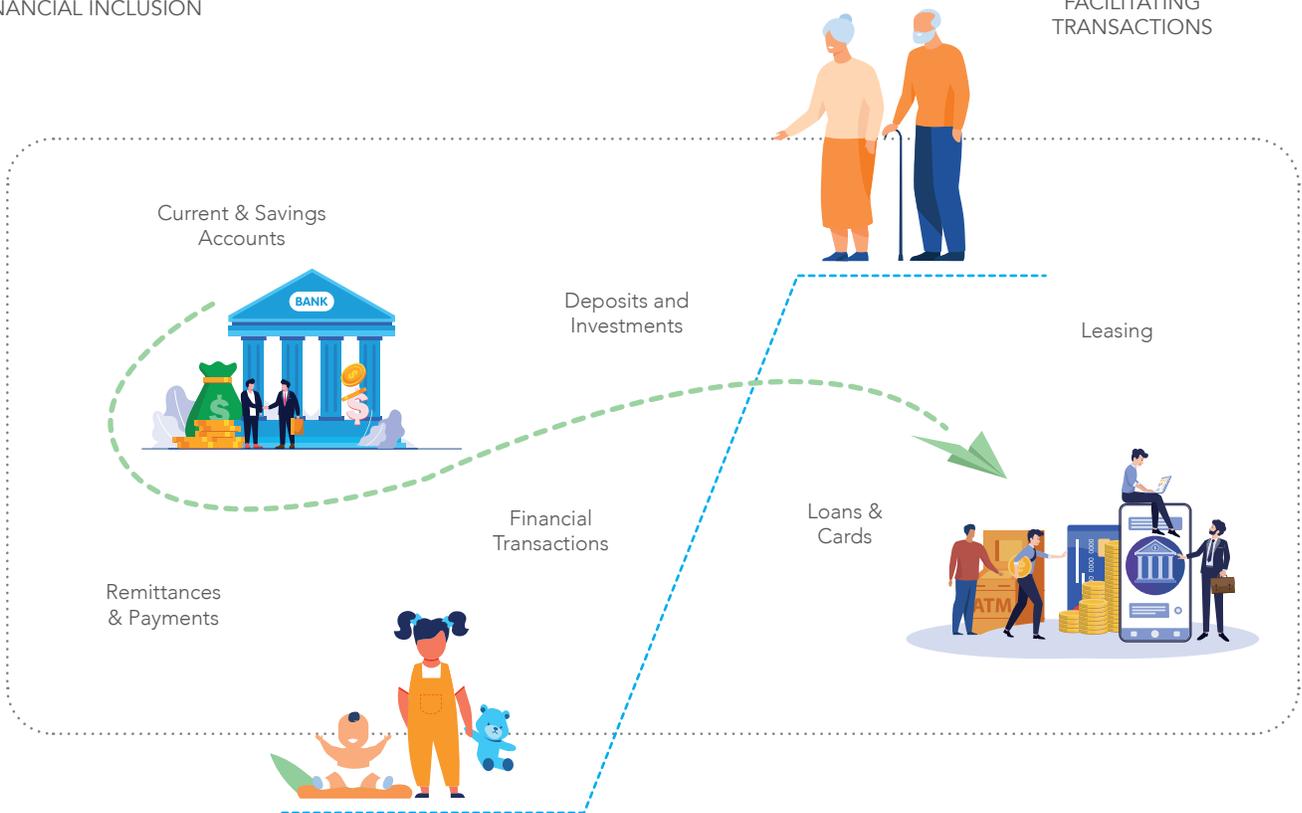
## TRANSFORMING LIVES AND THE WAY OF BANKING



FINANCIAL INCLUSION



FACILITATING TRANSACTIONS



A SAFE CUSTODIAN OF WEALTH



SUPPORTING ASPIRATIONS

## PERFORMING

The Retail Banking asset portfolio grew by 16% as we innovated to support our clients, leveraging on investments in digital banking and transformation efforts. Deposit and CASA growth was encouraging at 16% and 27% respectively as our reputation, product portfolio and risk profile strengthened our customer value proposition in a year marked by extreme volatility. NII was impacted by declining interest rates driven by accommodative monetary policies.

Non-performing assets were a key concern due to overall economic stress and we intensified our focus on managing asset quality. As such, despite the deteriorating macro environment, we were able to contain the NPAs at the same 3% level similar to 2019. Nevertheless, considering the weak economic factors and the stress on the portfolio we recognised a higher provision of Rs 3.2Bn for the year.

## BEYOND 2020

As vaccinations continue to progress and countries relax borders, we are optimistic that the worst of the pandemic and associated economic strain lies behind us. Optimistic economic growth forecasts and improved business confidence will support growth in the right direction underpinned by a more inclusive and resilient digital economy. While vulnerabilities and uncertainties remain elevated at present, we are confident that the digital economy will spawn new businesses which are purpose driven and relevant to the times.

Retail Banking will continue to support livelihoods and lifestyles of customers, connecting them to new opportunities as we transform to become an exciting digital market place. Our main objective is to empower and enable customers to progress along an upward curve with appropriate financial tools that support their aspirations. In doing this, we are tapping into our heritage, built on success stories underpinned by timely and effective products and advice. Digital banking enables us to share this expertise with a wider audience and we are looking forward to partnering our customers' growth in the future.



### Housing Loans

- » 9% growth supported by low interest rates and enhanced flexibility of our products



### Leasing

- » #1 Leasing portfolio among LCBs with healthy portfolio growth of 15% despite import restrictions



### Personal Loans

- » 30% growth in portfolio with an NPA of 2.7% despite stressed market conditions



### Credit Cards

- » Market Leader in Merchant acquiring
- » introduction of Premier Prestige card for housing and leasing customers
- » Upgraded IPG



### Pawning

- » Highest portfolio growth over the past 5 years supporting customers with access to finance in times of need
- » NPA of 0.4% during testing times



### Inward Remittances

- » Facilitating remittances of over Rs 203Bn



### Private Banking

- » Comprehensive two tiered product proposition to cater to HNIs



## COVID-19 RESPONSE

- » Moratoria covering 28% of the retail loan book under phase I and 6% under phase II
- » Access to finance through branches, Bank in a Box, 24x7 call centre and digital channels
- » Digital innovations to support transactions

# SME

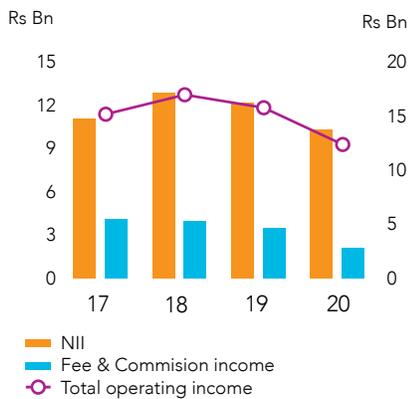
HNB is a leading SME financier bringing expertise developed over decades to support SME growth in the country. A portfolio of relevant and future ready products enables a holistic approach to development of SMEs, supporting a smooth transition into an era of digital banking with all the convenience, opportunities and connectivity that drive growth and efficiency of this vital sector.

## PERFORMANCE HIGHLIGHTS

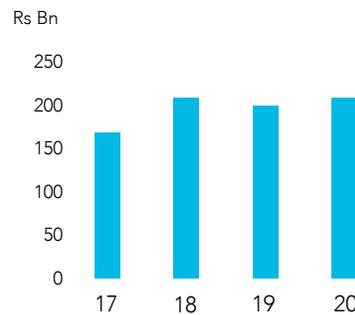
Rs Mn	2020	2019	Change
NII	10,284	12,233	-15.9%
Fee & Commission Income	2,089	3,533	-40.9%
Total Operating Income	12,373	15,766	-21.5%
Advances	208,950	199,219	4.9%
Deposits	171,963	146,185	17.6%
NPA	7.4%	7.5%	

PERFORMANCE

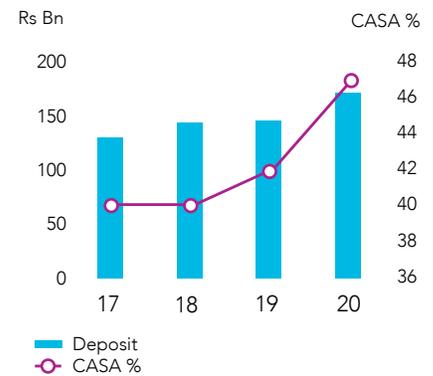
### EARNINGS



### ADVANCES



### DEPOSITS & CASA



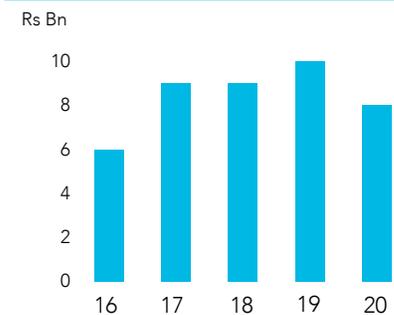
VALUE TO CUSTOMERS

Capacity Building  
and  
Financial Literacy  
programmes

**US\$ 60 Mn**

funding secured from  
PROPARCO for  
development of  
**SMEs**

### INTEREST PAID TO CUSTOMERS



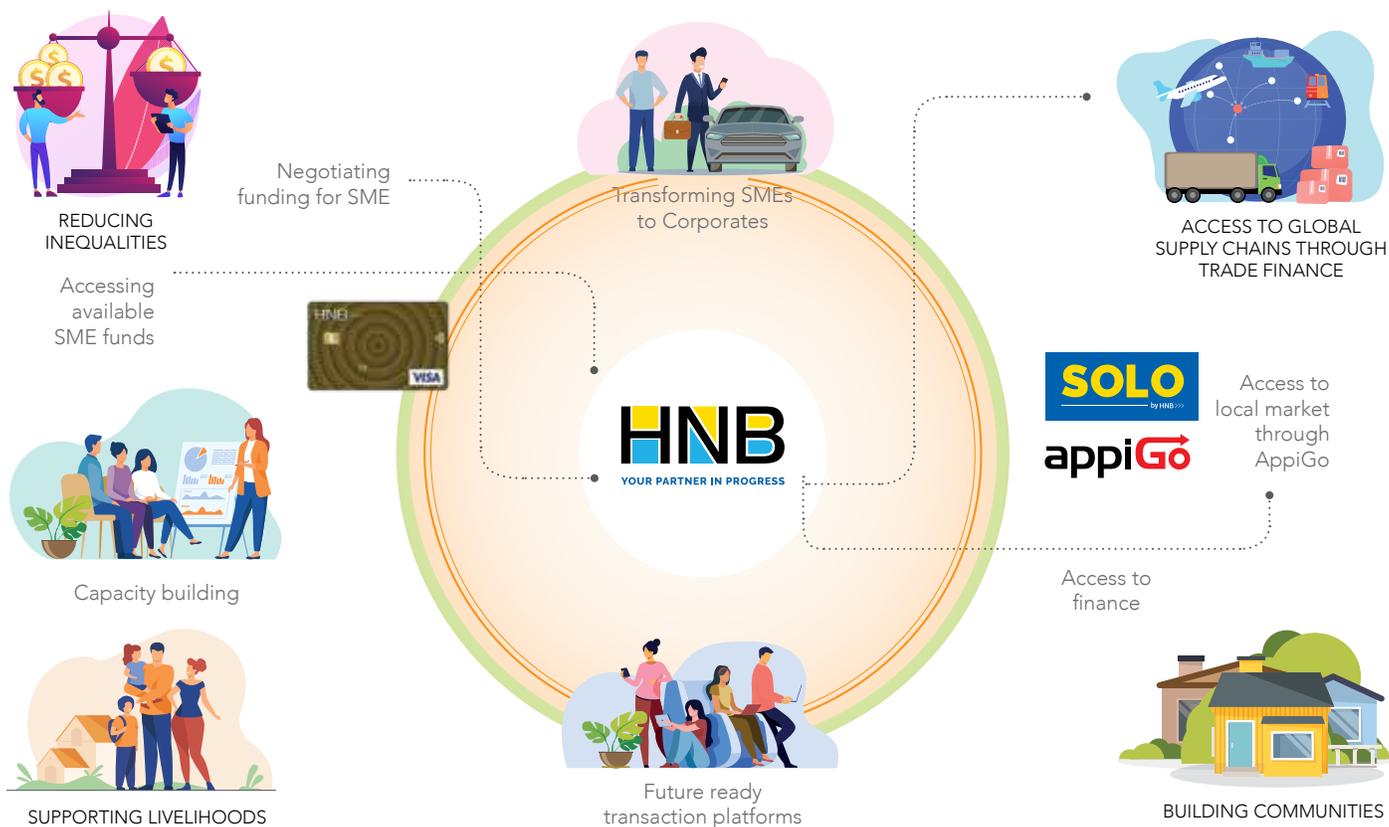
## TRANSFORMING

HNB SME transformed and achieved a paradigm change in 2020 as many SME customers quickly adapted to doing business remotely, creating a sufficient critical mass and mainstreaming digital banking. Products such as HNB MOMO and SOLO as well as Appigo launched during the height of the pandemic proved to be timely innovations as they filled a lacuna in the market for cashless delivery business models.

The Bank secured US\$ 60 Mn in funding to develop the rural SME sector in a landmark agreement with PROPARCO, the private sector

funding arm of the French Development Bank Agence Française de Développement (AFD).

The policy framework was reviewed, consolidated and updated to support SME growth in a dramatically changed landscape. The number of Relationship Managers was increased from around 35 to more than 100 through a rigorous upskilling process to enhance and deepen relationships, supporting SMEs. The new branch operating model implemented in 2019 was refined, ensuring segregation of duties



and increased objectivity in relationship management, credit evaluation, authorisation and administration.

**PERFORMING**

The SME Loans and advances portfolio recorded a 5% growth under challenging economic conditions and prudent credit policies adopted by the Bank. Deposits grew by 18% as more customers availed themselves of the convenience offered by the Bank's digital banking platforms. Declining interest rates and net interest margins resulted in Net Interest Income declining by 16% to Rs 10.3 Bn. The fee and commission income was affected mainly due to sharp drop in imports and exports.

As stressed marked conditions exerted further pressure on asset quality we strengthened our recoveries, set up special asset management units and heightened identification of early warning signals. The Board provided increased oversight to facilitate timely intervention and prudent provisioning. Through our rigorous efforts we were able to maintain our NPA

levels. We recognised higher provisions on account of elevated risks. However, since higher provisions were made on account of few specific customers during 2019, the impairment reduced to Rs 2.5Bn compared to Rs 3.9Bn last year.

**BEYOND 2020**

SME will be an area of focused growth for HNB as we commence 2021 with access to funds and an expanded network of SME Relationship Managers. Our hub and spoke model supports specialisation and skill development to support growth of credit portfolio in line with the Bank's risk appetite. A comprehensive range of digital banking products take us to a new era of SME banking with a highly differentiated value proposition for our customers.

With moratoria expected to end by March 2021, managing asset quality would be one key area of focus. We would continue to work pro-actively with our customers to ease the stress on their businesses and our portfolios through regular dialogue and assessments.

Areas of growth are expected to be agriculture, export based manufacture and services. We also expect to derive synergies for other business lines through products such as supply chain financing and general insurance which enable us to provide holistic solutions for our customers.



**COVID-19 RESPONSE**

- » Moratoria covering 53% of the SME loan book under phase I and 21% under phase II
- » Working capital financing of Rs 13.9 Bn
- » Rs 5Bn SME fund through own funds
- » Facilitating Digital payments

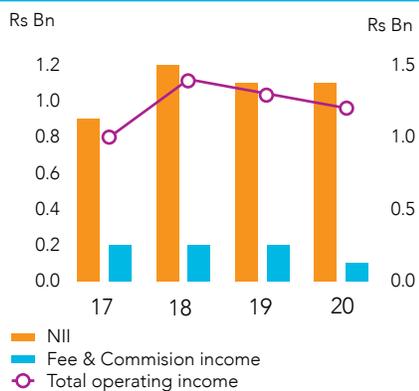
# Microfinance

HNB Microfinance leads the way in supporting the aspirations of micro-entrepreneurs by combining access to finance with relevant advice, capacity building programmes and marketing opportunities. A portfolio of Rs 26 Bn reflects decades of insights gained in working with our customers to understand their needs and finding innovative solutions that empower their growth.

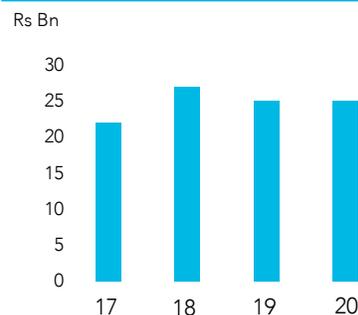
## PERFORMANCE HIGHLIGHTS

Rs Mn	2020	2019	Change
NII	1,058	1,148	-7.8%
Fee & Commission income	106	160	-33.9%
Total operating income	1,164	1,308	-11.0%
Advances	25,939	25,386	2.2%
Deposits	7,134	5,811	22.8%
NPA	7.9%	8.1%	

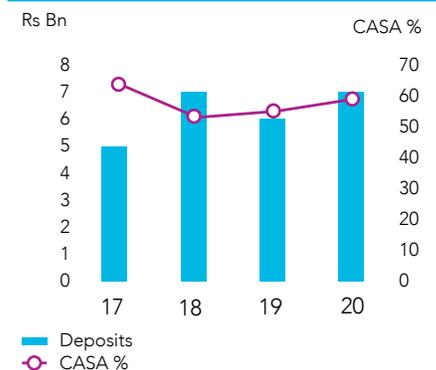
### EARNINGS



### ADVANCES



### DEPOSITS & CASA



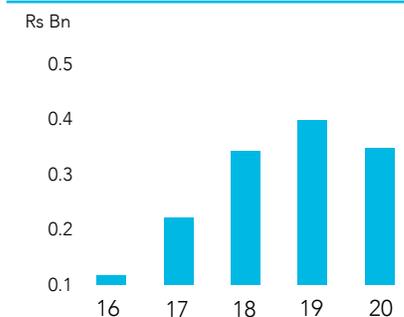
PERFORMANCE

VALUE TO CUSTOMERS

Capacity Building  
and  
Financial Literacy  
programmes

Creating an  
**ecosystem**  
linking  
micro entrepreneurs  
to  
**global**  
supply chains

### INTEREST PAID TO CUSTOMERS



## TRANSFORMING

A bleak economic landscape necessitated disruption of our business model and this was prioritised as we understood their extreme vulnerability which contrasted sharply with the vital role played by them in supporting food security and supply chains. Focus was shifted to providing technical knowhow, linking farmers to traders and established supply chains of corporate clients giving them access to markets and fair pricing with the added bonus of minimised wastage. The Bank also intensified efforts to connect farmers and micro-entrepreneurs to digital banking products and cards, achieving a paradigm shift in taking

farmers along the cashless transaction journey. We also increased the field Officers who underpin our microfinance operations to 150 enabling us to increase penetration and deepen relationships. A strong focus on inculcating deposit habits strengthens safety nets for these customers, supporting transition to SMEs. It was, in effect, a transformation of the microfinance ecosystem to one that is interconnected to larger ecosystems, bringing together the developments over the past few years in collaboration with various business partners



## PERFORMING

Portfolio growth moderated to 2% compared to the drop of 7% in the previous year due to the subdued economic conditions. Deposit growth was 23% outpacing loans and advances growth as customers sought to strengthen safety nets. NII declined in line with market rates and interest margins. Early assessment of the potential scenarios at the commencement of the pandemic enabled us to respond proactively with the necessary support for clients through moratoria and other concessions as we worked alongside customers in 2020. Concerted efforts in managing asset quality during challenging conditions, resulted in the NPAs improving by the end of the year.

Capacity building programmes which were previously conducted face to face needed to be rescheduled and shifted to alternative media and electronic platforms. The microfinance sector was deeply affected by the recession stemming from measures to

control the pandemic and the Bank was able to support many of them through the volatility and uncertainty, extending moratoria and working capital finance.

## BEYOND 2020

HNB Microfinance will be a key area of growth as the world moves into a new norm. Onboarding of micro-entrepreneurs to digital platforms enables them to tap into global opportunities from hand held devices through an enabling ecosystem. We believe the future for micro-entrepreneurs is exciting and has a key role to play in ending poverty, hunger, food security, health and wellbeing and many other potential humanitarian crises. Often micro-entrepreneurs play key roles at the start and end of global supply chains and our exploration of that proposition with a view to empowering their growth, takes us into a new era of microfinance. We also expect the demand for local produce and eco-friendly products to increase with higher awareness

of climate change impacts which is expected to provide further stimulus to this customer segment.



## COVID-19 RESPONSE

- » Grant to 200 stressed Micro entrepreneurs
- » Moratoria covering 85% of the loan book under phase I and 12% under phase II
- » Working capital finance of Rs 3.9 Bn

# Wholesale Banking Group

Our capabilities in serving the needs of corporate and institutional clients is backed by 130+ years of experience, a large balance sheet, the most comprehensive portfolio of financial services, highly specialised skills and deep insights in to market drivers. Global and in-country networks ensures seamless support for trade and other transactions while our digital banking platforms support efficient cash and fund management.



### FACILITATING ECONOMIC ACTIVITY

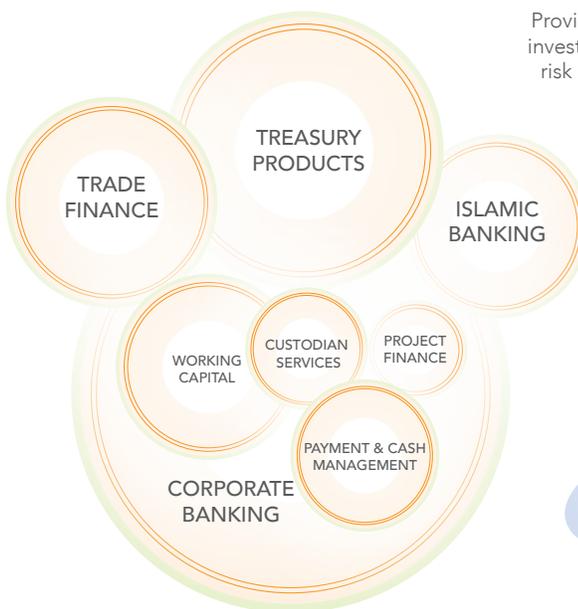
We facilitate cross border and in-country movement of goods and services through trade finance and working capital products which provide necessary assurances to buyers and sellers/service providers.

We also provide finance for large scale investments for infrastructure and industrial ventures which create value for the country and create jobs.



### SUPPORTING CASH MANAGEMENT

Providing expertise for managing cashflow, investments and hedging potential financial risk exposures through Treasury products



### CONNECTIVITY TO GLOBAL MARKETS

Providing future ready platforms for connecting to global financial networks enabling the country's participation in global supply chains.



### SPECIALISED SERVICES

Providing specialised services to meet complex transactional needs of large corporate clients.

## STRENGTHS

- » Highly professional team with deep market insights and specialised knowledge supporting risk management and cost optimisation for clients
- » Payments & Cash Management solution enhancing client value proposition
- » Global correspondent bank network across 76 countries facilitating integration to global supply chains
- » ISO 9001:2008 certified International Trade Services department
- » Innovative and relevant product portfolio
- » Islandwide reach through the branch network to support local supply chains
- » Insights in to diverse sectors of the economy through relationships
- » Value adding business partnerships which include government agencies, chambers of commerce, fintechs, etc.
- » New structure supporting cross sell and collaboration across specialised business lines

# Corporate Banking

Expertise across diverse industry sectors, the ability to structure large and complex deals and trusted partnerships underpin our position as the pre-eminent corporate bank in the country. Strong relationship management was key to navigating the uncertainties in 2020 as we worked with customers to assess the impacts and extend relief through moratoria and other tools.

## PERFORMANCE HIGHLIGHTS

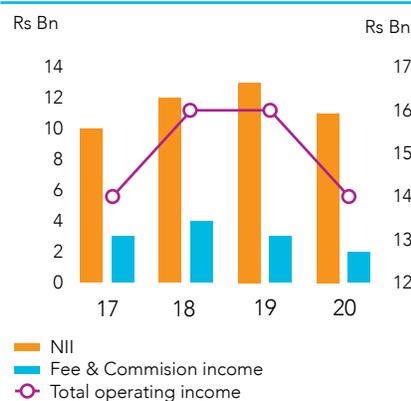
Rs Mn	2020	2019	Change
NII	11,409	12,693	-10.1%
Fee & Commission income	2,190	3,405	-35.7%
Total operating income	13,599	16,098	-15.5%
Advances	378,761	373,064	1.5%
Deposits	155,485	110,296	41.0%
NPA	3.5%	6.8%	



**Best Sub-Custodian Bank in Sri Lanka**  
Global Finance,  
New York

## PERFORMANCE

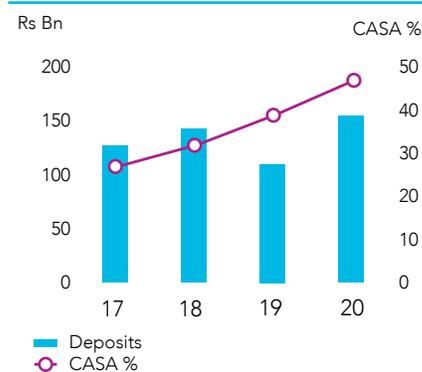
### EARNINGS



### ADVANCES



### DEPOSITS & CASA



## VALUE TO CUSTOMERS

**36%**  
of loan book under moratoria in phase I and  
**15%**  
in phase II

Onboarding customers to digital banking platforms

### INTEREST PAID TO CUSTOMERS



**TRANSFORMATIVE**



**PERFORMING**

Corporate Banking focused primarily on enriching our digital banking offering and managing asset quality. The digital transformation extend our capability while enhancing turnaround times and service standards. The collaborative approach taken to partner fintech takes the Bank into the future as we tap into the ease, convenience and innovation of a wider stakeholder base who are shaping the banking industry of the future.

Transforming structures and processes to safeguard asset quality is the need of the hour to provide direction for selective growth, identify special needs and ensure that success stories and learning are shared to assist customers through the difficult times. Moratoria granted were also scrutinised cautiously to ensure that businesses would be able to repay on expiry of the same.

The Special Asset Management Unit established during the year provided an invaluable service to stressed customers who had access to expert advice and agreed to a schedule of financial restructuring to support rehabilitation within an agreed timeframe. It is encouraging to note that 17% of SAM Unit customers have been rehabilitated by the

close of the year with more clients remaining on track to move out on reaching agreed milestones.

NII decreased by 10% to Rs 11.4 Bn as benchmark interest rates declined sharply during the year as regulators around the world cut policy rates. Net Fee and Commission income was affected by the low trade volumes despite the growth of fees from Payments and Custody and Trustee Services. As mentioned above, managing asset quality remains a key priority. Regularisation of a large loan to a SOE which was classified as NPA during the last quarter of 2019, as well as strengthened credit approval and recovery processes enabled to improve the NPA by 330 bps during the year.

**EMERGING CORPORATES**

Emerging Corporate relationships were brought under the wholesale banking wing during the year to support customers who are aspiring to be the next big corporates in the country. The unit connects the customers with best resources in multiple disciplines to ensure seamless migration in to the next level.

The performance of the unit mirrored corporate banking during the year.

**PAYMENTS & CASH MANAGEMENT (PCM)**

PCM commenced the year with a strategy of enhancing the market leadership in Cash Management Services to corporates and SMEs by expanding the Collections and Receivables proposition across all channels, automation of Accounts Payable and seamless cash management and reconciliation through wider spectrum of payments and transaction banking products. Accordingly, we relaunched the Transaction Banking customer value proposition with a fully-fledged (end to end) Transaction Banking proposition, capturing all key elements of Transaction Banking and providing an unparalleled product offering to our Large and Emerging Corporates as well as SMEs. This fills a long felt need in the Sri Lankan market and will be a key competitive edge for growth of our digital product and services. This is a game changer for the Transaction Banking business of HNB as it links and builds a web across multiple faceted business segments supporting growth of NFI and NII through enabling local and cross border transactions, Liquidity Management products, Supply Chain Financing products,



CREATING  
JOBS

TRANSFORMING  
COMMUNITIES

International Trade Services, etc. via a single Digital Transaction Banking platform.

Relationship managers worked with PCM to on-board customers who needed urgent digital solutions for cash management during this critical time. These efforts supported growth of deposits and CASA during the year and enabled us to consolidate our position with many clients as the primary bank, enabling Corporate clients to carry out their LKR based payments and Trade Finance related transactions electronically during the current pandemic crisis.

#### CUSTODY & TRUSTEE SERVICES

Custody and Trustee Services had another stellar year participating in 90% of securitisations and syndications and gaining 30% market share as Trustee and Fund Administrator. Positioned as the market leader in this niche space, HNB Custody Services has expanded its services and client base rapidly over the past 03 years reflecting its expertise and insights into the capital markets of the country.

Notable achievements included being appointed as the Custodian Bank for the

largest fund in Sri Lanka, and being appointed as a settlement bank to Central Depository Services, a subsidiary of the Colombo Stock Exchange.

#### BEYOND 2020

We are cautiously optimistic about growth prospects but will pursue a selective growth strategy as uncertainties outweigh the upside potential at present. Our focus on asset quality will continue into 2021 as moratoria end in March and we are better able to assess the full impact of the cashflow strains in the corporate sector. The paradigm shift in digital banking achieved in 2020 will be deepened as we on-board more customers, strengthening our customer relationships leveraging the expertise of our PCM team. Custodian and Trustee services is expected to gather momentum as plans to grow the Colombo Stock Exchange gather momentum. We perceive a need for greater engagement with clients through our flexible and innovative trade finance franchise thereby supporting emerging opportunities in Sri Lanka.

#### DIGITAL TRANSFORMATIONS

- » Upgrading core banking system with separate module and tools for Islamic Banking
- » API Banking to facilitate real time remittances in partnership with Exchange Houses
- » Growth of Fintecs and other service providers leveraging API and other digital banking applications

#### SAFEGUARD ASSET QUALITY

- » Safeguard Asset Quality
- » Established Special Asset Management Unit to closely monitor and handhold stressed businesses
- » Establishing Credit Strategy Committee to formulate Strategic Lending Directions

# Trade Services

As the market leader in Trade Finance, HNB's Trade Services plays a key role in facilitating international trade through a global network of correspondent banks. Renowned for deep insights in this highly specialised area, Trade Services works together with Corporate and SME relationship managers to provide efficient and effective solutions for our customers leveraging our considerable intellectual capital encompassing product portfolios and streamlined processes.

## PERFORMANCE HIGHLIGHTS

Rs Mn	2020	2019	Change
NII	1,082	1,382	-21.7%
Fee & Commission income	1,566	1,773	-11.7%
Advances	42,415	53,371	-20.5%

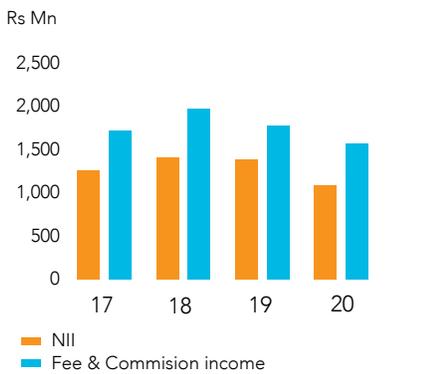


Market Leader & Best Service in Trade Finance by

**EUROMONEY**

for the second consecutive year

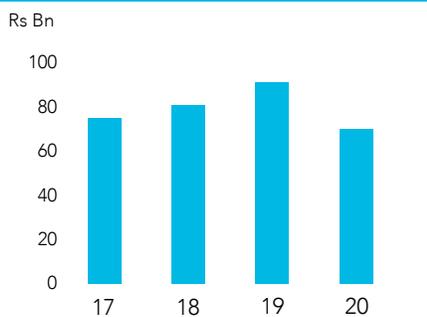
## EARNINGS



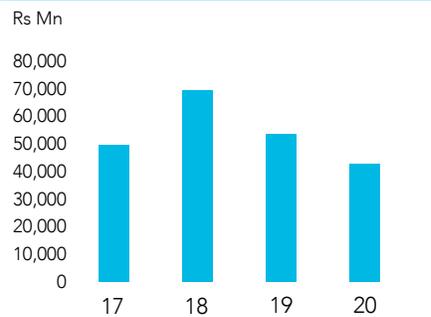
**ISO 9001:2015**  
Certified  
Trade Finance Department

PERFORMANCE

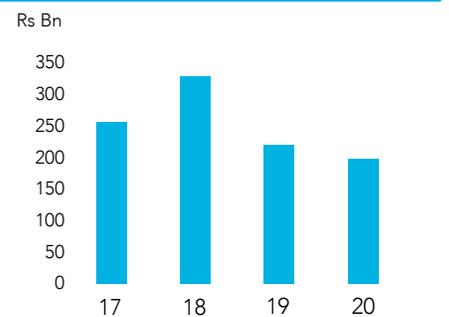
## EXPORTS FACILITATED



## ADVANCES



## IMPORTS FACILITATED



VALUE TO CUSTOMERS

## TRANSFORMING

Trade Services plays a vital role connecting corporates and SMEs to global supply chains using its expertise to facilitate imports and exports, supporting their growth over the years. ISO certified trade finance processes backed by state of the art digital platforms support ease of doing business, risk management and cost optimisation.

The Bank partnered with the Export Development Board for customer awareness programmes by educating exporters on industry best practices, risk mitigation methods, financial solutions etc. We also partnered with Cord -360 to conduct webinars on expanding export opportunities to support growth of the sector. We expect these transformative initiatives to bear fruit as the forecast recovery gathers momentum.



Value creating partnerships



**PERFORMING**

The year witnessed a decline in trade volumes due to the pandemic and import restrictions implemented during the year. Trade Finance used the low volume period to make significant progress in streamlining existing processes, identifying risks and improving the risk mitigation framework. We were also able to focus on training and development for Corporate and SME Relationship Managers, Credit Underwriters, Credit Officers and staff handling trade at branches with customised programmes to support growth.

Fee income from trade services declined by 11.7% during the year mainly due to the decline in imports stemming from the import restrictions imposed by the government to curtail foreign exchange outflow. Country imports and exports declined by 20% and 16% respectively in 2020 with the Bank experiencing similar contraction of only 7% in imports while exports declined by 23%. Despite

this decline, HNB's international trade market share remained stable reinforcing its strong position in providing robust solutions.

We also achieved 100 percent compliance with regulations with zero violations reported from the network in carrying out trade transactions. Importantly, we remained open during the lockdown periods to facilitate imports and exports which are the lifeline for our industrial sector. We led the market by providing timely solutions to our customers during this very challenging period.

International guarantees business remained subdued due to uncertainty stemming from the pandemic. We expect this to gather momentum as plans revealed in the budget falls into place in the year that has commenced.

**BEYOND 2020**

Despite the downgrading of the country's sovereign rating by credit agencies, we acted in a timely manner to strengthen our correspondent banking relationships with all major banks globally and other international organisations, in order to continue to provide our customers a smooth service with minimum impact to their international trade transactions in the coming year.

We will leverage on the dedicated business development team that is in place and the products refined based on end to end customer requirements to boost trade volumes, deepen wallet share and to on-board new business in diverse industries as the growth prospects for trade remain subdued.

During 2021, we will continue to focus on improving process efficiency and customer experience through automation and digitalisation.

# Treasury

As one of the largest treasuries in the country, HNB Treasury is a key player in the foreign exchange and money market transactions due to the large volumes handled. Market insights developed over decades and our ability to handle large volumes enables us to create superior value to our customers, building trusted relationships. Treasury plays a key role in determining the Bank's competitiveness, profitability and financial stability by managing the funding structure, liquidity and cost of funds through specialised instruments and prudent investments.

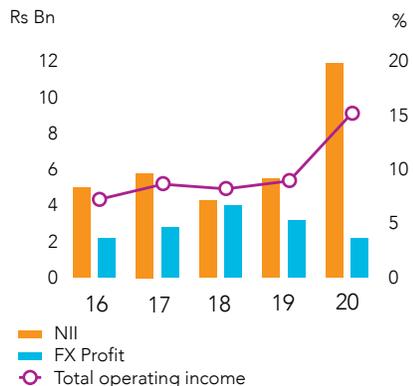
## PERFORMANCE HIGHLIGHTS

Rs Mn	2020	2019	Change
NII	11,933	5,569	114.3%
FX income	2,281	3,277	-30.4%
Trading gains Income	1,062	109	883.3%
Total operating income	15,276	8,955	70.6%

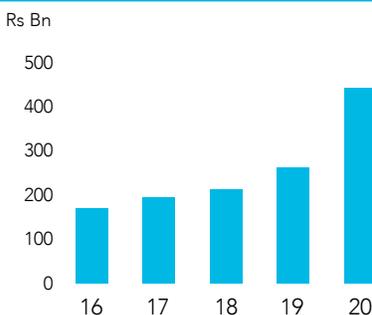
Contributed  
**26%**  
of Total Operating  
Income of Bank

## PERFORMANCE

### EARNINGS

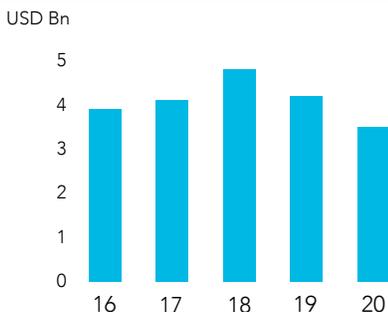


### INVESTMENT IN GOSSL SECURITIES



Geared to operate  
**100% remotely supported**  
by state-of-the-art technology  
and systems.

## FX VOLUME



Expert advice on Treasury  
management and managing foreign  
exchange risk to customers

## TRANSFORMING

Investments in upgrading treasury systems proved to be timely as the HNB Treasury was one of the few Treasuries able to operate remotely during the lockdown without compromising internal controls, ensuring

that all Treasury functions were carried out effectively. We leveraged technology to interact with our clients seamlessly, supporting their transactions through unprecedented levels of volatility and uncertainty.



**PERFORMING**

Treasury has been the highest contributor to earnings of the HNB Group, accounting for 20% of Total Operating Income in 2020. NII increased by 114% due to long term investments locked in at high interest rates and higher yields from the sovereign bond portfolios despite narrowing Net Interest Margins. The FX income dropped to Rs 2.3 Bn due to the relatively lower customer transactions. Treasury also made a gain of over Rs 1Bn through disposal of treasury bills and bonds during the year. Assets managed by the Treasury increased by 51% to Rs 442 Bn due to subdued credit demand as HNB continues to be one of the largest investors in GOSL securities.

Treasury manages 34% of total assets of the Bank and Treasury borrowings reduced by 33% to Rs 87 Bn.

**BEYOND 2020**

The outlook for Treasury operations reflects high levels of uncertainty as the combined effects of a steep downgrade in the sovereign rating, subdued economic performance and increasing regulations limit the effective use of time-tested strategies and tools. However, there is no doubt that our expertise will be invaluable in managing financial risk exposures for customer transactions as we navigate unprecedented situations to find

practical solutions within the tight regulatory framework.

Treasury strategy is aligned to operate within a fairly restrictive framework with Import controls and caps and ceilings for interest rates limiting options. Foreign borrowings will continue to be challenging hence the focus would be on customer deposits and local borrowings which will increase the cost of funds, presenting some challenges in a low interest rate regime. The main focus will be to maintain healthy liquidity levels in rupees and dollars with positive cashflow gaps across all tenors until stability is restored to financial markets.

# Islamic Banking

HNB Al Najah, the Islamic Banking wing of Hatton National Bank PLC, has grown into the largest window operation in terms of asset and liability portfolio among the Islamic Banking and financial service providers with an aggressive and experienced team of staff since commencing operations in 2012. An innovative range of Shariá compliant products deliver an alternative financing mode with five windows in four provinces reflecting HNB's inclusive banking approach.

## PERFORMANCE HIGHLIGHTS

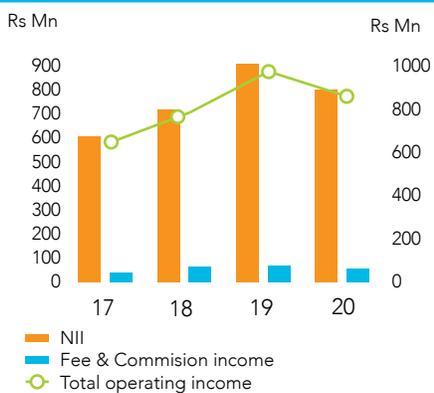
Rs Mn	2020	2019	Change
NII	801	907	-11.7%
Fee & Commission income	57	68	-16.0%
Total operating income	858	974	-12.0%
Advances	15,831	15,985	-1.0%
Deposits	24,348	12,971	87.7%

## Islamic Banking Window unit of the Year

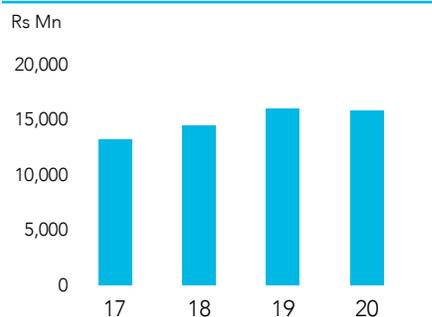
Sri Lanka Islamic Banking & Finance Industry

### PERFORMANCE

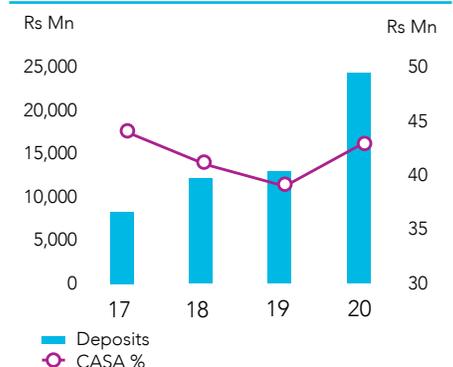
#### EARNINGS



#### ADVANCES



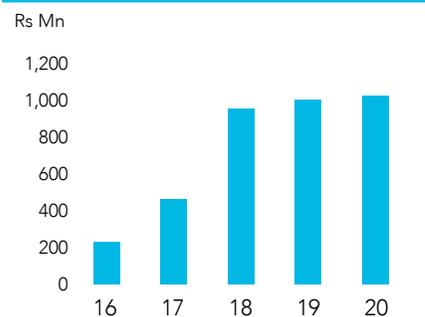
#### DEPOSITS & CASA



### VALUE TO CUSTOMERS

Sharia Compliant Banking Products for inclusive financing for individuals and businesses

#### PROFIT PAID TO CUSTOMERS



## TRANSFORMING

HNB Al Najah accelerated its digital transformation with the onset of the pandemic which supported growth and introduced digital transformative solutions to its customers such as E- Banking, Payfast, Mobile Banking etc to support contactless banking solutions.

## PERFORMING

HNB Al Najah was able to maintain the advances portfolio at almost the same level despite subdued demand. Deposit portfolio increased by 88% as customers adopted a pessimistic approach towards new business opportunities and transactions became more cash centric. Earnings declined by 12% to Rs 858 Mn due to the reduction in rates and limitations imposed by the government for Imports resulting in lower utilisation of working capital limits. Impairments charges increased due to additional provisions made to reflect portfolio stresses as NPAs increased from 0.4% to 1.3% although it remained low in comparison with the industry average.

## BEYOND 2020

HNB Al Najah caters to a unique market and plans to grow in 2021 to realise the country's untapped potential markets through the branch network. The centralised operations of the whole Islamic Banking operation has been bolstered to support growth. The upgrade to the Core banking system enables the Islamic banking function to open up new avenues for growth by introducing new products and features.

### ▶ IN 2020 HNB AL NAJAH WON THE FOLLOWING AWARDS,

#### SLIBFI

*(Sri Lanka Islamic Finance Industry Forum)*

- » Gold award for "Window Unit of the year"
- » Silver award for "Entity of the year"
- » Silver award for "Deal of the year"

#### IFFSA

*(Islamic Finance Forum of South Asia)*

- » Bronze award for "Entity of the year"
- » Silver award for "Window Unit of the year"

# Insurance

HNB Assurance PLC and its subsidiary HNB General Insurance Ltd., continues its growth momentum despite the challenging landscape. Connectivity to customers was enhanced with the accelerated digitalisation of a number of applications which supported customer retention and acquisition as well as employee engagement and productivity. HNBA and HNB GI ratings of A (LKA) with a stable outlook reflect risk based capital ratios well above the regulatory requirement of 120%.

## PERFORMANCE HIGHLIGHTS

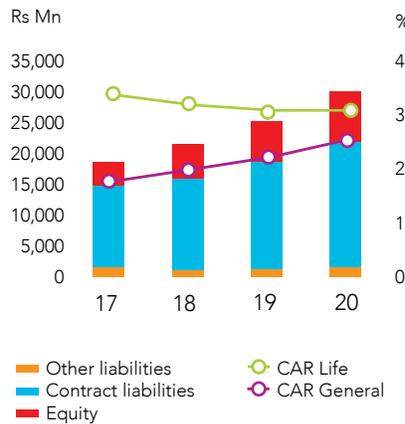
Rs Mn	2020	2019	Change
Gross Written Premiums	10,399	9,943	4.6%
PAT	1,164	1,011	15.2%
Total Comprehensive Income	1,188	1,041	14.2%
Total Assets	31,725	26,621	19.2%
Insurance Contract Liabilities			
Life	17,064	14,465	18.0%
General	3,309	2,871	15.2%
Equity	8,170	6,706	21.8%
ROE	16%	16%	
No. of Policy Holders	316,511	306,532	
No. of Advisors	2,473	2,552	

PERFORMANCE

### LIFE & GENERAL INSURANCE FUNDS



### CAPITAL ADEQUACY RATIOS & CAPITAL STRUCTURE

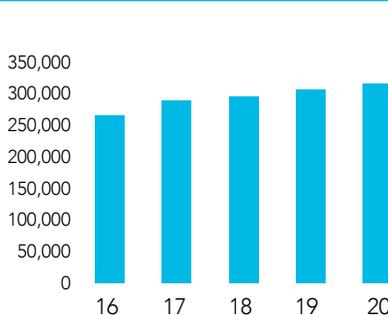


### GROSS WRITTEN PREMIUM



VALUE TO CUSTOMERS

### NO OF POLICIES



### CLAIMS AND BENEFITS PAID TO CUSTOMERS



### SATISFACTION RATE – HNBA

» Settled Claims	82%
» Policy Issuance	99%

### SATISFACTION RATE – HNBGI

» Motor Claims	94%
» Non Motor Claims	87%

## STRENGTHS, OPPORTUNITIES & CHALLENGES

HNBA has built a trusted brand in the country over the years, leveraging the strong partnership of its parent, upholding customer trust and prudent management of its affairs affirmed by sound ratings. High levels of stakeholder engagement and upholding our covenants with them has supported customer growth and performance. Growth in Gross Written Premium (GWP), customer retention, claims and benefits to customers and accolades from Great Place to Work are testimony to our commitment to customers and employees. The growing number of agents qualifying for the Million Dollar Round Table and the value created for them demonstrate the high levels of encouragement and facilitating tools provided to this vital stakeholder Group.

Penetration of insurance in Sri Lanka was 1.3% at the end of 2019, lower than those of other countries in the South Asian region. Low levels of awareness of the benefits of insurance hampered the growth, resulting in higher costs of market development and customer acquisition. It is a highly personalised business with high levels of personalised selling making collaborative partnerships key to success. Market structures, high cost distribution channels, relatively low financial literacy, and rising healthcare costs add to the challenges facing the industry which were exacerbated by the COVID-19 pandemic. Relief measures offered to policyholders under IRCSL directions also contributed to decline in premiums received in the second and third quarters of 2020 which in turn affected the growth of Life fund as well as investment funds of both Life and General Insurance businesses.

Implementation of SLFRS 17 which was scheduled for 2022 was deferred to 1st January 2023. Lower interest rates, downgrading of the sovereign rating, and volatility in equity markets also limit investment options and adversely impact returns on funds under management. General Insurance business was also impacted by import restrictions, particularly the restrictions on import of motor vehicles.

## TRANSFORMING

New products were developed by HNBA to cater to the high net worth segment while enhancing the protection element of Life.

## PERFORMING

HNBA Group delivered a commendable performance, recording 5% growth in Gross Written Premiums which amounted to Rs 10.4 Bn. An increase of 10% in investment Income due to growth in funds under management albeit the environmental challenges enhanced investment Income to Rs 2.6 Bn. The decrease in General Insurance claims by 10% was largely attributable to reduced motor claims due to lockdowns. Administration and Operating Expenses increased during the year due to business development expenses and continuing to uphold commitments to staff. PAT increased by 15% supported by increased business volumes and agile strategy to enhance stakeholder value.

Employee and agent morale was key to success and we used multichannel initiatives to engage, motivate and inspire these people who drive our business growth. All employee remuneration and benefits were upheld and advances were given on commissions to agents to tide them through the difficult periods.

Our Balance sheet strengthened recording total asset growth of 19% and the capital adequacy ratio improved to 338% in the Life business and to 256% in the General Insurance business. Funds under management increased by 23% to Rs 27 Bn.

## LIFE INSURANCE

Demand for life insurance in knowledgeable customer segments, focused strategies to attract high networth customers, growth of the bancassurance channel and upskilling of agency networks supported an increase of 6% in GWP. New product innovation and digitalisation of customer engagement and customer acquisition processes supported business growth overcoming challenges stemming from social distancing measures. Group synergies played a key role in business generation as the bancassurance channel and HNB payment options supported customer onboarding and retention. Digital tools and upskilling of the Agency channel reinvigorated this vital channel which also accounts for the larger business share.

## GENERAL INSURANCE

Sri Lanka's General Insurance market declined during the year as import restrictions, lower trade flows and subdued economic activity dampened growth. Consequently, HNBGI focused on the profitable motor segments,

## NEW PRODUCT DEVELOPMENT

- » Supreme Health Max
- » Super Critical Illness

## DIGITAL PAYMENT CHANNELS

- » HNB SOLO
- » HNB Credit Cards
- » Online Payment Gateway

## SKILL DEVELOPMENT

- » Training for our staff, agents and bancassurance channel through e-learning platforms

SME and retail insurance business to drive GWP growth of 4% which is commendable in view of the decline in the market. Medical insurance was also an area identified for growth without compromising profitability through targeted marketing initiatives. Enhancing digital platforms including customer payment options supported customer convenience and collection of premiums. Efficient settlement of claims has been a key market differentiation strategy although claims reduced substantially on Motor claims due to lockdowns and reduced traffic flows.

## BEYOND 2020

Low economic growth and low disposable income will dampen growth of the insurance market but there are opportunities to capture discerning customers leveraging the prudent risk profile of the HNBA Group. We will continue to upskill our distribution channels to drive growth which will be supported by the introduction of novel products. Lower interest rates necessitate agile investment strategies to maximise returns in 2021. As the pandemic may continue till a vaccine is rolled out, we firmly believe in continuing our business amidst the adversity while ensuring the safety of our employees, customers and agents. The Business Continuity Plan in place factors these impacts and envisages honouring commitments to our customers and other stakeholders.

Our digital journey will continue in 2021 with the investment in a new core system for HNBGI, exploring the options for a new core system for HNBA and development of mobile apps for customer convenience. These are expected to deliver operational efficiencies, scalability and also differentiation in the market through convenience and connectivity.

# Investment Banking

Acuity Partners, the Investment Banking arm of the HNB Group, is a leading investment bank in the country with an innovative and comprehensive range of investment banking services. A joint venture with DFCC Bank PLC, Acuity Partners supports access to capital markets for corporates and provides wealth management services to high-net-worth individuals and corporates using its specialised knowledge of financial markets.

## PERFORMANCE HIGHLIGHTS

Rs Mn	2020	2019	Change
Fund based income	1,681	1,410	19%
Fee based income	204	80	155%
PAT	1,188	605	96%
Total Comprehensive Income	1,296	593	119%
ROE	16.3%	9%	
Debt:Equity	38%	38%	

Surpassed  
**Rs 1 Bn**  
milestone in  
Group PAT

## PERFORMANCE

### EARNINGS

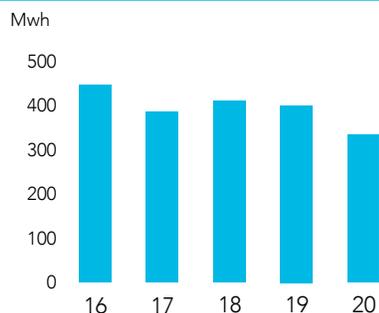


### ASSETS UNDER MANAGEMENT



## VALUE TO CUSTOMERS

### ENERGY GENERATION



### INVESTMENTS IN ENERGY



## **STRENGTHS, OPPORTUNITIES & CHALLENGES**

The key strengths of Acuity Partners Group are the highly skilled team of professionals, its deep market insights, and the reputations and networks of its joint venture partners. Market leadership of the industry across a range of specialist services stand testimony to these claims.

Opportunities and challenges are closely linked to the country's political and economic outlook, magnified by the limitations in size and liquidity of capital markets. Consequently, 2020 proved to be a challenging year following a change in government, the wide-ranging impacts of COVID, and general elections in August which combined to dampen investment activity, limiting the scope for growth. The investment banking group was able to overcome these challenges in the second half of the year with the pick-up in trading activity in the Colombo bourse and an improved deal flow. The unprecedented decline in interest rates supported increased levels of activity in both financial markets as well as capital markets as investors shifted funds from low yield deposits to alternative investments. However, the declining interest rates negatively impacted returns of all fixed income instruments including the running yield of our key product- Guardian Acuity Money Market Fund which dropped to a single digit.

The energy operations of the Group were largely unaffected by the pandemic due to the stable demand for clean energy although overall energy consumption declined significantly during the year, both globally and in the country.

## **TRANSFORMING**

The Corporate Finance arm of the Group is engaging with stakeholders to introduce Real Estate Investment Trusts (REITs) to the Colombo Stock Exchange with the recent gazetting of legislation to introduce this product which will provide another asset class.

Acuity Securities and Acuity Stock Brokers also leveraged the networks of the two joint venture partners to broaden the client base while enhancing existing relationships. Additionally, the CSE and SEC spearheaded end to end digitalisation of all CSE activities enabled faster account opening, online fund transfer procedure and paperless work flow supporting process efficiencies.

Guardian Acuity developed a new brand identity and architecture themed "Guardian Acuity- Creating the Legacy You Desire" which was released on social media. This pivots on the specialised abilities of Guardian Acuity to support customers to align their investment requirements and their life goals, creating a legacy worth remembering. A comprehensive wealth planning tool, "Wealth Buddy" was developed for potential customers to plan their life goals with systematic investments which was promoted as a Virtual Wealth Advisory tool, encouraging customers to sign up for one-to-one wealth advisory sessions in the comfort of their homes.

## **PERFORMING**

Despite the significant challenges during the year, the Investment Banking Group recorded an outstanding performance by surpassing the Rs 1 Bn PAT mark for the first time since their inception and recorded a growth in profit of 96% YoY, accordingly the HNB Group share of profits for 2020 is Rs 400 Mn. A pick-up in equity market conditions post lockdown enabled Acuity Stockbrokers to recover from the downturn in 1H 2020. Acuity Securities recorded an exceptional year enabled by the unprecedented fall in policy and market interest rates which positively impacted the primary dealership and bond trading activities. Lanka Ventures group through its exposure to the power & energy sector is largely unaffected by the COVID-19 crisis. All of the above enabled APL group to report a profitable year and consolidated financial performance which is ahead of our full year budget forecast. The performance is highly commendable in the current scenario and a vindication of our full service investment

banking strategy encompassing a diversified offering of fund and fee based services. Lanka Ventures contribution remained steady during the year.

## **BEYOND 2020**

We expect the impact of potential lockdowns to be less severe than in 2020 as entities and people have geared up for potential disruptions to business, remote working and instant activation of safety protocols in keeping with threat levels. Roll out of the vaccine also holds the promise of curtailing the pandemic to a large extent. Acuity Partners Group will focus on maintaining a lean organisation with low overhead costs that can survive potential adverse impacts to our revenue streams.

Every crisis brings new opportunities and we're identifying new businesses and new business opportunities that can thrive in the post COVID-19 economic environment. In this regard we are already mandated for investment banking transactions by several digital and e-commerce players who have thrived in the COVID environment and we intend to further strengthen our expertise in serving these emerging industries. Overall, we expect 2021 to be better than 2020, moving in a positive direction.

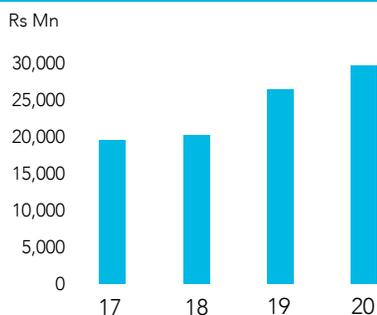
# Finance Business

HNB Finance PLC was listed on the Colombo Stock Exchange on 20th May 2020 marking a milestone in this future focused finance company. A vision of supporting today's micro entrepreneurs to becoming tomorrow's SMEs defines the path of transformation for HNB Finance as we expanded the product portfolio to support the new business model. Alignment to HNB Finance vision also inspires the employees who are highly engaged and inspired making it one of the Great Places to Work for the fourth consecutive year.

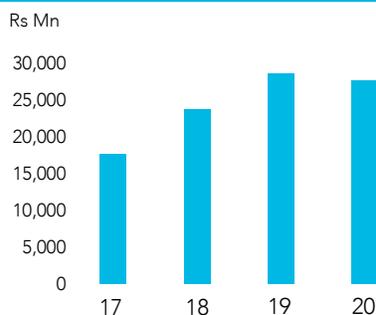
## PERFORMANCE HIGHLIGHTS

Rs Mn	2020	2019	Change
NII	3,075	4,418	-30.4%
Fee & Commission income	340	813	-58.2%
Advances	27,573	28,619	-3.7%
Deposits	29,678	26,455	12.2%
NPA	17.2%	11.1%	

## DEPOSITS



## ADVANCES



## AWARDS

### Great Place to Work awards 2020

- » Top 40 Best Workplaces in Sri Lanka
- » Bronze Award in Extra Large Enterprise Category

### Global Customer Engagement Awards 2020

- » Most Admired Customer Engaged Brand of the Year (Sri Lanka)
- » Social Media Brand of the Year (BFSI – Sri Lanka)

### SLT 01 Awards

- » Gold Award for Overall Best Website or Microsite
- » Gold Award for Best Digital Integrated Campaign – Finance and Banking sector
- » Gold Award for Best Website or Microsite – Finance and Banking sector

### Asian Banking & Finance Awards 2020

- » Marketing & Brand Initiative of the Year - Sri Lanka
- » Website of the Year - Sri Lanka

## INTEREST PAID TO CUSTOMERS



Donated day's salary of  
**Rs 2.5 Mn**  
 to Itukama COVID Fund

PERFORMANCE

VALUE TO CUSTOMERS

## STRENGTHS, OPPORTUNITIES & CHALLENGES

High levels of customer engagement which underpinned our growth previously proved challenging in 2020 as we implemented measures to curtail the pandemic. Engagement efforts shifted to digital platforms as we encouraged customers to move to digital channels and used leads generated by digital platforms to drive new customer acquisition. Omni channel engagement has gained acceptance from customers who were previously reluctant to do so, driving significant change in interactions.

Stressed economic conditions remain a significant challenge with inevitable impacts on portfolio quality. As the majority of our customers are not salaried employees, we also needed to provide moratoria to support their livelihoods as they faced unprecedented challenges due to lockdowns. This also makes them more vulnerable to economic uncertainties, necessitating careful evaluation of recovery strategies and stakeholder concerns.

Widening the product portfolio in 2019 enabled focus on growth areas such as gold loans as demand for leasing and loans declined sharply during the year.

## TRANSFORMING

HNBF accelerated its digital initiatives to adapt to the new norm and the key initiatives are summarised alongside. These transformative measures are already bearing fruit as HNBF has reduced the time taken for processing of leasing facilities and has on boarded approximately 56% of customers to mobile money platforms.

Product innovation remains key to success and we partnered with large corporates and SMEs to provide supply chain financing for our customers.

As training and development of people is key to our growth, the e-learning platform for employees was enhanced by adding Survey and Exam facilities. Employee e-learning dashboards have been upgraded to reflect their progress. Lockdown time during the year was utilised for e-learning activities, upskilling our team to drive performance.

## PERFORMING

Total assets increased to Rs 37,414 Mn reflecting a growth of 2% largely due to growth in liquid assets as we adopted a cautious approach towards lending keeping with the increased uncertainties in the business landscape. Deposits increased by 12% to Rs 29,678 Mn supported by the combined strength of the parent company and our own financial stability. Net Interest Income decreased by 30% during the year due to subdued portfolio and reduction in lending rates. Fee and Commission income decreased by 58% to Rs 340 Mn as activity levels declined. These resulted in a decline of 36% in total operating income to Rs 3,578 Mn. Impairment charges reduced to Rs 774 Mn as the extraordinarily high amount charged in 2019 was mainly due to the implementation of SLFRS 9. Net Operating Profit declined by 82% to Rs 120 Mn largely attributable to declining net interest margins and lower fee based income.

Focus on recoveries was increased, carefully balanced with moratoria to minimise stresses on the loan portfolio. Gold loans which were introduced in 2019 recorded 68% (net stock) growth offsetting to some extent the low growth on other lending products. HNBF established its own Mehwera Fund to support customers who needed additional assistance during the year. We continued to drive Operational and Service Excellence with people and digital initiatives which are now well entrenched in a continuous improvement cycle.

Our community engagement activities continued despite the challenges and the donation of one day's salary amounting to Rs 2.5 Mn to the Itukama COVID-19 Fund serves as testimony to the deep and personal commitment to the community. We conducted 60 capacity building programmes for customers, encouraging them to grow their businesses through the unprecedented events of 2020. HNBF sponsored the Women's Financial Forum of the International Conference on Women Entrepreneurship under the theme of "Creating and Sustaining Opportunities for Women Entrepreneurs" in 2020, to inspire growth of more women entrepreneurs.

## TRANSFORMING

- » Internet and Mobile Banking solution with Mobile Wallet
- » Partnership with Dialog and Mobitel to enable customers to make their repayments via the eZ Cash and mCash platforms
- » Integrate gold loan payment via eZ Cash and mCash
- » Implement a Document Management System
- » Customer Relationship Management system in line with regulatory requirements
- » Strengthening data security and cyber security

## BEYOND 2020

Our priorities in 2021 will be to drive earnings and growth while managing liquidity and asset quality. We are redesigning our Microfinance model to be more relevant to a new generation of entrepreneurs which is expected to drive growth. Our footprint will also expand with the establishment of Special City Centers to promote gold loans and leasing. We will look for innovative ways to generate leads for focused marketing and have tied up with other marketing websites in an innovative promotion for this purpose. Asset quality will be supported by improved accountability for recoveries by marketing executives and branch managers who will support collections. This will be supported by rigorous monitoring of recoveries and collections at the highest levels to drive results and linking to performance objectives. Operational and service excellence will be supported by focus on streamlining costs and processes to move to a leaner cost structure.

# Real Estate

Sithma Developers Ltd., is the Real Estate company of the Group with expertise in Project Management and Property Management. It owns and manages the landmark building that serves as the headquarters for HNB, and also manages the branch premises located on properties owned by the Bank.

## PERFORMANCE HIGHLIGHTS

Rs Mn	2020	2019	Change
Rental Income	997	987	1.0%
Investment Income	38	36	5.4%
PBT	628	578	8.6%
PAT	443	340	30.4%
ROE	5.7%	5.1%	
Debt Equity	0.3%	3.8%	

**535,147 Sq Ft  
of A Grade**

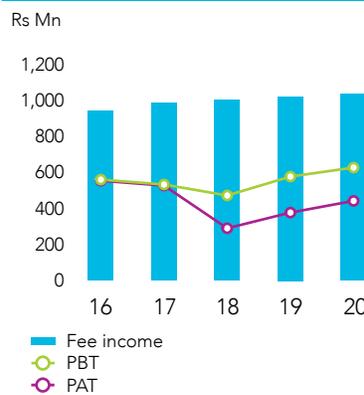
commercial space  
with all amenities

PERFORMANCE

### ASSETS



### EARNINGS



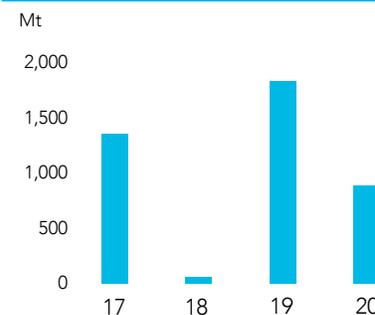
**Adherence to  
British Standards on  
Fire and  
Air Conditioning**

VALUE TO CUSTOMERS

### LIABILITIES



### EMMISSION CO<sub>2</sub> METRIC TONS



**Providing  
smart, safe and  
secure workspaces**

## **STRENGTHS, OPPORTUNITIES & CHALLENGES**

An iconic smart building located in the heart of Colombo's business district with the General Hospital and the Fire Department located within a 1km radius makes HNB Tower an extremely valuable property. Technological advancements include smart workspaces, an air conditioning system controlled by sensors movement and the heat of the sun to reduce fatigue as well as 150 CCTV cameras for security. It is also one of the two A Grade smart buildings in the country which enhances the value proposition for potential tenants.

Sithma also uses its expertise to manage branch premises which are now modernised to reflect the vibrancy of the HNB brand ensuring that the Bank has modern workspaces that inspires employees and create conducive spaces for strengthening customer relationships. Sithma plays a key role in managing the Group's carbon footprint through use of smart technology and solutions such as solar power generation.

## **TRANSFORMING**

Health and safety of premises was a key concern during the year and we worked with the relevant Health Authorities to ensure that the protocols implemented to facilitate social distancing to curtail the pandemic were sufficiently robust to safeguard our employees at the workplace. These measures added to our operational costs which increased in the previous year with enhanced security. Managing operational costs remains our main challenge and we review new technologies that support smart solutions while ensuring that the premises are future ready workspaces.

## **PERFORMING**

A full year of management fees for the property management portfolio and rental increases supported revenue growth of 1.2% to Rs 1,036 Mn. The complexity and costs of premises management increased exponentially in 2019 and 2020 while subdued economic growth made rental increases a sensitive area for businesses. We continue to maintain high standards such as benchmarking British safety standards for fire prevention and detection and state of the art technology for air conditioning systems to ensure that our premises are smart, safe and secure. Profit

growth was supported by lower interest rates which enabled us to reduce finance costs.

Premises managed by Sithma generated 84,510 kwh of electricity from solar panels installed in 2018 and 2019 which offset the electricity cost by Rs 19.4 Mn and reduced our emissions by 35.15 MT of CO<sub>2</sub> equivalents. Additionally, lockdown periods also reduced the electricity consumption although both the HNB Head Office and our tenants operated throughout the lockdown period with minimal staff. Accordingly, our carbon footprint reduced by 10% during the year. Regular fire drills ensure high levels of awareness and preparedness in the case of risk events for the safety of those who work within our premises in addition to reinforcing of social distancing measures.

## **BEYOND 2020**

Our business model is a fairly stable model with the anchor tenant being our parent company. This ensures that we maintain the highest standards as we comply with the requirements of this rapidly evolving institution, deploying new technologies to set benchmarks for premises management in the country. We are conscious that demand has declined for commercial real estate in the aftermath of the pandemic but at present believe that this is contained to retail malls. We will continue to monitor changing market dynamics while strengthening our offering to customers in a cost effective manner.

# Corporate Governance: Annual report of the Board of Directors on the Affairs of the Company

The Board of Directors of Hatton National Bank PLC (the 'Bank' or the 'Company') takes pleasure in presenting its Annual Report to the shareholders for the financial year ended 31st December 2020, together with the audited financial statements of the Bank, consolidated financial statements of the Group for the said year and the Auditor's Report on those financial statements, conforming to the requirements of the Companies Act No 7 of 2007, Banking Act Direction No 11 of 2007 (Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto) and Listing Rules of the Colombo Stock Exchange (CSE). The Report is also guided by the recommended best practices on Corporate Governance.

The Annual Report of the Board of Directors on the Affairs of the Company has been expanded to enlarge disclosures on the Bank's Corporate Governance practices. A more detailed report on Corporate Governance forms part of the suite of reports produced by the Bank and is included as a supplement to the Annual Report.

Hatton National Bank PLC is a Licensed Commercial Bank registered under the Banking Act No 30 of 1988 and was incorporated as a public limited liability Company in Sri Lanka on 5th March 1970 under the Companies Ordinance No 51 of 1938. The Bank was re-registered as required under the provisions of the Companies Act No 7 of 2007 on 27th September 2007. The re-registration number of the Bank is PQ 82.

The ordinary shares (both voting and non-voting) and unsecured subordinated/senior redeemable debentures of the Bank are listed on the Colombo Stock Exchange. The Bank has been assigned a National Long-Term Rating of AA- (lka) with a Stable Outlook by Fitch Ratings Lanka Ltd.

The registered office and Head Office of the Bank is located at No 479, T B Jayah Mawatha, Colombo 10, Sri Lanka.

The financial statements were reviewed and approved by the Board of Directors on 19th February 2021.

## CORPORATE GOVERNANCE HIGHLIGHTS

The Bank is committed to the highest standards of governance, integrity and professionalism. World class banking practices

and robust governance frameworks underpin the Bank's business and ensure our services are secure, fair and stable. They are aligned to our core values and drive a culture of accountability, strong risk and performance management, transparency and effective and ethical leadership. The Board regularly reviews these practices and frameworks to adapt to internal and external developments, ensuring we act in the best interests of the Bank and our stakeholders. In building an agile organization, the Governance framework provides clear direction for quick and responsive decision-making and promotes responsible behavior. The Board is satisfied the Bank is well positioned to successfully drive performance and growth in an increasingly volatile and competitive business landscape.

## The Board

In a year of unparalleled challenges, the Board has provided leadership to recalibrate the strategic priorities of the Bank and its group companies in line with our long-term vision and purpose. Directors have deep experience and diverse skills, enabling the Board to provide informed counsel, rigorous oversight and independent interrogation in leading integrated thinking in the Bank and in guiding the Corporate Management in the design and delivery of the Bank's strategy.

Directors are appointed through a formal and transparent process, assessed for their independence and approved by the Central Bank of Sri Lanka. New Board members participate in an induction programme aimed at providing them with the information and support needed to be effective. Directors continue to keep abreast of changes in regulations and the business environment by attending seminars, workshops, conferences and formal training programmes to build their capability to guide the Bank through key challenges.

The meeting agenda and papers are made available to the Directors generally seven days before the meeting and minutes of the preceding meeting circulated two weeks before the subsequent Board Meeting, allowing members sufficient time to review them, make their observations and be prepared for the forthcoming meeting. The Chairman sets the Board agenda, assisted by the Company Secretary. Care is taken to ensure that the Board spends sufficient time

Details of compliance with the Banking Act Direction No. 11 of 2007 and the Institute of Chartered Accountants of Sri Lanka (ICASL) Code of Best Practice are set out on pages 2 to 40 of our Corporate Governance and Risk Report 2020 (CG & RR) available online at [www.hnb.lk](http://www.hnb.lk).

considering matters critical to the Bank's success, as well as compliance, risk and administrative matters.

In the effective discharge of duties, Directors are provided accurate, relevant and timely information on which they base their decisions. Executive Directors and the Bank's Key Management Personnel (KMP) attend Board meetings, increasing contact between the Board and management. Management is open and transparent with the Board and brings to attention any matters of concern in a timely manner.

To engage in confidential discussion about matters that the Directors may not be comfortable to raise at Board Meetings, a forum of Non- Executive Directors' was held on 23rd January 2020.

## Board Meetings

Details of Directors' meetings are given below.

Board Member	Date of Appointment to the Board	Board	Board Audit Committee	HR & Remuneration Committee	Nomination Committee	Board Integrated Risk Management Committee	Related Party Transactions Review Committee	Strategy & Investment Review Committee	Procurement & Assets Disposal Committee	Board Credit Committee	Board Recoveries Committee	Board Digital Banking Committee
<b>Total Meetings Held</b>		14	10	6	6	11	4	8	12	6	10	38
Mr Dinesh Weerakkody	29th June 2017	©14/14		©6/6	©6/6							
Mr Jonathan Alles (MD/CEO)	01st May 2013	14/14	*9	*6	*1	6/11	**4/4	*6		*6		31/38
Mr Dilshan Rodrigo	01st July 2020	6/6	*4	*3		*4		*2	*4	*2	*5	*3
Dr Rohan Karunaratne (Retired w.e.f. 06th October 2020)	06th October 2011	11/11	8/8						9/9	4/5		
Mr Rusi Captain	02nd April 2012	**13/14	**9/10		**5/6	**10/11	**3/3					
Mr Amal Cabraal	01st April 2014	14/14		6/6				© 8/8		6/6	8/10	
Mr Palitha Pelpola (Retired w.e.f. 27th February 2020)	30th April 2015	1/2		1/1	1/1							
Mr Duliksha Soosaipillai	30th April 2015	14/14	*6	5/5		© 11/11		8/8	© 12/12		9/10	
Mr Nilanth de Silva	30th April 2015	14/14	10/10				© 4/4			© 6/6	8/10	
Mr Madu Ratnayake	25th October 2018	12/14	1/2			9/11		8/8	8/12			© 38/38
Mr Damien Fernando	25th October 2018	**14/14	**10/10			*3, **7/7		**8/8	** 12/12		**9/10	**37/38
Dr Harsha Cabral	26th September 2019	**14/14			4/4					6/6	© 10/10	
Mr Asoka Pieris (Resigned w.e.f. 02nd July 2020)	01st April 2019	8/8	6/6			*3				3/3	2/4	
Mr Devaka Cooray	03rd July 2020	6/6	© 4/4			*5			3/3	3/3		

\* Meetings attended by invitation (after being appointed as a Director)

\*\* Includes Meetings attended by an alternative Director

© Chairman as at 31st December 2020

## Leadership

The Board collectively sets the risk appetite of the Bank, leads in formulating the Bank's strategy and monitors the achievement of goals and objectives set. The roles and responsibilities of the Chairman and Chief Executive Officer have been clearly separated and no one Director has unfettered power and authority on the Board. The Board has delegated specific oversight responsibilities that warrant greater attention, to ten (10) Board Sub-Committees. Of these, five

are mandated and are compliant with the regulations. The reports of these five Committees are given on pages 111 to 123 in IR. Committee mandates are reviewed regularly.

Daily management of the Bank and implementation of the Bank's strategic plan has been delegated to the Executive management lead by the MD/CEO. The complementary skills and diverse experience of the Executive Management strengthens the Bank's ability to deliver on strategy. Regular

reporting on key matters enables effective oversight by the Board.

## Remuneration

The HNB Remuneration Policy supports the motivation and reward of performance of employees while meeting regulatory requirements and stakeholder expectations. Remuneration consists of two components - fixed remuneration and variable remuneration including that of an annual performance bonus. Details of Directors' emoluments and

# Corporate Governance: Annual report of the Board of Directors on the Affairs of the Company

other benefits paid in respect of the Group and the Bank during the financial year ended 31st December 2020 are given in Note 18 to the financial statements in IR page 221.

## Board Evaluation

Performance evaluations designed to improve the Board's effectiveness and that of its Committees, are conducted annually in line with good Corporate Governance practices. Each member of the Board carries out a self-assessment of his effectiveness as an individual as well as the effectiveness of the Board as a team. Based on the outcome of the FY 2019 appraisal conducted in January 2020 and tabled at the Board meeting held on 4th April 2020, the Board is seen as effective in discharging its role and responsibilities.

## Directors Interests and Related Party Transactions

The Board is committed to the highest standards of professional and ethical conduct. Directors declare their outside business interests on appointment and quarterly thereafter, details of which are recorded in the Directors' Interests Register, and available for inspection in terms of the Companies Act. Directors have no direct or indirect interest in a contract or a proposed contract with the Bank

other than those disclosed on page 127 to 133 in IR.

The Related Party Transactions Review Committee considers all transactions that require approval in line with the Bank's Related Party Transactions Policy and in compliance with the relevant regulations of CSE and Central Bank of Sri Lanka, ensuring transactions are fair and in the best interests of HNB. Related party transactions are disclosed in Note 60 to the financial statements in IR page 317.

## Independence

The independence of Non-Executive Directors is reviewed on an annual basis as part of the Directors' evaluation process. When the Board considers any matters in which a conflict is manifestly evident, Directors withdraw from participating in the meeting and recuse themselves from the particular deliberation and decision.

## Compliance

The Bank remained extra vigilant in managing risks and in compliance of statutory and regulatory requirements, as the environment continued to be uncertain and challenging. The Bank complied with all applicable laws and regulations, including the Listing Rules of

the CSE and directions issued by the Central Bank of Sri Lanka.

The Board is also guided in the conduct of business by the Bank's policies, values, standards and Code of Conduct & Ethics. The Compliance Officer who reports to the Board Integrated Risk Management Committee, tables a report on compliance at the quarterly meetings of the Committee and where necessary such non-compliant issues are escalated to the Board for necessary action.

## Innovation and Technology Governance

The Board is cognizant of the benefits of agility, scalability, and innovation that digital platforms provide and ensures implementation of an effective and properly resourced digital technology strategy that delivers exceptional client and employee experiences. The Board is equally committed to safeguarding the Bank's information assets and operational systems and invests extensively in cyber risk management systems.

## Group Corporate Governance

The Bank's Board is responsible for Corporate Governance across the Group, ensuring the consistent application of sound policies and procedures aligning the structure, business and risks of the Group to that of each entity.

## Statutory Disclosures

Section 168 of the Companies Act No 7 of 2007, requires the following information to be published in the Annual Report prepared for the year under review.

No.	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
1	The nature of the business of the Bank and the Group	Section 168 (1) (a)	About Us	IR 9
2	Financial statements for the accounting period completed and signed in accordance with Section 152	Section 168 (1) (b)	The financial statements of the Group and the Bank for the year ended December 31, 2020	IR 149 - 157 Signed on page IR 151
3	Auditor's report on the financial statements of the Bank and the Group	Section 168 (1) (c)	Independent Auditors' Report	IR 145 - 148
4	Any change in accounting policies made during the accounting period	Section 168 (1) (d)	Note 3.6 to the financial statements - Changes in Accounting Policies and Disclosures	IR 170
5	Particulars of entries in the interests register made during the accounting period	Section 168 (1) (e)	Directors' Interest in Contracts with the Bank Corporate Governance report - Avoiding Conflict of interest, provides details of management of Directors' Interests	IR 127-133 CG&RR 22

No.	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
6	Remuneration and other benefits of Directors during the accounting period	Section 168 (1) (f)	Note 18 to the financial statements - Other Expenses Corporate Governance report - Fair and Responsible Remuneration, provides details of the remuneration framework	IR 221 CG&RR 23
7	Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 18 to the financial statements - Other Expenses	IR 221
8	Names of the persons holding office as Directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as Directors of the Company during the accounting period	Section 168 (1) (h)	Board Profiles	IR 22 - 25
9	Amounts payable by the Company to the person or firm holding office as auditor of the Company as audit fees and as a separate item, fees payable by the Company for other services provided by that person or firm	Section 168 (1) (i)	Note 18 to the financial statements – Other Expenses	IR 221
10	Particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in the Company or any of its subsidiaries	Section 168 (1) (j)	The Bank's auditors during the period under review were Messrs. KPMG, Chartered Accountants.  Independence and Objectivity of the External Auditor - CG & RR page 20, provides details of the Policy for the Engagement of the External Auditor for Audit and Non-Audit services.  Based on the declaration provided by Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.  A resolution re-appointing Messrs KPMG Sri Lanka as Auditors for the ensuing year and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.	CG&RR 20
11	Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied with	IR 110

# Corporate Governance: Annual report of the Board of Directors on the Affairs of the Company

## Additional Disclosures

The following information is additionally disclosed. The details are provided within notes to the Annual Report, which form an integral part of the Annual Report of the Board of Directors.

No.	Disclosure	Note Reference	Page
1	Vision, Mission and Corporate Conduct	Vision and Mission The Bank is committed to upholding high standards of business conduct and ethics in the work place at all times, paramount in retaining the trust of our stakeholders. All employees of the Bank abide by the Bank's Code of Conduct and Ethics, which has been communicated via electronic and visual mediums and been made available in three languages. The Code of Conduct and Ethics for Directors is embodied in the Board Charter.	IR 9
2	Principal Activities	About us	IR 9
3	Changes to the Group Structure	There were no changes to Group structure during the year	-
4	List of Directors of Subsidiaries and Joint Ventures of the Bank as at 31st December 2020	<p><b>Subsidiaries</b></p> <p><i>HNB Assurance PLC</i></p> <p>Ms M A R C Cooray – Chairperson Mr J A P M Jayasekera Mr D P N Rodrigo Ms S N Wickramasinghe Dr S Selliah Mr D R Abey Suriya Mr L U D Fernando Mr S A Chapman Dr T K D A P Samarasinghe (Alternate Director to Mr L U D Fernando)</p> <hr/> <p><i>HNB Finance Ltd</i></p> <p>Mr A J Alles - Chairman Mr B M D C Prabath Mr A S Wijesinha Dr S U H Fernando Mr P A H D Wijesundara Mr A G R Dissanayake Mr M Perera Mr D K G Perera</p> <hr/> <p><b>Joint Ventures</b></p> <p><i>Acuity Partners (Pvt) Ltd</i></p> <p>Mr A J Alles - Chairman Mr M R Abeywardena Mr L H A L Silva Mr A G R Dissanayake Mr P G D B Pallewatte Mr N H T I Perera Mr Ashok Goonesekere</p>	<p><i>Sithma Development (Pvt) Ltd</i></p> <p>Mr P R Saldin – Chairman Mr D P N Rodrigo Ms Anuradhi U Delage Mr U A Roshan Fernando</p>

No.	Disclosure	Note Reference	Page
		<p><b>Other Group Companies</b></p> <p><i>HNB General Insurance Ltd</i></p> <p>Ms M A R C Cooray – Chairperson</p> <p>Mr M O F Salieh</p> <p>Mr D P N Rodrigo</p> <p>Ms M A Tharmaratnam</p> <p>Mr L U D Fernando</p> <p>Mr M S Wijemanne</p> <p>Mr A V Abeygunasekara</p> <p>Dr T K D A P Samarasinghe (Alternate Director to Mr L U D Fernando)</p> <p>Ms L C Cooray</p>	<p><i>Lanka Ventures PLC</i></p> <p>Mr L H A L Silva – Chairman</p> <p>Mr A J Alles</p> <p>Mr M R Abeywardena</p> <p>Mr J D N Kekulawala</p> <p>Mr R A Dassanayake</p> <p>Mr A R Munasinghe</p> <p>Mr A G R Dissanayake</p>
		<p><i>Acuity Securities Ltd</i></p> <p>Mr M R Abeywardena – Chairman</p> <p>Mr I A S P Fernando</p> <p>Mr P G D B Pallewatte</p> <p>Mr A V Abeygunasekara</p> <p>Mr Ashok Goonesekere</p> <p>Mr Ravi Dassanayake</p>	<p><i>Acuity Stockbrokers Ltd</i></p> <p>Mr M R Abeywardena – Chairman</p> <p>Mr P P S Fernando</p> <p>Mr N H T I Perera</p> <p>Ms K A L T Ranaweera</p> <p>Mr M S Wijemanne</p> <p>Mr Ashok Goonesekere</p>
		<p><i>LVL Energy Fund PLC</i> (Subsidiary of Lanka Ventures PLC)</p> <p>Mr L H A L Silva – Chairman</p> <p>Mr A J Alles</p> <p>Mr M A Wijetunge</p> <p>Mr M R Abeywardena</p> <p>Mr J D N Kekulawala</p> <p>Mr M M Wijetunge</p> <p>Mr C Dharmawardena</p> <p>Mr R A Dassanayake</p> <p>Mr A R Munasinghe</p>	
5	Review of Operations	Chairman’s Message	IR 14-15
		Managing Director/CEO’s Message	IR 16-19
		Capital Reports	IR 45-73
		Business Line Reviews	IR 74-101
6	Future Developments	Chairman’s Message	IR 14-15
		Managing Director/CEO’s Message	IR 16-19
		Capital Reports	IR 45-73
		Business Line Reviews	IR 74-101
7	Financial Statements	<p>The financial statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No 7 of 2007 and Banking Act No 30 of 1988.</p> <p>The financial statements of the Group and the Bank for the year ended December 31, 2020</p>	IR 149-157

## Corporate Governance: Annual report of the Board of Directors on the Affairs of the Company

No.	Disclosure	Note Reference	Page
8	Directors' Responsibility for Financial Reporting	Directors' Responsibility for Financial Reporting	IR 144
9	Auditors' Report	Independent Auditor's Report	IR 145-148
10	Significant Accounting Policies	Note 2.1 and 3 to the financial statements - Basis of Preparation and Significant Accounting Policies, respectively	IR 159-170
11	Going Concern	Note 2.1.5 to the financial statements – Going Concern	IR 160
12	Income	Note 7 to the financial statements – Gross Income	IR 209
13	Financial Results and Appropriations	Statement of Profit or Loss and Other Comprehensive Income Statement of Changes in Equity	IR 150 IR 152-155
14	Reserves	Statement of Changes in Equity	IR 152-155
15	Corporate Donations	Note 18 to the financial statements - Other Expenses The Bank did not make any donations to Government approved charities	IR 221
16	Taxation	Note 21 to the financial statements - Income Tax Expense	IR 223
17	Statutory Payments	The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.	-
18	Dividends on Ordinary Shares	Note 23 to the financial statements - Dividends Paid and Proposed	IR 228
19 (i)	Capital Expenditure	The total capital expenditure on acquisition of investment property, property, plant and equipment and intangible assets of the Bank and the Group amounted to Rs 1,397,380,000/- and 1,639,389,000/- respectively. (2019 Bank: 1,647,530,000/- and Group: Rs 2,043,617,000/-) Details are given in Note 36, 37 and 39 to the financial statements.	IR 269-290
(ii)	Capital commitments	Capital expenditure approved and contracted for and approved and not contracted for, as at balance sheet date are given in Note 59 (b) to the financial statements – Capital commitments.	IR 316
20	Property, Plant and Equipment	Note 37 to the financial statements - Property, Plant and Equipment	IR 274-285
21	Net Book Value of Freehold Properties	Note 37 to the financial statements - Property, Plant and Equipment.	IR 274-285
22	Outstanding Litigation	In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 59 (c) of the financial statements, will not have a material impact on the financial position of the Bank or its future operations. Notes 59 (c) to the financial statements - Litigation against the Bank	IR 316
23	Events after the Reporting Date	Note 64 to the financial statements - Events Occurring After the Reporting Period	IR 330
24	Stated Capital and Debentures	Notes 54 and 52 to the financial statements – Stated Capital and Subordinated Term Debts, respectively	IR 311 and 303
25	Share Information	Investor Relations	IR 339-349
26	Shareholdings	Investor Relations	IR 339-349
27	Equitable Treatment to Shareholders	The Bank has at all times ensured that all shareholders (both voting and non-voting) are treated equitably except for the right to vote.	-
28	Register of Directors and Secretaries	As required under Section 223 (1) of the Companies Act No 7 of 2007, the Bank maintains - a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.	-

No.	Disclosure	Note Reference	Page																																																			
29	Directors' Interests in the Ordinary Shares (Voting and Non-Voting)	<table border="1"> <thead> <tr> <th>Name</th> <th>As at 31st December 2020 No of Shares</th> <th>As at 31st December 2019 No of Shares</th> </tr> </thead> <tbody> <tr> <td>Mr Dinesh Weerakkody</td> <td>2,143</td> <td>2,089</td> </tr> <tr> <td>Mr Jonathan Alles</td> <td>128,355</td> <td>125,452</td> </tr> <tr> <td>Dr Rohan Karunaratne*</td> <td>1,093</td> <td>1,070</td> </tr> <tr> <td>Mr Rusi Captain</td> <td>7,544</td> <td>7,379</td> </tr> <tr> <td>Mr Amal Cabraal</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Palitha Pelpola**</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Duliksha Soosaipillai</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr A N de Silva</td> <td>104</td> <td>102</td> </tr> <tr> <td>Mr Damien Fernando</td> <td>637</td> <td>624</td> </tr> <tr> <td>Mr Madu Ratnayake</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Asoka Pieris***</td> <td>-</td> <td>-</td> </tr> <tr> <td>Dr Harsha Cabral</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr M P D Cooray</td> <td>8,330</td> <td>-</td> </tr> <tr> <td>Mr D P N Rodrigo</td> <td>153,700</td> <td>150,311</td> </tr> <tr> <td>Mr P R Saldin (Alternate Director to Mr Rusi Captain)</td> <td>3,078</td> <td>-</td> </tr> <tr> <td>Dr Prasad Samarasinghe (Alternate Director to Mr L U D Fernando)</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Name	As at 31st December 2020 No of Shares	As at 31st December 2019 No of Shares	Mr Dinesh Weerakkody	2,143	2,089	Mr Jonathan Alles	128,355	125,452	Dr Rohan Karunaratne*	1,093	1,070	Mr Rusi Captain	7,544	7,379	Mr Amal Cabraal	-	-	Mr Palitha Pelpola**	-	-	Mr Duliksha Soosaipillai	-	-	Mr A N de Silva	104	102	Mr Damien Fernando	637	624	Mr Madu Ratnayake	-	-	Mr Asoka Pieris***	-	-	Dr Harsha Cabral	-	-	Mr M P D Cooray	8,330	-	Mr D P N Rodrigo	153,700	150,311	Mr P R Saldin (Alternate Director to Mr Rusi Captain)	3,078	-	Dr Prasad Samarasinghe (Alternate Director to Mr L U D Fernando)	-	-	-
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30	Directors' Interest in Debentures	<table border="1"> <thead> <tr> <th>Name</th> <th>As at 31st December 2020 No of Debentures</th> <th>As at 31st December 2019 No of Debentures</th> </tr> </thead> <tbody> <tr> <td>Mr Amal Cabraal</td> <td>100,000</td> <td>100,000</td> </tr> </tbody> </table>	Name	As at 31st December 2020 No of Debentures	As at 31st December 2019 No of Debentures	Mr Amal Cabraal	100,000	100,000	-																																													
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31	Directors' Remuneration	Note 18 to the financial statements - Other Expenses	IR 221																																																			
32	Human Resources	Human Capital	IR 64-67																																																			
33	Employee Share Option Plan	Note 54 to the financial statements - Stated Capital	IR 311																																																			
34	Environmental Protection	To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are found in the Capital Reports.	IR 45-73																																																			
35	Risk Management and Internal Control	CG & RR - Risk Management CG & RR - Internal Controls	CG&RR 19																																																			
36	Directors' Statement on Internal Control	Directors' Statement on Internal Control Over Financial Reporting	IR 124-125																																																			
37	Corporate Governance	Corporate Governance Report	CG&RR 2-40																																																			
38	Insurance and Indemnity	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability	-																																																			

## Corporate Governance: Annual report of the Board of Directors on the Affairs of the Company

No.	Disclosure	Note Reference	Page
39	Material Foreseeable Risk Factors (As per Rule No 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk and Capital Review	CG&RR 41-87
40	Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank (As per Rule No 7.6 (VII) of the Listing Rules of the Colombo Stock Exchange)	No material issues occurred during the year	-
41	Operational Excellence	Performance Highlights	IR 10-11

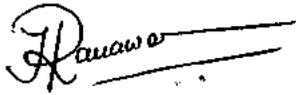
### NOTICE OF ANNUAL GENERAL MEETING

The 52nd Annual General Meeting of the Bank is convened on 30th March 2021, at 10 in the forenoon, at the Auditorium on Level 22 of "HNB Towers", No 479, T B Jayah Mawatha, Colombo 10 (Registered Office). The Notice of the 52nd Annual General Meeting is enclosed.

### ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by Section 168 (1) (k) of the Companies Act No 7 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

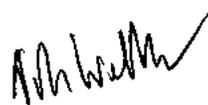
For and on behalf of the Board of Directors,



K A L Thushari Ranaweera  
Deputy General Manager (Legal)/Company Secretary



Jonathan Alles  
Managing Director/Chief Executive Officer



Dinesh Weerakkody  
Chairman

Colombo, Sri Lanka  
19th February 2021

# HR and Remuneration Committee Report

**“Learning and development is a continuous process, and it doesn’t stop. We hire an employee for a particular skill and expertise, but giving them access to further learning and development opportunities is an excellent investment. It helps in boosting performance and motivation. It also aids in strengthening the bank’s bench strength and succession pipeline.”**

Dinesh Weerakkody  
Chairman HRRC

## COMPOSITION & MEETINGS

The Committee appointed by the Board of Directors comprises three Non-Executive Directors, of whom two including the Chairman are Independent Directors. The members of the Committee have vast experience and knowledge of Finance, HR, Marketing and the Financial Industry. The following Directors serve/served on the HR & Remuneration Committee:

- » Mr Dinesh Weerakkody (IND/NED) – (Member w.e.f. 20th February 2018, Chairman w.e.f. 1st June 2018)
- » Mr Amal Cabraal (NIND/NED)
- » Mr Palitha Palpola (IND/NED) (Retired w.e.f. 27th February 2020)
- » Mr D Soosaipillai (IND/NED) (Appointed w.e.f. from 23rd April 2020)

(IND - Independent Director, NIND Non-Independent Director and NED - Non Executive Director)

Brief profiles of the Directors are given on page 22 to 25 in IR.

## MEETINGS

The Committee met six (6) times during 2020.

Attendance details of meetings held during 2020 are as follows.

	<i>Eligible to attend /Attended</i>
Mr Dinesh Weerakkody	6/6
Mr Amal Cabraal	6/6
Mr Palitha Pelpola	1/1
Mr D Soosaipillai	5/5

Meetings of the Human Resources & Remuneration Committee (the “Committee”) shall be held as necessary but at least twice a year and at such other times as the Chairman of the Committee shall deem necessary. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

The Human Resources & Remuneration Committee, functions within agreed terms of reference and is committed to the principles of accountability and transparency whilst ensuring that remuneration structures are equitable and aligned with the performance of the Bank and long-term interests of the Bank and its shareholders.

## POLICY

The Bank’s HR Remuneration Policy is focused on attracting, motivating and retaining employees with the appropriate professional, managerial and operational expertise, necessary to achieve the objectives of the Bank. During the year the Committee supervised and provided direction for the implementation of strategic human resource objectives of the Bank in keeping with the following Terms of Reference (TOR).

“The Committee shall consider/evaluate the performance of the MD/CEO and KMPs periodically against the targets and goals set by it and determine the basis for revising the remuneration, increments, bonuses and other performance based incentives of the MD/CEO and KMPs. The Committee shall consult the MD/CEO and take into account his/her recommendations when determining the performance of the KMPs, increments, bonuses and other performance based incentives payable to such KMPs.”

## SCOPE

The Committee is vested with the power to examine, evaluate and recommend to the Board of Directors on any matter that may impact the Human Resources of the Bank and any other matter referred to it by the Board or any other Sub-Committee. In discharging its responsibilities, the Committee focuses on the following:

- » Practices that Attract, Develop and Retain High-Performing Talent

## KEY INITIATIVES IMPLEMENTED IN 2020

- » Approval was given to resource the critical talent gaps of the Bank.
  - » Broadly reviewing the Talent Management process.
  - » Approved the revised selection matrix for key leadership positions.
  - » The recruitment of the Chief Information Security Officer.
  - » Revised and Strengthened the Whistle Blowing Policy and reporting.
  - » Revised the Employee Mobility Policy and Promotion Policy.
  - » Review of succession plans and readiness of the top 25 KMPs in the Bank.
  - » Introduce Work From Home Policy in keeping with the present day requirements of the market .
  - » Necessary advice & guidance was provided by the committee on a proactive basis to ensure health and safety of all employees during the pandemic.
  - » Introduce split work including work from home and work from DR sites.
  - » Enhancing the effectiveness and measuring the ROI of Training .
  - » Guidance on Wage negotiations
- 
- » Short and long-term incentives that are competitive and linked to the creation of sustainable performance and shareholder returns.
  - » Learning and development strategy and annual training plan
  - » Workforce representation
  - » Leadership hires

# HR and Remuneration Committee Report

## REGULAR ATTENDEES BY INVITATION

The Managing Director/Chief Executive Officer (MD/ CEO) who is responsible for the overall management of the Bank participates in the Committee meetings by invitation along with the Head of Human Capital Management. The MD/CEO does not take part in the Committee deliberations when his performance and compensation matters are discussed.

## SECRETARY TO THE COMMITTEE:

The Board Secretary acts as the Secretary to the Committee.

To achieve these goals;

- a. Sets targets and goals for the MD/CEO and the KMPs annually.
- b. Reviews the Human Resource policies and interventions, salary structures, incentive schemes benefiting Senior Management. In this process, necessary information and recommendations are obtained from the MD/CEO and the Head of Human Capital Management. The Committee evaluates their performance, deliberates and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the MD/CEO, Chief Operating Officer (COO), members of the Corporate Management and Senior Management staff.
- c. The organisation structure is reviewed annually and changes are made in line with the Bank's strategic direction.
- d. An on-going priority is to ensure proper succession for critical positions in the Bank.
- e. Recruitment and promotion of staff at management level are considered and approved by the Committee based on proposals submitted by the MD/CEO and Human Capital Management Department (HCMD) following a formal process of evaluation.
- f. Provide strategic oversight for skill and capability building, taking into consideration market dynamics and emerging requirements in regulatory, technology and market developments.

- g. In respect of diversity, to review and recommend to the Board in relation to:
  - i. Bank's diversity policy;
  - ii. Establishment of measurable objectives for achieving diversity across the Group, annual assessment of both objectives and progress in achieving them; annually, review the relative proportion of women and men in the workforce at all levels. Reviewing remuneration by gender to identify whether any pay gaps exists as a result of gender gaps and where relevant, provide recommendations to the Board.

## EMPLOYMENT REPORT

In order to achieve our goals, the Bank needs a workforce that is skilled and representative of the stakeholders we serve. Therefore, the current and future success of the Bank is dependent on the knowledge and collective skill of our employees and in the face of new pressure to adapt faster to a far more diverse and mobile workforce. The Bank is fully committed to invest in Human Capital Development to enhance the level of skill and the acquisition of new skill and knowledge that are necessary to improve the overall performance of the Bank.

The table below reflects the employment report of the Company as at 31st December 2020.

Levels	Total
Top Management	16
Senior Management	55
Mid Management [Executive Officers I to III, Management Trainee, Probationary Executives]	790
Junior Management, Supervisors and Clerical Staff [Junior Executives, Clerical ]	3241
Secretaries	189
Workers [Electricians, Technical Assistants, Drivers, Labourers, Peons]	147
Total Permanent	4,438
Employees on Contract	398
Total	4836

\* Women make up 43% and men make up 57% of our workforce.

## PROFESSIONAL ADVICE

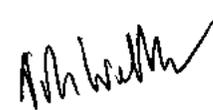
The Committee is authorised to seek external professional advice on matters within its purview.

## COMMITTEE EVALUATION

To ensure that the Committee's performance is optimal, a self-evaluation of the Committee members was also carried out and circulated amongst the members of the Committee for necessary action.

## CONCLUSION

In 2021, the Bank will continue to focus on introducing and strengthening HR policies, practices and systems in the area of performance management, employee recognition, workforce productivity, capability development, employee engagement and succession management. Through these initiatives we expect to broaden our employment value proposition and thereby enhance the productivity of the Bank.



Dinesh Weerakkody

Chairman

Human Resources & Remuneration Committee

Colombo, Sri Lanka

19th February 2021

# Nomination Committee Report

**“To ensure the bank’s corporate governance framework is consistent with the best corporate governance standards and practices and to build a well- balanced Board that takes into account the Board’s existing experience, skills and the bank’s future needs.”**

Dinesh Weerakkody  
Chairman Nomination Committee

## COMPOSITION & MEETINGS

The following Directors serve/served on the Nomination Committee:

- » Mr Dinesh Weerakkody (IND/NED) - Chairman
  - » Mr Rusi Captain (NIND/NED)
  - » Mr Palitha Pelpola (IND/NED) (Retired w.e.f. 27th February 2020)
  - » Dr Harsha Cabraal (IND/NED) (Appointed w.e.f. 23rd April 2020)
- (IND - Independent Director, NIND Non-Independent Director and NED - Non Executive Director)

Brief profiles of the Directors are given on page 22 to 25 in IR.

## MEETINGS

The Committee met five (05) times during the year under review. Attendance by the Committee members at the meetings is given in the table below.

	<i>Eligible to attend /Attended</i>
Mr Dinesh Weerakkody	6/6
Mr Rusi Captain (two meetings through Alternate Representative)	5/6
Mr Palitha Pelpola (Till 27th February 2020)	1/1
Dr Harsha Cabraal	4/4

## REGULAR ATTENDEES BY INVITATION:

Managing Director/Chief Executive Officer participated at the meetings on invitation as and when necessary.

## SECRETARY TO THE COMMITTEE:

The Board Secretary functions as the secretary to the Committee.

## ACTIVITIES IN 2020

The Committee mainly focused on reviewing the Bank’s corporate governance policies, guidelines, principles and skill gaps at Board and Key Management level. In doing so, it ensures the balance of skills and experience with independence and knowledge of candidates to make sure that those appointed were able to meet the challenges and opportunities facing the Group and to promote its success. The Committee continuously reviewed succession-planning efforts at the level of Key Management Personnel (KMPs). Talent management and succession planning for roles below Board level have been a key topic for discussion and the Committee continued to monitor activities and initiatives to strengthen the Bank’s talent pipeline. Recommendations were also made to appoint KMPs to take on group Director positions on Group Company Boards to ensure alignment. In addition to the above, the fitness and propriety of the Directors and the new KMPs were examined during the year as and when required to ensure compliance with the CBSL requirements. At Board level similar metrics were applied and all the vacancies on the Board during the year 2020 were filled with Directors with the requisite skills to meet its requirement under the skill matrix/diversity policy. For the first time in the history of HNB, a second Executive Director from the Corporate Management was recommended by the Committee and appointed to the Board.

## COMMITTEE RESPONSIBILITIES

The Nomination Committee is responsible for reviewing the composition of the Board and Board Sub - Committees to ensure that they are appropriately constituted in terms of skills, experience and diversity. In addition, the Committee is entrusted with the responsibility of:

- » Recommending to the Board the appointment of new Directors and Key Management Personnel (KMP) and ensuring the implementation of the approved procedure in selecting such Directors and Key Management Personnel;
- » Recommending the re-election of current Directors to the Board of Directors,

## KEY ACTIVITIES IN THE 2020 FINANCIAL YEAR

During the year the Committee’s activities included:

- » Reviewing Board composition, including the process for the appointment of new Directors. The Committee undertook a thorough process to identify and assess suitable candidates to fill the vacancies created at Board level
- » Reviewing succession plans for Board and KMPs;
- » Recommending the establishment of a new Board sub-committee to oversee the initiatives in Digital and Technology.
- » Overseeing the Board evaluations undertaken during the year;
- » Monitoring environmental, social and governance developments as well as implications for the group;
- » Assessing the Board’s skill set and bench strength to ensure that the required balance of skills and experience, independence and knowledge is in place for the Board and its Committees to function effectively.
- » Appointing industry experts to the Boards of Group Companies to strengthen Board capacity.
- » Reviewing the TORs of all Board - Sub-Committees to ensure consistency and proper segregation of responsibilities
- » Ensuring compliance with the Corporate Governance Code in the conduct of all affairs in the Committee

taking into account the performance and contribution made by such Directors towards the overall discharge of responsibilities of the Board;

- » Reviewing criteria such as qualifications, experience and key attributes required to be considered for the appointment or promotion to the post of Managing Director/ CEO and/or the Key Management positions;

## Nomination Committee Report

- » Ensuring that the Directors, Managing Director/CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Banking Act and other applicable statutes;
- » Assessing from time to time the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel with a view to providing advice and recommendations to the Board on any such appointment;
- » Oversee the process by which the Board, its Committees and individual Directors assess their effectiveness, and report to the Board on findings and recommendations.

### THE TERMS OF REFERENCE

The Terms of Reference (TOR) of the Nomination Committee, adopted by the Board in 2012, was further refined in 2013 and 2014. It was further reviewed and amended by the members at their meetings held on 19th January 2018 and 19th March 2020.

### DUTIES DISCHARGED BY THE COMMITTEE

#### Board Composition

The Committee

- » Reviewed the structure, skills and the composition of the Board and its committees on going basis making recommendation to the Board as appropriate;
- » Recommended the establishment of a new board sub-committee to provide strategic direction for digital and technology.
- » Identified the required skill gaps at Board level and recommended candidates to fill vacancies on the Board.
- » Evaluated the TORs of the Board statutory and non-statutory Sub-Committees during the year and set clear guidelines/principles on the responsibilities and conduct of such Committees;
- » Assessed the fitness and propriety of the Directors holding office in terms of the provisions of the Banking Act and the directions of the Monetary Board relating to Corporate Governance;
- » Recommended the appointment of two Directors to fill casual vacancies created by the resignation and retirement of two Directors and further recommended that the Directors so appointed be formally appointed by the shareholders at the 52nd Annual General Meeting to be held on 30th March

2021 in terms of Article 36 of the Articles of Association of the Bank.

#### Succession Planning

The Committee:

- » Reviewed the Succession Plans for Key Management Personnel and Directors;
- » Continuously assessed the adequacy of the expertise available at Corporate Management level;
- » Specifically discussed succession plans for critical positions of the Bank and reviewed potential candidates for those roles;

#### Board Effectiveness

The Committee:

- » Reviewed the Appointment Process of the MD/CEO, KMPs and Directors;
- » Formulated a process for the appointment of Alternate Directors;
- » Reviewed and recommended all new appointments to the Boards of subsidiaries and associate companies of the Bank;
- » Reviewed the Job Descriptions (the JDs) of the Key Management Personnel in detail to ensure compliance with the criteria set by the Committee;
- » Ensured that a suitable replacement was in place when former Chairman of Board Audit Committee, Director - Mr Asoka Pieris resigned with effect from 2nd July 2020.

#### Group Governance/Management Principles

- » Based on the established Group Governance Code of 2016, the Committee, on 21st January 2021 assessed the level of compliance by the Bank's Group Companies for the year 2021, and further recommended that the Compliance Department provided a report to the Committee that the governance principles prescribed in the code were complied with by the respective Group Companies.
- » Appointed suitable KMPs to Group Companies as HNB nominee Directors to ensure governance standards within the group are complied with.
- » Nominated industry experts to strengthen the Boards of the Group Companies

#### Training

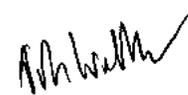
In addition to overseeing the rollout of an induction programme for the newly appointed Directors, the Committee proposed a comprehensive training programme for Non-Executive Directors, in coordination with an industry expert.

#### Re-election/Re-appointment of Directors at the 52nd Annual General Meeting

- » Two Directors namely Mr Dinesh Weerakkody and Mr D E P Soosaipillai representing not more than 1/3rd of the Board and having served three years since their last re-election, are to retire by rotation and are eligible to be re-elected/re-appointed at the 52nd Annual General Meeting to be held on 30th March 2021, under Article 34 of the Articles of Association. The Committee, taking into account their contribution recommended the above-mentioned name to the Board of Directors for approval. Accordingly, the Board at its meeting held on 19th February 2021, recommended that Mr Dinesh Weerakkody and Mr D E P Soosaipillai should be re-elected/re-appointed as Directors of the Bank at the next Annual General Meeting. (Note: However, Mr. D E P Soosaipillai has informed the Bank that he will not seek re-election and will be stepping down from his office as a Director immediately after the conclusion of the 52nd Annual General Meeting to be held on 30th March 2021).
- » Directors - Mr Devaka Cooray and Mr Dilshan Rodrigo who were appointed to fill casual vacancies during the year 2020 offered themselves for formal appointment under Article 36 of the Articles of Association. The re-appointment of Mr Devaka Cooray and Mr Dilshan Rodrigo were recommended by the Committee.

#### COMMITTEE EFFECTIVENESS

The performance of the Committee is reviewed each year as part of the Board effectiveness review. The Committee completed its self-assessment for the year 2020, conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively. The Committee however noted the need to continuously review the process used in relation to appointments, the Committee's approach to succession planning and how best to attract a diverse pipeline of potential Non-Executive Directors.



Dinesh Weerakkody  
Chairman

Nomination Committee

Colombo, Sri Lanka  
19th February 2021

# Board Integrated Risk Management Committee Report

**"Our principal focus in 2020 was managing emerging risks and emerging compliance requirements across all metrics of the Bank whilst maintaining the rigour of enterprise wide risk management of embedded risks and established compliance requirements in serving as an enabler for sustainable business decisions."**

Duliksha Soosaipillai  
Chairman BIRMC

## COMPOSITION & MEETINGS

During the year 2020, the Board Integrated Risk Management Committee (BIRMC) comprised five (05) members, of which four (04) members were Non-Executive Directors.

### MEMBERS

- » Mr Duliksha Soosaipillai (IND / NED) - Chairman
- » Mr Madu Ratnayake (IND/NED)
- » Mr Damien Fernando (NIND/NED)
- » Mr Rusi Captain (NIND/NED)
- » Mr Jonathan Alles (MD / CEO)

### MANAGEMENT PARTICIPANTS

- » Mr Ruwan Manatunga (DGM-Risk / Chief Risk Officer)
- » Mr Janath Ilangantileke (AGM Compliance/Chief Compliance Officer)

Brief profiles of the Directors representing the committee are given on pages 22 to 25 in IR.

*(IND - Independent Director, NIND - Non Independent Director, NED - Non Executive Director, MD - Managing Director and CEO - Chief Executive Officer)*

### MEETINGS

Eleven (11) meetings were held during the year and at least one in each quarter. Attendances at the meetings are also given on page 103 in the Integrated Report.

Discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. The Chairman of the Committee also briefs the Board of Directors on the main findings of the committee at each Board meeting.

## MAJOR INITIATIVES BY THE RISK MANAGEMENT UNIT IN 2020 WERE:

The risk of the varying pandemic impacts across the full banking spectrum dominated the 2020 initiatives key of which are as follows;

- » Flagged and escalated the risks in implementing the GOSL COVID-19 Moratoria
- » Implemented a state-of-the-art solution for assessing Individually Significant Loans (ISL)
- » Established Framework Policies on Credit and Collateral as an underlying metric to the numerous Product Credit Policies
- » Increased review frequency of Treasury limits post the COVID-19 pandemic outbreak
- » Developed and rolled out an enhancement to the Business Disruption Containment Policy - Public Health Contagion Plan
- » Strengthened the Bank's Operational Risk Management Framework with the development of new policies
- » Carried out systemic functionality reviews, Vulnerability Assessments and Penetration Testing (VAPT) towards mitigating increased Cyber Security risks
- » Reviewed policies on Information and Cyber Security to deal with emerging risks and risk assessed the Bank's Information and Cyber Security metrics against embedded and emerging risks
- » Reviewed and risk assessed Privilege Access Activities on Databases, Operating Systems and Applications of critical systems
- » The AML system was upgraded to a newer version enabling enhanced Compliance monitoring, case creation, internal blacklisting and implementation of several new rules to cover various Money Laundering, Drug related and Terrorist Financing Risks

- » Several other Compliance related systems were implemented during 2020 including the SWIFT Screening tool, Dow Jones web portal and strengthening the Trade transaction monitoring process.

## LOOKING AHEAD

- » Rollout of second phase of LOS Go-Live i.e., SME and Corporate Modules
- » Implementation and full rollout of IRR Corporate module through upgraded rating software integrated with the LOS Corporate module
- » Rollout of RAROC across all business units and inculcate the risk-based pricing mechanism
- » Strengthen controls over exposures to securities markets with the introduction of caps based on the total asset book, loss limits, measurement of volatility and SWAPs
- » Increase scope and rigour of stress testing, aligning with the regulatory limits based Liquid Coverage Ratio
- » Implement a Governance, Risk, Compliance (GRC) system to manage Operational risk activities and assessments
- » Implement a Digital Right Management (DRM) and End Point Detection & Response (EDR) to enhance security of data anomalous digital traffic and anomalous behavioural activity in the Bank's IT systems
- » Establish a Security Operating Centre (SOC) to strengthen cybersecurity surveillance and incident response
- » Introduce a comprehensive cyber crisis management and incident response plan
- » Quarterly assessment of group risk and compliance metrics across the Bank's subsidiaries
- » Ensure successful implementation of several CBSL driven projects such as GoAML, ITRS (International Transaction

# Board Integrated Risk Management Committee Report

	<i>Eligible to attend /Attended</i>
Mr Duliksha Soosaipillai	11/11
Mr Madu Ratnayake	11/9
Mr. Damien Fernando - appointed w.e.f. 23rd April 2020 through Alternate Director, Dr. Prasad Samarasinghe	10/10
Mr. Rusi Captain through Alternate Director, Mr. P. R. Saldin	11/10
Mr Jonathan Alles	11/6
Mr. Asoka Pieris (invitee) - resigned w.e.f 2nd July 2020	5/3
Mr. Devaka Cooray (invitee) - appointed w.e.f 3rd July 2020	5/5
<b>REGULAR ATTENDEES BY INVITATION:</b>	
» Mr Dilshan Rodrigo - Executive Director/ Chief Operating Officer	
» Mr Niroshana Seneviratne - DGM - Internal Audit/ Chief Internal Auditor	
» Mr Ruwan Bakmedeniya - Chief Information Officer/ AGM IT (resigned w.e.f 14th June 2020)	
» Mr Rohan Buultjens - Chief Technology and Digital Officer	
» Ms Anusha Gallage - AGM - Finance / Chief Financial Officer (resigned w.e.f. 18th May 2020)	
» Ms Dilunika Jayasinghe - Chief Manager - Credit Risk	
» Ms Anuradhi Delage - Head of Finance	
<b>SECRETARY TO THE COMMITTEE:</b>	
Mr Ruwan Manatunga - DGM-Risk/Chief Risk Officer	

Reporting System) and virtual onboarding of customers

- » Continuous monitoring through the AML system for ML/Drugs and Terrorist Financing related transactions and the use of Data Analytics / BOTS to identify trends and patterns of alerts generated by the AML system, thereby reducing false positives and manual reviews.

### SUMMARY OF BIRMC CHARTER

Establishing a risk management framework that proactively supports the assessment, evaluation, monitoring and management of risk whilst creating a strong risk culture and supporting the Bank's strategic objectives. Decisions are made in compliance with the Bank's internal risk policy guidelines and regulatory supervisory requirements and corrective actions are taken to mitigate risks taken beyond the risk tolerance set by the committee.

### PRIMARY RESPONSIBILITIES OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The terms of reference set out by the Board of Directors, include the following:

- » To ensure that the Bank and its subsidiaries have an enterprise wide comprehensive risk management framework, appropriate compliance policies and risk management systems in place
- » To assess all risk types, including but not limited to: credit, market, liquidity, operational and strategic/reputational risks /information and cybersecurity risk to the Bank are managed through appropriate risk indicators and management information and mitigants established
- » To ensure risk assessments and mitigating actions are taken in accordance with established delegated authorities and corrective actions are taken to manage risks taken beyond the risk tolerance set by the committee, based on the Bank's policies, the Board's Risk Appetite and regulatory and supervisory requirements
- » To monitor and assess the effectiveness of the Bank's risk management system and the robustness of the risk management monitoring metrics in both embedded and forward risks

- » Periodically assess performance against the defined risk appetite and risk goals set for the Bank
- » Review issues raised by internal audit that impact the Bank's risk metrics and refer to the Board Audit Committee (BAC) any matters that have come to the attention of the committee that require the committee's action
- » Review compliance on the Basel III guidelines and provide risk insights on SLFRS 9 implementations
- » Examine any other matters referred to it by the Board.

### OTHER RESPONSIBILITIES OF THE COMMITTEE

The BIRMC also supports the Board of Directors in fulfilling its oversight responsibilities relating to compliance matters. In this capacity, the Committee reviews the implementation of compliance programs, policies and procedures that are designed to respond to the various compliance and regulatory risks of the Bank. The Committee also reviews and monitors the Bank's compliance report on money laundering and action taken in relation to it.

The Committee is also responsible to review and refer for action to any subcommittee of Board matters that are either specifically referred to the attention of the Committee or that comes to the attention of the Committee from Board filings, that impact systemic risks to the Bank, with a clear objective of eliminating repeat findings or managing forward risks.

### COMPLIANCE

The BIRMC was established as a Committee of the Board, in compliance with Section 3 (6) of the Banking Act Direction No 11 of 2007, on corporate governance for licensed commercial banks in Sri Lanka.

The composition and the scope of work of the Committee are in conformity with the provisions of the aforementioned direction.

The Bank has adopted an Integrated Risk Management (IRM) framework in line with the Central Bank of Sri Lanka (CBSL) Banking Act Direction No 7 of 2011. Further, BIRMC has adopted Basel III guideline issued under the Banking Act No 01 of 2016 as well and

continues to improve the Bank's adherence to these guidelines.

As per Section 3(6)(v)(g) of Banking Act No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, the BIRMC submits a Risk Assessment Report within a week of each meeting to the Board of Directors in order to seek the Board's views, concurrence and/or specific directions on material risks deliberated.

### ACTIVITIES IN 2020

The committee's deliverables were underpinned by its primary escalation metric of monthly Risk Dashboards to BIRMC and BOD, supported by monthly Key Risk Concern statements.

#### Integrated Risk Management

1. Reviewed the Risk Management Policies to ensure that they are in line with industry best practices.
2. Introduced new policies to strengthen risk management especially in Credit and Operations including Information Security.
3. Assessed the Risk Appetite Statement and Risk Goals based on the new normal stemming from COVID-19.
4. Evaluated the effectiveness of the Management Committees for 2019 including the review of their KPIs for 2020 to enhance their contribution to the Bank.
5. Reviewed the adequacy of Business Continuity Plans, Cybersecurity safeguards and Working from Home practices including Liquidity Management of Group Companies.
6. Quarterly submission of Group Risk Dashboard to BIRMC highlighting concerns on key risks relevant to each subsidiary of the Bank.

#### Credit Risk

1. Introduced two new risk framework policies for Credit and Collateral, which were previously covered under individual product policies and now serves as underlying frameworks to the numerous product/segment credit policies.
2. Reviewed and updated lending product policies across Corporate Banking, SME, Microfinance, Retail such as Credit

Cards, Housing Loans, Personal Loans, Educational Loans, leasing.

3. Review of Special Asset Management (SAM) Guidelines based on implications of COVID-19.
4. New guidelines for tagging delinquent customers into Watch Listing and Management Review Listing (MRL) were introduced to identify distress accounts at an early stage and support taking appropriate action to rehabilitate and risk manage the Bank's high risk credit exposures.
5. Introduced a framework of system controls with regards to staff who are able to create account excesses in the Core Banking System.
6. Conducted periodic industry studies covering eight sectors including construction, apparel, automobile and pharmaceutical sectors, which were significantly impacted by the pandemic.
7. Validated and recalibrated existing Internal Risk Rating models for Large Corporate, Emerging Corporate, SME and Financial Institutions.
8. New risk rating models were introduced to assess obligors covering retail, micro finance, small SME and project finance business segments.
9. Reviewed top group exposures of the Bank on a quarterly basis and assessed concessions granted due to the COVID-19 pandemic and any vulnerability to increases in Credit Risk.
10. Introduced and reviewed new credit guidelines to address requirements of COVID-19 impacted individuals and businesses.
11. Operationalised the concessions of the Government to COVID-19 affected Individuals and Businesses and periodically reviewed COVID -19 affected industries to assess the impact on the Bank's lending portfolio.
12. Carried out overseas country risk assessments of where the Bank has an off-shore Advances Portfolios to assess any increase in credit risk as a result of the COVID-19 outbreak. Country assessments were strengthened with a new metric of sovereign debt sustainability and management of the pandemic.

#### Information & Cyber Security

1. Amalgamation of the Cyber Security Policy and the Information Security Policy to form a holistic Information Security Policy which was rolled out in 2020.
2. Board approved Information Classification Policy was implemented across the Bank and the classification tool was rolled out to all users where classification of information was enforced as a mandatory control.
3. Data Leakage Prevention (DLP) project has been implemented across multiple data channels which is a key security project of the Bank that prevents data leakages to a greater extent by strengthening the control framework.
4. Review of user limits assigned to core banking users conducted by an external consultant and implementation of recommendations.
5. Engagement of external cyber security consultants to carry out system functional reviews and Vulnerability Assessment & Penetration Testing (VAPT) on critical banking systems.
6. Involvement in various IT/InfoSec projects providing independent input and suggestions from a Cyber & Information Security risk perspective, in support of the CISO and IT Security verticals.
7. Independent monitoring of privileged user activities as part of the process defined in Privileged Access Management (PAM).
8. Necessitated by the exponential increase in remote access surface, developing a framework for firewall change reviews and establishing a function to perform independent reviews on firewall changes.
9. Risk assessments on working from home technology options and recommendations on remote work related security best practices via BIRMC.

#### Loan Review Mechanism (LRM)

1. Carried out the annual review of the LRM Policy.
2. Enhanced the previous scope of LRM reviews to capture the learnings from new additions to NPA, Watch Listed and MRL customers, accounts approved for Parate Auctions and highlight areas for improved credit underwriting and monitoring.

# Board Integrated Risk Management Committee Report

- LRM findings are circulated to Corporate Management for remedial action and the implementation of corrective measures are followed up for closure. Additionally, the LRM unit follows up on the implementation of Internal Audit Review recommendations with relevant business and operational units.

## Portfolio Risk Management

- Provided valuable input to business units by making improvements to the monthly slide decks circulated.
- Actively involved in the new TOD management process i.e. identifying and reporting exceptions to the new TOD approval guidelines.
- Rollout a state-of-the-art solution for Individually Significant Loan (ISL) assessments with business intelligence and advanced features for expected credit loss capturing and impairment determination.

## Operational Risk

- Developed and rolled out the Containment Plan for Public Health Contagion disruptions.
- Establishing Business Continuity Management and conducting of DR drills covering mission critical units and systems.
- Reviewed and updated existing policies to ensure they are in line with industry best practices.
- Increased vigilance over operational risk due to pandemic and increased global threat levels.
- Commenced preparation to move to the Advanced Approach for capital allocation for operational risk in line with Basle III.
- The policy framework was strengthened with the introduction of three new policies:
  - » The Fraud Risk Management Policy codifies current practices enhancing the rigors of Fraud Risk Management processes
  - » Policy on Reporting & Provisioning for Operational Losses provides detailed guidelines to branches and other front-line operations on the defined/precise process and procedure to report operational losses, consolidating circulars in this regard

- » The Customer Blacklisting Policy was developed to comply with industry best practices and comply with regulators and Government agencies for the purposes of strengthening the Bank's compliance framework.

## Market Risk

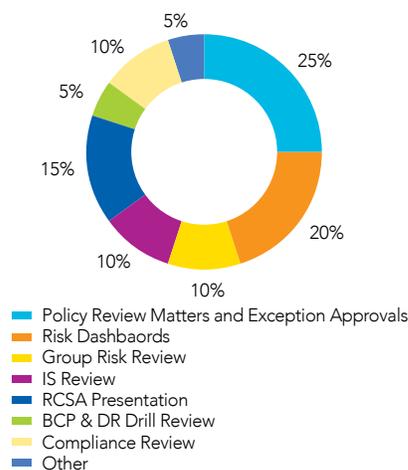
- Reviewed the ALM policy with improved risk metrics - Delta limits for investment in securities, liquidity gap limits for banking book and introduced new contents to monthly Market Risk dashboard in order to reflect current business/market environment.
- A Comprehensive liquidity stress testing has been performed based on diverse parameters.
- Counterparty and Treasury limits were recalibrated more frequently to capture COVID-19 impacts.

## Compliance Risk

- Upgrading of the AML system and integrating same with the Dow Jones Web screening tool for online real-time updates to the sanction list.
- Online real time screening at the time of onboarding new customers and daily reverse scanning of the existing customer base against the sanction list.
- Risk profiling of customers based on their transaction patterns.
- AML/KYC Risk assessment of the bank covering products, channels and based on the geographical locations.
- Evaluation of products / channels prior to launch, to be in line with CBSL guidelines.
- Set up of a separate Audit team to conduct Compliance Audits – Offsite/ Onsite in order to cover all Branches and critical Head Office departments.
- Ongoing data cleansing projects including Beneficial ownership data collection, KYC data and Power of attorney data collection
- Strengthened the monitoring of Trade Based Money Laundering by monitoring Dual Usage of goods and Vessel Tracking.
- Implementation of the Global SWIFT Screening tool.

- Strengthening the group compliance supervision.

Allocation of agenda time of the BIRMC was as follows;



## PROFESSIONAL ADVICE

The BIRMC is authorised to obtain legal or other professional advice internally and / or from outside the Bank as and when considered necessary, at the Bank's expense.

The Committee may also seek the views of other Board sub committees as required and may inform them of any relevant procurements that may be of relevance to their mandates.

## COMMITTEE EVALUATION

The committee completed the evaluation process with a self-assessment in February 2021 with the result "satisfactory". Areas identified for improvement will be addressed in 2021.

Duliksha Soosaipillai  
Chairman

Board Integrated Risk Management Committee

Colombo, Sri Lanka  
19th February 2021

# Board Audit Committee Report

**"In a year of unprecedented challenges, we have focused on maintaining the rigour of our internal controls and deliberated in depth on matters requiring professional judgement to ensure the integrity of the financial reporting process and financial statements."**

Devaka Cooray  
Chairman Audit Committee

## COMPOSITION & MEETINGS

The Board Audit Committee comprises five Non-Executive Directors, of whom three including the Chairman are Independent Directors.

The following Directors serve/served on the Board Audit Committee:

- » Mr Devaka Cooray (IND/NED) - Chairman (Appointed w.e.f 03rd July 2020)
- » Mr Asoka Pieris (IND/NED) - Chairman (Resigned w.e.f. 02nd July 2020)
- » Dr Rohan Karunaratne (IND/NED) (Resigned w.e.f 06th October 2020)
- » Mr Rusi Captain (NIND/NED)
- » Mr Nilanth de Silva (IND/NED)
- » Mr Damien Fernando (NIND/NED)
- » Mr Madu Ratnayake (IND/NED) (Appointed w.e.f. 07th October 2020)

(IND - Independent Director, NIND- Non Independent Director, NED - Non Executive Director)

Brief profiles of the Directors representing the committee are given on pages 22 to 25 in IR.

Membership attendance details of meetings held during 2020 are as follows.

	<i>Eligible to attend</i>
	<i>/Attended</i>
Mr Devaka Cooray (IND/NED) (Appointed w.e.f 03rd July 2020)	4/4
Mr Asoka Pieris - Chairman (Resigned w.e.f 02nd July 2020)	6/6
Dr Rohan Karunaratne (Resigned w.e.f 06th October 2020)	8/8
Mr Rusi Captain	*9/10
Mr Nilanth de Silva	10/10
Mr Damien Fernando	**10/10
Mr Madu Ratnayake (Appointed w.e.f. 07th October 2020)	1/2

\* All the meetings attended by an alternate Director, Mr P R Saldin

## CHARTER OF THE COMMITTEE

The Board Audit Committee (BAC) assists the Board in the discharge of its responsibilities by exercising structured, systematic oversight over the bank's financial reporting, internal audit, internal controls and external audit practices. The BAC Charter clearly defines the Terms of Reference (TOR) of the Committee and regulates the composition, role and responsibilities of the BAC. Approved by the Board, the Charter was last reviewed and updated in 2019.

## KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

Key responsibilities include;

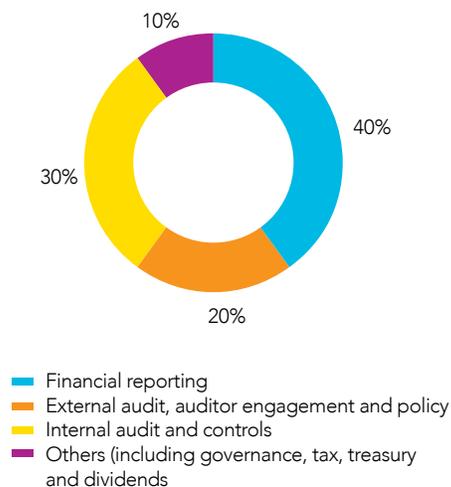
- » Monitor and review adequacy and effectiveness of accounting policies, financial and other internal control systems and financial reporting processes in order to provide accurate, appropriate and timely information to the board, regulatory authorities, management and other stakeholders / Compliance with accounting standards and regulatory requirements.
- » Exercise independent oversight of the Bank's assurance functions, including external and internal audit and ensure the independence and effectiveness of both the external and internal audit functions.
- » Review Bank's compliance with relevant legal, regulatory and accounting standards in the preparation and presentation of financial statements external reports, providing independent oversight of the integrity thereof.
- » Evaluate the adequacy, efficiency and effectiveness of the governance process.
- » Engagement of independent advisors for specialized functions where deemed necessary.
- » Reviewing the internal audit reports and liaising with the Bank's corporate

management to ensure that precautionary measures are taken to minimize and control weaknesses, procedure violations, frauds and errors.

## AUTHORITY OF THE AUDIT COMMITTEE

The BAC has investigative authority conferred upon it under the TOR. Members have unrestricted access to records, data and reports and to management and staff to obtain relevant information considered necessary in the discharge of duties and responsibilities. The BAC may also engage independent counsel and/or other advisors, if deemed necessary.

## FOCUS OF ATTENTION IN 2020



## ACTIVITIES IN 2020

BAC met ten (10) times during the year of which five (5) were virtual due to measures implemented to curtail the pandemic. The Engagement Partner of the Bank's external audit normally attends Committee meetings. The Committee also invited members of the Senior Management team to participate in meetings, on a needs basis. Proceedings of

## Board Audit Committee Report

\*\* Includes seven (7) meetings attended by alternate Director, Dr Prasad Samarasinghe.

Out of the ten (10) BAC meetings five (5) meetings were held virtually through MS Teams due to the prevailing Covid-19 situation in the country.

### REGULAR ATTENDEES BY INVITATION:

- » Mr Duliksha Soosaipillai  
- IND/NED  
(As the Chairman of BIRMC)
- » Mr Jonathan Alles  
- Managing Director/Chief Executive Officer
- » Mr Dilshan Rodrigo  
- Executive Director/Chief Operating Officer
- » Mr Niroshana Seneviratne  
- Chief Internal Auditor/DGM (Internal Audit)
- » Mr Ruwan Manatunga  
- Chief Risk Officer/DGM (Risk)
- » Mr Asanga Uduwela  
- DGM (Operations)
- » Mr Rohan Buultjens  
- Chief Technology and Digital Officer
- » Mr Janath Ilangantileke  
- AGM (Compliance)
- » Ms Anuradhi Delage  
- Head of Finance
- » External Auditors  
Ernst & Young (three Meetings)  
KPMG (six Meetings)

### SECRETARY TO THE COMMITTEE:

Chief Internal Auditor, Mr Niroshana Seneviratne functions as the Secretary to the Board Audit Committee.

BAC meetings are regularly reported to the Board.

Activities of the Audit Committee in 2020 are summarised under the focus areas below.

### FINANCIAL REPORTING

The Audit Committee reviewed the Bank's financial reporting process on behalf of the Board to ensure that financial statements are prepared in accordance with the Bank's accounting records, in compliance with regulatory provisions including the Sri Lanka Accounting Standards, Companies Act No 7 of 2007 and Banking Act No 30 of 1988 and amendments thereto and reflect a true and fair view on the financial position and performance of the Bank.

- » BAC satisfied itself that accounting policies and practices are appropriate and adequate internal controls and procedures are in place to provide reasonable assurance that the financial reporting system is effective and well managed to provide reliable and timely information.
- » Reviewed the impact of the accounting treatment of significant risks and uncertainties and key estimates and judgements material to the Bank's financial reporting and whether disclosures made in the published financial statements were adequate, appropriate and fair.
- » During the year the Audit Committee placed additional focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognized in the financial statements based on the internal models, management overlay computed based on stress testing, the exposures to risk elevated sectors, to address the potential implications of the COVID-19 Pandemic and the moratorium schemes introduced to support the recovery of the economy.
- » Reviewed and recommended to the Board for approval, the annual and the quarterly financial statements, prior to their release.
- » The Audit Committee met with the Head of Finance once (01) during the year in the absence of Key Management Personnel to ensure the transparency and independence of the financial reporting function of the Bank.

### SIGNIFICANT ACCOUNTING JUDGEMENTS CONSIDERED DURING 2020

Reviewed key assumptions and judgements including following areas

- » Loan Impairment Allowances and Charges.
- » Basis for Debt Moratorium for Covid Affected Businesses and Individuals
- » Actuarial Valuation of Pension Liability
- » Tax Provisions
- » Going Concern
- » Carrying Value of Investments in Group Companies
- » Valuation of Financial Instruments

### EXTERNAL AUDIT

The Audit Committee assists the Board in assessing the independence, evaluating the performance of the external auditors and making recommendations for engagement of auditors. The Committee carried out the following activities in discharge of its duties in this regard:

- » Assisted the Board in engaging external auditors for audit services, in compliance with regulatory provisions.
- » Monitored and assessed the independence, objectivity and effectiveness of the external auditor during the year 2020.
- » Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the auditors prior to commencement of the annual audit.
- » Discussed all relevant matters arising from the interim and final audits together with the Management Letter and management responses thereto.
- » The Audit Committee met with the external auditors twice during the year in the absence of Key Management Personnel to ensure that there were no limitations of scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The Committee concluded that there was no cause for concern.

- » Reviewed non-audit services provided by the auditors, ensuring such functions do not fall within the restricted services and provision of such services would not impair the external auditors' independence and objectivity.

## RISKS AND INTERNAL CONTROL

- » Continued to assess the adequacy, efficiency and effectiveness of the Bank's internal control systems. The Committee satisfied itself that adequate controls and procedures are in place to provide reasonable assurance to the effect that the Bank's assets are safeguarded.
- » Assessed through the internal audit function that reports directly to the Audit Committee, the effectiveness of the Bank's internal control over financial reporting as at 31st December 2020, as required by the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3(8)(ii)(b), based on the 'Guidance for Directors of Banks on the Directors' Statement on Internal Control' issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Furthermore, external auditor has issued an Assurance Report on Directors' Statement on Internal Control Over Financial Reporting.
- » BAC is satisfied as to the reliability of the system as disclosed on page 124 and 125 in the IR, 'Directors' Statement on Internal Control Over Financial Reporting'. BAC confirms that the report given in IR page 126 does not suggest any fundamental concerns over the control framework or procedures.
- » Reviewed the processes for identification, recording, evaluation and management of all significant risks of the Bank. BAC receives regular reports from the Chief Internal Auditor on appraisal of systems of internal controls across these risk types and areas of operation of the Bank and setting out the internal audit function's view of the control environment. Reports also include

summary highlights of the most significant matters being highlighted by the internal audit department.

## INTERNAL AUDIT

- » Reviewed the independence, objectivity and performance of the internal audit function, the findings of the internal audits completed and their evaluation of the Bank's internal control system in its capacity as the third line of defence.
- » Reviewed the annual audit plan for the year, prepared on risk based planning methodology. Evaluated the adequacy and frequency of coverage.
- » Reviewed major findings of internal investigations and management's responses thereto.
- » Reviewed the internal audit reports, status of significant findings and their recommendations, management response and the status of the implementation on a regular basis.
- » Assessed the internal audit department's resource requirements including succession planning.
- » Reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of internal audit department.
- » Conducted two (02) independent discussions with the Chief Internal Auditor in the absence of the management team to ensure independence of the internal audit department's operations.

## WHISTLE-BLOWING

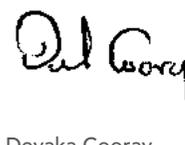
Reviewed issues relating to breach of ethics if any and arrangements by which staff of the Bank may in confidence raise concerns about possible improprieties. The Committee ensures procedures for the independent investigations of such matters are appropriate and are in place.

## TRAINING AND DEVELOPMENT OF COMMITTEE MEMBERS

Training and continuous professional development undertaken by BAC includes attending seminars, conferences, workshops, presentations done by external auditors on areas such as new accounting standards, tax and directions issued by the Central Bank of Sri Lanka.

## COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the Independent Non-Executive Chairman, with contributions from the individual assessments by the members of the Audit Committee, Managing Director/CEO, Chief Operating Officer, Head of Finance, Chief Internal Auditor and the external auditor in accordance with international best practices and was deemed to be satisfactory.



Devaka Cooray  
Chairman

Board Audit Committee

Colombo, Sri Lanka  
19th February 2021

# Related Party Transactions Review Committee Report

**“Despite the Pandemic which disrupted normal working routines, the Related Party Transactions Review Committee (RPTRC) continued to maintain oversight of all Related Party Transactions throughout the year in accordance with its Charter and Regulatory requirements, thereby ensuring timely and accurate disclosures.”**

A N de Silva  
Chairman RPTR Committee

## COMPOSITION & MEETINGS

The Bank's Related Party Transactions Review Committee - RPTRC (the "Committee") was established as a Board Sub Committee with effect from 1st January 2016. Its scope is to facilitate and monitor compliance with the requirements of the Code of Best Practices on Related Party Transactions (the "Code") issued by the Securities and Exchange Commission of Sri Lanka (SEC) and Section 9 of the Listing Rules of the Colombo Stock Exchange.

The present Committee comprises of the following Directors: -

- » Mr A N de Silva - (IND/NED)  
– Chairman
- » Mr Rusi Captain (NIND/NED)  
- (Appointed w.e.f. 23rd April 2020)
- » Mr Jonathan Alles - (MD/CEO)

(IND/NED) – Independent Non-Executive Director, (NIND) - Non Independent Director, (MD/CEO) - Managing Director and Chief Executive Officer.

Mr Palitha Pelpola who was an Independent Non-Executive Director of the Bank until his retirement on 27th February 2020, functioned as a member of the Committee.

Brief profiles of the Directors representing the Committee are given in Pages 22 to 25 in IR.

### REGULAR ATTENDEES BY INVITATION:

The Committee is assisted by the following Management Officers of the Bank who attend sittings on a regular basis.

- » Mr Dilshan Rodrigo – Executive Director/Chief Operating Officer
- » Ms K A L Thushari Ranaweera – DGM - (Legal)/Board Secretary
- » Ms Anuradhi Delage – Head of Finance/Secretary to the Committee

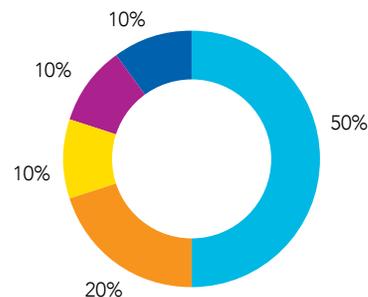
## SUMMARY OF THE 'TERMS OF REFERENCE' (TOR) OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee is governed by the 'Terms of Reference' approved by the Bank's Board of Directors. The Statutory and Fiduciary responsibilities of such Committee are those as envisaged in the 'Code of Best Practices on Related Party Transactions' published by the Securities and Exchange Commission of Sri Lanka (the "Code"), regulations promulgated by the Colombo Stock Exchange ("The CSE Rules"), Financial Reporting under LKAS 24, Banking Act Direction No: 11 of 2007 on Corporate Governance of Licensed Commercial Banks in Sri Lanka and 'Code of Best Practices on Corporate Governance 2017', issued by the Institute of Chartered Accountants of Sri Lanka.

The TOR also spells out the constitution and the composition of the Committee; that the Chairman should be a Non - Executive Independent Director, and the Committee should meet at least once in every Quarter. It also sets out the guidelines on Related Party Transactions and its reporting requirements. As per the TOR, the Committee can directly access required data and information in order to discharge its duties and responsibilities and when necessary, the Committee has the right to obtain appropriate opinions from external specialists.

The TOR is subject to periodic review based on Regulatory as well as Operational requirements. During the year 2020, the TOR was amended to accommodate desired changes.

## ALLOCATION OF AGENDA TIME OF THE RPTRC WAS AS FOLLOWS



- Review and verification of Internal Controls and Regulatory requirements for RPs Transactions
- Verification of CBSL Reporting
- Review and verification of Related Party identification process
- Review of System modifications
- Others

## KEY INITIATIVES IMPLEMENTED DURING 2020

- » Expanded training and awareness on Related Party Transactions (RPTs) guidelines by conducting training programmes for branch personnel.
- » The Related Party Transactions Policy Document was reviewed and revised taking into consideration changes which occurred since the previous revision.

## SCOPE OF OPERATIONS

The principal function of the Committee is the review, verification and scrutiny of all transactions with Directors, Key Management Personnel (KMPs), Substantial Shareholders, Subsidiaries and Associate Companies of the Bank and those Substantial Shareholders and other Related Parties as defined in the "Code" and to determine and ensure that they have not received more favourable or preferential

- » Mr Janath Ilangantilake – AGM (Compliance)
- » Ms Angelina Dharmaraj – Senior Manager (Credit Admin)

In addition, the Committee summons other relevant Officials of the Bank to participate in Committee proceedings on a 'need basis'.

In accordance with the Terms of Reference, the Committee meets whenever necessary, but not less than four (4) times a year, once in every three (3) months as stipulated in the Securities and Exchange Commission of Sri Lanka (SEC) Guidelines. During 2020, four (4) such meetings were held and the Minutes were circulated to the Board of Directors for their information and review.

Note 60 to the Financial Statements on pages 317 to 324 set out the Information required on Related Party Transactions. In the opinion of the Committee, there were no transactions with Related Parties which were more favourable nor preferential during the period under review and the Bank had been compliant with the Code.

Membership attendance details of meetings held during 2020 are as follows:

	<i>Eligible to attend /Attended</i>
Mr A N de Silva	3/3
Mr Rusi Captain (All the meetings attended by his Alternate, Mr. P R Saldin)	3/3
Mr Jonathan Alles (Two meetings represented by his Alternate Representative)	4/4

**SECRETARY TO THE COMMITTEE:**

The Bank's Head of Finance functions as the Secretary to the Related Party Transactions Review Committee.

consideration vis a vis the other Shareholders and Customers of the Bank and thus all dealings have been done in conformity with the "Code".

In discharging the above responsibilities, the Committee relies on the integrity of periodically reportable Related Party Transactions data sourced via the following:

- » Comprehensive list of Related Parties based on latest available declarations, signed by the responsible Directors/KMPs.
- » Related Party Transactions confirmed by the Business Heads to the Committee.
- » The quarterly reporting to RPTRC which is under the responsibility of Business heads, is in turn is further reviewed by the Head of Finance who is the ultimate reporting authority to the Committee as well as its Secretary. This review is carried out by comparing Related Party Transactions with bench - marked criteria applicable for comparable Non Related Party Transactions, to verify and determine that Related Parties have not received more favourable nor preferential consideration, based on the Reports submitted by the Business Heads to the Committee.

The Bank's Internal Audit Division is also mandated to periodically verify the integrity of reported data by carrying out Audit checks, to ensure greater transparency.

As stated previously, wherever necessary, the Committee is empowered to obtain independent legal, financial & technical advice from Specialists in such fields, to review and determine transactions. Apart from obtaining independent Specialists' advice wherever necessary, the Committee has access to data and information pertaining to Related Parties as well as the ability to call for clarifications from the Management & Auditors (External & Internal) on any allied matter.

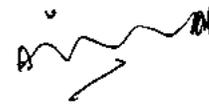
The Committee has reviewed the Related Party Transactions reported by the Business Heads and the comments /observations made during such reviews if any, have been communicated to the Board of Directors.

In addition, the Committee shares information with the Board Audit Committee whenever necessary and appropriate to facilitate the Board Audit Committee to conduct its

Statutory and Regulatory responsibilities with regard to Related Party Transactions.

**SELF-APPRAISAL OF COMMITTEE FUNCTIONS**

An annual self-evaluation of the effectiveness of the Committee is conducted by the Chairman of the Committee with contributions by way of individual assessments by the Members of the Committee, Managing Director/CEO, participating KMPs referred to at the outset of this Report and the review for 2020 concluded that the Committee continues to operate effectively and competently.



A N de Silva  
*Chairman*

Related Party Transactions Review Committee  
Colombo, Sri Lanka  
19th February 2021

# Directors' Statement On Internal Control Over Financial Reporting

## RESPONSIBILITY

The Board of Directors present this statement on Internal Control Over Financial Reporting of the Bank in accordance with Section 3 (8) (ii) (b) of Banking Act Direction No: 11 of 2007, and principle D.1.5. of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of Hatton National Bank PLC's ('the Bank') system of internal controls. It is designed to manage the Bank's key areas of risk within an acceptable risk profile and does not eliminate the risk of failure to achieve the business objectives and policies of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating, and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines.

The process is regularly reviewed by the Board in accordance with the guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). As per the said guidance, significant processes affecting significant accounts of the Bank were assessed along with the key risk areas of the Bank.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Bank, and in the design, operation, and monitoring of suitable internal controls to mitigate and control these risks.

The Board is of the view that the system of internal controls in place is sound and robust to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

## KEY INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- » The Board Sub Committees are established to assist the Board in ensuring:
  - the effectiveness of the Bank's daily operations.
  - that the Bank's operations are in accordance with the Bank's declared objectives and strategies.
  - that the operations of the Bank are in line with the annual budget as well as the policies and business directions that have been approved by the Board.
- » The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on majority of units and branches, the frequency of which is determined by the level of risk assessed by the internal audit, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Board Audit Committee and the findings of the audits are submitted to the Board Audit Committee for review at their periodic meetings.
- » The Board Audit Committee of the Bank approves the annual audit plan, reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management; and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function with particular emphasis on the scope of audits and quality of same. The minutes of the Board Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Board Audit Committee Report on page 119 to 121 in IR.

- » The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management Committee which includes representation from all key business and operating units of the Bank, assists the Board with the implementation of policies advocated at BIRMC.
- » Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Human Resource Management Committee, Assets and Liability Committee, the Information Technology Steering Committee, Executive Risk Management and Credit Policy Committee and the Operational Risk Steering Committee.

In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These, in turn, were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an on-going basis. This assessment did not include Subsidiaries of the Bank.

The Bank adopted SLFRS 9 – "Financial Instruments" in 2018 which became applicable for financial reporting periods beginning on or after 1st January 2018. The Bank continued to refine the statistical models used in the computations of expected credit loss (ECL) and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9. Since adoption of this standard, progressive improvements on processes to comply with new requirements of classification, estimation of expected credit losses and disclosure were made whilst, further strengthening of processes continue to support estimation of expected credit loss and financial statement disclosures.

During the year, the existing models were further refined to incorporate the potential implications of COVID 19 Pandemic and the moratorium schemes introduced to support the recovery of the economy, based on stress

testing the exposures to risk elevated sectors and adjustments made to economic factors.

The Bank will continue to focus on strengthening the review and testing process of the said models and the Internal Audit Division will commence reviewing these refinements made to the models and the management overlay incorporated into the computation of expected credit losses based on the estimates and judgement, from next financial year.

Considering the complexity involved in the computation of ECL from Loans and Advances, the Bank is in the process of automating same in order to minimize the manual intervention.

Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to this standard. Further, the Board ensures that processes and controls are put in place for

use of management information systems and validation of information extracted to comply with SLFRS 9.

The Bank has upgraded its core banking system during the year and independent post implementation review is in progress. Findings and recommendations, if any will be addressed by the Bank during the next financial year.

The recommendations made by the external auditors in connection with the internal control system in previous years were reviewed during the year and appropriate steps have been taken to implement those.

#### **CONFIRMATION**

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability

of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

#### **REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS**

The external auditor, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31st December 2020 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank. Their Report on the Statement of Internal Control is given in IR page 126.

By order of the Board

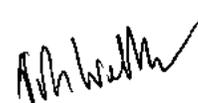


Devaka Cooray  
Chairman

Board Audit Committee



Jonathan Alles  
Managing Director/Chief Executive Officer



Dinesh Weerakkody  
Chairman

Colombo, Sri Lanka  
19th February 2021

# Independent Assurance Report



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka

Tel : +94 - 11 542 8426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : www.kpmg.com/lk

## TO THE BOARD OF DIRECTORS OF HATTON NATIONAL BANK PLC

We were engaged by the Board of Directors of Hatton National Bank PLC (“Bank”) to provide assurance on the Directors’ Statement on Internal Control (“Statement”) included in the Annual Report for the year ended 31 December 2020.

### Management’s responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the “Guidance for Directors of Banks on the Directors’ Statement on Internal Control” issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

### Scope of the engagement in compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors’ Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

### Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- (a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- (b) Reviewed the documentation prepared by the Directors to support their statement made.
- (c) Related the statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- (f) Considered whether the Directors’ Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank’s risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

### Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 124 to 125 of this annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants  
Colombo

19 February 2021

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
J.S. Rajakariyer FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Kanunaratne FCA	R.M.D.B. Rajesekere FCA	Ms. E.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA
A.M.R.P. Alshakoun ACA		

Principals - S.R.L. Perera FCA(UK), LL.B. Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA

# Directors' Interest in Contracts with the Bank

Related party transactions as required by LKAS 24 "Related Party Disclosures", are detailed in Note 60 to the financial statements. In addition, the Bank carries out transactions in the ordinary course of its business at commercial rates with entities in which a Key Management Personnel (KMP) of the Bank is the Chairman or a Director of such entities, the details of which are given below.

Also this complies with the requirements of section 168 of the Companies Act. No. 07 of 2007 and directions issued under section 47 (3), (4), (5) and (6) of the Banking Act No. 30 of 1988.

## 1. Lending transactions with the Bank

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2020		As at 31st December 2019		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
<b>(A) Mr Amal Cabraal</b>							
John Keells Holdings PLC	Director	Overdraft	200.00	200.00	-	-	Clean
		Commercial paper	*(200.00)	-	-	-	Commercial paper
		Overdraft	*3,000.00	3,000.00	-	-	agreement, Cash Back
		Short Term loan	*(3,200.00)	-	-	-	-
		Term Loan	6,000.00	6,000.00	-	-	-
		Letter of Credit	2,991.09	2,991.09	-	-	-
		<b>Total</b>	<b>12,191.09</b>	<b>12,191.09</b>			
Ceylon Beverage Holding PLC	Director	Term loan 1	32.50	32.50	62.50	62.50	Clean
		<b>Total</b>	<b>32.50</b>	<b>32.50</b>	<b>62.50</b>	<b>62.50</b>	
Lion Brewery (Ceylon) PLC	Director	Overdraft	100.00	-	100.00	4.78	Demand Promissory
		Letter of guarantee	20.00	-	20.00	-	Note, Letter of
		Money market loan	3,000.00	-	3,000.00	2,000.00	guarantee Indemnity,
		Overdraft	(400.00)	-	(400.00)	-	Documents of title
		Term Loan 1	(614.00)	614.00	(1,118.00)	1,118.00	-
		Letter of credit <sup>1</sup>	50.00	-	50.00	-	-
		Term Loan 2	-	-	54.80	54.80	-
		Import loan 1	(50.00)	-	(50.00)	-	-
		Letter of credit 2	(2,000.00)	-	(2,000.00)	-	-
		<b>Total</b>	<b>3,170.00</b>	<b>614.00</b>	<b>3,170.00</b>	<b>3,177.58</b>	
Sunshine Holdings PLC	Director	Overdraft	50.00	-	50.00	43.54	Clean
		<b>Total</b>	<b>50.00</b>	<b>-</b>	<b>50.00</b>	<b>43.54</b>	
Sunshine Healthcare Lanka Ltd.	Director	Letter of Credit	1,200.00	130.49	1,200.00	711.91	Absolute ownership of
		Overdraft	200.00	57.08	200.00	162.61	vehicle, Duly Accepted
		Letter of guarantee	(100.00)	111.61	(100.00)	-	Draft/Documents of
		Import loan	(500.00)	-	(500.00)	306.61	Title, Letter of Indemnity,
		Forex Forward Booking	(270.00)	-	(270.00)	-	Concurrent Mortgage
		Block lease facility	(40.00)	-	-	-	over Stocks/IL
		Shipping guarantee	(400.00)	66.20	(400.00)	44.30	-
		Corporate Credit Card	2.00	-	-	-	-
		Unadvised Letter of credit	-	-	400.00	-	-
		Block lease facility	32.20	-	-	-	-
				<b>Total</b>	<b>1,434.20</b>	<b>365.38</b>	<b>1,800.00</b>

## Directors' Interest in Contracts with the Bank

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2020		As at 31st December 2019		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
Healthguard Pharmacy Ltd.	Director	Short term loan 1	20.00	-	20.00	-	Mortgage over stock
		Letter of guarantee	10.00	7.00	10.00	-	Letter of guarantee
		Overdraft 1	(5.00)	-	(5.00)	-	indemnity
		Overdraft 2	50.00	-	50.00	4.88	Docs of title. duly
		letter of credit	100.00	15.94	100.00	15.64	accepted usance drafts
		Import loan	(100.00)	-	(100.00)	-	
		Short term loan 2	5.00	-	5.00	-	
		<b>Total</b>	<b>185.00</b>	<b>22.94</b>	<b>185.00</b>	<b>20.52</b>	
Watawala Tea Ceylon Ltd.	Director	Overdraft	300.00	-	300.00	-	Letter of guarantee
		Letter of guarantee	15.00	1.19	15.00	5.79	indemnity
		<b>Total</b>	<b>315.00</b>	<b>1.19</b>		<b>5.79</b>	
<b>(B) Mr Nilanth de Silva</b>							
Malwatte Valley Plantations PLC	Director	Overdraft	300.00	252.72	375.00	284.86	Mortgage over stock &
		Commercial paper	-	-	40.00	40.00	Book Debts, Mortgage
		Stand by overdraft	-	-	400.00	186.14	of Property, Receipts,
		Money market Loan	40.00	40.00	(400.00)	76.73	letter of Hypothecation
		Packing credit loan	400.00	103.45	60.95	60.95	& Indemnity, Vehicles &
		Export bill	(400.00)	89.74	0.30	-	Equipment's, counter
		Lease	41.00	41.00	5.00	3.22	Indemnity, letter of
		Corporate Credit Card	0.30	-	125.00	-	guarantee indemnity
		Letter of Guarantee	5.00	5.02	1,006.25	651.90	
		Term Loan	16.00	16.00	-	-	
		<b>Total</b>	<b>802.30</b>	<b>547.93</b>	<b>2,012.50</b>	<b>1,303.80</b>	
Expo Industrial Engineering (Pvt) Ltd.	Director	Lease	18.89	18.89	22.00	22.00	Motor vehicle machinery
		Term Loan	53.43	53.48	154.40	68.00	& personal guarantee
		Overdraft	15.00	18.42	16.00	13.00	Property
		Trade Loan	0.15	0.15	181.35	164.00	Demand promissory
		Development loan	50.00	50.00	50.00	45.00	note
		<b>Total</b>	<b>137.47</b>	<b>140.94</b>	<b>423.75</b>	<b>312.00</b>	<b>Mortgage of SIT</b>
<b>(C) Mr D S Weerakkody</b>							
Access Engineering PLC	Director	Letter of guarantee	5,000.00	1,368.02	-	-	Letter of guarantee
		Letter of Credit	500.00	261.84	-	-	Indemnity
		<b>Total</b>	<b>5,500.00</b>	<b>1,629.86</b>			<b>Documents of title/ Duly Accepted usance drafts</b>
Lanka Aluminium Industries PLC	Director	Letter of credit	490.00	73.27	490.00	100.33	Documents of title/ Duly
		Overdraft	(65.00)	-	(65.00)	33.31	accepted usance drafts.
		Import Loan	(490.00)	-	-	-	
		Short term loan	(490.00)	175.00	(490.00)	290.38	
		Term loan	33.62	33.62	57.12	57.12	
		<b>Total</b>	<b>523.62</b>	<b>281.89</b>	<b>547.12</b>	<b>481.14</b>	

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2020		As at 31st December 2019		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
Abans PLC	Director	Letter of credit	1,200.00	1,044.33	1,200.00	567.77	Docs of title
		Import Loans	200.00	-	200.00	200.00	Duly accepted usance drafts
		Import Loans	(1,000.00)	-	(1,000.00)	67.61	-
		Shipping Guarantee	390.00	-	(150.00)	-	Mortgage over stocks
		Overdraft	25.00	-	25.00	-	Trust receipts
		Term loan	78.12	78.12	234.38	234.38	Letter of indemnity
		Letter of guarantee	300.00	162.80	300.00	192.17	Power of Attorney
		<b>Total</b>	<b>2,193.12</b>	<b>1,285.25</b>	<b>1,959.38</b>	<b>1,261.93</b>	& Mortgage over receivables of NTB/ AMEX POS machines Letter of guarantee indemnity
<b>(D) Dr L R Karunarathna</b>							
AKK Engineers	Director	Overdraft	-	-	41.00	38.91	Land Commercial
		Letter of guarantee	-	-	161.30	53.06	Property-Free Hold,
		finance facility	-	-	(10.00)	-	Fixed Deposits LKR &
		<b>Total</b>	<b>-</b>	<b>-</b>	<b>202.30</b>	<b>91.97</b>	<b>GBP</b>
Pinthaliya Resort	Proprietor	Overdraft	-	-	1.80	1.61	Cash deposit
<b>(E) Mr A J Alles</b>							
Acuity Partners (Pvt) Ltd.	Director	Overdraft	150.00	-	150.00	-	100% cash margin
		Term loan	20.32	20.32	-	-	-
		Letter of guarantee	12.51	12.51	6.59	6.59	-
		<b>Total</b>	<b>182.83</b>	<b>32.83</b>	<b>156.59</b>	<b>6.59</b>	-
HNB Finance Ltd.	Director	Term loan 1-4	791.22	791.22	791.22	791.22	Demand Promissory
		Lease	-	-	-	-	Note, Negative Pledge,
		Money M/Loan	1,000.00	500.00	1,000.00	500.00	Corp. Guarantee/
		Overdraft	1,000.00	-	500.00	-	Standing orders for
		Credit Card	0.15	-	0.15	0.10	Recovering 100% of credit card outstanding on due date
<b>Total</b>	<b>2,291.37</b>	<b>1,291.22</b>	<b>2,291.37</b>	<b>1,291.32</b>	-		
LVL Energy Fund Ltd.	Director	Term loans	375.00	375.00	393.75	393.75	Clean
Lanka Venture PLC		Term loans	36.75	36.75	38.25	38.25	Clean
<b>(F) Mr E D P Soosaipillai</b>							
Commercial Credit & Finance PLC	Director	Overdraft	12.00	-	12.00	-	Property
		Securitisation Loan	2,458.34	2,458.34	1,666.76	1,666.76	Mortgage over
		Short Term/Loan	750.00	750.00	680.00	680.00	securitisation of lease
		Term Loan	-	-	113.04	113.04	& Special Power of
		Letter of guarantee	-	-	2,104.00	2,104.00	attorney,
<b>Total</b>	<b>3,220.34</b>	<b>3,208.34</b>	<b>4,575.80</b>	<b>4,563.80</b>	Fixed deposit Demand Promissory Note, Letter of Indemnity, Cash Build-up, MM Savings Balance		

## Directors' Interest in Contracts with the Bank

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2020		As at 31st December 2019		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
<b>(G) Mr L U D Fernando</b>							
HNB Assurance PLC	Director	Letter of guarantee	26.69	26.69	-	18.85	100% Cash Margin
		Corporate credit card	1.00	1.00	-	-	
		<b>Total</b>	<b>27.69</b>	<b>27.69</b>	<b>-</b>	<b>18.85</b>	
<b>(H) Mr. L J S H Cabral</b>							
Hayleys PLC	Director	Overdraft	250.00	3.49	250.00	-	Letter of guarantee
		Money Market Loan	260.00	-	260.00	-	Indemnity, Negative
		Term Loan	5,375.00	5,375.00	1,125.00	1,125.00	Pledge over Shares
		Letter of guarantee	1.50	-	1.50	-	
		<b>Total</b>	<b>5,886.50</b>	<b>5,378.49</b>	<b>1,636.50</b>	<b>1,125.00</b>	
Alumex PLC	Director	Overdraft	(80.00)	-	(50.00)	-	Document of title
		Term Loan	(500.00)	-	(500.00)	-	Duly accepted Usance
		Import Loan	(700.00)	-	(500.00)	41.48	Drafts
		Forward Exchange Contract	300.00	-	30.00	-	Simple Receipts
		Letter of Credit	500.00	7.48	500.00	154.43	Letter of guarantee
		Letter of Credit	(200.00)	47.21	-	-	Indemnity
		Letter of guarantee	(40.00)	-	150.00	-	
		<b>Total</b>	<b>800.00</b>	<b>54.69</b>	<b>680.00</b>	<b>195.91</b>	
Diesel & Motor Engineering PLC	Director	Letter of credit	3,000.00	1,074.30	3,000.00	1,102.46	Docs of title.
		Import Loan	(3,000.00)	182.46	(3,000.00)	927.75	Duly accepted usance
		Money Market Loan	(3,000.00)	450.00	(3,000.00)	350.00	drafts
		Overdraft	(45.00)	-	(45.00)	24.89	Counter indemnity
		Letter of guarantee	(500.00)	-	(3,000.00)	-	
		Term Loan	800.00	800.00	-	-	
		Shipping Guarantee	(3,000.00)	511.97	-	-	
		<b>Total</b>	<b>3,800.00</b>	<b>3,018.73</b>	<b>3,000.00</b>	<b>2,405.10</b>	
Tokyo Cement Co. (Lanka) PLC	Director	Letter of credit	1,000.00	81.33	-	-	Mortgage over stocks,
		Import Loan	(1,000.00)	-	-	-	Document of title,
		Shipping Guarantee	(500.00)	-	-	-	Letter of Indemnity,
		Forward Exchange Booking	100.00	-	-	-	Mortgage over leasehold property
		Letter of guarantee	100.00	-	-	-	
		Term Loan	2,700.00	2,700.00	-	-	
		<b>Total</b>	<b>3,900.00</b>	<b>2,781.33</b>	<b>-</b>	<b>-</b>	
<b>(I) Mr Prawira Rimoe Saldin</b>							
Sithma Development (Pvt) Ltd.	Alternative Director for Mr Rusi Caption	Overdraft	50.00	-	50.00	-	Commercial Property
		Term Loan	258.02	258.02	258.02	258.02	
		<b>Total</b>	<b>308.02</b>	<b>258.02</b>	<b>308.02</b>	<b>258.02</b>	

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2020		As at 31st December 2019		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
<b>(J) Mr H A Pieris</b>							
Cargills (Ceylon) PLC (Interchangeable with Cargills Foods Company (Pvt) Ltd.)	Director	Money Market Loan	-	-	1,000.00	-	Clean
		Overdraft	-	-	(500.00)	-	Clean
Cargills Foods Company (Pvt) Limited	Director	Money Market Loan	-	-	(1,000.00)	1,865.00	Clean
		Term Loan	-	-	1,250.00	-	Usance drafts
		Term Loan	-	-	500.00	500.00	Doc. of title
		Import Loan	-	-	(200.00)	-	
		Letter of credit	-	-	(200.00)	-	
<b>Total</b>			-	-	<b>2,750.00</b>	<b>2,365.00</b>	
<b>(K) Mr T K D P Samarasinghe</b>							
Hayleys Fibre PLC	Director	Packing Credit Loan	75.00	-	75.00	78.00	Clean
		Export Bill Discounting	(50.00)	-	(50.00)	-	Docs of title, Demand
		Short Term Loan	(75.00)	-	(75.00)	-	Promissory Note ,
		Letter of credit	(3.00)	-	(3.00)	0.79	Letter of Guarantee
		Letter of Guarantee	(5.00)	0.79	(5.00)	-	Indemnity,
		Overdraft	6.00	-	6.00	0.88	
		Saubagya Working capital loan	25.00	25.00	-	-	
		Foreign exchange Contracts	(15.04)	-	(14.66)	4.53	
		<b>Total</b>		<b>106.00</b>	<b>25.79</b>	<b>81.00</b>	<b>84.20</b>
<b>(M) Mr.D.P.N Rodrigo</b>							
HNB Assurance PLC	Director	Letter of Guarantee	26.69	26.69	-	18.85	100% Cash back Margin
		Corp Credit Card	1.00	1.00	-	-	
		<b>Total</b>	<b>27.69</b>	<b>27.69</b>	<b>-</b>	<b>18.85</b>	
Sithma Development (Pvt) Ltd.	Director	Overdraft	50.00	-	50.00	-	Commercial Property
		Term Loan	258.02	258.02	-	-	
		<b>Total</b>	<b>308.02</b>	<b>258.02</b>	<b>50.00</b>	<b>-</b>	

\* Figures in brackets indicate sub limits granted to respective entities.

\*\* Approval was obtained for the excesses.

## Directors' Interest in Contracts with the Bank

### 2. Other business transactions with the Bank

Company/Director	Name of the Director / Relationship	Nature of Transaction	Amount (RsMn)	
			2020	2019
<b>(A) Mr Jonathan Alles</b>				
Acuity Partners (Pvt) Ltd.	Director	Corporate Finance Fees	-	10.16
HNB Finance Ltd	Director	Debentures balance	162	162
		Interest paid -debenture	16.8	16.8
Lanka Financial Services Bureau Ltd	Director	Swift Charges	8.55	-
<b>(B) Mr Amal Cabral</b>				
John Keels Holdings PLC	Director	Repo (outstanding as at year end)	-	2,260.52
		Interest on repurchase agreements	-	15.89
		Merchant Commission	415.75	-
Watawala Tea Ceylon Ltd.	Director	Merchant Commission	0.24	0.03
Healthguard Pharmacy Ltd.	Director	Merchant Commission	14.80	2.73
Lion Brewery (Ceylon) PLC	Director	Merchant Commission	-	0.04
Sunshine Healthcare Lanka Ltd	Director	Merchant Commission	0.09	-
<b>(C) Mr Prawira Rimoe Saldin</b>				
Sithma Development (Pvt) Ltd.	Alternative Director for Mr Rusi Caption	Repo (outstanding as at year end)	-	33.00
		Interest on repurchase agreements	-	0.42
		Rental paid	783.95	762.62
		Rental income	4.10	4.18
<b>(D) Dr L R Karunarathna</b>				
Pinthaliya Resort	Director	Merchant Commission	-	0.127
<b>(E) Mr D S Weerakkody</b>				
Galle Face Hotel Management Company (Pvt) Ltd.	Director	Merchant Commission	5.98	1.42
Abans PLC	Director	Marketing Expenses	8.08	-
		Merchant Commission	0.35	-
<b>(F) Dr T K D A P Samarasinghe</b>				
Lanka Bell Limited	Director	Merchant Commission	0.10	N/A
		Data Line Expenses	13.96	N/A
<b>(G) Mr H A Pieris</b>				
Ceylon Chamber of Commerce	Director	Merchant Commission	-	0.03
Cargills Foods Company (Pvt) Ltd.		Merchant Commission	-	30.47
<b>(H) Mr L U D Fernando</b>				
HNB Assurance PLC and HNB General Insurance Limited	Director	Premium paid	10.88	77.82
		Merchant Commission	20.65	16.54
		Rental income	8.87	9.26
		Dividend income	180.00	269.93
		Commission received	334.21	323.74
		Claims paid	22.83	14.90

Company/Director	Name of the Director / Relationship	Nature of Transaction	Amount (RsMn)	
			2020	2019
<b>(I) Mr Rusi Captain</b>				
CIC Holding PLC	Director	Quoted Shares		47.90
<b>(J) Mr D Rodrigo</b>				
Sithma Development (Pvt) Ltd.	Director	Repo (outstanding as at year end)	-	33.00
		Interest on repurchase agreements	-	0.42
		Rental paid	783.95	762.62
		Rental income	4.10	4.18
HNB Assurance PLC and HNB General Insurance Limited		Premium paid	10.88	77.82
		Merchant Commission	20.65	16.54
		Rental income	8.87	9.26
		Dividend income	180.00	269.93
		Commission received	334.21	323.74
		Claims paid	22.83	14.90
Credit Information Bureau of Sri Lanka	Director	CRIB Charges	47.12	N/A
<b>(K) Mr Devaka Cooray</b>				
Management systems Ltd	Director	Administration Expenses	40.62	-

Collateral details of facilities for each company are grouped together without Identifying collateral, facility- wise.

The above disclosure only pertains to the transactions carried out with directors who are holding office as at 31/12/2020.

The above entities also held customer deposits with the Bank totalling to 24,633.66 Mn. and interest paid was 880.40 Mn.

Interest income earned from loans and advances amounted to 1,520.93 Mn. & Net Fee Income earned totalling to 796.25 Mn. for the year ended 31/12/2020.

# Risk Review 2020

Complexity of the risk landscape increased dramatically as the COVID-19 pandemic exacerbated vulnerabilities of nations, entities and people in every country in the world. Policy environments were volatile as balancing priorities remained daunting throughout the year for many countries, a case in point is the downgrading of 33 sovereign ratings and outlook of 40 countries revised as negative in the first half of 2020 by international rating agencies, which reflects the unprecedented scale of challenges. Dramatic shifts in global capital flows, trade patterns and energy market dynamics added layers of complexity to the risk landscape in addition to factors such as technological advances, digitisation, shifting consumer priorities and the way we live and work. While the threat of the pandemic weakened economies around the globe, civil unrest too emerged across regions during the year creating further volatility in the market. Risks stemming from climate change too continued to cause disruptions posing further risk to operating environments globally. Every risk remains elevated while options become more limited and recognising these realities are a sine qua non for prudent management of risk.

For Sri Lanka, these challenges came before the country had time to recover from the devastating impacts of the Easter Sunday Terror attacks in 2019, causing limitations for policy changes to boost economic growth. While the swift lockdown in March helped in managing the first wave and a journey towards establishing normalcy commenced by June 2020, October witnessed a second wave with widespread infection throughout the country, straining diminished resources. Furthermore, Moody's downgrading of Sri Lanka's sovereign rating in September 2020 to Caa1 with a Stable outlook citing persistent debt repayment challenges as the economy's greatest risks is an illustration of the many challenges the country had to deal with in the year 2020.

Businesses and households experienced severe cash flow constraints and government requested banks to extend further moratoria in addition to those provided after the Easter terror attacks for businesses adversely impacted by the pandemic. HNB established its own Rs.5 Bn Covid Fund to support those who did not meet the criteria for the 'Saubhagya COVID -19 Renaissance Facility' and 'Credit Guarantee and Interest

Subsidy' Schemes established by CBSL. An unprecedented effort was undertaken by the Bank to support customer cashflows while managing credit risk which has escalated dramatically locally and globally.

Operational risk also increased dramatically as lockdowns and safety measures necessitated minimal staffing at business premises supported by others working from home. While these presented some challenges as we sought to ensure that all customers, particularly those in rural areas, had access to cash, we were able to manage these risks with relative ease due to investments in digitisation.

A significant shift to digital transactional platforms was observed from commencement of the lockdowns in March and this trend continues to gather momentum as customers avail themselves of the convenience offered. Increased activity of hackers was a significant concern during the year and we worked towards increasing awareness among customers on such threats through messaging and alerts while increasing investments in cybersecurity and vigilance of unusual transactions to manage this key threat.

The Board and BIRMC strengthened the rigor of its oversight to closely monitor the risk profile of the Bank and review the adequacy of its systems, processes and tools. The Bank strengthened its risk management capabilities to adapt to the unprecedented risk landscape and the additional work involved, particularly with the processing of moratoria. Risk awareness throughout the Bank increased substantially as the first line of defence was strengthened in response to the volatile operating environment.

The strain on the Licensed Commercial Banks as the financier for economic activity is evident in the lower capital adequacy and asset quality ratios. Monetary policy measures implemented to manage the trade deficit and reduce interest rates resulted in lower NII and fee based income reducing profitability in the Banking sector. The economic crisis does not leave room for normal pricing of risk as it compromises the repayment ability of borrowers given the wide ranging impacts of the crisis on entities and individuals. This is reflected in the deterioration of asset quality and the narrowing of interest margins.

*Refer our Corporate Governance & Risk Management Report, for a more detailed review of how we manage risk and capital.*



- » Rs.5 bn COVID fund established to support local customers
- » Rs. 24 billion approved at 4% interest via CBSL relief schemes

### Technology & Cybersecurity

Technology has paved the way for customers to transition to digital platforms as society sought to minimise contact. Cyber threats escalated due to increased volumes of digital transactions and remain a concern as financial stress increases globally. The expansion and enrichment of HNB's digital payment platforms have paved the way for contactless banking with high levels of security. The Bank has also invested in increasing the rigour of safeguards against cyber attacks and hacking and also in upgrading the business continuity infrastructure to ensure readiness to any given eventuality globally.

### Policy Uncertainty

Recalibration of socioeconomic policies gave rise to a slew of policy measures to curtail imports, inflation and interest rates and support systemic financial stability. As a Domestic Systemically Important Bank; we will continue to support the Government in its implementation of economic policies.

### Regulation

Regulation to secure stability of the financial system continues to impact capital management and risk management with banks required to participate in the Government's moratorium programs. HNB has actively participated and supported the Government in these moratorium programs by way of providing moratorium facilities across all segments of customers covering Corporates, SMEs and Retail bases.

### Climate Change

Although Sri Lanka has been fortunate in 2020, natural disasters and climate change impacts can exacerbate supply side shocks, straining the already stretched reserves of the country.

### Societal Expectations

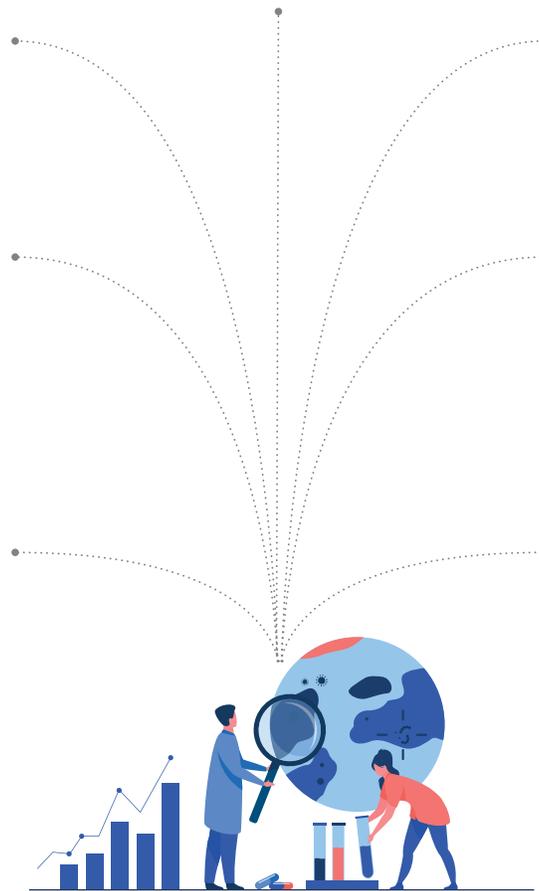
As businesses sought to extend cash runways and as individuals' financial vulnerabilities increased, banks were called upon to play a pivotal role in providing immediate financial relief to their customers across industries and geographies. Declared an essential service, HNB has remained open during lock-downs, providing much needed access to cash and banking services to support day to day needs of customers.

### Working From Home

As safety measures including lock-downs and social distancing became necessary, our work patterns needed to adapt accordingly. Enabling staff to work remotely presented some challenges but we have found effective and secure ways to do so.

### Geopolitical Stress

Geopolitical stress continued to escalate during the year and remains a key concern as they affect world trade, exchange rates and oil prices.



### A Global Pandemic

COVID-19 strained healthcare systems and economies around the world as nations struggled to balance the twin priorities. The pandemic exposed socio economic interdependencies and vulnerabilities, particularly in emerging economies, as capital outflows from these markets, business lock-downs, the collapse of the tourism industry and declining trade flows exacerbated economic woes.

## Risk Review 2020

### RESPONSE TO COVID-19

COVID-19 presented a new layer to risk management as it impacted almost every aspect of risk management due to direct threats and the knock on effects. Health and wellbeing of employees was paramount and the Bank formed a COVID-19 Task Force which was supported by the Operational Risk Management team and the HR Team working together and a holistic action plan was put in place to prevent potential health and safety risks. Employees were provided with health and safety advice and guidance and a continuous supply of PPE equipment were provided for employees to work at the office. Split working arrangements were put in place and we facilitated employees working from home by providing connectivity to support smooth business operations.

As stated above, we have provided moratoria to customers to support businesses and cashflow challenges and also facilitated access to cash through Mobile Bank vehicles to areas under lockdown and rural parts of the country where public transport was a challenge. Expansion and enrichment of our digital payment platforms paved the way for contactless payments with high levels of customer onboarding on HNB Solo, Momo, the internet payment gateway and the new digital banking application. As an essential service, our branches remained open throughout except for a few shutdown where necessary, operating under strict health and safety guidelines.

Cyber risk was a key area of concern and we invested in increasing the rigour of safeguards against cyber attacks and hacking and also in upgrading the business continuity plans (BCP)

and the IT infrastructure of the Bank. We also carried out disaster recovery drills to assess our levels of readiness to respond and the outcomes were within the agreed parameters.

We also worked with the Group companies to enhance their BCPs and readiness to respond to high impact risk events. Particular areas of focus included Cyber and IT security safeguards and monitoring liquidity to identify and manage potential challenges. As a result of the Bank's tremendous efforts to provide a safe workplace for employees while providing continuous banking services and support to businesses and customers, the Bank was awarded the "Best Managed Bank in Sri Lanka during COVID-19" by the Asian Banker.

### RISK GOVERNANCE

Ultimate responsibility for risk management lies with the Board of Directors who are assisted by the mandatory Board Integrated Risk Management Committee (BIRMC). CBSL Directions set out the duties of the BIRMC and the Bank supplements these where necessary to ensure that the rigour of oversight is aligned to the Bank's risk appetite which is approved by the Board. A dedicated risk management unit comprising 29 staff supports BIRMC led by the Chief Risk Officer who reports independently to the BIRMC. Executive Committees comprising the CEO, CRO and other Key Management Personnel strengthen the first line of defense, fostering high levels of risk awareness throughout the Bank through vigilant risk monitoring and other related initiatives.

The Bank's risk management framework comprises a suite of Risk Management Policies

and the Risk Appetite Statement supported by an organization structure based on the three lines of defense model.

The compliance unit of the Bank is an important part of the Risk Management Framework. The Compliance Officer reports to the Chairman of BIRMC preserving the independence of the Bank's compliance function. HNB organizes its compliance function and sets priorities for the management of its compliance risk in a way that is consistent with its own risk management strategy and structures. The Bank's Board of Directors is responsible for overseeing the management of the Bank's compliance risk. In 2020, the compliance function was strengthened with an upgrade of the AML system and several other compliance related system implementations including the SWIFT screening tool, Dow Jones web portal and strengthening the trade transaction monitoring process.

Licensed Commercial Banks Industry Indicators	2016	2017	2018	2019	2020*
Core Capital (Tier 1 Capital) Adequacy Ratio	12.5	13.4	13.0	13.0	13.1
Total Capital Adequacy Ratio	15.6	16.4	16.2	16.6	16.7
Gross Non-performing Advances Ratio	2.4	2.3	3.3	4.6	4.7
Return on Equity (ROE)	17.2	17.4	13.7	10.6	10.9
Efficiency Ratio	48.9	45.2	48.5	51.8	51.8
Interest Margin	3.6	3.5	3.7	3.6	3.1
Liquid Assets Ratio	25.4	27.2	25.0	27.8	33.8
Credit to Deposit Ratio	91.9	90.1	94.2	93.4	86.5

\*Provisional

Source: CBSL

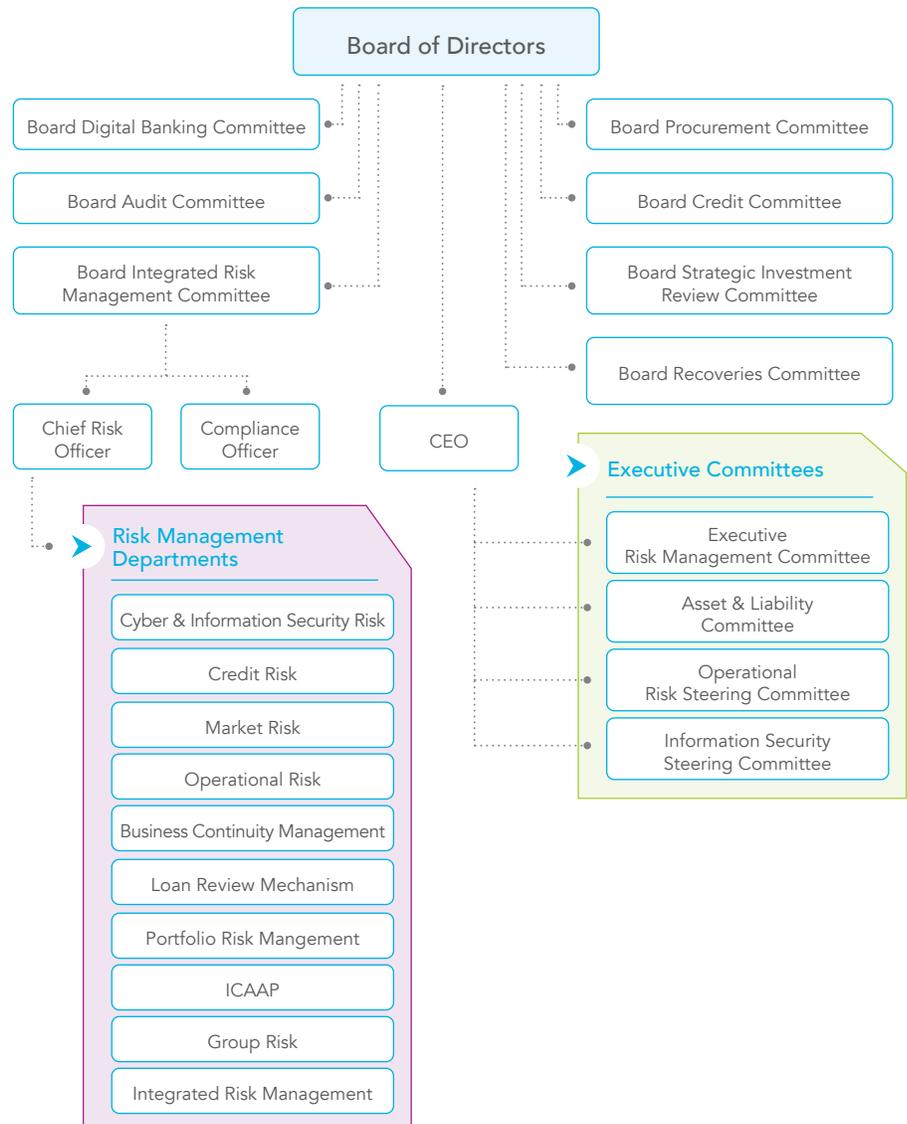
**RISK CULTURE**

The risk culture of the bank is shaped by a comprehensive risk management policy framework and robust corporate and risk governance. High levels of risk awareness is key to the financial stability of the Bank and supports business line growth strategies. A culture of risk awareness and compliance is nurtured both within the Bank and across all entities in the Group through regular training of employees as an integral part of the training calendar. Employees in specialised roles are required to gain specified levels of skills and experience relevant to their roles which encompass a thorough understanding of the risks relevant to these roles. This is vital to strengthen the first line of defense, facilitating process efficiencies and overall resilience of the Bank. Despite challenges in rolling out the training as planned in 2020, we have continued to reinforce risk awareness through increased rigour of processes, analytics and feedback.

The Risk Management Department serves as the 2nd line of defense, implementing the Bank’s risk management framework and policies. Internal audit functions as the 3rd line defense, reviewing the effective functioning of internal controls set in place and providing feedback independently to the Board Audit Committee.

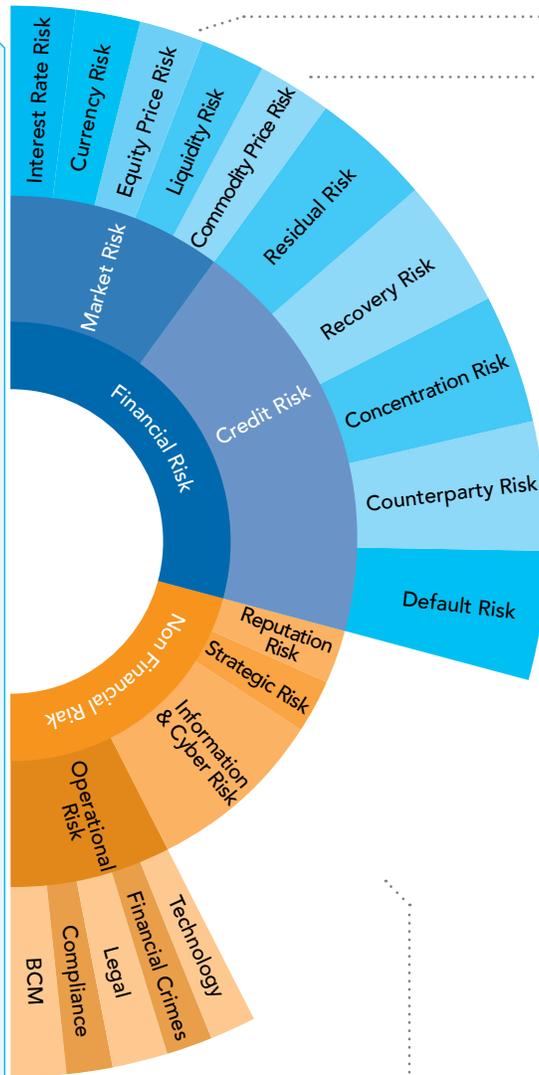
**RISK APPETITE STATEMENT**

The Risk Appetite Statement and the underlying thresholds are established with the objective of defining risk boundaries for managing the business or other performance parameters of the Bank. Thus, the Risk Appetite Statement serves to establish boundaries to form integrated and robust links between strategy, target setting and risk management process.



**KEY RISK SUMMARY**

- » Fitch Ratings Lanka Ltd., has affirmed a Long Term rating of AA+(lka) with a Negative outlook reflecting elevated risks across the entire industry. It is noteworthy that the rating is influenced by the outlook for Sri Lankan banks and the country, which remains negative.
- » Moody's Investors Service Inc., has downgraded HNB's rating in 2020 to Caa1 with the revision of the sovereign rating of Sri Lanka alongside other Sri Lankan banks with international ratings.
- » Recognised as the Best Managed Bank during the COVID-19 pandemic in Sri Lanka by The Asian Banker in 2020.



**NON-FINANCIAL RISKS:**

Operational risks can have a significant financial impact on the performance and stability of the Bank. Reputation Risk is managed through improved regulatory compliance and stakeholder engagement. Strategic Risk is being addressed through Project Everest and the digitisation of the Bank with significant headway made on both despite the challenges in 2020. Information and Cyber risk threats escalated in 2020 and affirmed our decision to segregate this key risk from other operational risks in 2019.

Operational risk is managed through sound governance, robust internal controls, dedicated compliance and legal functions and sound financial reporting processes. The three lines of defense model plays a key role in addressing this risk. Key risk indicators for operational risk are given alongside.

**OPERATIONAL LOSSES & RECOVERIES**



## MARKET RISK:

Interest rate risk and exchange rate risk are the most significant components of market risk to the Bank as exposure to equity risk is minimal.

Rs Mn	Interest Rate Risk		Equity Price Risk		Currency Risk	
Exposure	2020	2019	2020	2019	2020	2019
Assets	979,456	803,829	22,706	22,399	539,086	468,232
Liabilities	914,335	809,183	-	-	538,140	467,573

Rs Mn	Yield Curve		Exchange Rate		Total	
	100 bps		50 bps			
	PBT	Equity	PBT	Equity	PBT	Equity
Increase/ Strengthening	-	3,261,314	4,727	-	4,727	3,261,314
Decrease/ Weakening	-	3,261,314	4,727	-	4,727	3,261,314

## LIQUIDITY RISK:

This is carefully managed by the Assets & Liability Committee to maintain prudent capital buffers. Movement of trendlines reflect the challenges during the year but remain well within the regulatory requirements.

### CAPITAL RATIO



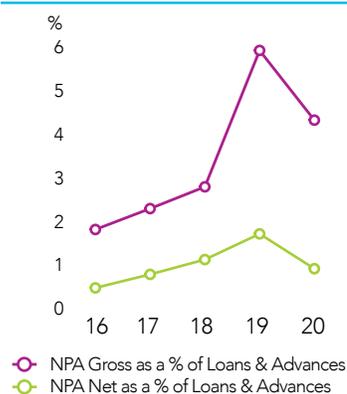
## CREDIT RISK:

This is the largest exposure for the Bank and the following key risk indicators reflect the exposure and credit quality as at 31.12.2020.

### CREDIT EXPOSURE



### NON-PERFORMING ADVANCES



## 2020 AT A GLANCE

### RISK GOVERNANCE

- » Assessed the Risk Appetite Statement and Risk Goals based on the new normal i.e. stemming from COVID 19
- » Reviewed the Risk Management Policies to ensure that they are in line with industry best practises
- » Reviewed the adequacy of Business Continuity Plans, Cyber Security safeguards and Working from Home practises including Liquidity Management of Group Companies

### CREDIT RISK

- » Implemented a state-of-the-art solution for assessing Individually Significant Loans (ISL)
- » Established Framework Policies on Credit and Collateral as an underlying metric to the numerous Product Credit Policies

### MARKET RISK

- » Counterparty and Treasury limits were recalibrated more frequently to capture COVID-19 impacts
- » Reviewed the ALM policy with improved risk metrics - Delta limits for investment in securities & Liquidity gap limits for banking book

### OPERATIONAL RISK

- » Developed and rolled out the Containment Plan for Public Health Contagion disruptions
- » Established Work from Home Security arrangements for staff
- » Establishing Business Continuity Management and conducting of DR drills covering mission critical units and systems

### INFORMATION & CYBER RISK

- » Data Leakage Prevention (DLP) project has been implemented across multiple data channels
- » Reviewed Privilege Access Activities on Database, Operating Systems and Applications
- » Carried out systemic functionality reviews, Vulnerability Assessments and Penetration Testing (VAPT) towards mitigating increased Cyber Security risks

### COMPLIANCE RISK

- » The AML system was upgraded to a newer version enabling enhanced Compliance monitoring, case creation, internal blacklisting and implementation of several new rules to cover various Money Laundering, Drug related and Terrorist Financing Risks.
- » Several other Compliance related systems were Implemented during year 2020 Including the SWIFT Screening tool, Dow Jones web portal and strengthening the Trade transaction monitoring process

## Risk Review 2020

Loan book growth moderated to 6% as the Bank adopted a cautious approach in response to stresses of the operating environment. Impairment charges increased by 58% due to the weak economic

performance. Deposit growth also moderated to 19% due to reduced savings capacity and reduced interest rates. Deposits of Rs 967 bn account for 84% of Total Liabilities.

Key risks impacting our operations are summarised below as viewed through a prudent lens:

Risk	Assessment	Trend	Rationale/Description
<b>External</b>			
Economic growth and trade cycles	High	↗	With the global and local economies in recession due to the pandemic, economic uncertainty is at the highest in decades. While IMF forecasts global economic growth for 2021, significant downside risks remain. Sri Lanka's debt repayment challenges coupled with uncertainties on the Tourism sector and declining demand from the export markets point to significant economic challenges for 2021.
Fiscal and monetary policy	Moderate	↗	The need to manage health, humanitarian and economic concerns have heightened challenges for policy makers. Maintaining equilibrium in times of elevated uncertainty will necessitate policy changes in 2021 and we expect the policy environment to be dynamic.
Regulation	Moderate	↗	Regulation is likely to focus on the need to maintain financial stability in a recessionary environment in contrast to the focus on the evolution of the industry.
Cyber threats	High	↗	Cyber threats have increased due to increasing volumes of digital transactions and HNB continues to increase its vigilance in order to manage this rapidly evolving threat.
<b>Internal</b>			
Credit Risk	Moderate	↗	While recoveries were strengthened, extensive moratoria were given to customers during the year through CBSL funded schemes and the Bank's own COVID fund. These moratoria which were originally scheduled to end in September 2020 have now been extended until March 2021 and may prove a drag on credit risk in 2021.
People & Operational Risk	Moderate	↗	Trends in operational risk indicators have been maintained within the Bank's risk appetite. The pandemic has added a new dimension to operational risk with the need to manage the health and safety of our employees and customers with access to cash and finance. While safety protocols have been implemented throughout the Bank, the residual risk remains high due to the invisibility of the threat and innate people factors. High levels of awareness and a focus on risk culture, continuous training and improvement in effectiveness of internal controls are key mitigants.
Liquidity Risk	Moderate	→	Liquidity indicators are well above the regulatory requirements and the Bank's risk appetite. Additionally, market liquidity has been comfortable due to lower credit demand as a result of flight to safety in financial markets.

The Bank continues to steer a steady course despite the two systemic shocks in two consecutive years which has seen an overall deterioration in most economic indicators as reflected by the sovereign risk downgrading in 2020. Our responses to the customers, employees and regulators were proactive and forward-looking as we played a supportive role to their urgent needs. However, downside risks have escalated and the recovery witnessed in the second and third quarters remains fragile. Increased vigilance by the Board coupled with enhanced capabilities of the Risk Management Team has supported the Bank's risk profile which remains within regulatory requirements.

We expect 2021 to be a year of re-assessment and recalibration of the economy to support growth as vaccinations and therapies are rolled out. The moratoria scheduled to end in March 2021 will pose challenges for some customers and we expect credit risk to remain elevated until there

are clear signs of sustainable recovery. Cyber threats are also likely to be high as more transactions shift to digital platforms. Operational risk is higher than normal due to higher stress levels and changing working arrangements which we are managing through the COVID-19 Response Team. Market risk factors are also expected to be volatile as policy makers recalibrate responses to emerging threats.

A strong risk governance framework, culture, policies, systems and processes support Risk and Capital Management at the Bank with tools that provide deep insights about our resilience. We will be increasing the vigilance and rigour of our processes to ensure that we manage our vulnerabilities and strengthen our foundations for optimal risk management.

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# Financial Calendars

## FINANCIAL CALENDAR - 2020

51st Annual General Meeting held on	29th May 2020
Rs. 7/00 per share Final Dividend for 2019 paid on	10th June 2020
Audited Financial Statements signed on	19th February 2021
52nd Annual General Meeting to be held on	30th March 2021
Rs. 8/00 per share Final Dividend for 2020 payable in (Cash Dividend Rs. 4/50 per share and Scrip Dividend Rs.3/50 per share)*	April 2021
Interim Financial Statements published in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka	
1st Quarter Interim Results released on	18th May 2020
2nd Quarter Interim Results released on	14th August 2020
3rd Quarter Interim Results released on	12th November 2020

## FINANCIAL CALENDAR - 2021

Interim Dividend for 2021 to be payable in **	December 2021
53rd Annual General Meeting to be held in	March 2022
Final Dividend for 2021 payable in ***	April 2022
Interim Financial Statements published in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka	
1st Quarter Interim Results to be released in	May 2021
2nd Quarter Interim Results to be released in	August 2021
3rd Quarter Interim Results to be released in	November 2021

\* Subject to confirmation by Shareholders

\*\* Subject to confirmation by Directors

\*\*\* Subject to confirmation by Directors and Shareholders

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements of Hatton National Bank PLC (the Bank) and the consolidated financial statements of the Bank and its subsidiaries as at 31st December 2020 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No 7 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995,
- Banking Act No 30 of 1988 (as amended),
- Listing Rules of the Colombo Stock Exchange,
- Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time) and
- Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

The formats used in the preparation of the financial statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

The Accounting Policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Board Audit Committee and external auditors.

The Board of Directors and the management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis in order that the financial statements reflect a true and fair view, the form and substance of transactions and the Bank's state of affairs are reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated and updated on an on going basis. The Board of Directors has carried out an assessment on the ability of the Bank to continue as a going concern taking into consideration the potential implications of COVID 19 pandemic on Bank's operations and future financial performance. We confirm that the Bank has adequate resources to continue operations in the foreseeable future and have adopted the 'going concern' basis in preparing these financial statements.

The Board has established a framework of internal control as set out in the Directors 'Statement of Internal Control Over Financial Reporting - ICOFR on page 124 to 125. The Bank's internal auditor has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further, the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31st December

2020, as required by the Banking Act Direction No 11 of 2007, result of which is given on page 124 to 125 in IR, the 'Directors' Statement on Internal Control Over Financial Reporting - ICOFR'. External auditor's Assurance Report on the 'Directors' Statement on Internal Control Over Financial Reporting' is given in IR page 126.

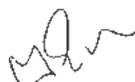
The financial statements of the Group for the year 2020 were audited by Messrs KPMG, Chartered Accountants, the independent external auditors. Their report is given in IR pages 145 to 148.

The Board Audit Committee of the Bank meets periodically with the internal audit team and the independent external auditor to review their audit plans, assess the manner in which the auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditor have access to the members of the Board Audit Committee to discuss any matter of substance, details of which are given in the 'Board Audit Committee Report' on page 119 to 121 in IR.

The Board Audit Committee approves the audit and non-audit services provided by external auditor, Messrs KPMG, in order to ensure that the provision of such services does not impair KPMG's independence.

We confirm that,

- the Bank and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non compliances;
- there are no material litigations that are pending against the Group other than those disclosed in the Note 59 (c) to the financial statements in this Annual Report; and
- all taxes, duties, levies and all statutory payments payable by the Group and the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at December 31, 2020 have been paid, or where relevant provided for.



**Jonathan Alles**  
Managing Director/Chief Executive Officer



**Rajive Dissanayake**  
Chief Financial Officer

Colombo, Sri Lanka.  
19th February 2021

# Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the financial statements of the Bank and its subsidiaries prepared in accordance with the provisions of the Companies Act No 7 of 2007 is set out in the following statement.

The responsibility of the external auditor in relation to the financial statements are set out in the report of the auditors given in IR pages 145 to 148.

As per the provisions of sections 150 (1), 151, 152, and 153 (1) & (2) of the Companies Act No 7 of 2007, the Directors are required to prepare financial statements for each financial year and place them before a General Meeting. The financial statements comprise the Statement of Financial Position as at 31st December 2020, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flow for the year then ended and notes thereto.

The financial statements of the Bank and its subsidiaries give a true and fair view of:

- the state of affairs of the Bank and its subsidiaries as at 31st December 2020; and
- the profit or loss of the Bank and its subsidiaries for the financial year then ended.

In preparing these financial statements, the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- judgements and estimates have been made which are reasonable and prudent; and
- all applicable accounting standards, as relevant, have been complied with;

The Directors are also required to ensure that the Bank and its subsidiaries have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements. This year the Directors also are required to take into consideration the potential implications of COVID 19 Pandemic on the Group's business, operations and financial performance. Further, the Directors have a responsibility to ensure that the Companies within the Group maintain sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Bank and its subsidiaries.

Financial statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (SLFRS) which came in to effect from January 01, 2012 are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka

Accounting Standards, Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No 15 of 1995, Banking Act No 30 of 1988 and amendments thereto the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Commercial Banks.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year which are regularly reviewed by the Board. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2020 are given on pages 124 to 125 in IR, Directors' Statement on Internal Control Over Financial Reporting. External Auditor's Assurance Report on the Directors' Statement on Internal Control is given in IR page 126.

The Directors have taken appropriate steps to ensure that the Bank and Group maintain proper books of accounts and review the financial reporting system at their regular meetings and also through the Board Audit Committee. The report of the Board Audit Committee is given on pages 119 to 121 in IR. The Board of Directors also approves the interim and annual financial statements prior to their release based on review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Integrated Report.

Directors are required to prepare the financial statements and provide the Bank's external auditor, Messrs. KPMG, with every opportunity to carry out whatever reviews and checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the financial statements.

They have examined the financial statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on pages 145 to 148 in IR.

The financial statements of the Bank and the Group have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the financial statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on February 19th, 2021 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

Further, as required by Section 56 (2) of the Companies Act No 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the auditors, prior to declaring a final dividend of Rs 8.00 per share (in the form of Rs 4.50 cash and Rs. 3.50 scrip) for the year 2020.

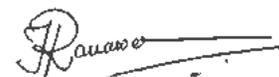
As required by the Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE.

Further, that all shareholders in each category have been treated equitably in accordance with the original terms of issue.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank and its subsidiaries as at the Statement of Financial Position date have been paid or where relevant provided for, except as provided in Note 59 to the financial statements covering contingent liabilities.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



K A L Thushari Ranaweera (Mrs)

Deputy General Manager (Legal)/Company Secretary

Colombo, Sri Lanka  
19th February 2021

# Independent Auditor's Report



KPMG  
(Chartered Accountants)  
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## TO THE SHAREHOLDERS OF HATTON NATIONAL BANK PLC REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Hatton National Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31st December 2020, and the income statement, statement of profit or loss other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 149 to 330 of this Annual Report.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31st December 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment of loans and advances – "Financial Instruments"

Refer to Note 2.2 (Accounting Judgements, Estimates and Assumptions), Note 15 (Impairment charge for loans and other losses) and Note 31 (Financial assets measured at amortised cost - loans and advances to customers), to these financial statements

Risk Description	Our Responses
<p>As disclosed in Note 31 and 15 to these financial statements, the Group has recorded financial assets measured at amortised cost against loans and advances to customers, of Rs 846,721 Mn as at 31st December 2020. High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) of Rs 45,905 Mn as at the reporting date.</p> <p>Allowance for ECL is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Group's ECL models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a Significant Increase in Credit Risk (SICR).</p>	<p>Our audit procedures to assess impairment of loans and advances to customers included the following:</p> <p>Testing key controls of the Group in relation to:</p> <ul style="list-style-type: none"> <li>Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;</li> <li>IT system controls which record loans days past due, and non-performing loan classification.</li> </ul> <p><b>Assessing impairment for individually significant customers</b></p> <p>Selecting a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19).</p> <p>Obtaining management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions, or lack of, were appropriate.</p>

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
I.J.S. Rajakarier FCA  
Ms S.M.B. Jayasekera ACA  
G.A.U. Kanunaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Alshakoun ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyathne FCA  
R.M.D.B. Rajesekse FCA  
M.N.M. Shameel ACA

C.P. Jayatilake FCA  
Ms S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. E.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCA(UK), LL.B. Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekera FCA

# Independent Auditor's Report



SLFRS 9 Financial Instruments requires the Group to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement when evaluating the economic scenarios used and the judgmental post model adjustments the Group applies to the ECL results. The Group's criteria selected to identify a SICR are key areas of judgement within the Bank's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Group in calculating the ECL, and the associated audit risk. Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans.

The disclosures regarding the Group's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.

This included the following procedures

- Assessing the recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable;
- Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments
- Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and business plans and evaluating the key assumptions in the valuations
- Testing the implementation of the Bank's Significant Increase in Credit Risk (SICR) methodology by re-performing the staging calculation for a sample of loan
- For a sample of customer loans which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and from our own view whether any impairment indicators were present.

Assessing the adequacy of collectively assessed provisions

We tested key controls of the Group in relation to:

- The ECL model governance and validation processes which involved assessment of model performance;
- The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we assessed the reasonableness of the Group's considerations of the economic uncertainty relating to COVID-19.

Our further audit procedures included;

- Assessing the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage. In addition, we assessed the reasonableness of the Bank's treatment of COVID-19 payment relief customers (moratorium/debt concessionary) from a SICR perspective.
- Evaluating key assumptions in the components of the Group's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Group's ECL model and data limitations identified by the Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- Working with KPMG Financial Risk Management specialists, we assessed the reasonability of the adjustments made by the Group to the forward looking macro economic factors and assumptions used in the ECL model.
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Group's assessment.
- Assessing the appropriateness of the Group's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.



## IT systems and controls over financial reporting

Risk Description	Our Responses
<p>The Group utilises many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Group's financial position and performance.</p> <p>The Bank completed the implementation of the upgrade of the core system during the year.</p> <p>An independent IT review of the upgraded system is currently in progress.</p> <p>The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Group's IT controls.</p>	<p>We worked with our KPMG IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes.</p> <p>Our further audit procedures included:</p> <p>General IT controls design , observation and operation</p> <ul style="list-style-type: none"> <li>Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Group policy design, review and awareness, and IT Risk Management practices.</li> <li>Testing the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management , program development and computer operations</li> <li>Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate Financial statements.</li> </ul> <p><i>Application controls</i></p> <ul style="list-style-type: none"> <li>On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger;</li> <li>Significant balances in the GL were tested at the time the balances were migrated to the upgraded core system</li> </ul> <p><i>User access controls operation</i></p> <ul style="list-style-type: none"> <li>Assessing the management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions.</li> <li>Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.</li> </ul>

### Other Matter

The financial statements of the Bank and the consolidated financial statements of the Group for the year ended 31st December 2019 were audited by another auditor who had expressed an unmodified audit opinion on those financial statements on 20th February 2020.

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

# Independent Auditor's Report



## Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability

to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is FCA 2294.

Chartered Accountants  
Colombo, Sri Lanka

19 February 2021

# Income Statement

For the year ended 31st December	Note	Bank		Group	
		2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Gross income</b>	7	115,813,618	125,998,086	134,436,232	145,400,508
Interest income		103,944,602	115,210,769	112,825,455	124,888,717
Less : Interest expenses		59,235,456	65,997,133	61,988,268	68,533,206
<b>Net interest income</b>	8	44,709,146	49,213,636	50,837,187	56,355,511
Fee and commission income		7,794,929	9,206,399	8,399,641	10,333,772
Less: Fee and commission expenses		249,880	213,176	374,084	356,642
<b>Net fee and commission income</b>	9	7,545,049	8,993,223	8,025,557	9,977,130
<b>Net interest, fee and commission income</b>		52,254,195	58,206,859	58,862,744	66,332,641
Net losses from trading	10	(74,890)	(2,280,969)	(54,678)	(2,263,453)
Net gain from financial investments at fair value through other comprehensive income	11	207,321	187,512	209,217	190,283
Net insurance premium income	12	-	-	8,907,731	8,365,756
Net gains arising on de-recognition of financial assets	13	1,053,543	-	1,106,649	82,348
Net other operating income	14	2,888,113	3,674,375	3,042,217	3,803,085
<b>Total operating income</b>		56,328,282	59,787,777	72,073,880	76,510,660
Less: Impairment charge for loans and other losses	15	15,258,468	9,656,010	16,046,578	11,426,824
<b>Net operating income</b>		41,069,814	50,131,767	56,027,302	65,083,836
<b>Less : Operating expenses</b>					
Personnel expenses	16	11,459,352	11,444,259	13,903,432	14,025,540
Benefits, claims and underwriting expenditure	17	-	-	7,374,868	7,091,214
Other expenses	18	10,659,633	12,313,978	13,527,427	15,311,355
<b>Total operating expenses</b>		22,118,985	23,758,237	34,805,727	36,428,109
<b>Operating profit before taxes on financial services</b>		18,950,829	26,373,530	21,221,575	28,655,727
Less: Taxes on financial services	19	3,869,649	7,910,527	4,048,466	8,397,854
<b>Operating profit after taxes on financial services</b>		15,081,180	18,463,003	17,173,109	20,257,873
Share of profit of joint venture (net of income tax)	20	-	-	407,215	186,884
<b>PROFIT BEFORE INCOME TAX</b>		15,081,180	18,463,003	17,580,324	20,444,757
Less: Income tax expense	21	3,618,544	4,430,751	3,918,061	5,415,685
<b>PROFIT FOR THE YEAR</b>		11,462,636	14,032,252	13,662,263	15,029,072
Profit attributable to:					
Equity holders of the Bank		11,462,636	14,032,252	13,095,420	14,670,104
Non-controlling interests		-	-	566,843	358,968
<b>PROFIT FOR THE YEAR</b>		11,462,636	14,032,252	13,662,263	15,029,072
<b>Earnings per share</b>					
Basic earnings per ordinary share (Rs)	22	22.39	27.41	25.58	28.65
Diluted earnings per ordinary share (Rs)		22.39	27.41	25.58	28.65
<b>Dividend per share</b>	23				
Dividend per share: Gross (Rs)		8.00*	8.00	8.00*	8.00

The notes to the financial statements from pages 158 to 330 form an integral part of these financial statements.

\*Final dividend proposed, which is to be approved at the Annual General Meeting.

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December	Note	Bank		Group	
		2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>PROFIT FOR THE YEAR</b>		11,462,636	14,032,252	13,662,263	15,029,072
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		(1,372,363)	80,480	(1,372,363)	80,480
Gains realised on de-recognition of equity instruments reclassified to retained earnings	57 (d)	-	136,920	-	136,920
Remeasurement of post-employment benefit obligations	53 (b) vi	(1,556,496)	(1,457,551)	(1,608,998)	(1,449,854)
Revaluation gain on freehold land and buildings		-	-	-	225,622
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss		-	-	23,256	1,025
Less: Tax expense relating to items that will not be reclassified to profit or loss		-	-	2,102	(65,923)
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>		<b>(2,928,859)</b>	<b>(1,240,151)</b>	<b>(2,956,003)</b>	<b>(1,071,730)</b>
Other comprehensive income that will be reclassified to profit or loss in subsequent periods					
<b>Debt instruments at fair value through other comprehensive income :</b>					
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		833,584	1,576,638	1,528,985	2,064,768
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to income statement		(1,053,543)	-	(1,106,649)	(79,393)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	15	(150,378)	259,065	(150,378)	259,065
Transfer to life policy holder reserve fund	57 (e)	-	-	(576,094)	(370,100)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss		-	-	3,675	(1,945)
Less: Tax expense relating to items that will be reclassified to profit or loss		61,588	(441,459)	54,565	(447,745)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>		<b>(308,749)</b>	<b>1,394,244</b>	<b>(245,896)</b>	<b>1,424,650</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>(3,237,608)</b>	<b>154,093</b>	<b>(3,201,899)</b>	<b>352,920</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>8,225,028</b>	<b>14,186,345</b>	<b>10,460,364</b>	<b>15,381,992</b>
Total comprehensive income attributable to:					
Equity holders of the Bank		8,225,028	14,186,345	9,892,718	14,912,884
Non-controlling interests		-	-	567,646	469,108
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>8,225,028</b>	<b>14,186,345</b>	<b>10,460,364</b>	<b>15,381,992</b>

The notes to the financial statements from pages 158 to 330 form an integral part of these financial statements.

# Statement of Financial Position

As at 31st December	Note	Bank		Group	
		2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>ASSETS</b>					
Cash and cash equivalents	25	34,123,562	29,089,189	34,898,957	30,263,654
Placements with banks	26	-	7,602,543	12,126,434	15,490,267
Balances with Central Bank of Sri Lanka	27	7,212,395	22,795,332	7,212,395	22,795,332
Reverse repurchase agreements	28	-	-	2,827,050	2,072,482
Derivative financial instruments	29	1,032,318	527,193	1,032,318	527,193
Financial assets measured at fair value through profit or loss	30	84,499	1,013,374	1,094,827	1,155,339
Financial assets measured at amortised cost - loans and advances to customers	31	772,580,720	741,769,073	800,815,971	769,392,169
Financial assets measured at amortised cost - debt and other instruments	32	186,605,516	149,720,834	193,349,496	156,511,277
Financial assets measured at fair value through other comprehensive income	33	249,271,658	127,694,982	256,394,644	133,953,117
Investment in joint venture	34	755,000	755,000	2,521,811	2,137,665
Investment in subsidiaries	35	3,017,285	3,017,285	-	-
Investment properties	36	475,109	480,444	1,028,956	1,026,050
Property, plant and equipment	37	20,705,056	21,076,762	41,827,384	42,452,617
Right-of-use assets	38	5,356,868	5,482,679	1,827,832	1,571,319
Intangible assets and goodwill	39	1,309,172	1,076,641	1,749,994	1,568,080
Deferred tax assets	40	806,539	-	1,728,958	1,250,755
Other assets	41	8,515,839	12,907,234	11,045,479	15,467,912
<b>Total assets</b>		<b>1,291,851,536</b>	<b>1,125,008,565</b>	<b>1,371,482,506</b>	<b>1,197,635,228</b>
<b>LIABILITIES</b>					
Due to banks	42	89,746,709	86,396,304	89,746,709	87,212,970
Derivative financial instruments	29	337,014	573,365	337,014	573,365
Securities sold under repurchase agreements	43	10,361,383	17,569,394	10,361,383	17,569,394
Financial liabilities measured at amortised cost - due to depositors	44	967,821,404	810,035,114	994,948,912	835,060,146
Dividends payable	45	962,185	1,449,472	980,507	1,466,959
Financial liabilities measured at amortised cost - other borrowings	46	30,526,261	22,604,039	30,526,261	22,604,039
Debt securities issued	47	1,875,042	1,797,644	2,411,408	2,368,986
Current tax liabilities	48	7,725,731	5,348,985	8,093,584	5,621,389
Deferred tax liabilities	40	-	1,381,754	5,371,390	7,334,048
Insurance provision - life	49	-	-	17,073,033	14,468,866
Insurance provision - non-life	50	-	-	3,309,150	2,871,417
Other provisions		3,917,784	3,599,739	4,266,262	4,171,801
Other liabilities	51	16,278,033	14,053,378	15,451,997	12,495,406
Subordinated term debts	52	28,298,365	32,695,221	28,945,457	33,345,904
<b>Total liabilities</b>		<b>1,157,849,911</b>	<b>997,504,409</b>	<b>1,211,823,067</b>	<b>1,047,164,690</b>
<b>EQUITY</b>					
Stated capital	54	35,572,329	33,820,905	35,572,329	33,820,905
Statutory reserve fund	55	7,660,000	7,060,000	7,660,000	7,060,000
Retained earnings	56	22,665,227	17,980,160	29,361,200	23,072,623
Other reserves	57	68,104,069	68,643,091	81,655,946	81,554,692
<b>Total shareholders' equity</b>		<b>134,001,625</b>	<b>127,504,156</b>	<b>154,249,475</b>	<b>145,508,220</b>
Non-controlling interests	58	-	-	5,409,964	4,962,318
<b>Total equity</b>		<b>134,001,625</b>	<b>127,504,156</b>	<b>159,659,439</b>	<b>150,470,538</b>
<b>Total equity and liabilities</b>		<b>1,291,851,536</b>	<b>1,125,008,565</b>	<b>1,371,482,506</b>	<b>1,197,635,228</b>
Contingent liabilities and commitments	59	631,948,229	673,230,813	631,948,229	673,230,813
Net assets value per ordinary share (Rs.)	63	261.73	249.04	301.28	284.21

The notes to the financial statements from pages 158 to 330 form an integral part of these financial statements.

I certify that these financial statements are in compliance with the requirements of Companies Act No 7 of 2007.



**Rajive Dissanayake**  
Chief Financial Officer

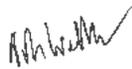
The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board.



**Jonathan Alles**  
Managing Director/Chief Executive Officer

19th February 2021  
Colombo



**Dinesh Weerakkody**  
Chairman



**K A L Thushari Ranaweera (Mrs)**  
Deputy General Manager (Legal)/Company Secretary

# Statement of Changes in Equity

Bank	Note	Stated Capital		Statutory Reserve Rs 000	Other Reserves			Retained Earnings Rs 000	Total Rs 000
		Voting Shares Rs 000	Non-Voting Shares Rs 000		Capital Reserve Rs 000	Fair value Reserve Rs 000	General Reserve Rs 000		
<b>Balance as at 1st January 2019</b>		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		-	-	-	-	-	-	14,032,252	14,032,252
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
<b>Total comprehensive income for the year</b>		-	-	-	-	1,352,578	-	12,833,766	14,186,344
<b>Transactions with equity holders, recognised directly in equity</b>									
<b>Contributions by and distributions to equity holders</b>									
<b>Dividends to equity holders</b>									
Final dividend 2018 - Cash	23	-	-	-	-	-	-	(1,724,277)	(1,724,277)
Final dividend 2018 - Scrip	23	1,190,308	292,571	-	-	-	-	(1,724,277)	(241,398)
Interim dividend 2019 - Cash	23	-	-	-	-	-	-	(500,407)	(500,407)
<b>Total contributions by and distributions to equity holders</b>		1,190,308	292,571	-	-	-	-	(3,948,961)	(2,466,082)
Realised gain from maturity of investment in units	57 (d)	-	-	-	-	(136,920)	-	136,920	-
Transfer of unclaimed dividends	56	-	-	-	-	-	-	29,922	29,922
Transfers during the year 2019		-	-	800,000	-	-	-	(6,800,000)	-
<b>Balance as at 31st December 2019</b>		27,839,768	5,981,137	7,060,000	10,790,994	2,752,097	55,100,000	17,980,160	127,504,156

Bank	Note	Stated Capital		Statutory Reserve Rs 000	Other Reserves			Retained Earnings Rs 000	Total Rs 000
		Voting Shares Rs 000	Non-Voting Shares Rs 000		Capital Reserve Rs 000	Fair value Reserve Rs 000	General Reserve Rs 000		
Balance as at 1st January 2020		27,839,768	5,981,137	7,060,000	10,790,994	2,752,097	55,100,000	17,980,160	127,504,156
Total comprehensive income for the year									
Net profit for the year 2020		-	-	-	-	-	-	11,462,636	11,462,636
Other comprehensive income, net of tax		-	-	-	-	(1,530,734)	-	(1,706,874)	(3,237,608)
Total comprehensive income for the year		-	-	-	-	(1,530,734)	-	9,755,762	8,225,028
Transactions with equity holders, recognised directly in equity									
Contributions by and distributions to equity holders									
Dividends to equity holders									
Final dividend 2019 - Cash	23	-	-	-	-	-	-	(1,751,424)	(1,751,424)
Final dividend 2019 - Scrip	23	1,404,704	346,720	-	-	-	-	(1,751,424)	-
Total contributions by and distributions to equity holders		1,404,704	346,720	-	-	-	-	(3,502,848)	(1,751,424)
Transfer of unclaimed dividends	56	-	-	-	-	-	-	32,153	32,153
Transfers during the year 2020				600,000	(8,288)	-	1,000,000	(1,600,000)	(8,288)
Balance as at 31st December 2020		29,244,472	6,327,857	7,660,000	10,782,706	1,221,363	56,100,000	22,665,227	134,001,625

## Statement of Changes in Equity

Group	Attributable to Equity Holders of the Bank											Total	
	Stated Capital		Other Reserves					Shareholders' Funds	Non Controlling Interests	Rs 000	Rs 000		
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund						Restricted Regulatory Reserve
Rs 000	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 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	132,661,396	4,673,210	137,334,606
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	14,670,104	14,670,104	358,968	15,029,072
Net profit for the year 2019	-	-	-	-	-	-	-	-	-	14,670,104	14,670,104	358,968	15,029,072
Other comprehensive income, net of tax	-	-	-	68,488	-	1,359,060	-	-	12,010	(1,196,778)	242,780	110,140	352,920
Total comprehensive income for the year	-	-	-	68,488	-	1,359,060	-	-	12,010	13,473,326	14,912,884	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)	-	(241,398)
Final dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	(1,724,277)	(1,724,277)	(140,000)	(1,864,277)
Interim dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	(500,407)	(500,407)	(40,000)	(540,407)
Total contributions by and distributions to equity holders	1,190,308	292,571	-	-	-	-	-	-	-	(3,948,961)	(2,466,082)	(180,000)	(2,646,082)
Transfer from life policy holder reserve fund	-	-	-	-	-	-	370,100	-	-	-	370,100	-	370,100
Realised gain from maturity of investment in units	57 (d)	-	-	-	-	(136,920)	-	-	-	136,920	-	-	-
Transfer of unclaimed dividends	56	-	-	-	-	-	-	-	-	29,922	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	145,508,220	4,962,318	150,470,538

Group	Attributable to Equity Holders of the Bank											Total	
	Stated Capital			Other Reserves							Shareholders' Funds		Non Controlling Interests
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	Exchange Equalization Reserve	Retained Earnings			
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
Note													
Balance as at 1st January 2020	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	145,508,220	4,962,318	150,470,538
Total comprehensive income for the year													
Net profit for the year 2020	-	-	-	-	-	-	-	-	-	13,095,420	13,095,420	566,843	13,662,263
Other comprehensive income, net of tax	-	-	-	-	-	(1,489,808)	-	-	23,256	(17,36,150)	(3,202,702)	803	(3,201,899)
Total comprehensive income for the year	-	-	-	-	-	(1,489,808)	-	-	23,256	11,359,270	9,892,718	567,646	10,460,364
Transactions with equity holders, recognised directly in equity													
Contributions by and distributions to equity holders													
Dividends to equity holders													
Final dividend 2019 - Scrip	1,404,704	346,720	-	-	-	-	-	-	-	(1,751,424)	-	-	-
Final dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	(1,751,424)	(1,751,424)	(120,000)	(1,871,424)
Total contributions by and distributions to equity holders	1,404,704	346,720	-	-	-	-	-	-	-	(3,502,848)	(1,751,424)	(120,000)	(1,871,424)
Transfer from life policy holder reserve fund	57 (e)	-	-	-	-	-	576,094	-	-	-	576,094	-	576,094
Transfer of unclaimed dividends	56	-	-	-	-	-	-	-	-	32,155	32,155	-	32,155
Transfers during the year 2020	-	-	600,000	(8,288)	1,000,000	-	-	-	-	(1,600,000)	(8,288)	-	(8,288)
Balance as at 31st December 2020	29,244,472	6,327,857	7,660,000	23,054,710	56,100,000	1,270,055	748,391	381,156	101,634	29,361,200	154,249,475	5,409,964	159,659,439

The notes to the financial statements from pages 158 to 330 form an integral part of these financial statements.

# Statement of Cash Flows

## Accounting Policy

The statement of cash flows has been prepared using the direct method of preparing cash flows in accordance with Sri Lanka Accounting Standard - LKAS 7 on "Statement of Cash Flows" whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

The cash and cash equivalents include cash in hand, balances with banks, placements with banks, money at call and short notice.

For the year ended 31st December	Note	Bank		Group	
		2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Cash flows from operating activities</b>					
Interest receipts		103,914,685	111,784,834	112,847,904	121,530,536
Interest payments		(59,963,150)	(66,961,896)	(63,196,160)	(69,680,466)
Net commission receipts		7,326,950	8,914,171	7,823,066	9,947,911
Trading income		1,130,075	765,683	1,130,075	760,052
Payments to employees		(11,531,908)	(10,191,482)	(14,103,280)	(12,559,753)
Taxes on financial services		(3,466,833)	(7,765,237)	(3,683,378)	(8,314,417)
Receipts from other operating activities		1,886,621	3,586,902	11,398,266	12,588,445
Payments on other operating activities		(9,355,244)	(10,957,980)	(15,584,316)	(17,678,758)
Operating profit before changes in operating assets and liabilities		29,941,196	29,174,995	36,632,177	36,593,550
<b>(Increase)/decrease in operating assets</b>					
Balances with Central Bank of Sri Lanka		15,582,937	11,111,725	15,582,937	11,111,725
Financial assets measured at amortised cost					
- loans and advances to customers		(43,396,238)	608,737	(44,707,864)	(7,300,063)
Reverse repurchase agreements		-	90,000	(754,568)	(903,812)
Other assets		2,396,134	2,297,875	2,247,607	1,575,136
		(25,417,167)	14,108,337	(27,631,888)	4,482,986
<b>Increase/(decrease) in operating liabilities</b>					
Financial liabilities measured at amortised cost - due to depositors		158,515,740	8,992,084	160,540,508	15,566,180
Financial liabilities measured at amortised cost - other borrowings		5,763,038	6,837,511	4,946,372	7,170,750
Securities sold under repurchase agreements		(7,228,435)	859,696	(7,228,435)	859,696
Other liabilities		1,034,401	(391,694)	1,180,094	(261,256)
		158,084,744	16,297,597	159,438,539	23,335,370
<b>Net cash generated from operating activities before income tax</b>		<b>162,608,773</b>	<b>59,580,929</b>	<b>168,438,828</b>	<b>64,411,906</b>
Income tax paid		(3,202,642)	(9,084,423)	(3,665,332)	(9,587,000)
<b>Net cash generated from operating activities</b>		<b>159,406,131</b>	<b>50,496,506</b>	<b>164,773,496</b>	<b>54,824,906</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	37	(890,286)	(1,148,451)	(1,088,528)	(1,443,626)
Proceeds from the sale of property, plant and equipment		6,188	21,530	31,596	28,928
Net proceeds from sale, maturity and purchase of financial investments		(158,797,770)	(46,300,863)	(159,791,890)	(46,790,365)
Net purchase of intangible assets	39	(507,094)	(499,079)	(550,861)	(599,991)
Dividend received from joint venture	34	50,000	75,500	50,000	75,500
Dividends received from investment in subsidiaries		179,958	236,794	-	-
Dividends received from other investments		191,261	148,843	206,630	154,008
<b>Net cash used in investing activities</b>		<b>(159,767,743)</b>	<b>(47,465,726)</b>	<b>(161,143,053)</b>	<b>(48,575,546)</b>

For the year ended 31st December	Note	Bank		Group	
		2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Cash flows from financing activities</b>					
Net proceeds from the issue of subordinated debt		-	9,965,069	-	10,916,383
Repayment of subordinated debt/debt securities issued		-	(2,757,240)	(33,250)	(2,726,240)
Dividend paid to non controlling interests		-	-	(119,164)	(177,168)
Dividend paid to shareholders of the parent company		(2,206,558)	(1,981,500)	(2,206,559)	(1,981,500)
<b>Net cash (used in)/generated from financing activities</b>		<b>(2,206,558)</b>	<b>5,226,329</b>	<b>(2,358,973)</b>	<b>6,031,475</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,568,170)</b>	<b>8,257,109</b>	<b>1,271,470</b>	<b>12,280,835</b>
Cash and cash equivalents at the beginning of the year		36,691,732	28,434,623	45,753,921	33,473,086
<b>Cash and cash equivalents at the end of the year</b>		<b>34,123,562</b>	<b>36,691,732</b>	<b>47,025,391</b>	<b>45,753,921</b>
<b>Note [a] - Reconciliation of operating profit before changes in operating assets and liabilities</b>					
Profit before income tax		15,081,180	18,463,003	17,580,324	20,444,757
Amortisation of intangible assets	18 (b)	274,563	328,091	368,947	409,775
Amortisation of right of use assets	18 (b)	830,540	697,609	757,405	602,319
Accretion of interest on right of use assets	8 (b)	907,093	806,449	354,456	247,312
Accrual for interest payable		(1,904,371)	1,185,655	(416,917)	1,559,349
Accrual for interest receivable		(1,023,114)	(5,273,115)	(970,916)	(5,346,889)
Accrual for other payables		610,333	233,625	(244,554)	993,161
Accrual for other receivable		741,023	2,368,125	749,277	2,495,480
Debenture issue expenses	18	-	34,931	-	39,797
Depreciation of investment property	18 (b)	5,335	2,568	31,640	48,616
Depreciation of property, plant and equipment	18 (b)	1,248,888	1,217,846	1,679,081	1,641,618
Dividend income		(443,172)	(504,029)	(218,900)	(196,900)
Gain/(loss) on FCBU revaluation		(575,575)	108,476	(575,575)	108,476
Gain on disposal of property, plant and equipment	14	(5,495)	(19,805)	(9,326)	(24,605)
Impairment charge for loans and other losses	15	15,258,468	9,656,010	16,046,578	11,426,824
Increase in insurance contract liabilities - Life		-	-	2,604,167	2,212,180
Movement in general insurance reserve fund		-	-	437,733	346,322
Net gain arising on de-recognition of financial assets	13	(1,053,543)	-	(1,106,649)	(82,348)
Net capital gain/(loss) from financial assets measured at fair value through profit or loss		18,345	(76,142)	18,004	(75,230)
Net gain from marked to market valuation on financial assets measured at fair value through profit or loss		(29,302)	(3,541)	(45,383)	(18,819)
Notional tax credit and WHT credit		-	(50,761)	-	(50,761)
Share of profits of joint venture	20	-	-	(407,215)	(186,884)
		<b>29,941,196</b>	<b>29,174,995</b>	<b>36,632,177</b>	<b>36,593,550</b>
<b>Note [b] - Cash and cash equivalents at the end of the year</b>					
Cash and cash equivalents	25	34,123,562	29,089,189	34,898,957	30,263,654
Placements with banks	26	-	7,602,543	12,126,434	15,490,267
		<b>34,123,562</b>	<b>36,691,732</b>	<b>47,025,391</b>	<b>45,753,921</b>

The notes to the financial statements from page 158 to 330 form an integral part of these financial statements.

# Notes to the Financial Statements

## 1 REPORTING ENTITY

### 1.1 Corporate Information

Hatton National Bank PLC (the “Bank”) is a public quoted company incorporated on 5th March 1970 with limited liability and domiciled in Sri Lanka. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at No 479, T B Jayah Mawatha, Colombo 10. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The unsecured subordinated debentures of the bank are also listed on the Colombo Stock Exchange.

The Bank does not have an identifiable parent of its own. The Hatton National Bank PLC is the ultimate parent of the Group.

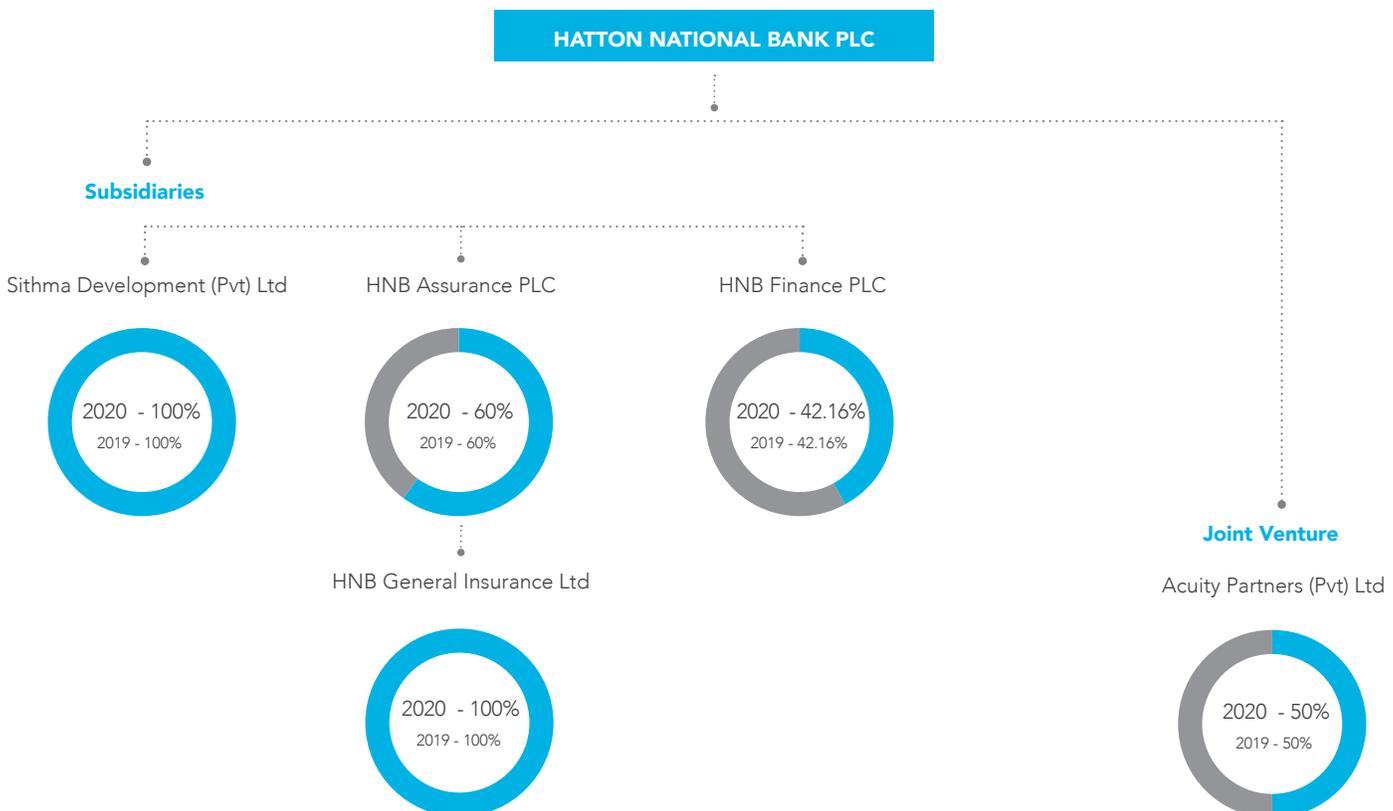
The staff strength of the Group and the Bank was as follows:

	2020	2019
Bank	4,836	4,912
Group	7,869	7,958

Corporate information is presented in page number 367 of this Annual Report.

### 1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st December 2020 include the Bank and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in its joint venture. The financial statements of all companies in the Group have a common financial year which ends on December 31st except for subsidiary, HNB Finance PLC and Lanka Ventures PLC, a subsidiary of Acuity Partners (Pvt) Limited, the joint venture, whose financial year end on March 31st.



### 1.3 Principal Activities and Nature of Operations

The principal activities of the group companies comprising of the subsidiaries and the joint venture company are summarised below.

Entity	Principal business activity
Hatton National Bank PLC	Banking and related activities such as deposit acceptance, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, leasing, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, dealing in government securities and treasury-related products, export and domestic factoring, pawning, margin trading, digital banking services, bancassurance and Islamic banking products and services etc.
<b>Subsidiaries</b>	
HNB Assurance PLC	<b>Life Insurance</b> Provides Life Insurance solutions for both individual and corporate customers. Life Insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration in exchange for premium payments made by the insured.
HNB General Insurance Ltd	<b>Non-Life Insurance</b> Provides General Insurance solutions for both individual and corporate customers. Insurance other than 'Life Insurance' falls under the category of General Insurance; Fire, Motor, Marine and Miscellaneous insurance are the main categories under General Insurance
Sithma Development (Pvt) Ltd	Construction and letting of premises for commercial purposes and related services
HNB Finance PLC	Provision of microfinance facilities, personal and business loans, leasing, housing loans, pawning etc. primarily focusing on the lower income segment of the community and mobilisation of public deposits

Entity	Principal business activity
<b>Joint Venture</b>	
Acuity Partners (Pvt) Ltd	Investment banking and related activities such as corporate finance, debt structuring, and IPO's and margin trading facilities.

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

## 2 BASIS OF ACCOUNTING

### 2.1 Basis of Preparation

#### 2.1.1 Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007, Banking Act No 30 of 1988, Insurance Industry Act No 43 of 2000 and Finance Business Act No 42 of 2011 and amendment thereto and provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange (CSE)

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirement of the SLFRSs and LKASs, regulations governing the preparation and presentation of financial statements.

Details of the Group's significant accounting policies followed during the year are given in notes 3 to 66 on pages 162 to 330.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also complied with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in circular No 2 of 2019 dated January, 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

#### 2.1.2 Responsibility for Financial Statements

The Board of Directors acknowledges their responsibility for financial statements as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", "Directors' Responsibility for Financial Reporting" and the certification on the statement of financial position on pages 102, 144 and 151 respectively.

#### 2.1.3 Approval of Financial Statements by Directors

The financial statements of the Group and the Bank were authorised for issue by the Board of Directors in accordance with the resolution of the directors on 19th February 2021.

## Notes to the Financial Statements

These financial statements include the following components:

- an income statement and statement of profit or loss and other comprehensive income providing the information on the financial performance of the group and the bank for the year under review. refer pages 149 and 150;
- a Statement of Financial Position (SOPF) providing the information on the financial position of the Group and the Bank as at the year end. Refer page 151;
- a statement of changes in equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 152 to 155;
- a statement of cash flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. Refer page 156 and 157;
- Notes to the financial statements comprising significant accounting policies and other explanatory information. Refer pages 158 to 330.

### 2.1.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently except for the following items in the statement of financial position.

Item	Basis of measurement	Note Reference	Page Reference
Derivative financial instruments	Fair value	29	235
Financial assets measured at fair value through profit or loss	Fair value	30	236
Financial assets measured at fair value through other comprehensive income	Fair value	33	259
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	37	274
Defined benefit obligations	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the fair value of the plan assets	53	304

Item	Basis of measurement	Note Reference	Page Reference
Insurance contract liabilities	Actuarially determined value of life insurance liability estimated based on actuarial guidelines issued by Insurance Regulatory Commissions of Sri Lanka (IRC SL)	49	298
Incurred but not reported/ incurred but not enough reported liability	Actuarially determined values based on internationally accepted actuarial policies and methodologies	50	300

### 2.1.5 Going Concern

The directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID 19 pandemic on the business operations and performance of the Group and the measures adopted by the government to mitigate the pandemic's spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2.1.6 Functional and Presentation Currency

The financial statements of the Group are presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which the Group operates (Group's functional currency). Each entity in the Group determines its own functional currency and items included in the financial statements of each individual entity are measured using that functional currency. There was no change in the Group's presentation and functional currency during the year under review.

### 2.1.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 61 to the financial statements.

No adjustments have been made for the inflationary factors affecting the financial statements.

### 2.1.8 Rounding

The amounts in the financial statements have been rounded-off to the nearest rupees thousands except where otherwise indicated, as permitted by the Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements".

### 2.1.9 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

### 2.1.10 Materiality and aggregation

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

### 2.1.11 Comparative Information

The comparative information has been reclassified where ever necessary to conform with the current year's classification in order to provide a better presentation.

## 2.2 Accounting Judgements, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Estimates and underlining assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgement/estimates involved.

### 2.2.1 Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### 2.2.2 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Significant Judgements	Note Reference	Page Reference
Establishing the criteria for determination of whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of Expected credit losses(ECL) and the selection and approval of models used to measure Expected Credit Loss (ECL).	31 (I)	247
Determination of control over investees	34, 35	264, 266
Classification of financial assets and assessment of the business model within which the assets are held	3.4.3	166
Classification of investment properties	36	270
Determination of fair value of financial instruments when there is no observable market data	6.2	205

## Notes to the Financial Statements

## 2.2.3 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ended 31st December 2020 is included in the following notes.

Significant assumptions and estimation uncertainties	Note Reference	Page Reference
Impairment of financial instruments: determination of inputs into the Expected Credit Loss (ECL) measurement model including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information	31 (b)	242
Measurement of the fair value of financial instruments with significant unobservable inputs	6.2	205
Measurement of defined benefit obligations: key actuarial assumptions	53 (b) vi	308
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used	40 (d)	293
Determination of the fair value of freehold land and buildings on the basis of significant unobservable inputs	37 (d)	284
Impairment testing for Cash Generating Units containing goodwill: key assumptions underlying recoverable amounts	3.5, 39	169, 289
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources	59	315
Useful life time of property, plant and equipment, investment properties and intangible assets	37, 36, 39	274, 269, 288
Valuation of Life Insurance contract liabilities of subsidiary, HNB Assurance PLC (HNBA)	49	298
Valuation of Non Life Insurance Contract Liabilities of subsidiary, HNB General Insurance Limited	50	300
Right-of-Use assets and operating lease liability	38	286

## 3. SIGNIFICANT ACCOUNTING POLICIES

## Application of Accounting Policies

The Group has consistently applied the accounting policies for all periods presented in the financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

Apart from the general accounting policies set out below, the specific accounting policies pertaining to each item in the financial statements have been presented within the respective notes to the financial statements. These significant accounting policies have been applied consistently to all periods presented in the financial statements of the Group, unless otherwise indicated. The accounting policies have been consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly. Further the changes in accounting policies due to adoption of new standards and interpretations have been presented in Note 3.6 to the financial statements.

Accounting policy	Note Reference	Page Reference
<b>Significant accounting policies – General</b>		
Basis of consolidation	3.1	163
Foreign currency	3.2	164
Financial instruments – Initial recognition, classification and subsequent measurement	3.3	164
<b>Significant accounting policies – Recognition of assets and liabilities</b>		
Investment in joint venture	34	264
Investment in Subsidiaries	35	266
Investment properties	36	269
Property, plant and equipment	37	274
Right-of-use assets	38	285
Intangible assets and goodwill	39	288
Due to banks	42	294
Securities sold under repurchase agreements	43	294
Financial liabilities measured at amortized cost – Due to depositors	44	295
Financial liabilities at amortized cost – Other borrowings	46	297
Debt securities issued	47	297
Subordinated term debts	52	303
Insurance provision – Life	49	298
Insurance provision – Non-life	50	300
Employee benefit obligations	53	304
Contingent liabilities and commitments	59	315
<b>Significant accounting policies – Recognition of income and expenses</b>		
Gross income	7	209
Net interest income	8	209
Net fee and commission income	9	212
Net losses from trading	10	213

Accounting policy	Note Reference	Page Reference
Net gain from financial investments at fair value through other comprehensive income	11	214
Net insurance premium income	12	214
Net gains arising on de-recognition of financial assets	13	215
Net other operating income	14	216
Impairment charge for loans and other losses	15	217
Personnel expenses	16	218
Benefits, claims and underwriting expenditure	17	219
Other expenses	18	221
Share of profit of joint venture	20	223
Income tax expenses	21	223

### 3.1 Basis of Consolidation

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU). The Group's financial statements comprise the consolidation of the financial statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its joint venture (equity method) in terms of the Sri Lanka Accounting Standard - SLFRS 11 on "Joint Arrangements".

#### 3.1.1 Business Combinations and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1st January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed

as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in income statement.

#### 3.1.2 Non-Controlling Interests (NCI)

The Details of non controlling interest are given in Note 58 to the financial statements

#### 3.1.3 Subsidiaries

The details of the Bank's subsidiaries, how they are accounted in the financial statements of the Bank and their contingencies are set out in Notes 35 and 59 on pages 266 and 316 to the financial statements.

#### 3.1.4 Joint venture

The details of joint venture the method of accounting for same in the financial statements of the investee, together with summarized financial position and the Group's share of contingent liabilities of such joint venture are set out in Notes 34 and 59 on pages 264 and 316 to the financial statements.

#### 3.1.5 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non controlling interests and other components of equity. Any resulting gain or loss is recognised in income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an associate or in accordance with the Group's accounting policy for financial instruments.

#### 3.1.6 Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Un-realised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Un-realised losses are eliminated in the same way as un-realised gains, except that those are only eliminated to the extent that there is no evidence of impairment.

## Notes to the Financial Statements

### 3.1.7 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

## 3.2 Foreign Currency

### 3.2.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Sri Lankan Rupees using the middle rates of exchange prevailing at that date. All differences arising on non-trading activities are taken to "other operating income" in the income statement as foreign exchange gain/(loss).

The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the middle rates of exchange prevailing at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of financial investments measured at fair value through other comprehensive income, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates on the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income (OCI):

- Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

### 3.2.2 Foreign currency translations

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the Bank's functional currency. The financial statements of the foreign currency banking unit is translated into the Group's presentation currency as explained below.

### 3.2.3 Transactions of the foreign currency banking unit

These are recorded in accordance with above, except the application of the closing exchange rate for translation of the income statement and the statement of profit or loss and other comprehensive income. Net gains and losses are dealt through the income statement.

## 3.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

### 3.3.1 Date of Recognition

All financial assets and liabilities with the exception of loans and advances to customers and balances due to customers are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trades mean purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the bank.

### 3.3.2 Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing instruments as described in Note 3.4 to the financial statements.

All financial instruments are measured initially at their fair value, except in the case of financial assets and financial liabilities measured at fair value through profit or loss.

Trade receivables are measured at transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the bank accounts for the 'Day 1' profit or loss, as described below.

#### 3.3.2 (a) "Day 1" Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is determined based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value derived is only recognised in the income statement when the inputs become observable, or when the instrument is de-recognised. The "Day 1 loss" arising

in the case of loans granted to the employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rate (EIR) in “interest Income” and “Personal Expenses” over the remaining service period of employees or tenure of the loan whichever is shorter.

### 3.4 Classification and Subsequent Measurement of Financial Assets

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

These assets are measured at either:

- Amortised cost, as explained in Note 31 and Note 32 to the financial statements.
- Fair Value through Other Comprehensive Income (FVOCI), as explained in Note 33 to the financial statements.
- Fair Value through Profit or Loss (FVPL) as explained in Note 30 to the financial statements.

The Group classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 29 and 30 to the financial statements. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 30 to the financial statements.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL. The financial liabilities are measured at FVPL when they are either derivative instruments, held for trading or the fair value designation is applied, as explained in Note 29 to the financial statements.

The subsequent measurement of financial assets depends on their classification.

#### 3.4.1 Business Model Assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking into account “worse case” or “stress case” scenarios. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### 3.4.2 Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of the financial assets to identify whether they meet the SPPI test.

For the purpose of this assessment, “principal” is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

“Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during the particular period of time and for other basic lending risks and costs, as well as profit margin.

When carrying out the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than “de minimis” exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

## Notes to the Financial Statements

## 3.4.3 Classification and Subsequent Measurement of Financial Assets

A summary of the recognition and measurement criteria pertaining to different types of financial assets recognised within the statement of financial position are as follows.

Financial asset classification	Criteria	Type of assets measured as per the specified asset classification	Note Reference
Financial assets measured at amortised cost	<p>A financial asset is measured at amortised cost if both of the following conditions are met and is not designated as at FVPL:</p> <ul style="list-style-type: none"> <li>The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and</li> <li>The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.</li> </ul>	Cash and cash equivalents	25
		Placements with banks	26
		Balances with Central Bank of Sri Lanka	27
		Reverse repurchase agreements	28
		Financial assets measured at amortised cost - loans and advances to customers	31
		Financial assets measured at amortised cost - debt and other instruments	32
Financial assets measured at fair value through other comprehensive income	<p>A debt instrument is measured at Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met:</p> <ul style="list-style-type: none"> <li>The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets</li> <li>The contractual terms of the financial asset meet the SPPI test</li> </ul> <p>Upon initial recognition, the Group elects to classify irrecoverably some of its equity investments held for strategic and statutory purposes as equity instruments measured at fair value through other comprehensive income.</p>	Financial assets measured at fair value through other comprehensive income	33
Financial assets measured at fair value through profit or loss	<p>A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on different basis.</p>	Derivative financial instruments	29
		Financial assets measured at fair value through profit or loss	30

### 3.4.4 Classification and Subsequent Measurement of Financial Liabilities

A summary of the recognition and measurement criteria pertaining to the different types of financial liabilities recognised within the statement of financial position are as follows

Financial liability classification	Criteria	Type of liabilities measured as per the specified liability classification	Note Reference
Financial liabilities measured at amortised cost	Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost	Due to banks	42
		Securities sold under repurchase agreements	43
		Financial liabilities measured at amortised cost - due to depositors	44
		Financial liabilities measured at amortised cost - other borrowings	46
		Debt securities issued	47
		Subordinated term debts	52
Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss include; - Financial liabilities held for trading and - Financial liabilities designated at fair value through profit or loss	Derivative financial instruments	29

#### Financial liabilities designated at fair value through profit or loss

Financial liabilities in this category are those that are not held for trading and have been either designated by the Group upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Group only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis or
- The liabilities are part of a group of financial liabilities, which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Changes in fair value are recorded in income statement with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through other comprehensive income and do not get recycled to the income statement. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the effective interest rate, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument.

### 3.4.5 Reclassifications of Financial Instruments

As per the requirement of SLFRS 9, the Group reclassifies its financial assets subsequent to the initial recognition when and only when the business model for managing such financial assets is changed. Such reclassifications are applied prospectively from the reclassification date. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

- If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in income statement.

## Notes to the Financial Statements

- If the reclassification takes place out of the fair value through profit or loss category into the amortised cost measurement category, its fair value at the reclassification date becomes the new gross carrying amount.
- If the reclassification takes place out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- The details of reclassification during the year has been disclosed in Note 33 to the financial statements.

### 3.4.6 De-recognition of Financial Instruments

#### 3.4.6 (a) *Derecognition due to substantial modification of terms and conditions*

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be a Purchased or Originated Credit Impaired (POCI) asset.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

#### 3.4.6 (b) *Derecognition other than for substantial modification*

##### 3.4.6 (b) (i) *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset

or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset

or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### 3.4.6 (b) (ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in income statement.

### 3.5 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in the income statement, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the extent of any previously recognised revaluation gains. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

## Notes to the Financial Statements

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.6 Changes in Accounting Policies and Disclosures

#### Definition of a business

The Group applied 'Definition of a Business' (Amendments to SLFRS 3) to business combinations whose dates of acquisition are on or after 1st January 2020 in assessing whether it had acquired a business or a group of assets.

The amendments do not have a material effect on the Group's financial statements because the Group has not acquired any subsidiaries during the year. However, the Group has amended its accounting policies for acquisitions on or after 1 January 2020.

While there are other amendments to the existing standards which are also effective from 1st January 2020, those do not have a material effect on the Group/separate financial statements.

## 4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new accounting standards and amendments/improvements to the existing standards were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). A number of new standards and amendments to standards are effective for annual periods beginning after 1st January 2020 and earlier application is permitted; however, the Group has not early adopted these new standards/amendments when preparing these consolidated financial statements.

### 4.1 Interest Rate Benchmark Reform (IBOR) (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)

IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Group. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate.

The standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost
- Additional relief for hedging relationships

The standard also amends a number of existing hedge accounting requirements that will assist the Group to maintain its existing hedge accounted relationships post IBOR transition. The Group will continue to record any ongoing hedge ineffectiveness, including that generated by changes as a result of interest rate reform, within the income statement.

On 15th January 2021, the CA Sri Lanka issued Interest Rate Benchmark Reform (Phase 1 and Phase 2) which is mandatory for application in respect of annual periods beginning on or after 1st January 2021.

The Group is in the process of assessing the impact of the new standard on its financial statements.

### 4.2 Sri Lanka Accounting Standard - SLFRS 17 "Insurance Contracts" effective from 1 January 2023 - Applicable for Subsidiary, HNB Assurance PLC (HNBA) and HNB General Insurance Ltd (HNBG)

SLFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a Contractual Service Margin (CSM) that is equal and opposite to any 'Day 1' gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

SLFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement. In order to transition to SLFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

SLFRS 17 is expected to have a significant impact on HNBA and HNBG, as the requirements of the new standard are complex

and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. HNBA and HNBG have assessment and an implementation programme underway to implement SLFRS 17 and SLFRS 9.

#### **4.3 Sri Lanka Accounting Standard - SLFRS 9 “Financial Instruments”**

##### **Temporary Exemption from SLFRS 9 for Subsidiary, HNB Assurance PLC**

SLFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1st January 2018. However, for an insurer that meets the criteria in paragraph 20B of SLFRS 9, it provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 rather than SLFRS 9 for annual periods beginning before 1st January 2023.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- (a) it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7 – 5.7.9, 7.2.14 and B5.7.5 – B5.7.20 of SLFRS 9; and
- (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1st April 2016, or at a subsequent annual reporting date as specified in paragraph 20G of SLFRS 9.

Since HNB Assurance PLC and HNB General Insurance Limited are predominantly connected with Insurance activities, having considering the above criteria, both the companies may continue to apply LKAS 39 rather than SLFRS 9 for annual periods beginning before 1st January 2023.

However, the financial statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing the consolidated financial statements.

#### **4.4 Other New Accounting Pronouncements**

The following amendments to the existing accounting standards which are expected to be effective after 1st January 2021 are not expected to have a significant impact on the group’s consolidated financial statements.

- Onerous Contracts – cost of Fulfilling a Contract (Amendments to LKAS 37).
- COVID-19-Related Rent Concessions (Amendment to SLFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Reference to Conceptual Framework (Amendments to SLFRS 3).

# Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT

This note presents information about the Bank/Group exposure to financial risks and the Bank/Group management of capital.

### 5.1 Introduction and Overview

Bank/Group has exposure to the following key risks from financial instruments:

- credit risk;
- liquidity risk;
- market risk and
- operational risks

The following chart provides a link between the Bank/Group business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank/Group as a whole and is measured based on allocation of the regulatory capital within the Bank/Group.

This note presents information about the Bank/Group exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

### 5.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board discharges its governance responsibility through seven board sub committees with oversight responsibility for risk management viz. Board Integrated Risk Management Committee (BIRMC), Board Audit Committee (BAC), Board Credit Committee (BCC), Board Strategic

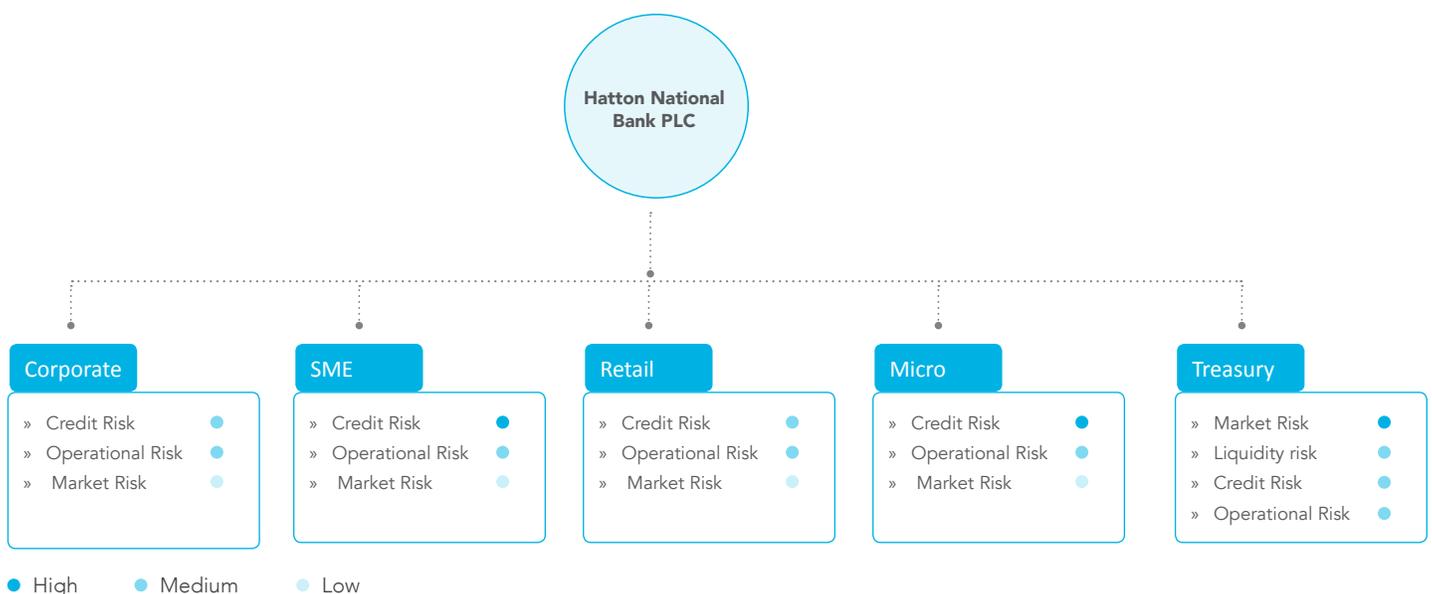
Investment Review Committee (BSIRC), Board Digital Banking Committee (BDBC), Board Procurement and Asset Disposal Committee and Board Recoveries Committee (BRC).

The BIRMC provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings performance, reputation and capital. The approach entails active monitoring of the level of risk exposure against the parameters set in the risk appetite and risk goals. The BCC and BRC also assists the Board by assessing significant credit and other transactions beyond the discretion of executive management.

Executive management committees, each with specialised focus, have been established to support the BIRMC and are responsible for the co-ordination of risk matters for each of the areas pertaining to risk management. Those are Executive Risk Management and Credit Policy Committee (ERMCP), Operational Risk Steering Committee, Asset and Liability Committee and IT Steering Committee.

The BAC provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board. Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.



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## 5.3 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and investments in debt securities.

In addition to loans, the Bank makes available to its customers, guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to risks similar to loans and are mitigated by the same control processes and policies.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, industry risk and geographical risk etc.). The methodology adopted by the Bank in determining the expected credit losses is detailed in Note 31 to the financial statements.

### COVID-19 consideration on credit risk

During the early stages of COVID - 19 pandemic, the Bank conducted an in-depth analysis on the probable industries which would get affected and the scale of impact it may have on Bank's lending portfolio. The spread of COVID - 19 in Sri Lanka stressed the importance of diversification of the Bank's loan book across a wide range of industries which in turn would ensure the resilience of the Bank in an economic shock of this nature. The Bank is comfortable with the existing composition of its loan book and continuous monitoring activities are being carried out to avoid accumulation of exposures to risky economic segments.

### 5.3.1 Settlement Risk

The bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of a customer or a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

## Notes to the Financial Statements

### 5 FINANCIAL RISK MANAGEMENT (Contd.)

#### 5.3.2 Management of Risk

Board Credit Committee has oversight responsibility for the management of credit. Risk Management Division (RMD) is a separate vertical independent of business units, established to assess the credit risk of credit proposals and submit independent observations to all approving authorities.

Other responsibilities of RMD are as follows:

- Formulating credit policies and guidelines in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.  
Formalize approval of such policies and guidelines from the Board of Directors upon clearance by relevant Board Sub-committees.
- Establishing the credit approval structure with delegated authority limits for the approval and renewal of credit facilities. The delegated authority limits are assigned to identified individuals. Larger credit facilities require approval by the Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk: credit risk unit of RMD assesses all credit exposures in excess of designated limits, before facilities are approved. Renewals of facilities are subject to the same review process.
- Setting the risk appetite for exposures to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank credit policies and guidelines, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of business units and credit processes are undertaken by Internal Audit Division.

#### 5.3.3 Credit Quality Analysis

##### 5.3.3 (a) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The general creditworthiness of customers tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Bank generally requests large borrowers to provide same. The Bank may take collateral in the form of a first charge over real estate and residential properties, floating charges over all corporate assets and other liens and guarantees.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions; cash or securities
- For corporate and small business lending; charges over real estate properties, inventory and trade receivables and in special circumstances, government guarantees
- For retail lending; mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. The Bank generally does not use non-cash collateral for its own operations.

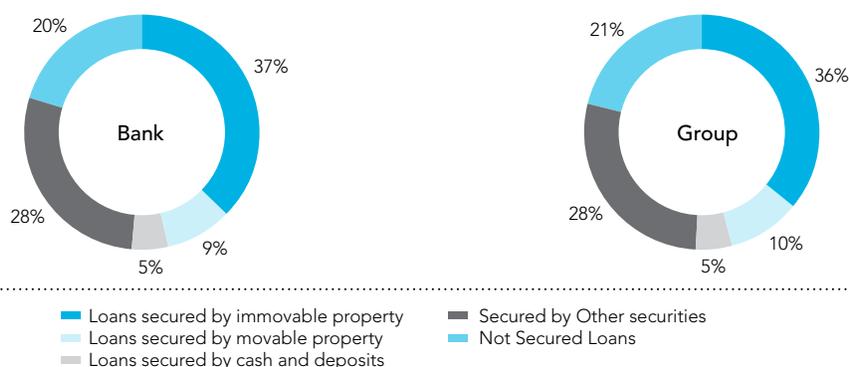
5.3.3 (b) Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk and net exposure to credit risk by class of financial assets.

Bank As at 31st December	2020		2019	
	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000
Balances with banks	7,775,703	7,775,703	1,198,942	1,198,942
Placements with banks	-	-	7,651,612	7,651,612
Derivative financial instruments	1,032,318	1,032,318	527,193	527,193
Financial assets measured at fair value through profit or loss	84,499	84,499	1,013,374	105,310
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	814,543,456	328,972,999	771,939,001	321,419,306
Financial assets measured at amortised cost - debt and other instruments	191,161,883	191,161,883	151,506,180	151,506,180
Financial assets measured at fair value through comprehensive income	249,271,658	8,390,563	127,694,982	36,819,953
Other assets	2,279,834	413,501	4,341,369	692,214
	1,266,149,351	537,831,466	1,065,872,653	519,920,710
Guarantees, letters of credit and acceptances	159,018,522	157,346,701	162,567,381	161,152,076

Group As at 31st December	2020		2019	
	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000
Balances with banks	8,418,731	8,418,731	2,138,174	2,138,174
Placements with banks	12,126,910	12,126,910	15,539,828	15,539,828
Reverse repurchase agreement	2,827,050	-	2,072,482	-
Derivative financial instruments	1,032,318	1,032,318	527,193	527,193
Financial assets measured at fair value through profit or loss	1,094,827	1,078,603	1,155,339	231,195
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	846,720,969	344,642,943	802,707,091	338,001,506
Financial assets measured at amortised cost - debt and other instruments	198,679,345	197,023,587	159,070,347	157,047,479
Financial assets measured at fair value through comprehensive income	256,404,418	8,393,218	133,953,117	36,832,383
Other assets	3,851,392	413,501	4,697,973	692,214
	1,331,155,960	573,129,811	1,121,861,544	551,009,972
Guarantees, letters of credit and acceptances	159,018,522	157,346,701	162,567,381	161,152,076

MAXIMUM EXPOSURE TO CREDIT RISK - LOANS AND ADVANCES TO CUSTOMERS



## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.3 (c) Maximum exposure to credit risk by risk rating

The following table sets out information about the credit quality of financial assets measured at amortised cost, measured at fair value through profit or loss, measured at fair value through other comprehensive income and contingent liabilities and commitments.

Bank	High Grade				Standard Grade				Sub-Standard Grade			
	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2020</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	2,251,619	-	-	26,611,235	4,859,453	-	-	-	418,831	-	-	-
Balances with Central Bank of Sri Lanka	7,212,395	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	686,979	-	-	-	313,511
Financial assets measured at fair value through profit or loss	-	-	-	3,539	-	-	-	-	-	-	-	-
Financial assets measured at amortised cost - loans and advances to customers (gross)*	55,737,818	36,781,153	5,709,305	-	153,226,239	36,910,188	9,227,376	-	65,529,534	54,833,234	13,183,625	-
Financial assets measured at amortised cost - debt and other instruments	189,207,757	-	-	-	1,343,100	-	-	-	-	-	72,694	-
Financial assets measured at fair value through other comprehensive income	245,059,017	-	-	3,742,102	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>499,468,606</b>	<b>36,781,153</b>	<b>5,709,305</b>	<b>30,356,876</b>	<b>159,428,792</b>	<b>36,910,188</b>	<b>9,227,376</b>	<b>686,979</b>	<b>65,948,365</b>	<b>54,833,234</b>	<b>13,256,319</b>	<b>313,511</b>
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	48,192,942	631,675	12,109	-	112,339,607	6,940,254	632,263	-	51,085,561	15,796,231	3,780,870	-
<b>As at 31st December 2019</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	1,102,636	-	-	27,895,043	96,306	-	-	-	-	-	-	-
Placements with banks	7,651,612	-	-	-	-	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	22,795,332	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	381,046	-	-	-	116,837	-	-	-	-
Financial assets measured at fair value through profit or loss	908,064	-	-	4,318	-	-	-	-	-	-	-	-
Financial assets measured at amortised cost - loans and advances to customers (gross)*	103,092,077	3,825,947	13,879,978	-	150,227,030	34,677,337	11,597,063	-	83,646,061	35,397,876	11,814,683	-
Financial assets measured at amortised cost - debt and other instruments	150,597,904	-	-	-	305,877	-	-	-	-	-	64,066	-
Financial assets measured at fair value through other comprehensive income	122,170,308	-	-	5,125,554	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>408,317,933</b>	<b>3,825,947</b>	<b>13,879,978</b>	<b>33,405,961</b>	<b>150,629,213</b>	<b>34,677,337</b>	<b>11,597,063</b>	<b>116,837</b>	<b>83,646,061</b>	<b>35,397,876</b>	<b>11,878,749</b>	<b>-</b>
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	52,494,465	643,238	8,753,775	12,952	111,995,044	12,852,705	1,488,787	253,418	46,043,399	8,096,308	159,311	64,912

\*Categorisation based on Bank's internal risk rating. Accordingly, AAA to AA- considered as "High grade", A+ to BBB- as "Standard grade", BB+ to B- as "Sub Standard grade", CCC+ and below as "Low grade".

	Low grade				Unrated				Exposures not Subject to Rating				Total	Note
	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
	-	-	-	-	-	-	-	-	-	-	-	-	34,141,138	25
	-	-	-	-	-	-	-	-	-	-	-	-	7,212,395	27
	-	-	-	-	-	-	-	31,828	-	-	-	-	1,032,318	29
	-	-	-	-	-	-	-	80,960	-	-	-	-	84,499	30
	22,166,952	20,523,746	19,257,403	-	222,757,122	54,913,221	14,973,097	-	27,461,644	666,710	685,089	-	814,543,456	31
	-	-	538,332	-	-	-	-	-	-	-	-	-	191,161,883	32
	-	-	-	-	-	-	-	470,539	-	-	-	-	249,271,658	33
	-	-	-	-	-	-	-	-	2,279,834	-	-	-	2,279,834	41
	22,166,952	20,523,746	19,795,735	-	222,757,122	54,913,221	14,973,097	583,327	29,741,478	666,710	685,089	-	1,299,727,181	
	9,731,516	1,568,445	1,307,690	-	246,105,502	966,456	199,650	-	20,625,166	-	-	-	519,915,937	5.3.5 (c)
	-	-	-	-	-	-	-	-	-	-	-	-	29,093,985	25
	-	-	-	-	-	-	-	-	-	-	-	-	7,651,612	26
	-	-	-	-	-	-	-	-	-	-	-	-	22,795,332	27
	-	-	-	-	-	-	-	8,028	-	-	-	21,282	527,193	29
	-	-	-	-	-	-	-	100,992	-	-	-	-	1,013,374	30
	25,921,662	18,144,848	7,973,066	-	202,568,741	31,222,212	13,260,545	-	23,501,338	717,031	471,506	-	771,939,001	31
	-	-	538,332	-	-	-	-	-	-	-	-	-	151,506,179	32
	-	-	-	-	-	-	-	399,120	-	-	-	-	127,694,982	33
	-	-	-	-	-	-	-	-	4,341,369	-	-	-	4,341,369	41
	25,921,662	18,144,848	8,511,398	-	202,568,741	31,222,212	13,260,545	508,140	27,842,707	717,031	471,506	21,282	1,116,563,027	
	48,098,457	2,884,789	1,648,514	-	225,471,470	1,106,871	289,494	617,603	18,711,926	-	-	-	541,687,438	5.3.5 (c)

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.3 (d) Financial assets measured at amortised cost - loans and advances to customers - Analysis of Stage 2 and Stage 3 loans

The tables below summarises the ageing of stage 2 and stage 3 loans, as follows:

Stage 2 - Loans less than 30 Days Past Due (DPD) and loans greater than 30 DPD irrespective of the criteria that triggered their classification into Stage 2.

Stage 3 - Loans less than 90 DPD and loans greater than 90 DPD, thus segregating the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria (eg: customer facilities which are classified as non performing advances in accordance with CBSL directions).

Bank As at 31st December 2020	Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than :						
30 DPD	165,975,601	4,303,425	-	-	165,975,601	4,303,425
90 DPD	-	-	28,204,992	10,298,735	28,204,992	10,298,735
More than :						
30 DPD	38,652,651	3,755,355	-	-	38,652,651	3,755,355
90 DPD	-	-	34,830,903	20,513,497	34,830,903	20,513,497
<b>Total</b>	<b>204,628,252</b>	<b>8,058,780</b>	<b>63,035,895</b>	<b>30,812,232</b>	<b>267,664,147</b>	<b>38,871,012</b>

Bank As at 31st December 2019	Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than :						
30 DPD	64,003,064	1,785,091	-	-	64,003,064	1,785,091
90 DPD	-	-	25,982,806	3,656,827	25,982,806	3,656,827
More than :						
30 DPD	59,982,187	3,042,238	-	-	59,982,187	3,042,238
90 DPD	-	-	33,014,035	18,342,094	33,014,035	18,342,094
<b>Total</b>	<b>123,985,251</b>	<b>4,827,329</b>	<b>58,996,841</b>	<b>21,998,921</b>	<b>182,982,092</b>	<b>26,826,250</b>

### 5.3.3 (e) Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation, but the counterparty fails to deliver the counter value.

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally collateralised.

As at 31st December 2020	Derivative Type							
	Forward		SWAP		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Derivative financial assets</b>								
By counterparty ;								
With banks	2,126,609	24,829	42,117,637	974,806	813,385	855	45,057,631	1,000,490
With other customers	2,253,648	31,828	-	-	-	-	2,253,648	31,828
<b>Total derivative financial assets</b>	<b>4,380,257</b>	<b>56,657</b>	<b>42,117,637</b>	<b>974,806</b>	<b>813,385</b>	<b>855</b>	<b>47,311,278</b>	<b>1,032,318</b>
<b>Derivative financial liabilities</b>								
By counterparty ;								
With banks	3,228,072	27,660	35,652,498	260,942	862,010	555	39,742,581	289,157
With other customers	4,999,206	47,857	-	-	-	-	4,999,206	47,857
<b>Total derivative financial liabilities</b>	<b>8,227,278</b>	<b>75,517</b>	<b>35,652,498</b>	<b>260,942</b>	<b>862,010</b>	<b>555</b>	<b>44,741,787</b>	<b>337,014</b>

### 5.3.3 (f) Rescheduled/restructured loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position, where the Bank has made concessions, by agreeing to terms and conditions that are more favourable to the borrower compared to the original contract. The Bank implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis in situations where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all the reasonable efforts to pay under the original contractual terms and they are expected to be able to meet the revised terms. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. Once the loan is rescheduled/restructured, it remains in this category during the curing period independent of satisfactory performance after restructuring. At the time of rescheduling the loan, the Bank determines the fair value of the loan and carrying value is brought down to reflect the fair value charging the difference if any, to the income statement under impairment for loans and other losses.

During the year ended 31st December 2020, the Bank rescheduled loans and advances with a carrying value of Rs 1,789 Mn (2019 - Rs 1,391 Mn) and recognised an impairment charge of Rs 232 Mn (2019 - impairment charge of Rs. 38.6 Mn) in the income statement.

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.4 Credit exposure and expected credit loss (ECL) provision movement - Stage wise

Bank - 2020	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL Gross carrying amount Rs 000	Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000
<b>Cash and cash equivalents</b>									
As at 1st January 2020	1,198,942	4,796	-	-	-	-	27,895,043	29,093,985	4,796
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	7,542,130	12,844	-	-	-	-	-	7,542,130	12,844
Financial assets derecognised or repaid (excluding write offs)	(965,369)	(64)	-	-	-	-	(1,529,608)	(2,494,977)	(64)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2020	7,775,703	17,576	-	-	-	-	26,365,435	34,141,138	17,576
<b>Placements with banks</b>									
As at 1st January 2020	7,651,612	49,069	-	-	-	-	-	7,651,612	49,069
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	-	-	-	-	-	-	-	-	-
Financial assets derecognised or repaid (excluding write offs)	(7,651,612)	(49,069)	-	-	-	-	-	(7,651,612)	(49,069)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2020	-	-	-	-	-	-	-	-	-
<b>Financial assets measured at amortised cost - debt and other instruments</b>									
As at 1st January 2020	150,903,782	1,182,947	-	-	602,398	602,398	-	151,506,179	1,785,345
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	107,317,304	3,346,779	-	-	8,628	8,628	-	107,325,932	3,355,406
Financial assets derecognised or repaid (excluding write offs)	(67,670,229)	(584,387)	-	-	-	-	-	(67,670,229)	(584,387)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2020	190,550,857	3,945,340	-	-	611,027	611,027	-	191,161,883	4,556,367

Bank - 2020	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000
<b>Financial assets measured at amortised cost</b>									
<b>- Loans and advances</b>									
As at 1st January 2020	588,956,909	3,343,679	123,985,432	4,827,329	58,996,845	21,998,921	-	771,939,186	30,169,929
Transfer to stage 1	14,656,548	737,122	(13,980,919)	(563,838)	(675,629)	(173,284)	-	-	-
Transfer to stage 2	(93,679,341)	(560,231)	106,200,936	1,013,318	(12,521,595)	(453,087)	-	-	-
Transfer to stage 3	(7,613,344)	(52,352)	(18,352,584)	(871,005)	25,965,928	923,357	-	-	-
New assets originated or purchased and effect of remeasurement	322,442,220	1,679,760	54,456,789	5,705,964	16,927,157	19,158,418	-	393,826,166	26,544,142
Financial assets derecognised or repaid (excluding write offs)	(277,883,683)	(2,056,254)	(47,681,402)	(2,052,988)	(24,964,157)	(9,949,438)	-	(350,529,242)	(14,058,680)
Write offs	-	-	-	-	(692,654)	(692,654)	-	(692,654)	(692,654)
<b>As at 31st December 2020</b>	<b>546,879,309</b>	<b>3,091,724</b>	<b>204,628,252</b>	<b>8,058,780</b>	<b>63,035,895</b>	<b>30,812,232</b>	<b>-</b>	<b>814,543,456</b>	<b>41,962,736</b>
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2020	122,170,308	259,065	-	-	-	-	5,524,674	127,694,982	259,065
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	150,011,642	-	-	-	-	-	71,419	150,083,061	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(27,122,934)	(150,378)	-	-	-	-	(1,383,451)	(28,506,385)	(150,378)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2020</b>	<b>245,059,016</b>	<b>108,687</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,212,642</b>	<b>249,271,658</b>	<b>108,687</b>
<b>Financial assets recognised through profit or loss measured at fair value</b>									
As at 1st January 2020	-	-	-	-	-	-	1,013,374	1,013,374	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	-	-	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	(928,875)	(928,875)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>84,499</b>	<b>84,499</b>	<b>-</b>

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.4 Credit exposure and expected credit loss (ECL) provision movement - Stage wise (Contd.)

Bank - 2019	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total		
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
<b>Cash and cash equivalents</b>										
As at 1st January 2019	2,288,914	3,818	-	-	-	-	22,856,794	25,145,708	3,818	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	316,089	1,851	-	-	-	-	5,038,249	5,354,338	1,851	
Financial assets derecognised or repaid (excluding write offs)	(1,406,061)	(873)	-	-	-	-	-	(1,406,061)	(873)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2019</b>	<b>1,198,942</b>	<b>4,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,895,043</b>	<b>29,093,985</b>	<b>4,796</b>	
<b>Placements with banks</b>										
As at 1st January 2019	3,292,870	137	-	-	-	-	-	3,292,870	137	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	7,651,612	49,069	-	-	-	-	-	7,651,612	49,069	
Financial assets derecognised or repaid (excluding write offs)	(3,292,870)	(137)	-	-	-	-	-	(3,292,870)	(137)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2019</b>	<b>7,651,612</b>	<b>49,069</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,651,612</b>	<b>49,069</b>	
<b>Reverse repurchase agreements</b>										
As at 1st January 2019	90,094	-	-	-	-	-	-	90,094	-	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	-	-	-	-	-	-	-	-	-	
Financial assets derecognised or repaid (excluding write offs)	(90,094)	-	-	-	-	-	-	(90,094)	-	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

Bank - 2019	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Financial assets measured at amortised cost - debt and other instruments</b>									
As at 1st January 2019	160,851,883	1,130,825	512,918	88,296	65,892	65,892	-	161,430,693	1,285,013
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	(512,918)	(88,296)	512,918	88,296	-	-	-
New assets originated or purchased and effect of remeasurement	190,109	99,969	-	-	25,414	450,036	-	215,523	550,005
Financial assets derecognised or repaid (excluding write offs)	(10,138,211)	(47,847)	-	-	(1,826)	(1,826)	-	(10,140,037)	(49,673)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2019</b>	<b>150,903,782</b>	<b>1,182,947</b>	<b>-</b>	<b>-</b>	<b>602,398</b>	<b>602,398</b>	<b>-</b>	<b>151,506,179</b>	<b>1,785,345</b>
<b>Financial assets measured at amortised cost - Loans and advances</b>									
As at 1st January 2019	632,978,301	3,336,650	104,308,752	3,714,854	34,405,572	15,592,301	-	771,692,625	22,643,805
Transfer to stage 1	17,804,757	830,289	(17,250,379)	(654,017)	(554,378)	(176,272)	-	-	-
Transfer to stage 2	(53,678,341)	(440,918)	55,344,849	829,436	(1,666,508)	(388,518)	-	-	-
Transfer to stage 3	(17,236,655)	(93,026)	(11,191,127)	(533,803)	28,427,782	626,829	-	-	-
New assets originated or purchased and effect of remeasurement	304,018,275	1,880,577	47,483,024	3,220,409	12,121,390	11,870,536	-	363,622,689	16,971,522
Financial assets derecognised or repaid (excluding write offs)	(294,929,428)	(2,169,894)	(54,709,868)	(1,749,550)	(13,373,857)	(5,162,795)	-	(363,013,153)	(9,082,239)
Write offs	-	-	-	-	(363,160)	(363,160)	-	(363,160)	(363,160)
<b>As at 31st December 2019</b>	<b>588,956,909</b>	<b>3,343,678</b>	<b>123,985,251</b>	<b>4,827,329</b>	<b>58,996,841</b>	<b>21,998,921</b>	<b>-</b>	<b>771,939,001</b>	<b>30,169,928</b>
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2019	64,818,694	-	-	-	-	-	4,618,295	69,436,989	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	82,809,668	259,065	-	-	-	-	1,148,629	83,958,297	259,065
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(25,458,054)	-	-	-	-	-	(242,250)	(25,700,304)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2019</b>	<b>122,170,309</b>	<b>259,065</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,524,674</b>	<b>127,694,982</b>	<b>259,065</b>

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.4 Credit exposure and expected credit loss (ECL) provision movement - Stage wise (Contd.)

Bank - 2019	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL Gross carrying amount Rs 000	Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000
Financial assets recognised through profit or loss measured at fair value									
As at 1st January 2019	-	-	-	-	-	-	100,343	100,343	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	913,957	913,957	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	(926)	(926)	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	-	-	-	-	-	-	1,013,374	1,013,374	-

## 5.3.4 (a) Sensitivity of factors used to determine impairment provisions

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses in relation to same could result in significant adjustments to the allowance for expected credit losses in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

As at 31st December 2020	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on income Statement Rs.000
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000	
Change in Property realisation period of individually significant impaired customers					
- Advanced by one year	-	-	677,202	677,202	677,202
- Deferred by one year	-	-	(737,166)	(737,166)	(737,166)
Change in Probability of Default (PD)					
- Increase existing PD by 10% across all age buckets	378,233	675,627	-	1,053,860	1,053,860
- Decrease existing PD by 10% across all age buckets	(378,233)	(675,627)	-	(1,053,860)	(1,053,860)
Change in Loss Given Default (LGD)					
- 1% increase	116,992	222,089	358,805	697,887	697,887
- 1% decrease	(116,992)	(222,089)	(358,805)	(697,887)	(697,887)
Change in deemed loss period					
- Deemed loss period increase by 1 year	(163,824)	(162,011)	(313,913)	(639,749)	(639,749)
- Deemed loss period decrease by 1 year	200,598	215,993	403,365	819,956	819,956
Change in Economic Factor Adjustment (EFA)					
Worse case 5% increase, best case 5% decrease, base case constant	(38,390)	(65,604)	-	(103,994)	(103,994)
Worse case 5% decrease, best case 5% increase, base case constant	38,390	65,367	-	103,757	103,757

### 5.3.5 Concentrations of Credit Risk

The Bank monitors concentration of credit risk by geographic location and by sector.

#### 5.3.5 (a) Significant foreign exposures

Gross and net carrying values of significant foreign lending are given below. All these loans have been considered as significant loans and analysed individually. When the Bank has identified objective evidence of impairment of these loans, future cash flows have been estimated giving due consideration for specific industry, country risk factors etc. and availability of collateral.

As at 31st December	Maldives		Cambodia	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Gross carrying value	18,780,545	16,083,762	3,378,754	3,664,095
Impairment allowance	(921,726)	(199,806)	(8,155)	(8,809)
Net carrying value	17,858,819	15,883,956	3,370,599	3,655,286

Total unutilised overdrafts approved to above customers as at 31st December 2020 amounts to Rs 402.72 Mn (2019 : Rs 64.12 Mn).

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.5 (b) Concentration by Sector

Bank	Agriculture and fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail	Information Technology and Communication Services
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2020</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	-	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	27,483	2,638	4	-	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	57,393,821	81,604,140	41,465,929	13,529,468	118,427,899	134,944,021	4,945,554
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
<b>Total</b>	<b>57,393,821</b>	<b>81,604,140</b>	<b>41,493,412</b>	<b>13,532,106</b>	<b>118,427,903</b>	<b>134,944,021</b>	<b>4,945,554</b>
<b>As at 31st December 2019</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	-	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	33,384	23,993	2,103	4	-	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	56,719,778	86,867,860	37,016,059	14,760,559	115,068,853	144,277,924	6,311,262
Financial assets measured at amortised cost - debt and other instruments	-	512,582	-	-	1,518,534	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
<b>Total</b>	<b>56,719,778</b>	<b>87,413,826</b>	<b>37,040,052</b>	<b>14,762,662</b>	<b>116,587,391</b>	<b>144,277,924</b>	<b>6,311,262</b>

	Financial Services	Professional, Scientific and Technical Services	Art, Entertainment and Recreation	Education	Health care, Social Services and Support Services	Consumption	Other	Lending to Overseas Entities	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	34,141,138	-	-	-	-	-	-	-	34,141,138
	-	-	-	-	-	-	-	-	-
	7,212,395	-	-	-	-	-	-	-	7,212,395
	1,032,318	-	-	-	-	-	-	-	1,032,318
	38,276	-	-	-	-	-	16,098	-	84,499
	92,483,415	6,683,693	242,267	2,007,442	3,087,780	6,330,410	233,204,098	18,193,520	814,543,456
	191,161,883	-	-	-	-	-	-	-	191,161,883
	249,271,658	-	-	-	-	-	-	-	249,271,658
	2,279,834	-	-	-	-	-	-	-	2,279,834
	577,620,917	6,683,693	242,267	2,007,442	3,087,780	6,330,410	233,220,195	18,193,520	1,299,727,181
	29,093,985	-	-	-	-	-	-	-	29,093,985
	7,651,612	-	-	-	-	-	-	-	7,651,612
	22,795,332	-	-	-	-	-	-	-	22,795,332
	527,193	-	-	-	-	-	-	-	527,193
	940,939	-	-	-	-	-	12,951	-	1,013,374
	92,255,433	3,234,355	185,361	1,734,858	2,309,620	6,762,268	187,085,098	17,349,713	771,939,001
	148,955,337	-	-	-	-	-	519,726	-	151,506,179
	127,694,982	-	-	-	-	-	-	-	127,694,982
	4,341,369	-	-	-	-	-	-	-	4,341,369
	444,256,182	3,234,355	185,361	1,734,858	2,309,620	6,762,268	187,617,775	17,349,713	1,116,563,027

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.5 (b) Concentration by Sector (Contd.)

Group	Agriculture and Fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail	Information Technology and Communication Services
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2020</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	-	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	27,483	2,638	4	-	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	67,646,910	87,457,274	41,531,714	13,686,538	118,756,492	139,525,229	4,945,554
Financial assets measured at amortised cost - debt and other instruments	-	376,870	-	-	-	82,499	148,112
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
<b>Total</b>	<b>67,646,910</b>	<b>87,834,144</b>	<b>41,559,197</b>	<b>13,689,176</b>	<b>118,756,496</b>	<b>139,607,728</b>	<b>5,093,666</b>
<b>As at 31st December 2019</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	-	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	69,371	23,993	2,103	9,511	-	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	63,159,806	93,829,855	37,081,512	14,930,822	115,359,800	149,677,954	6,311,262
Financial assets measured at amortised cost - debt and other instruments	-	554,465	-	-	1,645,366	126,509	245,657
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
<b>Total</b>	<b>63,159,806</b>	<b>94,453,691</b>	<b>37,105,505</b>	<b>14,932,925</b>	<b>117,014,677</b>	<b>149,804,463</b>	<b>6,556,919</b>

	Financial Services	Professional, Scientific and Technical Services	Art, Entertainment and Recreation	Education	Health care, Social Services and Support Services	Consumption	Other	Lending to Overseas Entities	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	34,916,558	-	-	-	-	-	-	-	34,916,558
	12,126,911	-	-	-	-	-	-	-	12,126,911
	7,212,395	-	-	-	-	-	-	-	7,212,395
	2,827,050	-	-	-	-	-	-	-	2,827,050
	1,032,318	-	-	-	-	-	-	-	1,032,318
	1,048,604	-	-	-	-	-	16,098	-	1,094,827
	93,390,256	6,772,038	242,267	2,007,442	13,030,825	6,330,410	233,204,500	18,193,520	846,720,969
	196,188,493	-	-	-	-	-	1,883,371	-	198,679,345
	256,394,644	-	-	-	-	-	-	-	256,394,644
	3,851,392	-	-	-	-	-	-	-	3,851,392
	608,988,621	6,772,038	242,267	2,007,442	13,030,825	6,330,410	235,103,969	18,193,520	1,364,856,409
	30,268,475	-	-	-	-	-	-	-	30,268,475
	15,539,829	-	-	-	-	-	-	-	15,539,829
	22,795,332	-	-	-	-	-	-	-	22,795,332
	2,072,482	-	-	-	-	-	-	-	2,072,482
	527,193	-	-	-	-	-	-	-	527,193
	1,028,936	-	-	-	-	-	21,425	-	1,155,339
	90,853,745	3,320,817	185,361	1,734,858	2,309,620	6,762,268	199,839,698	17,349,713	802,707,091
	152,636,944	-	-	-	766,116	-	3,095,290	-	159,070,347
	133,953,117	-	-	-	-	-	-	-	133,953,117
	4,697,973	-	-	-	-	-	-	-	4,697,973
	454,374,026	3,320,817	185,361	1,734,858	3,075,736	6,762,268	202,956,413	17,349,713	1,172,787,178

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.5 (c) Commitments and Guarantees

The Bank enters into various irrevocable commitments and assumes contingent liabilities in order to meet the financial needs of the customer. These obligations contain credit risk and form part of the overall risk of the Bank even though those are not recognised on the statement of financial position.

As at 31st December	2020 Rs 000	2019 Rs 000
Documentary credit	28,334,449	25,006,460
Guarantees	104,470,363	120,954,668
Acceptances	26,213,711	16,606,253
Commitment for unutilised facilities - Direct	152,404,973	156,159,365
Commitment for unutilised facilities - Indirect	208,492,441	222,960,692
<b>Total</b>	<b>519,915,937</b>	<b>541,687,438</b>

## 5.3.6 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

## 5.4 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its debt obligations associated with its financial liabilities due to lack of funds or having to meet these obligations at excessive cost.

## 5.4.1 Management of Liquidity Risk

The Bank manages liquidity risk, in accordance with regulatory guidelines and international best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and market access remains cost effective. A board approved liquidity policy to manage liquidity on a day-to-day basis along with a contingency funding plan to deal with crisis situations are in place. Contractual and behavioural maturity of assets and liabilities, key liquidity ratios and monthly liquidity forecasts and gaps are reviewed at Assets and Liability Committee (ALCO) meetings. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients, wholesale deposits and access to borrowed funds from the interbank money market. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. Liquidity risk exposure is managed by treasury with limits and triggers set to ensure that sufficient liquidity surplus and reserves are available to meet daily business requirements and also to deal with a sudden liquidity shock. Treasury reports the Bank's overall liquidity position to management on a daily basis.

Management has evaluated the possible impact from COVID – 19 on the Bank's operations and forecast cash flows and is of the view that the negative impacts from same would not pose any additional stress on the Bank's ability to maintain its regulatory capital margins which is well above the regulatory requirements. Further, the Bank has increased its liquidity buffers on a prudent basis and maintained a strong excess liquidity position.

## 5.4.2 Exposure to Liquidity Risk

The Bank monitors the following liquidity ratios to assess funding requirements.

As at 31st December	2020 Rs 000	2019 Rs 000
Net loans/total assets	59.86%	65.93%
Gross loans/customer deposits	84.16%	95.30%
Liquid Asset Ratio (LAR)		
As at 31st December	39.57%	29.55%
Average for the year	36.11%	27.33%
Maximum for the year	42.12%	24.84%
Minimum for the year	29.59%	30.69%

#### 5.4.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of undiscounted cash flows of the Bank's financial assets and liabilities as at 31st December. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

##### Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

As at 31st December 2020	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
<b>Bank</b>						
<b>Financial Assets</b>						
<i>Derivative assets</i>						
Derivative financial instruments held for risk management	789,470	242,848	-	-	-	1,032,318
<i>Non-derivative assets</i>						
Cash and cash equivalents	34,141,138	-	-	-	-	34,141,138
Balances with Central Bank of Sri Lanka	-	-	-	-	7,212,395	7,212,395
Financial assets measured at fair value through profit or loss	84,499	-	-	-	-	84,499
Financial assets measured at amortised cost - loans and advances to customers (gross)	306,531,646	214,132,231	241,463,432	119,669,721	82,906,545	964,703,575
Financial assets measured at amortised cost - debt and other instruments	13,394,885	47,563,565	92,919,891	50,684,256	28,312,817	232,875,414
Financial assets measured at fair value through other comprehensive income	66,160,747	159,486,010	17,151,647	9,824,014	9,729,032	262,351,450
Other assets	2,279,834	-	-	-	-	2,279,834
<b>Total undiscounted financial assets</b>	<b>423,382,219</b>	<b>421,424,654</b>	<b>351,534,970</b>	<b>180,177,991</b>	<b>128,160,789</b>	<b>1,504,680,623</b>
<b>Financial Liabilities</b>						
<i>Derivative liabilities</i>						
Derivative financial instruments held for risk management	203,210	133,804	-	-	-	337,014
<i>Non-derivative liabilities</i>						
Due to banks	27,829,267	56,469,670	3,918,357	3,160,729	187,450	91,565,473
Securities sold under repurchase agreements	10,176,790	192,797	-	-	-	10,369,587
Financial liabilities measured at amortised cost - due to depositors	607,295,210	339,313,894	32,824,675	9,477,508	-	988,911,287
Dividends payable	962,185	-	-	-	-	962,185
Financial liabilities measured at amortised cost - other borrowings	3,418,492	9,677,957	7,906,857	8,459,916	3,716,027	33,179,249
Financial liabilities at amortised cost - debt securities issued	-	167,000	2,334,001	90,715	-	2,591,716
Other liabilities	2,371,854	-	-	-	-	2,371,854
Subordinated term debts	8,295,371	6,298,280	8,407,795	5,589,668	9,111,341	37,702,455
<b>Total undiscounted financial liabilities</b>	<b>660,552,379</b>	<b>412,253,402</b>	<b>55,391,685</b>	<b>26,778,536</b>	<b>13,014,818</b>	<b>1,167,990,820</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(239,036,493)</b>	<b>9,171,252</b>	<b>296,143,285</b>	<b>153,399,455</b>	<b>115,145,971</b>	<b>334,823,470</b>

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.4.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (Contd.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

As at 31st December 2020	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Documentary credit	24,914,222	3,388,167	32,059	-	-	28,334,449
Guarantees	33,929,726	48,206,862	17,393,203	1,284,748	3,655,824	104,470,363
Acceptances	20,215,002	5,986,304	12,405	-	-	26,213,711
Commitment for unutilised facilities - Direct	152,404,972	-	-	-	-	152,404,973
Commitment for unutilised facilities - Indirect	208,492,440	-	-	-	-	208,492,441
	439,956,363	57,581,333	17,437,667	1,284,748	3,655,824	519,915,937

## Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

As at 31st December 2019	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Financial Assets</b>						
<b>Derivative assets</b>						
Derivative financial instruments held for risk management	375,109	152,084	-	-	-	527,193
<b>Non-derivative assets</b>						
Cash and cash equivalents	29,093,985	-	-	-	-	29,093,985
Placements with banks	6,630,303	1,100,548	-	-	-	7,730,851
Balances with Central Bank of Sri Lanka	-	-	-	-	22,795,332	22,795,332
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 (gross)	339,535,218	171,715,650	222,204,095	109,043,582	93,568,170	936,066,715
Financial assets measured at amortised cost - debt and other instruments	14,210,591	62,816,714	60,467,184	19,779,146	11,044,355	168,317,990
Financial assets measured at fair value through other comprehensive income	20,407,744	42,096,590	32,153,505	30,805,394	22,391,248	147,854,481
Other assets	4,341,369	-	-	-	-	4,341,369
<b>Total undiscounted financial assets</b>	<b>415,607,603</b>	<b>277,881,586</b>	<b>314,824,784</b>	<b>159,628,122</b>	<b>149,799,105</b>	<b>1,317,741,290</b>
<b>Financial Liabilities</b>						
<b>Derivative liabilities</b>						
Derivative financial instruments held for risk management	448,356	125,009	-	-	-	573,365
<b>Non-derivative liabilities</b>						
Due to banks	35,351,836	27,534,233	26,475,805	451,311	10,638	89,823,823
Securities sold under repurchase agreements	17,493,091	95,134	-	-	-	17,588,225
Financial liabilities measured at amortised cost - due to depositors	502,112,771	299,299,884	15,588,465	17,293,753	-	834,294,873
Dividends payable	1,449,472	-	-	-	-	1,449,472
Financial liabilities measured at amortised cost - other borrowers	9,461,239	3,725,776	9,638,644	1,291,293	421,456	24,538,408
Debt securities issued	-	167,001	334,001	2,257,716	-	2,758,718
Other liabilities	717,968	-	-	-	-	717,968
Operating lease liability	101,538	289,323	636,569	515,594	4,267,201	5,810,225
Subordinated term debts	789,658	7,049,878	17,211,061	10,346,144	10,145,252	45,541,993
<b>Total undiscounted financial liabilities</b>	<b>567,925,929</b>	<b>338,286,238</b>	<b>69,884,545</b>	<b>32,155,810</b>	<b>14,844,547</b>	<b>1,023,097,070</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(155,967,391)</b>	<b>(60,404,652)</b>	<b>244,940,239</b>	<b>127,472,311</b>	<b>134,954,558</b>	<b>290,995,065</b>

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

As at 31st December 2019	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Documentary credit	22,366,995	2,639,465	-	-	-	25,006,460
Guarantees	33,187,425	59,044,548	25,954,065	1,038,915	1,729,715	120,954,668
Acceptances	10,244,216	6,294,044	67,993	-	-	16,606,253
Commitment for unutilised facilities - Direct	156,159,365	-	-	-	-	156,159,365
Commitment for unutilised facilities - Indirect	222,960,692	-	-	-	-	222,960,692
	444,918,693	67,978,057	26,022,058	1,038,915	1,729,715	541,687,438

The amounts in the table above have been compiled as follows

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts and unrecognised loan commitments	In respect of issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately;

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.4.4 Liquidity reserves

Components of the Bank's liquid assets portfolio used for the purpose of calculating statutory liquid asset ratio as at 31st December 2020 (average balance for the month of December) is given below.

As at 31st December	2020 Rs 000	2019 Rs 000
Cash	22,991,556	23,252,595
Balances with licensed commercial banks	210,389	177,329
Money at call in Sri Lanka	10,990,548	6,122,903
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka which have a maturity not exceeding one year	379,992,038	245,054,521
Goods Receipts/Liquid assets permitted under extraordinary policy measures due to COVID-19	10,985,808	-
Export bills	1,645,313	1,955,229
Cash items in the process of collection	342,191	777,223
Balances with banks abroad	8,995,271	4,181,538
<b>Total average liquid assets for the month of December</b>	<b>436,153,114</b>	<b>281,521,338</b>

Monthly liquidity gap is reported to ALCO by Treasury for each currency, together with the overall gap position. Liquidity gap is based on the expected realisation of assets and liabilities which have been determined based on historical behaviour. Net liquidity position reported for the month is monitored against the pre-set limits which have been approved by the ALCO.

The Bank also holds debt and equity securities which are not considered as liquid assets but for which there is an active and liquid market. These assets can be readily sold to meet any unexpected liquidity requirements. Detailed analysis of the debt and equity securities held by the Bank as at 31st December 2020 is presented in Note 32 and 33 to the financial statements.

## 5.4.5 Financial assets available to support future funding

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities as at 31 December 2020 and 2019 is shown in the following tables.

As at 31st December 2020	Encumbered		Unencumbered		Total
	Pledged as collateral Rs. 000	Other Rs. 000	Available as collateral Rs. 000	Other Rs. 000	
Cash and cash equivalents	-	-	34,141,138	-	34,141,138
Balances with Central Banks	-	7,212,395	-	-	7,212,395
Derivative financial assets	-	-	-	1,032,318	1,032,318
Financial assets recognised through profit or loss measured at fair value	-	-	84,499	-	84,499
Financial assets measured at amortised cost					
- Loans and advances to other customers	-	-	814,543,456	-	814,543,456
Financial assets measured at amortised cost					
- Debt and other financial instruments	-	-	191,161,883	-	191,161,883
Financial assets measured at fair value through other comprehensive income	12,134,269	-	237,137,389	-	249,271,658
Other assets	-	-	-	2,279,834	2,279,834
<b>Total</b>	<b>12,134,269</b>	<b>7,212,395</b>	<b>1,277,068,365</b>	<b>3,312,152</b>	<b>1,299,730,181</b>

As at 31st December 2019	Encumbered		Unencumbered		Total Rs. 000
	Pledged as collateral	Other	Available as collateral	Other	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	
Cash and cash equivalents	-	-	29,093,985	-	29,093,985
Balances with Central Banks	-	22,795,332	-	-	22,795,332
Placements with banks	-	-	7,651,612	-	7,651,612
Derivative financial assets	-	-	-	527,193	527,193
Financial assets recognised through profit or loss measured at fair value	-	-	1,013,374	-	1,013,374
Financial assets measured at amortised cost					
- Loans and advances to other customers	-	-	771,939,001	-	771,939,001
Financial assets measured at amortised cost					
- Debt and other financial instruments	-	-	151,506,179	-	151,506,179
Financial assets measured at fair value through other comprehensive income	19,882,234	-	107,812,748	-	127,694,982
Other assets	-	-	-	4,341,369	4,341,369
<b>Total</b>	<b>19,882,234</b>	<b>22,795,332</b>	<b>1,069,016,899</b>	<b>4,868,562</b>	<b>1,116,563,027</b>

## 5.5 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's or issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Bank's solvency while optimising the return on risk.

Subsequent to the onset of COVID – 19 pandemic, close scrutiny takes place with regard to the impact of debt relief measures announced by Central Bank of Sri Lanka on the net interest income/net interest margins of the Bank.

### 5.5.1 Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. All foreign exchange positions within the Bank are treated as part of the Bank's trading portfolios for risk management purposes. Non trading portfolio is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

The Bank has a board approved treasury policy. Treasury middle office monitors the Bank's compliance with the above policy and ensures that the Bank's market risk limits are in line with the level of risk acceptable to the Board. The Bank employs a range of tools to monitor and limit market risk exposures which are discussed below.

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.5.1 Management of Market Risk (Contd.)

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

Market risk measure	Note	Carrying amount	Trading Portfolio	Non-Trading Portfolio
Rs 000				
<b>31 December 2020</b>				
<b>Assets subject to market risk</b>				
Cash and cash equivalents	25	34,141,138	-	34,141,138
Placements with banks	26	-	-	-
Derivatives financial assets	29	1,032,318	1,032,318	-
Financial assets measured at fair value through profit or loss	30	84,499	84,499	-
Financial assets measured at amortised cost	31			
- Loans to and receivables to customers		814,543,456	-	814,543,456
Financial assets measured at amortised cost - Debt and other instruments	32	191,161,883	-	191,161,883
Financial assets measured at fair value through other comprehensive income	33	249,271,658	-	249,271,658
<b>Total</b>		<b>1,290,234,952</b>	<b>1,116,817</b>	<b>1,289,118,135</b>
<b>Liabilities subject to market risk</b>				
Due to banks	42	89,746,709	-	89,746,709
Derivatives financial liabilities	29	337,014	337,014	-
Financial liabilities measured at amortised cost - due to depositors	44	967,821,404	-	967,821,404
Financial liabilities measured at amortised cost - other borrowings	46	30,526,261	-	30,526,261
Debt securities issued	47	1,875,042	-	1,875,042
Subordinated term debt	52	28,298,365	-	28,298,365
<b>Total</b>		<b>1,118,604,795</b>	<b>337,014</b>	<b>1,118,267,781</b>
<b>31 December 2019</b>				
<b>Assets subject to market risk</b>				
Cash and cash equivalents	25	29,093,985	-	29,093,985
Placements with banks	26	7,651,612	-	7,651,612
Derivatives financial assets	29	527,193	527,193	-
Financial assets measured at fair value through profit or loss	30	1,094,827	1,094,827	-
Financial assets measured at amortised cost	31			
- Loans to and receivables to customers		771,939,001	-	771,939,001
Financial assets measured at amortised cost - Debt and other instruments	32	151,506,179	-	151,506,179
Financial assets measured at fair value through other comprehensive income	33	127,694,982	-	127,694,982
<b>Total</b>		<b>1,089,507,779</b>	<b>1,622,020</b>	<b>1,087,885,759</b>
<b>Liabilities subject to market risk</b>				
Due to banks	42	86,396,304	-	86,396,304
Derivatives financial liabilities	29	573,365	573,365	-
Financial liabilities measured at amortised cost - due to depositors	44	810,035,114	-	810,035,114
Financial liabilities measured at amortised cost - other borrowings	46	22,604,039	-	22,604,039
Debt securities issued	47	1,797,644	-	1,797,644
Subordinated term debt	52	32,695,221	-	32,695,221
<b>Total</b>		<b>954,101,687</b>	<b>573,365</b>	<b>953,528,322</b>

## 5.5.2 Exposure to market risk - Trading portfolios

The principal tool used to measure and control market risk exposure within the Bank is Value at Risk (VaR). The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model is used mainly based on historical simulation by the Bank upon a 99 percent confidence level and assumes 1-day and a 10-day holding period. Taking account of market data from the previous two years and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- The 1-day and 10-day holding periods assumes that it is possible to hedge or dispose of positions within those periods. This may not be the case for illiquid assets or in situations in which there is severe general market liquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes, may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.
- The Bank uses VaR limits for foreign exchange and equity risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to portfolios. VaR is measured at least monthly and reported to the Asset and Liability Committee (ALCO) and Board Integrated Risk Management Committee (BIRMC).

The Bank's VaR models are subject to regular validation by Treasury Mid Office (TMO) to ensure that they continue to perform as expected and that assumptions used in model development are still appropriate.

A summary of the VaR position of the Bank as at 31st December and during the period is as follows:

As at 31st December	2020	2019
Marked-to-market value of the trading equity portfolio - Rs 000	84,499	105,310
Value-at-risk (under 99% confidence level for 10 day period)	10.10%	4.41%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a 10 day period - Rs 000	8,534	4,644

The limitations of the VaR model are mitigated by supplementing VaR limits with other risk measures. The Bank uses a wide range of stress tests to model the financial impact of various exceptional market scenarios such as changes in exchange rates, interest rates and prices of financial instruments such as equities and bonds. The results of the stress tests are reviewed periodically by the Asset and Liability Committee (ALCO) and Board Integrated Risk Management Committee (BIRMC).

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.5.3 Exposure to interest rate risk - Non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to changes in market interest rates. The Bank manages the interest rate risk against interest rate gap limits, which is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. Net interest yields are also calculated for each product, to ensure that adequate margins are maintained.

The Bank holds treasury bills and bonds with shorter maturities, thus the impact of interest rate changes in prices of treasury bills and bonds are very insignificant. Modified duration of both the trading and non-trading portfolios as at 31st December is given below.

As at 31st December	2020	2019
Trading	-	2,5704
Non trading	2,6623	2,909

Modified duration follows the concept that the interest rates and bond prices move in opposite directions. This determines the effect that a 100 basis point (1%) change in interest rates will have on the price of a bond.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates based on rate sensitive assets and rate sensitive liabilities as at 31st December 2020 is as follows.

	Decrease of 100 bps	Decrease of 200 bps	Increase of 100 bps	Increase of 200 bps
LKR Portfolio (Rs 000)	(3,887,179)	(7,998,479)	3,673,172	7,142,670
USD Portfolio (USD 000)	17,812	37,099	(16,468)	(31,710)

## 5.5.4 Exposure to currency risks - Non-trading portfolios

## Foreign exchange risk in Net Open Position (NOP)/unhedged position of Bank

The following table indicates the Bank's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2020, Bank carried a USD equivalent NOP/unhedged "Overbought" position of LKR 0.94 Bn. The impact of exchange rate risk is given below:

	2020	2019
Net exposure – USD equivalent	5,029,995	3,636,298
Value of position in Rs 000	945,387	659,443
Exchange rate (USD/LKR) as at 31 December	187.95	181.35
Possible potential loss to Bank		
– If exchange rate (USD/LKR) depreciates by 1% – Rs 000	9,454	6,594
– If exchange rate depreciates by 10% – Rs 000	94,539	65,944
– If exchange rate depreciates by 15% – Rs 000	141,808	98,916

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

## 5.6 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk in order to avoid financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. Bank's policy requires compliance with all applicable legal and regulatory requirements.

The following are included in the operational risk management process within the Bank.

- Monitoring of Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits.  
Development of Risk and Control Self-Assessments to identify the risk exposure of all processes.
- Operational risk incident reporting system and the independent analysis of the incidents by the integrated Risk Management Division (IRMD) and recognise necessary improvements in the systems, processes and procedures.
- Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the Operational Risk Steering Committee (ORSC) and the Board Integrated Risk Management Committee (BIRMC) meetings in an operational risk perspective.

The primary responsibility for the development of operational risk management framework and controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas

- Requirements for appropriate segregation of duties, including independent authorisation of transactions.
- Requirements for reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
- Requirements for reporting of operational losses and propose remedial action.
- Development of contingency plans.
- Training and professional development to establish ethics and business standards.
- Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Board Audit Committee and senior management.

## Notes to the Financial Statements

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.7 Capital Management

The Bank is required to manage its capital taking in to account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectation and available options for raising capital.

## 5.7.1 Regulatory capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by CBSL. The Bank is required to comply with the provisions of the Basel III framework in respect of regulatory capital and capital to cover any additional risk.

All banks in Sri Lanka need to maintain a minimum Common Equity Tier 1 ratio of 7%, Tier 1 ratio of 8.5% and a total capital ratio of 12.5%. In addition, the licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) shall maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1.

As per this requirement, the Bank should maintain a Common Equity Tier 1 ratio of 8% together with a Tier 1 ratio of 9.5% and a total capital ratio of 13.5% with effect from 31st December 2019.

However, subsequent to the extraordinary regulatory measures approved by the Monetary Board to assist affected parties due to COVID-19 outbreak, Domestic Systemically Important Banks (D-SIBs) are allowed to draw down Capital Conservation Buffers by 100 bps. Accordingly, the revised minimum Common Equity Tier 1 ratio of 7%, Tier 1 ratio of 8.5% and a total capital ratio of 12.5% is required to be maintained as at 31st December 2020.

As at 31st December	2020 Rs 000	2019 Rs 000
Common equity Tier 1 (CET1) capital after adjustments	117,243,040	115,072,496
<b>Total common equity Tier 1 (CET1) capital</b>	<b>121,925,658</b>	<b>118,734,417</b>
Equity capital (stated capital)/assigned capital	37,364,244	33,820,906
Reserve fund	7,660,000	7,060,000
Published retained earnings/(accumulated retained losses)	19,730,429	20,001,415
Published accumulated other comprehensive income (OCI)	(150,378)	-
General and other disclosed reserves	57,321,363	57,852,097
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to CET1 capital</b>	<b>4,682,618</b>	<b>3,661,921</b>
Goodwill (net)	-	-
Other intangible assets (net)	1,189,715	962,851
Revaluation losses of property, plant and equipment	-	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10% of the issued ordinary share capital of the entity	194,159	199,842
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,492,204	2,499,228
Deferred tax assets (net)	806,539	-
<b>Additional Tier 1 (AT1) capital after adjustments</b>	<b>-</b>	<b>-</b>
<b>Total additional Tier 1 (ATI) capital</b>	<b>-</b>	<b>-</b>
Qualifying additional Tier 1 capital instruments	-	-

As at 31st December	2020 Rs 000	2019 Rs 000
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to AT1 capital</b>	-	-
Investment in own shares	-	-
Others (Specify)	-	-
<b>Tier 2 Capital after adjustments</b>	<b>25,928,773</b>	<b>29,253,576</b>
<b>Total Tier 2 Capital</b>	<b>25,928,773</b>	<b>29,253,576</b>
Qualifying Tier 2 capital instruments	15,835,122	20,180,403
Revaluation gains	2,090,479	2,090,479
General provisions/Eligible impairment	8,003,173	6,982,695
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to Tier 2 capital</b>	-	-
Investment in own shares	-	-
Others (specify)	-	-
<b>CET1 capital</b>	<b>121,925,658</b>	<b>118,734,417</b>
<b>Total Tier 1 capital</b>	<b>117,243,040</b>	<b>115,072,496</b>
<b>Total capital</b>	<b>143,171,814</b>	<b>144,326,073</b>

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Total Risk Weighted Assets (RWA)</b>	<b>796,090,230</b>	<b>872,777,199</b>	<b>789,539,424</b>	<b>858,259,611</b>
RWAs for credit risk	724,293,579	781,917,200	725,747,553	778,470,491
RWAs for market risk	832,706	974,642	606,406	686,302
RWAs for operational risk	70,963,945	89,885,357	63,185,465	79,102,817
<b>Regulatory capital ratios (%)</b>				
Common equity Tier 1 Capital ratio	14.73%	14.99%	14.57%	14.74%
Tier 1 capital ratio	14.73%	14.99%	14.57%	14.74%
Total capital ratio	17.98%	18.02%	18.28%	18.12%

### 5.7.2 Capital allocation

Management monitors the capital adequacy ratio on a regular basis to ensure that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent is driven by optimisation of return on capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases, the regulatory requirements do not fully reflect the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required level by the regulator.

### 5.7.3 Pillar III disclosures as per Basel III

Disclosures under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III – Minimum disclosure requirements with effect from July 1, 2017.

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

### Accounting Policy

#### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence of which, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for government securities such as treasury bills and treasury bonds and listed equity securities. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

#### Fair Value Hierarchy

The Group measures the fair values of financial instruments using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1 : Fair value measurement using unadjusted quoted market prices**

When available, the fair values of financial instruments are determined using quoted market prices (unadjusted) in active markets for identical instruments. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Accordingly, the fair values of treasury bills and bonds have been derived using the market yields and market prices published by Central Bank of Sri Lanka while fair value of quoted equity securities and Sri Lanka Sovereign Bonds have been valued using the quoted market prices as at the reporting date.

- **Level 2 : Fair value measurement using significant observable inputs**

In the absence of an active market for a financial instrument, the fair value is determined using quoted market prices in active markets for similar instruments or quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. The spot and forward premiums available as at the reporting date have been used to estimate the fair value of derivative financial instruments while the fair value of unquoted units have been measured using manager's selling prices. The fair values of financial assets and financial liabilities carried at amortised cost have been estimated by comparing the interest rates when they were first recognised with the current market rates of similar instruments.

- **Level 3 : Fair value measurement using significant unobservable inputs**

Financial instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

#### **Assets and Liabilities Recorded at Fair Value**

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below, which incorporates the bank's estimate of assumptions that a market participant would make when valuing the instruments.

- **Derivative financial instruments**

Derivative financial instruments such as forward foreign exchange contracts and currency swaps are valued using a valuation technique with market observable inputs (Level 2). The most frequently applied valuation technique is forward pricing model which incorporates various inputs, including foreign exchange spot and forward premiums.

- **Financial assets measured at fair value through other comprehensive income (FVOCI)**

Government debt securities classified as financial assets measured at fair value through other comprehensive income are valued using current yield rates or market rates published by the Central Bank of Sri Lanka. Quoted equities and units classified as FVOCI are valued using quoted market prices in the active markets as at the reporting date (Level 1). Unquoted units classified as FVOCI are valued using manager's selling price. Unquoted shares classified as FVOCI are valued at cost.

- **Financial assets measured at fair value through profit or loss (FVPL)**

Government debt securities classified as financial assets measured at fair value through profit or loss are valued using yield curves published by the Central Bank of Sri Lanka, while quoted equities classified as financial investments recognised through profit or loss are valued using quoted market prices in active markets as at the reporting date (Level 1). Unquoted units classified as financial assets measured at fair value through profit or loss are valued using manager's selling price.

#### **Valuation framework**

Control framework has been established for the measurement of fair values. The determination of fair value is carried out independently from front office management and reports to the Chief Financial officer, with the overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include verification of observable pricing and analysis and investigation of significant daily valuation movements for government securities. When the assistance of third party experts is obtained to determine the fair values, the reasonability of such valuation results are validated and significant valuation issues are reported to the Board Audit Committee.

#### **Accounting Judgements, Estimates and Assumptions**

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, those are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is exercised to establish fair values.

#### **COVID 19 Considerations**

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

The majority of valuation models the Group uses employ only observable market data as inputs. This has not changed as a result of COVID-19, however the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, data that is not readily observable in current markets may be used. If unobservable market data is used, a higher degree of judgement is used to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compared with the observed transaction prices where available.

## Notes to the Financial Statements

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

## 6.1 Financial instruments measured at fair value and fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The amounts are based on the values recognised in the statement of financial position.

As at 31st December 2020	Bank				Group			
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
<b>Financial assets measured at fair value</b>								
<b>Derivative financial instruments</b>								
Currency swaps	-	974,806	-	974,806	-	974,806	-	974,806
Forward foreign exchange contracts	-	57,512	-	57,512	-	57,512	-	57,512
	-	1,032,318	-	1,032,318	-	1,032,318	-	1,032,318
<b>Financial assets measured at fair value through profit or loss</b>								
Quoted shares	84,499	-	-	84,499	235,909	-	-	235,909
Government Securities	-	-	-	-	16,224	-	-	16,224
Unquoted units	-	-	-	-	-	842,694	-	842,694
	84,499	-	-	84,499	252,133	842,694	-	1,094,827
<b>Financial assets measured at fair value through other comprehensive income</b>								
Quoted shares	3,742,102	-	-	3,742,102	3,742,102	-	-	3,742,102
Unquoted shares	-	-	27,839	27,839	-	-	30,494	30,494
Unquoted units	-	442,700	-	442,700	-	442,700	-	442,700
Government Securities	245,059,017	-	-	245,059,017	252,179,348	-	-	252,179,348
	248,801,119	442,700	27,839	249,271,658	255,921,450	442,700	30,494	256,394,644
<b>Financial liabilities measured at fair value</b>								
<b>Derivative financial instruments</b>								
Currency swaps	-	131,957	-	131,957	-	131,957	-	131,957
Forward foreign exchange contracts	-	205,057	-	205,057	-	205,057	-	205,057
	-	337,014	-	337,014	-	337,014	-	337,014

As at 31st December 2019	Bank				Group			
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
<b>Financial assets measured at fair value</b>								
<b>Derivative financial instruments</b>								
Currency swaps	-	401,259	-	401,259	-	401,259	-	401,259
Forward foreign exchange contracts	-	125,934	-	125,934	-	125,934	-	125,934
	-	527,193	-	527,193	-	527,193	-	527,193
<b>Financial assets measured at fair value through profit or loss</b>								
Quoted shares	105,310	-	-	105,310	231,195	-	-	231,195
Government Securities	908,064	-	-	908,064	924,144	-	-	924,144
	1,013,374	-	-	1,013,374	1,155,339	-	-	1,155,339
<b>Financial assets measured at fair value through other comprehensive income</b>								
Quoted shares	5,125,554	-	-	5,125,554	5,125,544	-	-	5,125,554
Unquoted shares	-	-	22,530	22,530	-	-	34,960	34,960
Unquoted units	-	376,590	-	376,590	-	376,590	-	376,590
Government Securities	122,170,308	-	-	122,170,308	128,416,013	-	-	128,416,013
	127,295,862	376,590	22,530	127,694,982	133,541,557	376,590	34,960	133,953,117
<b>Financial liabilities measured at fair value</b>								
<b>Derivative financial instruments</b>								
Currency swaps	-	407,282	-	407,282	-	407,282	-	407,282
Forward foreign exchange contracts	-	166,083	-	166,083	-	166,083	-	166,083
	-	573,365	-	573,365	-	573,365	-	573,365

## 6.2 Fair Value Measurement of Assets Classified as Level 3 and Level 2

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique
Unquoted equity shares	The majority of unquoted equity investments of the Group include share investments that have been made primarily for regulatory purposes. Such investments have been recorded at cost which is comparable to computed fair value.
Forward exchange contracts/Currency swaps	Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.
Unquoted units	Manager's selling prices

Further there are no material changes in the fair value of financial assets categorised under Level 3 compared to the values reported as at 31st December 2019. The Group has not changed the valuation models and assumptions used to measure the fair values of Level 3 financial instruments during the year ended 31st December 2020.

Further, there were no transfers from Level 1 to Level 2 or Level 2 to Level 1 in 2020 and no transfers in either direction in 2019. There were no transfers out of Level 3 in 2020 or 2019.

## Notes to the Financial Statements

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

## 6.3 Level 3 recurring fair values

## Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Bank		Equity securities		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	22,530	24,780	34,960	37,210		
Addition during the year	5,309	-	5,309	-		
Loss included in other comprehensive income	-	(2,250)	-	(2,250)		
Net change in fair value (unrealised)	-	-	(9,775)	-		
Balance as at 31st December	27,839	22,530	30,494	34,960		

## 6.4 Fair value of assets and liabilities not measured at fair value

The following table summarises the carrying amounts and the Group's estimate of fair values of those assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the asset or liability. For certain instruments, the fair value may be determined, using assumptions which are not observable in the market.

As at 31st December 2020	Bank					Group				
	Carrying Value Rs 000	Fair Value			Total	Carrying Value Rs 000	Fair Value			Total
		Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Rs 000		Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Rs 000
<b>Financial Assets</b>										
Cash and cash equivalents [Note 25]	34,123,562	-	34,123,562	-	34,123,562	34,898,957	-	34,898,957	-	34,898,957
Placements with banks [Note 26]	-	-	-	-	-	12,126,434	-	12,126,434	-	12,126,434
Balances with Central Bank of Sri Lanka [Note 27]	7,212,395	-	7,212,395	-	7,212,395	7,212,395	-	7,212,395	-	7,212,395
Reverse repurchase agreement [Note 28]	-	-	-	-	-	2,827,050	-	2,827,050	-	2,827,050
Financial assets at amortised cost - Loans and advances to customers [Note 31]	772,580,720	-	779,658,245	-	779,658,245	800,815,971	-	809,129,736	-	809,129,736
Financial assets at amortised cost - Debt and other financial instruments [Note 32]	186,605,516	85,006,457	71,807,181	-	156,813,638	193,349,496	86,677,526	77,564,609	-	164,242,135
Other financial assets	2,279,834	-	2,279,834	-	2,279,834	3,851,392	-	3,851,392	-	3,851,392
<b>Total financial assets measured at amortised cost</b>	<b>1,002,802,027</b>	<b>85,006,457</b>	<b>895,081,217</b>	<b>-</b>	<b>980,087,674</b>	<b>1,055,081,695</b>	<b>86,677,526</b>	<b>947,610,574</b>	<b>-</b>	<b>1,034,288,099</b>
<b>Financial Liabilities</b>										
Due to banks [Note 42]	89,746,709	-	89,746,709	-	89,746,709	89,746,709	-	89,746,709	-	89,746,709
Securities sold under repurchase agreements [Note 43]	10,361,383	-	10,361,383	-	10,361,383	10,361,383	-	10,361,383	-	10,361,383
Financial liabilities at amortised cost - due to depositors [Note 44]	967,821,404	-	969,378,444	-	969,378,444	994,948,912	-	997,913,620	-	997,913,620
Dividends payable [Note 45]	962,185	-	962,185	-	962,185	980,507	-	980,507	-	980,507
Financial liabilities at amortised cost - Other borrowings [Note 46]	30,526,261	-	30,526,261	-	30,526,261	30,526,261	-	30,526,261	-	30,526,261
Debt securities issued [Note 47]	1,875,042	-	2,158,836	-	2,158,836	2,411,408	-	2,690,447	-	2,690,447
Subordinated term debts [Note 52]	28,298,365	-	30,422,356	-	30,422,356	28,945,457	-	31,186,685	-	31,186,685
Other financial liabilities [Note 51]	2,377,854	-	2,377,854	-	2,377,854	4,652,548	-	4,652,548	-	4,652,548
<b>Total financial liabilities measured at amortised cost</b>	<b>1,131,969,203</b>	<b>-</b>	<b>1,135,934,028</b>	<b>-</b>	<b>1,135,934,028</b>	<b>1,162,573,185</b>	<b>-</b>	<b>1,168,058,160</b>	<b>-</b>	<b>1,168,058,160</b>

As at 31st December 2019	Bank					Group				
	Carrying Value Rs 000	Fair Value			Total Rs 000	Carrying Value Rs 000	Fair Value			Total Rs 000
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
		Rs 000	Rs 000	Rs 000			Rs 000	Rs 000	Rs 000	
<b>Financial Assets</b>										
Cash and cash equivalents [Note 25]	29,089,189	-	29,089,189	-	29,089,189	30,263,654	-	30,263,654	-	30,263,654
Placements with banks [Note 26]	7,602,543	-	7,602,543	-	7,602,543	15,490,267	-	15,490,267	-	15,490,267
Balances with Central Bank of Sri Lanka [Note 27]	22,795,332	-	22,795,332	-	22,795,332	22,795,332	-	22,795,332	-	22,795,332
Reverse repurchase agreement [Note 28]	-	-	-	-	-	2,072,482	-	2,072,482	-	2,072,482
Financial assets at amortised cost - Loans and advances to customers [Note 31]	741,769,073	-	745,297,554	-	745,297,554	769,392,169	-	773,283,903	-	773,283,903
Financial assets at amortised cost - Debt and other financial instruments [Note 32]	149,720,834	20,282,735	130,373,630	-	150,656,365	156,511,277	22,327,131	135,422,468	-	157,749,599
Other financial assets [Note 41]	4,341,369	-	4,341,369	-	4,341,369	4,697,973	-	4,697,973	-	4,697,973
<b>Total financial assets measured at amortised cost</b>	<b>955,318,340</b>	<b>20,282,735</b>	<b>939,499,617</b>	<b>-</b>	<b>959,782,352</b>	<b>1,001,223,154</b>	<b>22,327,131</b>	<b>984,026,079</b>	<b>-</b>	<b>1,006,353,210</b>
<b>Financial Liabilities</b>										
Due to banks [Note 42]	86,396,304	-	86,396,304	-	86,396,304	87,212,970	-	87,212,970	-	87,212,970
Securities sold under repurchase agreements [Note 43]	17,569,394	-	17,569,394	-	17,569,394	17,569,394	-	17,569,394	-	17,569,394
Financial liabilities at amortised cost - due to depositors [Note 44]	810,035,114	-	810,162,845	-	810,162,845	835,060,146	-	834,806,957	-	834,806,957
Dividends payable [Note 45]	1,449,472	-	1,449,472	-	1,449,472	1,466,959	-	1,466,959	-	1,466,959
Financial liabilities at amortised cost - Other borrowings [Note 46]	22,604,039	-	22,604,039	-	22,604,039	22,604,039	-	22,604,039	-	22,604,039
Debt securities issued [Note 47]	1,797,644	-	1,920,059	-	1,920,059	2,368,986	-	2,496,165	-	2,496,165
Subordinated term debts [Note 52]	32,695,221	-	33,772,622	-	33,772,622	33,345,904	-	34,413,453	-	34,413,453
Other financial liabilities [Note 51]	717,968	-	717,968	-	717,968	2,835,700	-	2,835,700	-	2,835,700
<b>Total financial liabilities measured at amortised cost</b>	<b>973,265,156</b>	<b>-</b>	<b>974,592,703</b>	<b>-</b>	<b>974,592,703</b>	<b>1,002,464,098</b>	<b>-</b>	<b>1,003,405,637</b>	<b>-</b>	<b>1,003,405,637</b>

## Notes to the Financial Statements

### 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

#### 6.4 Fair value of assets and liabilities not measured at fair value (Contd.)

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

##### Financial assets measured at amortised cost - loans and advances to customers

The loans and receivables to customers comprise of both fixed rate loans and floating rate loans. Majority of the floating rate loans can be re-priced either quarterly or semi-annually while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market rate. The carrying value of floating rate loans generally approximates the fair value due to the effect of re-pricing while the fair value of loans and receivables to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads.

The estimated fair value of loans and receivables with a residual maturity of more than one year, is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

##### Financial assets measured at amortised cost - debt and other instruments

These comprise of investments in Sri Lanka development bonds, Sri Lanka sovereign bonds, quoted and unquoted debentures.

Sri Lanka development bonds are variable rate instruments where the re-pricing happens semi-annually. Thus the carrying value of these bonds approximates to their fair value as at the reporting date. The fair values of Sri Lanka sovereign bonds are valued using quoted market prices while the fair value of unquoted debentures are estimated at the present value of future cash flows expected to be received from such investments calculated based on interest rates at the reporting date for similar instruments.

##### Financial liabilities measured at amortised cost - due to depositors

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year, approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year, is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

##### Debt securities issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

##### Subordinated term debts

The fair value of fixed rate subordinated debentures has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

The carrying values of assets and liabilities listed below are reasonable approximation of their fair values since, those are short term in nature or re-priced to current market rates frequently:

Assets	Liabilities
Cash and cash equivalents	Due to banks
Balances with Central Bank of Sri Lanka	Securities sold under repurchase agreements
Placements with banks	Other borrowings
Securities purchased under resale agreements	Dividends payable
Other assets	Other liabilities

## 7 GROSS INCOME

### Accounting Policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Interest income [Note 8 (a)]	103,944,602	115,210,769	112,825,455	124,888,717
Fee and commission income (Note 9)	7,794,929	9,206,399	8,399,641	10,333,772
Net loss from trading (Note 10)	(74,890)	(2,280,969)	(54,678)	(2,263,453)
Net gain from financial instruments measured at fair value through other comprehensive income (Note 11)	207,321	187,512	209,217	190,283
Net insurance premium income (Note 12)	-	-	8,907,731	8,365,756
Net gains arising on de-recognition of financial assets (Note 13)	1,053,543	-	1,106,649	82,348
Net other operating income (Note 14)	2,888,113	3,674,375	3,042,217	3,803,085
	115,813,618	125,998,086	134,436,232	145,400,508

## 8 NET INTEREST INCOME

### Accounting Policy

Interest income and expenses under SLFRS 9 is recorded using the effective interest rate method for all financial instruments measured at amortised cost and financial instruments designated at FVPL and FVOCI. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective interest rate. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. The calculation includes all fees and points received or paid between parties to the contract that are an integral part of effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Interest income [Note 8 (a)]	103,944,602	115,210,769	112,825,455	124,888,717
Interest expense [Note 8 (b)]	59,235,456	65,997,133	61,988,268	68,533,206
Net interest income	44,709,146	49,213,636	50,837,187	56,355,511

## Notes to the Financial Statements

## 8 NET INTEREST INCOME (Contd.)

## 8 (a) Interest income

**Accounting Policy**

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 31 (e) to the financial statements) and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 30 (e) to the financial statements) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross amortised cost basis.

Group ceases the recognition of interest income on assets which are collectively impaired, when it is probable that the economic benefit associated will not continue to flow to the Bank.

For Purchased or Originated Credit-Impaired (POCI) financial assets (as set out in Note 31 (c) to the financial statements), the Group calculates interest income by calculating the credit-adjusted effective interest rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective interest rate is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate "Net Trading Income" and "Net Gains/(losses) on Financial Assets at Fair Value through Profit or Loss", respectively.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Cash and cash equivalents	7,995	34,129	34,553	85,904
Securities purchased under resale agreements	979,152	168,807	1,093,581	258,155
Placements with banks	215,867	442,385	1,099,644	1,181,487
Interest income accrued on impaired financials assets	807,836	983,029	807,836	983,029
Financial assets measured at fair value through profit or loss	212,130	169,915	213,570	171,355
<b>Financial assets measured at amortised cost</b>				
- Loans and advances to customers	77,212,300	93,841,493	83,555,191	101,295,835
- Debt and other instruments	12,451,233	10,395,324	13,346,396	11,058,788
Financial assets measured at fair value through other comprehensive income	12,008,906	9,119,586	12,674,685	9,854,164
Other interest income	49,183	56,101	-	-
	<b>103,944,602</b>	<b>115,210,769</b>	<b>112,825,455</b>	<b>124,888,717</b>

Interest Income from loans and advances to customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government/Bank as a measure to support the recovery of businesses/customers affected by COVID 19 pandemic.

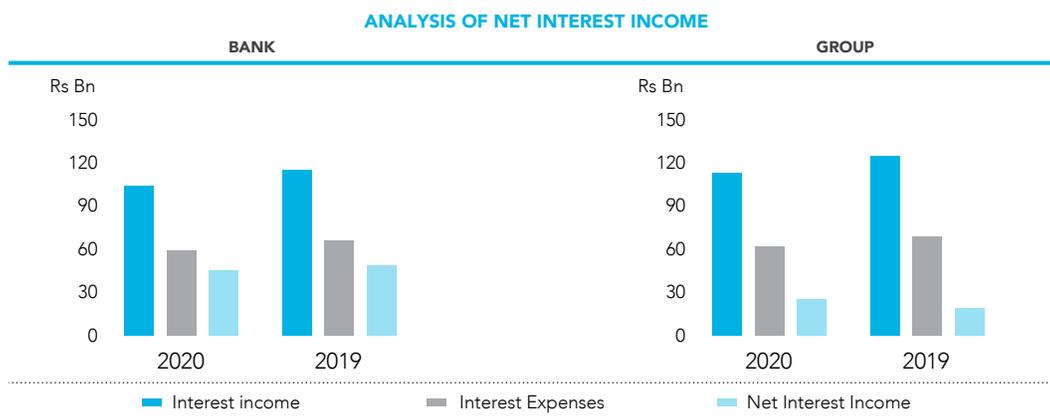
## 8 (b) Interest Expenses

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Securities sold under repurchase agreements	306,624	684,475	306,624	684,475
Due to banks	3,969,205	4,077,625	3,969,205	4,077,625
Due to depositors (deposits from customers)	49,393,285	55,922,791	52,471,093	58,870,222
Debt securities issued	244,418	439,027	281,883	432,227
Other borrowings	853,069	1,345,966	931,729	1,456,501
Subordinated term debts	3,561,099	2,701,366	3,672,615	2,745,410
Interest expense on lease liabilities [Note 38 (b)]	907,093	806,449	354,456	247,312
Other interest expenses	663	19,434	663	19,434
	59,235,456	65,997,133	61,988,268	68,533,206

## 8 (c) Net Interest Income from Sri Lanka Government Securities

Interest income and interest expenses on investment from Government Securities are summarized below.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Interest income</b>				
Financial assets recognised through profit or loss	212,130	169,915	212,130	169,915
Financial assets measured at amortized cost - Debt and other instruments	11,639,488	9,288,819	11,771,341	9,449,889
Financial assets measured at fair value through other comprehensive income	12,008,907	9,119,585	12,674,687	9,854,163
Securities purchased under resale agreements	979,152	168,807	1,093,242	258,154
<b>Less : Interest expenses</b>				
Securities sold under repurchase agreements	(306,623)	(684,475)	(306,623)	(684,475)
<b>Net interest income from Sri Lanka Government Securities</b>	<b>24,533,053</b>	<b>18,062,651</b>	<b>25,444,777</b>	<b>19,047,646</b>



## Notes to the Financial Statements

## 9 NET FEE AND COMMISSION INCOME

**Accounting Policy**

Fee and commission income and expense that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

If a loan commitment is not expected to result in the draw down of a loan, then the related loan commitment fee is recognised on a straight line basis over the commitment period.

Other fees and commission income are recognised as follows;

- Fee and commission income earned from services that are provided over a certain period of time are accrued over that period. Fees for guarantees and trade related commissions are recognised on a straight line basis over the period of contract.
- Fee and commission income from providing transaction services are recognised as and when the services are performed.

Other fees and commission expenses related mainly to transaction and service fees are expensed as the services are received.

A contract with a customer that results in a recognising a financial instrument in the Group's financial statements may be partially in the scope of Sri Lanka Accounting Standard - SLFRS 9 - "Financial Instruments" and partially within the scope of Sri Lanka Accounting Standard SLFRS 15 "Revenue from Contracts with Customers". In such a scenario, then the Group first applies SLFRS 9 to such separate contract and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Fee and commission income	7,794,929	9,206,399	8,399,641	10,333,772
Less: Fee and commission expenses	249,880	213,176	374,084	356,642
Net fee and commission income	7,545,049	8,993,223	8,025,557	9,977,130

## 9 (a) Performance Obligations and Revenue Recognition Policies

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking services	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates on a periodic basis.	Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of contract.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Servicing fees are charged on a monthly basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

## 9 (b) Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major types of services.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Loans	1,200,580	1,443,035	1,664,449	2,399,416
Cards	2,615,691	3,091,322	2,615,691	3,091,322
Trade and remittances	1,662,107	1,836,573	1,662,107	1,836,573
Deposits	595,560	989,690	595,560	989,690
Guarantees	914,874	1,056,974	914,874	1,056,974
Currency	28,858	72,893	28,858	72,893
Others	777,259	715,912	918,102	886,904
Gross fee and commission income	7,794,929	9,206,399	8,399,641	10,333,772

## 10 NET LOSSES FROM TRADING

### Accounting Policy

Results arising from trading activities include all gains and losses from unrealised fair value changes, related capital gains and losses, dividend income from financial assets held for trading and gains/(losses) from revaluation of derivative financial instruments.

Dividend income is recognised when the Group's right to receive the dividend is established.

Derivative financial instruments are fair valued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Financial assets - Held for trading				
Fixed income				
Net marked to market gain/(loss)	2,479	(2,476)	2,479	(2,164)
Net capital gain/(loss)	(19,582)	75,905	(19,582)	75,905
Equities				
Net marked to market gain	26,823	6,017	42,904	20,983
Net capital gain	1,237	237	1,578	(675)
Dividend income	5,893	3,466	9,683	6,616
Derivative financial instruments				
Gain/(loss) on revaluation of foreign currency derivatives				
- With banks	(75,711)	(2,366,685)	(75,711)	(2,366,685)
- With customers	(16,029)	2,567	(16,029)	2,567
	(74,890)	(2,280,969)	(54,678)	(2,263,453)

## Notes to the Financial Statements

## 11 NET GAIN FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

**Accounting Policy**

Net gain from financial investments includes dividend income from financial investments measured at fair value through other comprehensive income.

Dividend income is recognised when the Group's right to receive the dividend is established.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Equities</b>				
Dividend income	207,321	187,512	209,217	190,283
	207,321	187,512	209,217	190,283

## 12 NET INSURANCE PREMIUM INCOME

**Accounting Policy**

- Life Insurance Business

Gross written premium on life insurance contracts are recognised as revenue when a premium is due from a policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

- Non-life Insurance Business

Gross written premium on non-life insurance comprise the total premiums received/receivable for the whole period of cover provided by contracts entered into during the accounting period. Premium is generally recognised upon the inception of the policy as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

- Reinsurance Premiums

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

- Net Change in Reserve for Unearned Premium

Refer Note 50 to the financial statements for the accounting policy.

For the year ended 31st December	Group	
	2020 Rs 000	2019 Rs 000
Gross insurance premium income	10,379,966	9,834,853
Premium ceded to reinsurers	(1,307,978)	(1,312,881)
<b>Net written premium</b>	<b>9,071,988</b>	<b>8,521,972</b>
Net change in reserve for unearned premium	(164,257)	(156,216)
<b>Net insurance premium income</b>	<b>8,907,731</b>	<b>8,365,756</b>

**12 (a) Net Insurance Premium income**

For the year ended 31st December	Gross insurance premium income		Premium ceded to insures		Net insurance premium income	
	2020	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Life Insurance</b>						
Individual policies	5,422,151	5,120,471	139,368	123,442	5,282,783	4,997,029
Corporate policies	16,692	11,517	118,225	4,855	(101,533)	6,662
Single premium	-	-	7,571	112,677	(7,571)	(112,677)
<b>Gross written premium - life insurance</b>	<b>5,438,843</b>	<b>5,131,988</b>	<b>265,164</b>	<b>240,974</b>	<b>5,173,679</b>	<b>4,891,014</b>
<b>General Insurance</b>						
Fire	647,789	677,562	632,873	637,719	14,916	39,843
Motor	3,583,061	3,622,023	152,229	153,165	3,430,832	3,468,858
Marine	54,682	57,619	52,840	51,771	1,842	5,848
Miscellaneous	655,591	345,661	204,872	229,252	450,719	116,409
<b>Gross written premium - general insurance</b>	<b>4,941,123</b>	<b>4,702,865</b>	<b>1,042,814</b>	<b>1,071,907</b>	<b>3,898,309</b>	<b>3,630,958</b>
Net change in reserves for unearned premium	-	-	-	-	(164,257)	(156,216)
<b>Total</b>	<b>10,379,966</b>	<b>9,834,853</b>	<b>1,307,978</b>	<b>1,312,881</b>	<b>8,907,731</b>	<b>8,365,756</b>

**13 NET GAINS ARISING ON DE-RECOGNITION OF FINANCIAL ASSETS**
**Accounting Policy**

As per SLFRS 9 "Net gains arising on de-recognition of financial assets" comprises of all realised gains and losses relating to debt instruments measured at fair value through other comprehensive income and financial assets measured at amortised cost.

For the year ended 31st December	Bank		Group	
	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets measured at fair value through other comprehensive income - Government Securities				
Net capital gain	1,053,543	-	1,106,649	82,348
<b>Total</b>	<b>1,053,543</b>	<b>-</b>	<b>1,106,649</b>	<b>82,348</b>

## Notes to the Financial Statements

## 14 NET OTHER OPERATING INCOME

**Accounting Policy**

Other operating income includes rental income, dividend income from group entities, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

- Rental income  
Rental income is recognised on an accrual basis.
- Dividend income from subsidiaries and joint venture  
Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.
- Gains and losses on disposal of assets  
Net gains and losses arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are recognised in the income statement after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.
- Foreign exchange gain  
Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Auditorium hire income	686	964	686	964
Dividend income from subsidiaries and joint venture	229,958	313,051	-	-
Foreign exchange gain				
With banks	1,635,183	1,859,410	1,641,621	1,856,753
With customers	856,109	1,237,044	856,109	1,237,044
Gain on disposal of property, plant and equipment (net)	5,495	19,805	9,326	24,605
Rental income	12,235	13,489	178,241	197,600
Rental income from investment properties	63,455	57,242	158,372	126,451
Recovery of loans written off in prior years	69,821	108,169	76,040	120,951
Recovery of operational losses provided for in prior years	6,795	330	6,795	330
Miscellaneous	8,376	64,871	115,027	238,387
	<b>2,888,113</b>	<b>3,674,375</b>	<b>3,042,217</b>	<b>3,803,085</b>

Foreign exchange gain/(loss) represents both revaluation gain/(loss) on the Bank's net open position and gain/(loss) on foreign exchange contracts including the Bank's currency notes operation. Losses on revaluation of foreign currency derivatives amounting to Rs 92 Mn (2019 : loss of Rs 2,369 Mn) is reported under Note 10, 'Net gain/(loss) from trading' as required by the Sri Lanka Accounting Standard SLFRS 9 "Financial Instruments". Accordingly total exchange income of the Bank and the Group for the year ended 31st December 2020 amounted to Rs 2,399 Mn and Rs 2,406 Mn respectively (2019 : Bank Rs 732 Mn and Group Rs 730 Mn).

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES

### Accounting Policy

The Group recognises impairment provisions for financial assets in accordance with Sri Lanka Accounting Standard SLFRS 9 - "Financial Instruments". The accounting policy adopted in determining same is given in Note 31 (b) to the financial statements. These financial assets include cash and cash equivalents, placements with banks, financial assets measured at amortised cost - loans and advances to customers, debt and other financial instruments carried at amortised cost, debt instruments and financial assets carried at fair value through other comprehensive income and loan commitments and financial guarantee contracts. The methodology adopted for impairment assessment is explained in Note 31 (c) to the financial statements. Further, Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset. No impairment loss is recognised on equity investments.

The table below shows the expected credit loss charges on financial instruments and impairment charges on non financial assets recorded in the income statement:

### Bank

For the year ended 31st December	2020					2019				
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Other Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Other Rs. 000	Total Rs. 000
<b>Impairment charge/(reversal) on financial assets measured at amortised cost</b>										
- Cash and cash equivalents	12,780	-	-	-	12,780	978	-	-	-	978
- Placements with banks	(49,069)	-	-	-	(49,069)	48,932	-	-	-	48,932
- Loans and advances	(251,954)	3,231,451	9,381,709	-	12,361,206	7,028	1,112,475	6,801,030	-	7,920,533
- Debt instruments	2,762,393	-	8,628	-	2,771,021	52,122	-	448,211	-	500,333
<b>Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income</b>										
- Debt instruments	(150,378)	-	-	-	(150,378)	259,065	-	-	-	259,065
Loan commitments and financial guarantee contracts	(74,932)	54,777	94,687	-	74,532	38,923	(28,737)	849,604	-	859,790
Charge/(reversal) of impairment on property plant and equipment, intangible and prepayments	-	-	-	6,067	6,067	-	-	-	27,756	27,756
Other impairment charges	-	-	-	232,309	232,309	-	-	-	38,623	38,623
	2,248,840	3,286,228	9,485,024	238,376	15,258,468	407,048	1,083,738	8,098,845	66,379	9,656,010

## Notes to the Financial Statements

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

Group

For the year ended 31st December	2020					2019				
	Stage 1	Stage 2	Stage 3	Other	Total	Stage 1	Stage 2	Stage 3	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
- Cash and cash equivalents	12,755	-	-	-	12,755	1,001	-	-	-	1,001
- Placements with banks	(49,085)	-	-	-	(49,085)	49,142	-	-	-	49,142
- Loans and advances	(264,196)	3,074,259	10,348,410	-	13,158,473	50,811	1,269,463	8,095,724	-	9,415,998
- Debt instruments	2,762,151	-	8,628	-	2,770,779	52,078	-	703,831	-	755,909
Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income										
- Debt instruments	(150,378)	-	-	-	(150,378)	259,065	-	-	-	259,065
Loan commitments and financial guarantee contracts	(74,932)	54,777	94,687	-	74,532	38,923	(28,737)	849,604	-	859,790
Direct loan write offs	-	-	-	-	-	-	-	-	-	-
Charge/(reversal) of impairment on property plant and equipment, intangible and prepayments	-	-	-	6,067	6,067	-	-	-	27,756	27,756
Other impairment charges	11,381	-	-	212,054	223,435	-	-	-	58,163	58,163
	2,247,696	3,129,036	10,451,725	218,121	16,046,578	451,020	1,240,726	9,649,159	85,919	11,426,824

## 16 PERSONNEL EXPENSES

**Accounting Policy**

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount, as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations.

Defined benefit plan contributions and changes in the liabilities for EPF interest guarantee and accumulated leave are recognised in the income statement based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

The Group's net obligation to the pension fund, gratuity, EPF interest guarantee and unutilized accumulated annual leave is disclosed under Note 53 to the financial statements.

For the year ended 31st December	Bank		Group	
	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000
Salaries and bonus	9,129,024	9,428,111	11,176,379	11,650,292
Contributions to Employees' Provident Fund (EPF)	759,160	733,932	978,115	938,054
Contributions to Employees' Trust Fund (ETF)	189,790	183,483	244,316	234,298
Contribution to defined benefit plan [Note 16 (a)]	920,879	594,836	920,879	594,836
Increase in liability for EPF interest guarantee [Note 53 (c)]	2,347	10,122	2,347	10,122
Increase/(decrease) in liability for accumulated leave [Note 53 (d)]	(10,369)	10,515	(10,369)	10,515
Provision for gratuity [Note 53 (f)]	-	-	97,597	79,837
Others	468,521	483,260	494,168	507,586
	11,459,352	11,444,259	13,903,432	14,025,540

#### 16 (a) Contribution to Defined Benefit Plan

For the year ended 31st December	Bank		Group	
	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000
Current service cost [Note 53 (b) iii]	844,754	749,127	844,754	749,127
Net interest on defined benefit (asset)/liability [Note 53 (b) v]	76,125	(154,291)	76,125	(154,291)
	920,879	594,836	920,879	594,836

#### 17 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE

##### Accounting Policy

Benefits and claims for insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and are recorded net of recoveries from reinsurance on claims.

- **Benefits and claims paid - Life insurance**

Claims on accident, hospitalisation, death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

- **Benefits and claims paid - Non life insurance**

General insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

- **Reinsurance claims**

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

- **Underwriting and net acquisition cost**

Expenses for acquisition and maintenance of life and general insurance business are accounted for net of reinsurance commission on accrual basis. Reinsurance commission income is accrued according to the agreed terms with the reinsurers.

## Notes to the Financial Statements

## 17 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE (Contd.)

**Accounting Judgements, Estimates and Assumptions**

## Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned. Reinsurance commission is also treated in the same manner with deferred acquisition costs.

For the year ended 31st December	Group	
	2020	2019
	Rs 000	Rs 000
Net insurance benefits and claims paid [Note 17(a)]	3,398,239	3,524,768
Net change in insurance claims outstanding	160,402	96,007
Change in contract liabilities - life fund	2,580,781	2,182,371
Underwriting and net acquisition costs	1,235,446	1,288,068
	7,374,868	7,091,214

## 17 (a) Net insurance benefits and claims paid

For the Year Ended 31st December	Group					
	2020			2019		
	Gross Claims Paid Rs 000	Recovery from Reinsurers Rs 000	Net Claims Paid Rs 000	Gross Claims Paid Rs 000	Recovery from Reinsurers Rs 000	Net Claims Paid Rs 000
<b>Life Insurance</b>						
Claims - deaths, disability and hospitalisation	233,547	(92,500)	141,047	284,239	(122,682)	161,557
Surrenders	290,293	-	290,293	269,697	-	269,697
Annuity payments	13,574	-	13,574	13,888	-	13,888
Policy maturities	983,435	-	983,435	880,003	-	880,003
<b>Net life insurance claims</b>	<b>1,520,849</b>	<b>(92,500)</b>	<b>1,428,349</b>	<b>1,447,827</b>	<b>(122,682)</b>	<b>1,325,145</b>
<b>Non-life Insurance</b>						
Fire	282,914	(246,467)	36,447	186,121	(154,963)	31,158
Motor	1,694,429	(27,123)	1,667,306	2,021,607	(35,861)	1,985,746
Marine	15,361	(13,179)	2,182	44,420	(42,063)	2,357
Miscellaneous	290,778	(26,823)	263,955	221,480	(41,118)	180,362
<b>Net non-life insurance claims</b>	<b>2,283,482</b>	<b>(313,592)</b>	<b>1,969,890</b>	<b>2,473,628</b>	<b>(274,005)</b>	<b>2,199,623</b>
<b>Total net insurance benefits and claims paid</b>	<b>3,804,331</b>	<b>(406,092)</b>	<b>3,398,239</b>	<b>3,921,455</b>	<b>(396,687)</b>	<b>3,524,768</b>

## 18 OTHER EXPENSES

### Accounting Policy

Other operating expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement in arriving at the profit for the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Directors' emoluments	140,876	109,126	189,590	153,295
Advertising and related expenses	180,631	259,574	294,675	416,340
Auditors' remuneration [Note 18 (a)]	20,723	27,841	33,795	37,863
Business promotion and product expenses	516,258	789,594	516,258	789,594
Crop insurance levy	134,255	147,012	141,365	168,882
Debenture issue expenses	-	34,931	-	39,797
Deposit insurance premium	823,771	730,121	864,815	764,272
Depreciation and amortisation [Note 18 (b)]	2,359,326	2,246,114	2,837,073	2,702,328
Direct operating expenses on investment property	84	87	11,238	3,297
Donations	25,069	6,551	25,574	7,089
Legal expenses and professional fees	133,166	97,497	150,849	119,554
Office administration and establishment expenses	5,514,157	6,315,511	6,278,771	8,054,811
Operational risk event losses	30,899	179,908	30,899	179,908
Other overhead expenses	780,418	1,370,111	2,152,525	1,874,325
	10,659,633	12,313,978	13,527,427	15,311,355

### 18 (a) Auditors' Remuneration

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Audit fees and expenses	14,616	13,211	22,484	19,207
Audit related fee and expenses	3,661	2,703	5,817	3,897
Non-audit expenses	2,446	11,927	5,494	14,758
	20,723	27,841	33,795	37,863

## Notes to the Financial Statements

## 18 OTHER EXPENSES (Contd.)

## 18 (b) Depreciation and amortisation expenses

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Depreciation of investment property (Note 36)	5,335	2,568	31,640	48,616
Depreciation of property, plant and equipment (Note 37)	1,248,888	1,217,846	1,679,081	1,641,618
Amortisation of right-of-use assets (Note 38)	830,540	697,609	757,405	602,319
Amortisation of intangible assets (Note 39)	274,563	328,091	368,947	409,775
	2,359,326	2,246,114	2,837,073	2,702,328

## 19 TAXES ON FINANCIAL SERVICES

## (a) Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services

The base of the calculation of Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services is the value addition attributable to financial services which includes operating profit before VAT and NBT on financial services adjusted for emoluments of employees and economic depreciation.

VAT rate applied during 2020 was 15% (2019 - 15%). The NBT rate applied until 1st December 2019 was 2% which was abolished with effect from 1st December 2019.

## (b) Debt Repayment Levy (DRL)

In accordance with Section 36 of Finance Act No 35 of 2018, DRL was levied on every financial institution at the rate of 7% on the value addition attributable to financial services which includes profit or loss prior to deducting the tax payable under the said section, the value added tax payable under section 25A of the Value Added Tax Act, No. 14 of 2002 and the Nation Building Tax payable under paragraph (iii) of subsection (2) of the Nation Building Tax Act, No. 9 of 2009 and subject to economic depreciation, emoluments payable to all the employees. This Levy was imposed from October 2018 and same has been abolished from 1st January 2020.

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Debt Repayment Levy	-	2,586,825	-	2,782,541
Nation Building Tax on financial services	-	579,061	-	608,006
Value Added Tax on financial services	3,869,649	4,744,641	4,048,466	5,007,307
	3,869,649	7,910,527	4,048,466	8,397,854

## 20 SHARE OF PROFIT OF JOINT VENTURE (NET OF INCOME TAX)

### Accounting Policy

The policy adopted in accounting for joint venture investments are given in Note 34 to the financial statements.

The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

For the year ended 31st December	Group	
	2020 Rs 000	2019 Rs 000
Share of profit of joint venture before income tax	467,944	220,654
Income tax on share of operating results of joint venture [(charge)/reversal]	(60,729)	(33,770)
Share of profit of joint venture (net of income tax) [Note 34 (b)]	407,215	186,884

## 21 INCOME TAX EXPENSE

### Accounting Policy

As per Sri Lanka Accounting Standard - LKAS 12 on "Income taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the income statement, except to the extent it relates to items recognised directly in Other Comprehensive Income (OCI), in which case it is recognised in OCI. The Group applied IFRIC 23 "Uncertainty Over Income Tax Treatment" (IFRIC 23) in determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates with effect from 1st January 2019, when there is uncertainty over the income tax treatment. However, the application of IFRIC 23 did not have any significant impact on the financial statements of the Group to provide additional disclosures in the financial statements.

### Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date.

Current income tax relating to items recognised directly in equity, is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Management has used its judgement on the application of tax law including transfer pricing regulation involving identification of associated undertaking, estimation of respective arm's length prices and selection of appropriate pricing mechanism.

### Economic Service Charge (ESC)

ESC was payable at 0.50% on total liable turnover of the Bank until 31st December 2019, which was deductible from the income tax payable. ESC is abolished from 1st January 2020.

## 21 INCOME TAX EXPENSE (Contd.)

**Accounting Policy****Deferred Tax**

Deferred tax is provided on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes for all group entities.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carried forward can be utilised except;
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction, that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Un-recognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates, that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity are also recognised in equity, through other comprehensive income and not in the income statement deferred taxation.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the applicable Inland Revenue Act. In estimating the provision for taxation, the Group had applied the provisions of Inland Revenue Act No. 24 of 2017 and the amendments thereto.

**Withholding Tax on Dividend Distributed by Subsidiaries and Joint Venture Company**

Dividend distributed out of the taxable profit of the subsidiaries and joint venture company prior to 1st January 2020 suffered a 14% deduction at source and was not available for set off against the tax liability of the Bank. Thus the withholding tax deducted at source is added to the tax expense of the subsidiary companies, the and joint venture company in the Group financial statements as a consolidation adjustment. Withholding tax was abolished w.e.f 1st January 2020.

## Accounting Judgements, Estimates and Assumptions

### Current Taxation

The Group is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded and deferred tax amounts in the period in which the determination is made. Group has evaluated these uncertainties in terms of IFRIC 23.

### The applicable income tax rates are as follows

Hatton National Bank PLC	28%
HNB Assurance PLC and its subsidiary HNB General Insurance Ltd	28%
HNB Finance PLC	28%
Sithma Development (Pvt) Ltd	28%

The deferred tax liabilities/assets are disclosed under Note 40 to the financial statements.

## 21 (a) Current Income Tax Expense

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Current tax on profit for the year	5,745,249	6,285,880	6,307,827	6,841,562
Over provision in previous years	-	(986,526)	(4,439)	(990,418)
	5,745,249	5,299,354	6,303,388	5,851,144

## 21 (b) Deferred Tax Expense

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Recognition/(realisation) of deferred tax liability [Note 40 (a) i]	106,468	(261,906)	(415,571)	63,124
(Recognition)/realisation of deferred tax asset	(2,233,173)	(606,697)	(1,969,756)	(498,583)
	(2,126,705)	(868,603)	(2,385,327)	(435,459)
Total income tax expense [Note 21 (d)]	3,618,544	4,430,751	3,918,061	5,415,685
Effective tax rate	23.99%	24.00%	22.29%	26.49%
Effective tax rate (excluding deferred tax)	38.10%	28.70%	35.85%	28.62%

## Notes to the Financial Statements

## 21 INCOME TAX EXPENSE (Contd.)

## 21 (c) Current Tax on Profit for the year - Subsidiaries

For the year ended 31st December	Group	
	2020 Rs 000	2019 Rs 000
Sithma Development (Pvt)Ltd	219,072	205,627
HNB Assurance PLC	191,155	106,244
HNB Finance PLC	152,351	243,811
Total	562,578	555,682

## 21 (d) Reconciliation of Effective Tax Rate

For the year ended 31st December	Bank				Group			
	2020 %	Rs 000	2019 %	Rs 000	2020 %	Rs 000	2019 %	Rs 000
Profit before income tax		15,081,180		18,463,003		17,580,324		20,444,757
Tax using the corporate tax rate	28.00	4,222,729	28.00	5,169,641	28.00	4,922,491	28.00	5,724,532
Disallowable expenses	20.56	3,101,145	17.15	3,165,614	23.21	4,080,298	18.27	3,740,912
Tax effects on:								
Allowable expenses	(0.04)	(6,333)	(0.07)	(13,378)	(0.10)	(17,858)	(0.18)	(37,505)
Tax exempt income	(24.53)	(3,698,997)	(15.73)	(2,904,600)	(23.88)	(4,198,781)	(15.00)	(3,066,590)
Undistributable profits of subsidiaries and joint venture	-	-	-	-	(3.34)	(588,038)	1.64	334,694
Utilisation of previously recognised tax losses	-	-	-	-	(1.57)	(275,612)	(1.41)	(289,940)
	23.99	3,618,544	29.34	5,417,277	22.31	3,922,500	31.32	6,406,103
Over provision in prior years	-	-	(5.34)	(986,526)	(0.03)	(4,439)	(4.84)	(990,418)
Income tax expense [Note 21 (b)]	23.99	3,618,544	24.00	4,430,751	22.29	3,918,061	26.48	5,415,685

## 21 (e) Amounts Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Remeasurement of post-employment benefit obligations	-	-	2,102	(2,748)
Revaluation of freehold land and buildings	-	-	-	(63,175)
Net gains/(losses) on investments in government securities	61,588	(441,459)	54,565	(447,745)
	61,588	(441,459)	56,667	(513,668)

## 21 (f) Tax Losses Brought Forward and Utilised during the Year

	Group	
	2020 Rs 000	2019 Rs 000
Balance as at 1st January	3,573,832	4,611,983
Adjustment for brought forward tax losses	693	(2,646)
Tax losses utilised during the year	(984,328)	(1,035,505)
Balance as at 31st December	2,590,197	3,573,832

The details on tax losses unutilisation by the subsidiaries have been given in Note 40 (d) to the financial statements.

## 22 EARNINGS PER SHARE

### Accounting Policy

The Bank/Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as per Sri Lanka Accounting Standard - LKAS 33 on "Earnings per Share".

### 22 (a) Basic Earnings per Share

For the year ended 31st December	Bank		Group	
	2020	2019	2020	2019
<b>Amount used as the numerator</b>				
Profit attributable to equity holders of the Bank (Rs 000)	11,462,636	14,032,252	13,095,420	14,670,104
<b>Number of ordinary shares used as the denominator</b>				
Weighted average number of ordinary shares outstanding during the year used as the denominator for basic EPS (Rs '000) [Note 22 (c)]	511,976	511,976	511,976	511,976
<b>Basic earnings per ordinary share (Rs)</b>	<b>22.39</b>	<b>27.41</b>	<b>25.58</b>	<b>28.65</b>

### 22 (b) Diluted Earnings per Share

For the year ended 31st December	Bank		Group	
	2020	2019	2020	2019
<b>Amount used as the numerator</b>				
Profit attributable to equity holders of the Bank (Rs 000)	11,462,636	14,032,252	13,095,420	14,670,104
<b>Number of ordinary shares used as the denominator</b>				
Weighted average number of ordinary shares outstanding during the year used as the denominator for diluted EPS (Rs '000) [Note 22 (c)]	511,976	511,976	511,976	511,976
<b>Diluted earnings per ordinary share (Rs)</b>	<b>22.39</b>	<b>27.41</b>	<b>25.58</b>	<b>28.65</b>

### 22 (c) Weighted Average Number of Ordinary Shares Outstanding During the Year, Used as the Denominator for Basic and Diluted Earnings Per Share

	Bank/Group 2020 Rs 000
Number of shares in issue as at 1st January	500,407
Number of shares satisfied in the form of issue and allotment of new shares for final dividend 2019	11,569
<b>Weighted average number of ordinary shares as at 31st December</b>	<b>511,976</b>

## Notes to the Financial Statements

## 23 DIVIDENDS PAID AND PROPOSED

For the year ended 31st December	2020			2019		
	Gross Dividend	Dividend Tax	Net Dividend	Gross Dividend	Dividend Tax	Net Dividend
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Interim dividends paid</b>						
Rs 1.00 cash dividend per share declared for 2019 and paid in 2020	-	-	-	500,407	18,148	482,259
<b>Final dividends paid</b>						
Rs 3.50 scrip dividend per share declared in 2018 and paid in 2019	-	-	-	1,724,277	241,398	1,482,879
Rs 3.50 cash dividend per share declared in 2018 and paid in 2019	-	-	-	1,724,277	236,748	1,487,529
Rs 3.50 scrip dividend per share declared in 2019 and paid in 2020	1,751,424	-	1,751,424	-	-	-
Rs 3.50 cash dividend per share declared in 2019 and paid in 2020	1,751,424	-	1,751,424	-	-	-

## 23 (a) Proposed Dividends

The Directors recommend that a final dividend of Rs. 8.00 per share by way of Rs. 4.50 per share, cash and Rs. 3.50 per share, scrip dividend (2019: Rs. 3.50 per share, cash and Rs. 3.50 per share, scrip) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2020.

The final dividend is to be approved at the Annual General Meeting to be held on 30th March 2021. In accordance with Sri Lanka Accounting Standard – LKAS 10 on “Events after the reporting period”, this final dividend has not been recognised as a liability as at 31st December 2020. Final dividend proposed amounts to Rs 4,096 Mn (2019 final dividend : Rs 3,503 Mn).

## 23 (b) Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 19th, 2021 has been audited by external auditor, Messrs. KPMG.

## 24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" under headings of the statement of financial position are summarised below.

### 24 (a) Analysis of Financial Instruments by Measurement Basis - Bank

As at 31st December 2020	Fair Value through Profit or Loss  Rs 000	Amortised Cost  Rs 000	Fair Value through Other Comprehensive Income  Rs 000	Total Carrying Amount  Rs 000
<b>Assets</b>				
Cash and cash equivalents	-	34,123,562	-	34,123,562
Balances with Central Bank of Sri Lanka	-	7,212,395	-	7,212,395
Reverse repurchase agreements	-	-	-	-
Derivative financial instruments	1,032,318	-	-	1,032,318
Financial assets measured at fair value through profit or loss	84,499	-	-	84,499
Financial assets measured at amortised cost - loans and advances to customers	-	772,580,720	-	772,580,720
Financial assets measured at amortised cost - debt and other instruments	-	186,605,516	-	186,605,516
Financial assets measured at fair value through other comprehensive income	-	-	249,271,658	249,271,658
Other financial assets	-	2,279,834	-	2,279,834
<b>Total financial assets</b>	<b>1,116,817</b>	<b>1,002,802,027</b>	<b>249,271,658</b>	<b>1,253,190,502</b>
<b>Liabilities</b>				
Due to banks	-	89,746,709	-	89,746,709
Derivative financial instruments	337,014	-	-	337,014
Securities sold under repurchase agreements	-	10,361,383	-	10,361,383
Financial liabilities measured at amortised cost - due to depositors	-	967,821,404	-	967,821,404
Dividends payable	-	962,185	-	962,185
Financial liabilities measured at amortised cost - other borrowings	-	30,526,261	-	30,526,261
Debt securities issued	-	1,875,042	-	1,875,042
Other financial liabilities	-	2,377,854	-	2,377,854
Subordinated term debts	-	28,298,365	-	28,298,365
<b>Total financial liabilities</b>	<b>337,014</b>	<b>1,131,969,203</b>	<b>-</b>	<b>1,132,306,217</b>

## Notes to the Financial Statements

## 24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

## 24 (a) Analysis of Financial Instruments by Measurement Basis - Bank (Contd.)

As at 31st December 2019	Fair Value through Profit or Loss  Rs 000	Amortised Cost  Rs 000	Fair Value through Other Comprehensive Income  Rs 000	Total Carrying Amount  Rs 000
<b>Assets</b>				
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	-	4,341,369	-	4,341,369
<b>Total financial assets</b>	<b>1,540,567</b>	<b>955,318,340</b>	<b>127,694,982</b>	<b>1,084,553,889</b>
<b>Liabilities</b>				
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
<b>Total financial liabilities</b>	<b>573,365</b>	<b>973,265,156</b>	<b>-</b>	<b>973,838,521</b>

**24 (b) Analysis of Financial Instruments by Measurement Basis - Group**

As at 31st December 2020	Fair Value through Profit or Loss  Rs 000	Amortised Cost  Rs 000	Fair Value through Other Comprehensive Income  Rs 000	Total Carrying Amount  Rs 000
<b>Assets</b>				
Cash and cash equivalents	-	34,898,957	-	34,898,957
Placements with banks	-	12,126,434	-	12,126,434
Balances with Central Bank of Sri Lanka	-	7,212,395	-	7,212,395
Reverse repurchase agreements	-	2,827,050	-	2,827,050
Derivative financial instruments	1,032,318	-	-	1,032,318
Financial assets measured at fair value through profit or loss	1,094,827	-	-	1,094,827
Financial assets measured at amortised cost - loans and advances to customers	-	800,815,971	-	800,815,971
Financial assets measured at amortised cost - debt and other instruments	-	193,349,496	-	193,349,496
Financial assets measured at fair value through other comprehensive income	-	-	256,394,644	256,394,644
Other financial assets	-	3,851,392	-	3,851,392
<b>Total financial assets</b>	<b>2,127,145</b>	<b>1,055,081,695</b>	<b>256,394,644</b>	<b>1,313,603,484</b>
<b>Liabilities</b>				
Due to banks	-	89,746,709	-	89,746,709
Derivative financial instruments	337,014	-	-	337,014
Securities sold under repurchase agreements	-	10,361,383	-	10,361,383
Financial liabilities measured at amortised cost - due to depositors	-	994,948,912	-	994,948,912
Dividends payable	-	980,507	-	980,507
Financial liabilities measured at amortised cost - other borrowings	-	30,526,261	-	30,526,261
Debt securities issued	-	2,411,408	-	2,411,408
Other financial liabilities	-	4,652,548	-	4,652,548
Subordinated term debts	-	28,945,457	-	28,945,457
<b>Total financial liabilities</b>	<b>337,014</b>	<b>1,162,573,185</b>	<b>-</b>	<b>1,162,910,199</b>

## Notes to the Financial Statements

## 24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

## 24 (b) Analysis of Financial Instruments by Measurement Basis - Group (Contd.)

As at 31st December 2019	Fair Value through Profit or Loss  Rs 000	Amortised Cost  Rs 000	Fair Value through Other Comprehensive Income  Rs 000	Total Carrying Amount  Rs 000
<b>Assets</b>				
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	-	4,697,973	-	4,697,973
<b>Total financial assets</b>	<b>1,682,532</b>	<b>1,001,223,154</b>	<b>133,953,117</b>	<b>1,136,858,803</b>
<b>Liabilities</b>				
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
<b>Total financial liabilities</b>	<b>573,365</b>	<b>1,002,464,098</b>	<b>-</b>	<b>1,003,037,463</b>

## 25 CASH AND CASH EQUIVALENTS

### Accounting Policy

Cash and cash equivalents include cash in hand and balances with banks. These are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short term commitments. These are brought to the financial statements at the face values or gross values. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Local currency in hand	25,849,903	26,681,669	25,982,296	26,916,927
Foreign currency in hand	515,532	1,213,374	515,532	1,213,374
Balances with banks	7,775,703	1,198,942	8,418,705	2,138,174
	34,141,138	29,093,985	34,916,533	30,268,475
Less : Allowance for impairment losses [Note 25 (a)]	(17,576)	(4,796)	(17,576)	(4,821)
	34,123,562	29,089,189	34,898,957	30,263,654

All cash and cash equivalent balances held by the group entities were available for use by the Group.

### 25 (a) Movement in Impairment during the year

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	4,796	3,818	4,821	3,820
Net impairment charge during the year	12,780	978	12,755	1,001
Balance as at 31st December	17,576	4,796	17,576	4,821

## 26 PLACEMENTS WITH BANKS

### Accounting Policy

Placements with banks include money at call and short notice and fixed deposits that are subject to an insignificant risk of changes in the fair value, and are used by the Group and the Bank in the management of its short term commitments. These are brought to the financial statements at the face values or gross values. Placements with banks are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Placements - within Sri Lanka	-	5,874,310	12,126,911	13,762,527
Placements - outside Sri Lanka	-	1,777,302	-	1,777,302
	-	7,651,612	12,126,911	15,539,829
Less : Allowance for impairment losses [Note 26 (a)]	-	(49,069)	(477)	(49,562)
	-	7,602,543	12,126,434	15,490,267

## Notes to the Financial Statements

## 26 PLACEMENTS WITH BANKS (Contd.)

## 26 (a) Movement in Impairment during the year

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	49,069	137	49,562	420
Net impairment (reversal)/charge during the year	(49,069)	48,932	(49,085)	49,142
Balance as at 31st December	-	49,069	477	49,562

## 27 BALANCES WITH CENTRAL BANK OF SRI LANKA

Balances with Central Bank of Sri Lanka represent the cash balance that is required to be maintained as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liabilities was 2% as at 31st December 2020 (2019 : 5%).

There is no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit (FCBU) and foreign currency deposit liabilities in the Domestic Banking Unit (DBU).

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Statutory balance with Central Bank of Sri Lanka	7,212,395	22,795,332	7,212,395	22,795,332
	7,212,395	22,795,332	7,212,395	22,795,332

## 28 REVERSE REPURCHASE AGREEMENTS

**Accounting Policy**

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within "reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

As at 31st December	Group	
	2020 Rs 000	2019 Rs 000
Securities purchased under reverse repurchase agreements		
With customers	2,827,050	2,072,482
Total	2,827,050	2,072,482

## 29 DERIVATIVE FINANCIAL INSTRUMENTS

### Accounting Policy

The accounting policy pertaining to derivative financial instruments has been given in Note 3.3 and 3.4 to the financial statements.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the income statement under "Net gain/(loss) from trading", (Note 10). Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined using the forward market rates ruling on the reporting date.

### Accounting Judgements, Estimates and Assumptions

Judgement is required when the Bank/Group selects the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

As at 31st December	Bank/Group			
	2020		2019	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
<b>Currency swaps</b>				
Sales	31,217	139,927	11,368	4,876
Purchases	943,589	121,015	389,891	402,406
	974,806	260,942	401,259	407,282
<b>Forward foreign exchange contracts</b>				
Sales	29,893	69,115	106,862	152,430
Purchases	27,619	6,957	19,072	13,653
	57,512	76,072	125,934	166,083
<b>Total</b>	<b>1,032,318</b>	<b>337,014</b>	<b>527,193</b>	<b>573,365</b>

## Notes to the Financial Statements

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

**Accounting Policy**

The accounting policy pertaining to financial assets measured at fair value through profit or loss has been given in Note 3.3 and 3.4 to the financial statements.

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

**Financial assets held for trading**

The Group classifies financial assets as held for trading in the following circumstances.

- Those have been purchased or acquired primarily for short-term profit making through trading activities; or
- Those form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking

Financial assets held for trading are measured and recorded at fair value are recorded and measured in the statement of financial position. Changes in fair value are recognised in "net gain/(loss) from trading" (Note 10). Interest income is recorded in "Interest income" and dividend income is recorded in "net gain/(loss) from trading" (Note 10) according to the terms of the contract, or when the right to receive the payment has been established.

Financial assets held for trading include instruments such as government securities, equity instruments etc. that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets measured at fair value through profit or loss include all financial assets other than those classified as fair value through other comprehensive income and financial assets measured at amortised cost.

**Financial assets designated at fair value through profit or loss**

The Group has not designated any financial asset at fair value through profit or loss

**Accounting Judgements, Estimates and Assumptions**

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices.

As at 31st December	2020 Fair Value Rs 000	2019 Fair Value Rs 000
Quoted shares - Bank [Note 30 (a)]	84,499	105,310
Government of Sri Lanka treasury bills [Note 30 (b)]	-	360
Government of Sri Lanka treasury bonds [Note 30 (c)]	-	907,704
<b>Total financial assets measured at fair value through profit or loss - Bank [Note 30 (g)]</b>	<b>84,499</b>	<b>1,013,374</b>
Quoted shares - Subsidiaries [Note 30 (d)]	151,410	125,885
Government of Sri Lanka treasury bonds - Subsidiaries [Note 30 (e)]	16,224	16,080
Unquoted units in unit trusts - Subsidiaries [Note 30 (f)]	842,694	-
<b>Total financial assets measured at fair value through profit or loss - Subsidiaries</b>	<b>1,010,328</b>	<b>141,965</b>
<b>Total financial assets measured at fair value through profit or loss - Group [Note 30 (g)]</b>	<b>1,094,827</b>	<b>1,155,339</b>

**30 (a) Quoted Shares Held by the Bank**

As at 31st December	2020				2019			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
<b>Banks, Finance and Insurance</b>								
Ceylinco Insurance PLC	34,000	23,035	18	34,741	34,000	23,035	13	28,560
National Development Bank PLC	45,254	10,903	8	3,535	43,146	10,688	6	4,315
<b>Sector Total</b>		<b>33,938</b>		<b>38,276</b>		<b>33,723</b>		<b>32,875</b>
<b>Chemicals and Pharmaceuticals</b>								
CIC Holdings PLC	-	-	-	-	556,396	47,850	27	33,384
<b>Sector Total</b>		<b>-</b>		<b>-</b>		<b>47,850</b>		<b>33,384</b>
<b>Construction and Engineering</b>								
Access Engineering PLC	175	6	-	4	175	6	-	4
<b>Sector Total</b>		<b>6</b>		<b>4</b>		<b>6</b>		<b>4</b>
<b>Diversified Holdings</b>								
Aitken Spence PLC	278,515	30,625	24	16,098	278,515	30,625	17	12,951
<b>Sector Total</b>		<b>30,625</b>		<b>16,098</b>		<b>30,625</b>		<b>12,951</b>
<b>Hotels and Travels</b>								
Aitken Spence Hotel Holdings PLC	575,301	45,999	36	18,582	575,301	45,999	26	15,590
Asian Hotels and Properties PLC	207,476	14,918	12	8,901	207,476	14,918	8	8,403
<b>Sector Total</b>		<b>60,917</b>		<b>27,483</b>		<b>60,916</b>		<b>23,993</b>
<b>Motors</b>								
United Motors Lanka PLC	33,385	3,522	2	2,638	33,385	3,522	2	2,103
<b>Sector Total</b>		<b>3,522</b>		<b>2,638</b>		<b>3,522</b>		<b>2,103</b>
<b>Total</b>		<b>129,008</b>		<b>84,499</b>		<b>176,642</b>		<b>105,310</b>
Unrealised loss from marked to market valuation		(44,509)				(71,332)		
<b>Total quoted shares - Bank</b>		<b>84,499</b>		<b>84,499</b>		<b>105,310</b>		<b>105,310</b>

**30 (b) Government of Sri Lanka Treasury Bills Held by the Bank**

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2020	-	-	360	360
<b>Total Government of Sri Lanka treasury bills - Bank</b>	<b>-</b>	<b>-</b>	<b>360</b>	<b>360</b>

## Notes to the Financial Statements

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

## 30 (c) Government of Sri Lanka Treasury Bonds Held by the Bank

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2021	-	-	371,038	371,122
2022	-	-	52,539	53,369
2023	-	-	270,196	268,228
2024	-	-	216,412	214,985
Unrealised loss from marked to market valuation	-	-	(2,480)	-
<b>Total Government of Sri Lanka treasury bonds - Bank</b>	<b>-</b>	<b>-</b>	<b>907,705</b>	<b>907,704</b>

## 30 (d) Quoted shares Held by Subsidiaries

As at 31st December	2020				2019			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
<b>Banks, Finance and Insurance</b>								
Central Finance Company PLC	140,201	16,921	11.8	11,637	138,104	16,756	12.76	14,363
National Development Bank PLC	-	-	-	-	3,594	384	0.29	359
Nations Trust Bank PLC	91,471	6,258	4.4	5,488	91,471	6,258	4.77	7,318
Peoples Leasing & Finance PLC	513,583	9,067	6.3	6,368	490,414	8,773	6.68	8,778
Sampath Bank PLC	106,016	19,747	13.7	14,376	106,016	19,747	15.03	17,217
Seylan Bank PLC - (Non-Voting)	656,402	23,821	16.6	22,318	635,826	23,185	17.63	21,491
<b>Sector Total</b>		<b>75,814</b>		<b>60,187</b>		<b>75,103</b>		<b>69,526</b>
<b>Diversified Holdings</b>								
John Keells Holdings PLC	29,670	3,679	2.6	4,439	29,670	3,679	2.8	4,973
Melstacorp PLC	94,532	5,603	3.9	4,916	55,000	3,260	2.48	2,393
Richard Peiris and Company PLC	312,851	4,351	3.0	4,661	312,851	4,351	33.31	3,692
Vallibel One PLC	200,000	3,600	2.5	5,200	200,000	3,600	32.74	3,500
<b>Sector Total</b>		<b>17,233</b>		<b>19,216</b>		<b>14,890</b>		<b>14,558</b>
<b>Beverage Food and Tobacco</b>								
Distilleries Company of Sri Lanka PLC	33,935	-	-	696	33,935	-	-	626
<b>Sector Total</b>		<b>-</b>		<b>696</b>		<b>-</b>		<b>626</b>
<b>Construction &amp; Infrastructure</b>								
Access Engineering PLC	-	-	-	-	39,532	2,343	21.78	1,720
<b>Sector Total</b>		<b>-</b>		<b>-</b>		<b>2,343</b>		<b>1,720</b>
<b>Land and Property</b>								
Overseas Realty (Ceylon) PLC	486,679	12,454	8.7	7,008	486,679	12,454	9.48	7,788
<b>Sector Total</b>		<b>12,454</b>		<b>7,008</b>		<b>12,454</b>		<b>7,788</b>

As at 31st December	2020				2019			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
<b>Manufacturing</b>								
ACL Cables PLC	95,200	3,016	2.1	7,292	95,200	3,016	2.3	5,474
Dipped Products PLC	38,400	11,903	8.3	13,336	-	-	-	-
Royal Ceramic Lanka PLC	78,000	10,385	7.2	13,814	78,000	10,385	7.91	6,903
Tokyo Cement Company (Lanka) PLC	391,871	12,824	8.9	29,861	401,871	13,164	10.02	19,290
<b>Sector Total</b>		<b>38,128</b>		<b>64,303</b>		<b>26,565</b>		<b>31,667</b>
<b>Total</b>		<b>143,629</b>		<b>151,410</b>		<b>131,355</b>		<b>125,885</b>
Unrealised loss From marked to market valuation		7,781				(5,470)		
<b>Total quoted shares - Subsidiaries</b>		<b>151,410</b>		<b>151,410</b>		<b>125,885</b>		<b>125,885</b>

### 30 (e) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2021	16,490	16,224	16,370	16,080
Unrealised loss from marked to market valuation	(266)	-	(290)	-
<b>Total Government of Sri Lanka treasury bonds - Subsidiaries</b>	<b>16,224</b>	<b>16,224</b>	<b>16,080</b>	<b>16,080</b>

### 30 (f) Unquoted Units in Unit Trusts Held by Subsidiaries

As at 31st December	2020			2019		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
NDB Wealth Money Plus Fund	9,026,249	210,000	211,674	-	-	-
JB Vantage Money Market Fund	7,665,171	210,000	210,303	-	-	-
Capital Alliance Investment Grade Fund	10,665,914	210,000	210,347	-	-	-
Capital Alliance Income Fund	10,274,098	210,000	210,370	-	-	-
Unrealised gain from marked to market valuation		2,694			-	-
<b>Total quoted units - Subsidiaries</b>		<b>842,694</b>	<b>842,694</b>		<b>-</b>	<b>-</b>

## Notes to the Financial Statements

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

## 30 (g) Analysis

As at 31st December	Bank		Group	
	2020 Fair Value Rs 000	2019 Fair Value Rs 000	2020 Fair Value Rs 000	2019 Fair Value Rs 000
<b>By currency</b>				
Sri Lankan Rupee	84,499	1,013,374	1,094,827	1,155,339
<b>Total</b>	<b>84,499</b>	<b>1,013,374</b>	<b>1,094,827</b>	<b>1,155,339</b>

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

**Accounting Policy**

The accounting policy pertaining to financial assets measured at amortised cost - loans and advances to customers has been given in Note 3.3 and 3.4 to the financial statements.

Financial assets measured at amortised cost - loans and advances to customers include loans and advances and lease receivables of the Group.

As per SLFRS 9, loans and advances to customers are assets that are;

- Held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment except when the Group designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the income statement.

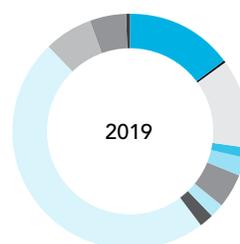
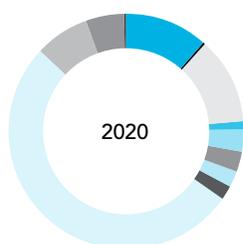
As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Gross loans and advances</b>	<b>814,543,456</b>	<b>771,939,001</b>	<b>846,720,969</b>	<b>802,707,091</b>
Stage 1	546,879,309	588,956,909	569,201,364	610,779,346
Stage 2	204,628,252	123,985,251	206,770,819	127,785,955
Stage 3	63,035,895	58,996,841	70,748,786	64,141,790
<b>Less : Accumulated impairment under:</b>	<b>41,962,736</b>	<b>30,169,928</b>	<b>45,904,998</b>	<b>33,314,923</b>
Stage 1 [Note 31 (m)]	3,091,724	3,343,678	3,799,786	4,063,982
Stage 2 [Note 31 (m)]	8,058,780	4,827,329	8,284,622	5,210,363
Stage 3 [Note 31 (m)]	30,812,232	21,998,921	33,820,590	24,040,578
<b>Net loans and advances</b>	<b>772,580,720</b>	<b>741,769,073</b>	<b>800,815,971</b>	<b>769,392,168</b>

### 31 (a) Analysis of Loans and Advances

#### 31 (a) i By Product

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Overdrafts	93,647,903	114,216,363	93,521,697	114,085,727
Bills of exchange	2,045,728	2,517,353	2,045,728	2,517,353
Commercial papers	153,821	154,658	153,821	154,658
Short term loans	98,398,178	94,889,179	98,781,876	95,214,486
Credit cards	9,155,433	9,365,055	9,155,433	9,365,055
Pawning advances	22,947,790	20,389,354	24,407,738	21,260,331
Trust receipts	23,768,121	35,483,486	23,768,121	35,483,486
Packing credit loans	17,518,298	16,090,676	17,518,298	16,090,676
Staff loans	17,208,143	14,713,352	18,065,918	15,679,793
Term loans	425,097,900	370,685,362	443,773,306	389,390,233
Lease and hire purchase receivable	60,481,528	52,634,930	71,408,420	62,666,060
Housing loans	41,973,936	38,417,543	41,973,936	38,417,543
Lease backed securities	2,146,677	2,381,690	2,146,677	2,381,690
<b>Total gross loans and advances [Note 31 (a) ii]</b>	<b>814,543,456</b>	<b>771,939,001</b>	<b>846,720,969</b>	<b>802,707,091</b>

#### ANALYSIS OF LOANS AND ADVANCES



## Notes to the Financial Statements

**31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)**

## 31 (a) ii By Currency

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Sri Lankan Rupees	718,701,733	683,765,443	750,879,246	714,533,533
United States Dollars	93,535,727	86,006,669	93,535,727	86,006,669
Great Britain Pounds	683,106	613,941	683,106	613,941
Euros	1,436,630	1,377,473	1,436,630	1,377,473
Other currencies	186,260	175,475	186,260	175,475
<b>Total gross loans and advances [Note 31 (a) i]</b>	<b>814,543,456</b>	<b>771,939,001</b>	<b>846,720,969</b>	<b>802,707,091</b>

**COVID-19 Repayment Deferral Packages Offered to Customers**

The Group has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations since March 2020, based on the guidelines given by Central Bank of Sri Lanka and as part of Bank's own initiatives. The details of the impact of deferrals when determining whether there has been a Significant Increase in Credit Risk (SICR) has been discussed in key judgements and assumptions section in Note 31 (l) to the financial statements .

The loan repayment deferral package/moratorium is considered to be a loan modification under SLFRS 9. In addition, the Bank offered working capital loan arrangements under concessionary rates as per the circulars issues by Central Bank of Sri Lanka (CBSL).

**31 (b) Identification and Measurement of Impairment of Financial Assets****Overview of the Expected Credit Loss (ECL) Principles****Accounting Policy**

The Group records an Expected Credit Loss (ECL) allowance for all loans and other debt securities not measured at fair value through profit or loss (FVTPL), together with loan commitments and financial guarantee contracts which are commonly referred to as "financial instruments" in accordance with SLFRS 9. Equity instruments are not subject to impairment under SLFRS 9.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- and loan commitments issued

**31 (b) i Grouping financial assets for impairment assessment**

Financial assets are assessed for Expected Credit Losses either individually or collectively.

- Individually assessed loans and advances and debt instruments

These are exposures that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance.

The Group calculates ECL on an individual basis for corporate and SME exposures identified an individually significant loans and investments in debt instruments.

In respect of all loans that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evidence include the following inter alia;

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the absence of an active market for a security

### Non performing status of the customer

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Impairment allowance on loans and advances assessed individually and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

- **Collective Impairment assessment**

Loans and advances that have been assessed individually and not attracting an ISL provisions and all individually insignificant loans and advances are then assessed collectively, by categorising those into groups of assets with similar credit risk characteristics, to determine whether a provision should be made due to expected loss events.

These exposures are grouped into smaller homogeneous portfolios, based on product type and customer segment etc

### 31 (c) Overview of the expected credit loss principles

The Group measure, Expected Credit Loss (ECL) allowances based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL). The Group's policies for determining whether there has been a significant increase in credit risk are set out in Note 30 (b) iii to the financial statements.

The 12mECL is the portion of LTECLs that represent the ECLs resulting from default events of a financial instrument that are possible within the 12 months after the reporting date.

LTECLs and 12mECLs are calculated either on an individual basis or on collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 30 (b) to the financial statements.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date;
- and other financial instruments of which credit risk has not increased significantly since their initial recognition

The Group has an established policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

As per SLFRS 9 a three stage model is adopted for impairment based on changes in credit quality since initial recognition.

Stage	Classification Criteria	ECL measurement
Stage 1	Financial assets that are not originally credit impaired on initial recognition	12 months expected credit Loss
Stage 2	Financial assets where a significant increase in credit risk observed since origination	Life time expected credit loss
Stage 3	Financial assets which are credit impaired	Life time expected credit loss with probability of default at 100%.
POCI	Purchased or Originated Credit Impaired assets (POCI) are financial assets which are credit impaired on initial recognition.	These assets are categorised within stage 3 and expected credit loss is only recognised or released to the extent that there is a subsequent change in expected credit loss

## Notes to the Financial Statements

### 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

#### 31 (d) Significant Increase in Credit Risk (SICR)

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9.

The Group individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include the following inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants.
- When the customer is deceased/insolvent.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The Group regularly monitors the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

- COVID-19 initiatives

In respect of facilities subject to the COVID-19 repayment deferral arrangements, an assessment of SICR has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate based on which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, facilities have been stress tested and required overlays have been made.

#### 31 (e) Definition of Default and Credit Impaired Assets

The Group considers a financial instrument as defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers non performing credit facilities/customers with one or more of the indicators set out in Note 30 (b) iii as credit impaired.

Further as per "CBSL Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : "Financial Instruments", all the credit facilities/customers classified as non-performing as per Central Bank of Sri Lanka Directions are assessed as Stage 3 exposures.

#### 31 (f) Renegotiated financial assets

The Group sometimes makes concessions or modifications to the original terms of loans as response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan to be rescheduled when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not de-recognised, a reassessment is made whether there has been a significant increase in credit risk, as set out in Note 30 (b) iv to the financial statements. Accordingly, all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period as specified in the Banking Act Directions. Further loans which have been restructured up to two times unless upgraded due to satisfactory performing period as specified in "Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : Financial Instruments" issued by Central Bank of Sri Lanka are classified as Stage 2 while such loans which have been restructured more than two times are classified as Stage 3.

### 31 (g) **Movement between the Stages**

Financial assets can be transferred between the different categories (other than POCL) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessment described above. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above. Further restructured facilities are considered as "cured" once a satisfactory performing period of a minimum 90 days subsequent to the first capital and/or interest instalment post-restructure is in place, while upgrading of rescheduled facilities are carried out in accordance with the Banking Act Directions No 3/4 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning".

### 31 (h) **Assessment of Expected Credit Losses on Financial Assets**

The Group calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The key elements of ECL computations are, as follows:

**Probability of Default (PD):** The Probability of Default is an estimate of the likelihood of a borrower defaulting on its financial obligations. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognised and is still in the portfolio. The Group estimates the Probability of Default (PD) based on historical information with regard to delinquency of loans and advances. In this process historical information pertaining to 3-5 years have been used depending on the nature of the product.

**Exposure at Default (EAD):** The Exposure at Default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For Stage 2, Stage 3 and POCL financial assets, the exposure at default is considered for events over the lifetime of the instruments.

**Loss Given Default (LGD):** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The Group segments its lending portfolio into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The loss given default is estimated based on historically collected loss data and is usually expressed as a percentage of the EAD.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis for individually significant loans and on a collective basis for other loans. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

- **Revolving facilities**

The Group's product offering includes a variety of corporate and retail overdraft and credit card facilities. The Group reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Group calculates only the 12 month ECL (12mECL) allowance on these facilities to reflect the Group's expectations of the customer behaviour, likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. The EAD is arrived by taking the maximum of either sanctioned limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilized amount).

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's delinquency.

## Notes to the Financial Statements

### 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

#### 31 (h) Assessment of Expected Credit Losses on Financial Assets (Contd.)

- Undrawn loan commitments

When estimating life time ECL (LTECLs) for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. The ECL component for loan commitments, letters of credit and acceptances is recognised within "other liabilities".

- Financial guarantee contracts

The Group estimates ECLs for financial guarantee contracts based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The ECLs component related to the financial guarantee contracts are recognised within "other liabilities".

- Debt instruments measured at fair value through OCI

- The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment charge, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon de-recognition of the assets. Forward looking information

The Group incorporates forward looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Group considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by Central Bank of Sri Lanka. In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

Quantitative factors	Qualitative factors
GDP growth	Government policies
Inflation	Status of industry/business
Interest rate	Regulatory impact
Unemployment rates	
Exchange rate	

#### 31 (i) Reversal of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back to the profit or loss by reducing the impairment allowance accordingly.

#### 31 (j) Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

#### 31 (k) Regulation issued by the Central Bank of Sri Lanka (CBSL)

During the year CBSL issued various circulars after the outbreak of COVID -19 relating to the moratorium/debt relief credit support to customers and industries through schemes offered by the Government to support recovery of the economy.

These circulars had/expected to have an impact on recognition of interest income, stage wise classification of facilities and computation of expected credit loss.

### 31 (l) Accounting Judgements, Estimates and Assumptions

The measurement of impairment losses under Sri Lanka Accounting Standard SLFRS 9 - “Financial Instruments” (SLFRS 9) requires judgement across all categories of financial assets, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of impairment allowances.

The Group’s Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered for accounting judgements and estimates include:

- the Group’s criteria for assessing if there has been a significant increase in credit risk as a result of which allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis and the qualitative assessment
- the segmentation of financial assets when their ECL is assessed on a collective basis.
- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group’s ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Accordingly, the Group’s ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

Judgement/Assumption	Description	Considerations for the year ended 31st December 2020
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from 12 month ECL to life time ECL.	In response to the impacts of COVID-19, various moratorium/debt concessionary schemes have been offered to eligible customers. When a customer is first provided with assistance the Group does not consider that it automatically results in a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate and ability to recommence loan repayments at the end of the moratorium/debt concessionary period to conclude whether there is a SICR.
Measuring 12 month expected credit losses and lifetime expected credit losses	The Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio’s point-in-time sensitivity.  In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	The PD, EAD and LGD models are subject to the Group’s policy on impairment assessment.  There were no material changes to the policies during the year ended 31st December 2020. Due to the implications of moratorium/debt concessionary schemes on PDs and LGDs (due to limited movements to Stage 2 and Stage 3), adjustments have been made as overlays based on stress testing and historic patterns to better reflect the adequacy of ECL.  There were no material changes to behavioural lifetime estimates during the year ended 31st December 2020.

## Notes to the Financial Statements

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

## 31 (I) Accounting Judgements, Estimates and Assumptions (Contd.)

Judgement/Assumption	Description	Considerations for the year ended 31 December 2020
Base case economic forecast	The Group derives a forward-looking base case economic scenario which reflects the Bank's view of the most likely future macro-economic conditions.	<p>Status of industry/business was included into the forward-looking variables (key economic drivers) used as model inputs during the current year.</p> <p>As at 31st December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecasts provided by the Central Bank of Sri Lanka .</p>
Probability weighting of each economic scenario (base case, best case and worse case scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	<p>The key consideration for probability weightings in the current period is the continuing impact of COVID-19.</p> <p>In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weightage has been applied to the worse case scenario given the Group's assessment of downside risks. The assigned probability weightages are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.</p>
Management overlay	<p>Temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Group's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management overlay may impact the amount of ECL recognised.</p> <p>The uncertainty associated with COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate the potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.</p>	<p>Management has applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19.</p> <p>Management overlays which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Group</p>

**31 (m) Movement in Impairment during the year**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	3,343,678	3,336,650	4,063,982	4,013,171
Net impairment (reversal)/charge for the year	(251,954)	7,028	(264,196)	50,811
<b>Balance as at 31st December [Note 31]</b>	<b>3,091,724</b>	<b>3,343,678</b>	<b>3,799,786</b>	<b>4,063,982</b>
<b>Stage 2</b>				
Balance as at 1st January	4,827,329	3,714,854	5,210,363	3,940,900
Net impairment charge for the year	3,231,451	1,112,475	3,074,259	1,269,463
<b>Balance as at 31st December [Note 31]</b>	<b>8,058,780</b>	<b>4,827,329</b>	<b>8,284,622</b>	<b>5,210,363</b>
<b>Stage 3</b>				
Balance as at 1st January	21,998,921	15,592,301	24,040,578	16,498,029
Net impairment charge for the year	9,381,709	6,801,030	10,348,410	8,095,724
Write-offs during the year	(692,654)	(363,160)	(692,654)	(521,925)
Other movements	124,256	(31,250)	124,256	(31,250)
<b>Balance as at 31st December [Note 31]</b>	<b>30,812,232</b>	<b>21,998,921</b>	<b>33,820,590</b>	<b>24,040,578</b>
<b>Total impairment allowance for financial assets measured at amortised cost</b>	<b>41,962,736</b>	<b>30,169,928</b>	<b>45,904,998</b>	<b>33,314,923</b>

**31 (m) i Product wise Movement in Allowance for Impairment Losses - Bank**

	2020				2019
	Lease and Hire Purchases Rs 000	Loans and Receivables Rs 000	Pawning Rs 000	Total Rs 000	Total Rs 000
Balance as at 1st January	936,701	29,207,320	25,907	30,169,928	22,643,805
Net impairment charge for the year	1,093,018	11,247,539	20,649	12,361,206	7,920,533
Write-offs during the year	(73,451)	(619,203)	-	(692,654)	(363,160)
Other movement	-	124,256	-	124,256	(31,250)
<b>Balance as at 31st December</b>	<b>1,956,268</b>	<b>39,959,912</b>	<b>46,556</b>	<b>41,962,736</b>	<b>30,169,928</b>

**31 (m) ii Product wise Movement in Allowance for Impairment Losses - Group**

	2020				2019
	Lease and Hire Purchases Rs 000	Loans and Receivables Rs 000	Pawning Rs 000	Total Rs 000	Total Rs 000
Balance as at 1st January	1,886,612	31,394,324	33,986	33,314,922	24,452,100
Net impairment charge for the year	1,058,022	12,096,019	410	13,158,473	9,415,998
Write-offs during the year	(73,451)	(619,203)	-	(692,654)	(521,925)
Other movement	-	124,256	-	124,256	(31,250)
<b>Balance as at 31st December</b>	<b>2,871,183</b>	<b>42,995,396</b>	<b>34,396</b>	<b>45,904,998</b>	<b>33,314,923</b>

## Notes to the Financial Statements

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

## 31 (n) Lease and Hire Purchase Receivables

**Accounting Policy**

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are classified as lease and hire purchase receivables and presented within loans and receivables to customers in the statement of financial position after deduction of unearned lease income and the impairment for rentals doubtful of recovery. Lease receivables are collectively assessed for impairment in accordance with the policy for allowance for impairment losses as given in Note 31 (b) to the financial statements.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Total lease and hire purchase rentals receivable	71,509,790	64,104,607	86,018,229	77,978,596
Unearned lease income	(11,028,262)	(11,469,677)	(14,609,809)	(15,312,536)
Gross lease and hire purchase receivable	60,481,528	52,634,930	71,408,420	62,666,060
Impairment allowance for lease and hire purchase receivable	(2,012,485)	(1,088,435)	(2,799,480)	(1,886,612)
Net lease and hire purchase receivable	58,469,043	51,546,495	68,608,940	60,779,448
Net lease and hire purchase receivables within one year [Note 31 (n) (i)]	20,110,219	19,117,730	23,923,080	22,095,384
Net lease and hire purchase receivables from one to five years [Note 31 (n) (ii)]	37,944,805	32,172,768	44,269,294	38,425,125
Net lease and hire purchase receivables after five years [Note 30 (n) (iii)]	414,019	255,997	416,566	258,939
	58,469,043	51,546,495	68,608,940	60,779,448

31 (n) i Net Lease and Hire Purchase Receivables within one year

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Total lease and hire purchase rentals receivable within one year from the reporting date	26,120,290	25,199,536	31,954,425	30,315,875
Unearned lease and hire purchase income	(5,317,884)	(5,678,124)	(7,013,338)	(7,403,529)
Less: Impairment allowance for lease and hire purchase receivables	(692,187)	(403,682)	(1,018,007)	(816,962)
	20,110,219	19,117,730	23,923,080	22,095,384

31 (n) ii Net Lease and Hire Purchase Receivables from one to five years

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Total lease and hire purchase rentals receivables from one to five years from the reporting date	44,929,721	38,621,662	53,600,429	47,375,541
Unearned lease and hire purchase income	(5,678,868)	(5,769,547)	(7,564,824)	(7,886,729)
Less: Impairment allowance for lease and hire purchase receivables	(1,306,048)	(679,347)	(1,766,311)	(1,063,687)
	37,944,805	32,172,768	44,269,294	38,425,125

31 (n) iii Net Lease and Hire Purchase Receivables after five years

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Total lease and hire purchase rentals receivable after five years from the reporting date	459,779	283,409	463,375	287,179
Unearned lease and hire purchase income	(31,510)	(22,006)	(31,647)	(22,277)
Less: Impairment allowance for lease and hire purchase receivables	(14,250)	(5,406)	(15,162)	(5,963)
	414,019	255,997	416,566	258,939

Impairment allowance for lease and hire purchase receivables are included in the stage wise movement for impairment presented in Note 31 (m) to the financial statements.

## Notes to the Financial Statements

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

**Accounting Policy**

The accounting policy pertaining to financial assets measured at amortised cost - debt and other instruments has been given in Note 3.3 and 3.4 to the financial statements

The Group measures other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding. These conditions are explained in detail in Note 3.4.1 and 3.4.2 to the financial statements.

After initial measurement, financial assets measured at amortised cost - debt and other instruments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment except when the Group designates a financial asset as measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the income statement.

These assets are tested for impairment in accordance with the criteria given in Note 31 (b) to the financial statements.

**Accounting Judgements, Estimates and Assumptions****Impairment of financial assets measured at amortised cost - debt and other instruments**

The Group assesses impairment for financial assets measured at amortised cost - debt and other instruments in line with the same principles used for assessment of impairment of loans and receivables.

The impairment loss on financial assets measured at amortised cost - debt and other instruments is disclosed in Note 32 (b) to the financial statements.

As at 31st December	2020 Rs 000	2019 Rs 000
Sri Lanka development bonds - Bank [Note 32 (c)]	72,285,996	122,014,129
Sri Lanka sovereign bonds - Bank [Note 32 (d)]	114,890,002	19,821,172
Foreign government bonds - Bank [Note 32 (e)]	72,694	64,066
Quoted debentures - Bank [Note 32 (f)]	3,913,191	9,606,812
<b>Total financial assets at amortised cost – debt and other instruments - Bank [Note 32 (a)]</b>	<b>191,161,883</b>	<b>151,506,179</b>
Allowance for impairment on financial assets at amortised cost – debt and other instruments - Bank [Note 32 (b)]	(4,556,367)	(1,785,345)
Stage 1	(3,945,340)	(1,182,947)
Stage 2	-	-
Stage 3	(611,027)	(602,398)
<b>Net financial assets at amortised cost - debt and other instruments - Bank</b>	<b>186,605,516</b>	<b>149,720,834</b>
Government of Sri Lanka treasury bills - Subsidiaries [Note 32 (g)]	1,655,758	2,022,869
Sri Lanka development bonds - Subsidiaries [Note 32 (h)]	33,470	-
Quoted debentures - Subsidiaries [Note 32 (i)]	4,638,038	4,768,208
Unquoted debentures - Subsidiaries [Note 32 (j)]	417,105	-
Other loans and receivables held by subsidiaries [Note 32 (k)]	773,091	773,091
<b>Total financial assets at amortised cost - debt and other instruments - Subsidiaries</b>	<b>7,517,462</b>	<b>7,564,168</b>
<b>Total financial assets at amortised cost - debt and other instruments - Group</b>	<b>198,679,345</b>	<b>159,070,347</b>
Allowance for impairment on financial assets at amortised cost - debt and other instruments - Group [Note 32 (b)]	(5,329,849)	(2,559,070)
Stage 1	(3,945,732)	(1,183,581)
Stage 2	-	-
Stage 3	(1,384,117)	(1,375,489)
<b>Net financial assets at amortised cost – debt and other instruments - Group</b>	<b>193,349,496</b>	<b>156,511,277</b>

**Reclassification of financial instruments**

Details pertaining to the reclassifications during the year have been given in Note 33 to the financial statements

**32 (a) Analysis**

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>By Collateralisation</b>				
Unencumbered	191,161,883	151,506,179	198,679,345	159,070,347
<b>Total</b>	<b>191,161,883</b>	<b>151,506,179</b>	<b>198,679,345</b>	<b>159,070,347</b>
<b>By Currency</b>				
Sri Lankan Rupee	3,913,191	9,606,812	11,430,653	17,170,980
United States Dollar	187,175,998	141,835,301	187,175,998	141,835,301
Euros	72,694	64,066	72,694	64,066
<b>Total</b>	<b>191,161,883</b>	<b>151,506,179</b>	<b>198,679,345</b>	<b>159,070,347</b>

**32 (b) Movement in Impairment during the year**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	1,182,947	1,130,825	1,183,581	1,131,503
Net impairment charge for the year	2,762,393	52,122	2,762,151	52,078
<b>Balance as at 31st December</b>	<b>3,945,340</b>	<b>1,182,947</b>	<b>3,945,732</b>	<b>1,183,581</b>
<b>Stage 2</b>				
Balance as at 1st January	-	88,296	-	88,296
Transfer to Stage 3	-	(88,296)	-	(88,296)
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Stage 3</b>				
Balance as at 1st January	602,398	65,892	1,375,489	583,362
Net impairment charge for the year	8,628	448,211	8,628	703,831
Transfer from Stage 2	-	88,296	-	88,296
<b>Balance as at 31st December</b>	<b>611,027</b>	<b>602,398</b>	<b>1,384,117</b>	<b>1,375,489</b>
<b>Total impairment allowance for financial assets measured at amortised cost</b>	<b>4,556,367</b>	<b>1,785,345</b>	<b>5,329,849</b>	<b>2,559,070</b>

## Notes to the Financial Statements

**32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)****32 (c) Sri Lanka Development Bonds Held by the Bank**

As at 31st December	2020 Rs 000	2019 Rs 000
Year of Maturity		
2020	-	63,156,170
2021	30,936,996	19,954,940
2022	30,072,000	27,758,933
2023	11,277,000	11,144,086
<b>Total Sri Lanka development bonds - Bank</b>	<b>72,285,996</b>	<b>122,014,129</b>

**32 (d) Sri Lanka Sovereign Bonds Held by the Bank**

As at 31st December	2020 Rs 000	2019 Rs 000
Year of Maturity		
2021	18,943,650	4,153,512
2022	19,197,878	
2023	14,166,367	6,354,576
2024	25,181,159	
2025	14,599,135	2,222,953
2026	11,598,484	5,046,401
2027	6,791,786	
2028	4,062,321	2,043,730
2029	349,222	
<b>Total Sri Lanka sovereign bonds - Bank</b>	<b>114,890,002</b>	<b>19,821,172</b>

**32 (e) Foreign Government Bonds Held by the Bank**

As at 31st December	2020 Rs 000	2019 Rs 000
Year of Maturity		
2042*	72,694	64,066
<b>Total foreign government bonds - Bank</b>	<b>72,694</b>	<b>64,066</b>

\*These bonds were issued by the Government of Greece and have been classified as stage 3 for Expect Credit Loss (ECL) computation. Bank has recognised an ECL provision amounting to Rs. 72.69 Mn (2019 - Rs. 64.06 Mn) in respect of this investment.

**32 (f) Quoted Debentures Held by the Bank**

As at 31st December	2020		2019	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
Access Engineering PLC (10.25% debentures redeemed on 18th November 2020)	-	-	15,000,000	1,518,534
Central Finance PLC (9.52% debentures redeemed on 01st June 2020)	-	-	2,000,000	219,040
Commercial Leasing & Finance PLC (9.75% debentures redeemed on 21st July 2020)	-	-	10,000,000	1,097,500
(15% debentures redeemable on 24th September 2025)	5,000,000	512,057	-	-
DFCC Bank PLC (9.10% debentures redeemed on 10th June 2020)	-	-	5,000,000	525,430
Hayleys PLC (7.85% debentures redeemed on 06th March 2020)	-	-	5,000,000	512,582
Lanka Orix Leasing Company PLC (15% debentures redeemable on 26th September 2024)	5,000,000	519,726	5,000,000	519,725
MTD Walkers PLC (10.25% debentures redeemable on 30th September 2020) *	5,000,000	538,332	5,000,000	538,332
People's Leasing and Finance PLC (9.95% debentures redeemed on 12th November 2020)	-	-	20,000,000	2,026,715
(12.60% debentures redeemable on 16th November 2021)	20,000,000	2,031,758	20,000,000	2,031,759
Senkadagala Finance PLC (13.75% debentures redeemed on 09th November 2020)	-	-	3,000,000	305,877
Siyapatha Finance PLC (13.5% debentures redeemable on 20th September 2021)	3,000,000	311,318	3,000,000	311,318
Quoted Debentures - Bank		3,913,191		9,606,812

\*This investment has been categorised as stage 3 for Expected Credit Loss (ECL) computation. ECL provision has been recognised in full for this exposure.

**32 (g) Government of Sri Lanka Treasury Bills Held by Subsidiaries**

As at 31st December	2020 Rs 000	2019 Rs 000
Year of Maturity		
2020	-	2,022,869
2021	1,655,758	-
Total Government of Sri Lanka treasury bills - subsidiaries	1,655,758	2,022,869

**32 (h) Sri Lanka development bonds Held by Subsidiaries**

As at 31st December	2020 Rs 000	2019 Rs 000
Year of Maturity		
2021	3,776	-
2022	29,694	-
Total Government of Sri Lanka development bonds - subsidiaries	33,470	-

## Notes to the Financial Statements

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

## 32 (i) Quoted Debentures Held by Subsidiaries

As at 31st December	2020		2019	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Access Engineering PLC</b>				
(10.25% debentures redeemed on 18th November 2020)	-	-	1,250,000	126,509
		-		126,509
<b>Bank of Ceylon</b>				
(13.25% debentures redeemable on 29th December 2021)	400,000	40,044	400,000	45,329
		40,044		45,329
<b>Commercial Bank of Ceylon PLC</b>				
(12.00% debentures redeemable on 27th October 2021)	289,500	29,559	289,500	29,559
(12.00% Debentures redeemable on 22nd July 2023)	577,800	60,838	577,800	60,838
(12.25% debentures redeemable on 27th October 2026)	135,700	13,861	135,700	13,861
(12.50% Debentures redeemable on 22nd July 2028)	1,192,800	125,857	1,192,800	125,857
		230,115		230,115
<b>Commercial Credit and Finance PLC</b>				
(10.50% debentures redeemed on 01st June 2020)	-	-	1,100,000	112,911
(10.40% debentures redeemed on 10th December 2020)	-	-	1,000,000	100,598
		-		213,509
<b>Commercial Leasing and Finance PLC</b>				
(9.75% debentures redeemed on 21st July 2020)	-	-	600,000	65,850
(10.50% debentures redeemable on 23rd September 2025)	2,700,000	277,612	-	-
		277,612		65,850
<b>DFCC Bank PLC</b>				
(9.40% debentures redeemed on 10th June 2020)	-	-	405,500	42,680
(12.15% debentures redeemable on 09th June 2021)	100,000	10,176	100,000	10,173
(12.60% Debentures redeemable on 29th March 2023)	1,400,000	153,435	1,400,000	153,387
(12.75% debentures redeemable on 09th June 2023)	700,000	71,296	700,000	71,272
(13.50% Debentures redeemable on 28th March 2024)	1,000,000	110,282	1,000,000	110,282
(13.00% Debentures redeemable on 29th March 2025)	500,000	54,951	500,000	54,933
(9.00% Debentures redeemable on 23rd October 2025)	2,700,000	274,594	-	-
(13.75% Debentures redeemable on 28th March 2026)	1,298,100	143,404	1,298,100	143,404
(13.90% Debentures redeemable on 28th March 2029)	3,532,100	390,604	3,532,100	390,603
		1,208,742		976,734
<b>Hayleys PLC</b>				
(12.50% Debentures redeemable on 31st July 2023)	3,300,000	347,357	3,300,000	347,291
(13.00% Debentures redeemable on 26th August 2024)	282,300	29,513	282,300	29,507
		376,870		376,798

As at 31st December	2020		2019	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Lanka Orix Leasing Company PLC</b>				
(15.00% debentures redeemable on 27th September 2024)	2,800,000	290,932	2,800,000	290,932
		290,932		290,932
<b>LB Finance PLC</b>				
(12.75% debentures redeemable on 11th December 2022)	170,000	17,124	170,000	17,173
		17,124		17,173
<b>National Development Bank PLC</b>				
(9.40% debentures redeemed on 24th June 2020)	-	-	217,200	19,754
(9.40% debentures redeemed on 24th June 2020)	-	-	253,000	27,678
(13.90% debentures redeemable on 19th December 2023)	187,500	21,416	187,500	21,409
(13.95% debentures redeemable on 30th March 2024)	1,600,000	176,878	1,600,000	176,816
(12.90% Debentures redeemable on 23rd December 2026)	1,114,600	114,274	-	-
		312,568		245,657
<b>Nations Trust Bank PLC</b>				
(12.65% debentures redeemable on 08th December 2021)	357,400	36,409	357,400	36,396
(12.80% debentures redeemable on 08th December 2021)	210,200	21,418	210,200	21,411
(13.00% Debentures redeemable on 20th April 2023)	1,550,000	169,133	1,550,000	169,077
(12.80% Debentures redeemable on 23rd December 2024)	3,000,000	300,947	3,000,000	300,842
(12.90% Debentures redeemable on 23rd December 2026)	800,000	80,254	800,000	80,226
		608,161		607,952
<b>People's Leasing and Finance PLC</b>				
(9.95% debentures redeemed on 12th November 2020)	-	-	290,000	29,387
(12.60% Debentures redeemable on 16th November 2021)	500,000	50,794	500,000	50,777
(12.80% Debentures redeemable on 18th April 2023)	653,600	71,274	653,600	71,251
		122,068		151,415
<b>Sampath Bank PLC</b>				
(9.90% debentures redeemed on 18th November 2020)	-	-	1,642,200	166,179
(12.50% debentures redeemable on 21st December 2022)	800,000	80,348	800,000	80,321
(12.50% debentures redeemable on 20th March 2023)	2,000,000	207,055	2,000,000	206,986
(13.90% debentures redeemable on 28th February 2024)	2,800,000	312,735	2,800,000	312,629
		600,138		766,115
<b>Seylan Bank PLC</b>				
(8.75% debentures redeemed on 23rd December 2020)	-	-	500,000	54,483
(13.00% debentures redeemable on 15th July 2021)	215,800	22,883	215,800	22,879
(12.85% Debentures redeemable on 29th March 2023)	2,500,000	258,272	2,500,000	258,185
		281,155		335,547

## Notes to the Financial Statements

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

## 32 (i) Quoted Debentures Held by Subsidiaries (Contd.)

As at 31st December	2020		2019	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
Singer (Sri Lanka) PLC (12.00% debentures redeemable on 28th September 2021)	800,000	82,499	800,000	82,472
		82,499		82,472
Siyapatha Finance PLC (13.50% debentures redeemable on 20th September 2021)	244,200	25,350	244,200	25,341
(13.33% Debentures redeemable on 08th August 2024)	157,100	16,548	157,100	16,546
		41,898		41,887
Sri Lanka Telecom PLC (12.75% Debentures redeemable on 19th April 2028)	1,443,800	148,112	1,443,800	148,064
		148,112		148,064
Vallibel Finance PLC (10.25% debentures redeemed on 31st March 2020)	-	-	450,000	46,150
		-		46,150
<b>Total quoted debentures - Subsidiaries</b>		<b>4,638,038</b>		<b>4,768,208</b>

## 32 (j) Unquoted Debentures Held by Subsidiaries

As at 31st December	2020		2019	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
DFCC Bank PLC (11.00% debentures redeemable on 12th June 2025)	2,460,000	260,976	-	-
		260,976		-
Peoples Bank (9.50% debentures redeemable on 27th July 2025)	1,500,000	156,129	-	-
		156,129		-
<b>Total unquoted debentures - Subsidiaries</b>		<b>417,105</b>		<b>-</b>

## 32 (k) Other loans and receivables held by subsidiaries

As at 31st December	2020 Amortised Cost Rs 000	2019 Amortised Cost Rs 000
Other loans and receivables**	773,091	773,091
	773,091	773,091

\*\*These investments have been categorised as stage 3 for Expected Credit Loss (ECL) computation. ECL provisions have been recognised in full for this exposure.

### 33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

#### Accounting Policy

The accounting policy pertaining to financial assets measured at fair value through other comprehensive income has been given in Note 3.3 and 3.4 to the financial statements

With the adoption of SLFRS 9 - "Financial Instruments" financial assets are classified as Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

#### Debt instruments measured at FVOCI

Debt instruments measured at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses on account of such investments are recognised in profit or loss. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The Expected Credit Loss for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of the these assets in the statement of financial position, which remains at fair value. Instead an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount with a corresponding charge to income statement.

The accumulated loss recognised in other comprehensive income is recycled to the profit upon derecognition of the assets

#### Equity instruments measured at FVOCI

Upon initial recognition, the Group occasionally makes an irrevocable election to classify some of its equity investments as equity instruments measured at FVOCI when those meet the definition of Equity under Sri Lanka Accounting Standard - LKAS 32 "Financial Instruments" Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments measured at FVOCI are not subject to an impairment assessment.

#### Accounting Judgements Estimates and Assumptions

Impairment of financial assets measured at fair value through other comprehensive income

The group assesses impairment for financial assets measured at fair value through other comprehensive income in line with the same principal used for assessment of impairment of loans and receivables.

As at 31st December	Fair Value	
	2020 Rs 000	2019 Rs 000
Quoted shares - Bank [Note 33 (b)]	3,742,102	5,125,554
Unquoted shares - Bank [Note 33 (c)]	27,839	22,530
Unquoted units - Bank [Note 33 (d)]	442,700	376,590
Government of Sri Lanka treasury bonds - Bank [Note 33 (e)]	48,269,855	39,360,640
Government of Sri Lanka treasury bills - Bank [Note 33 (f)]	192,611,240	51,514,389
Government of Sri Lanka sovereign bonds - Bank [Note 33 (g)]	4,177,922	31,295,279
<b>Total financial assets at fair value through other comprehensive income - Bank [Note 33 (a)]</b>	<b>249,271,658</b>	<b>127,694,982</b>
Government of Sri Lanka treasury bonds - Subsidiaries [Note 33 (h)]	7,120,331	6,245,705
Unquoted shares - Subsidiaries [Note 33 (i)]	2,655	12,430
<b>Total financial assets at fair value through other comprehensive income - Subsidiaries</b>	<b>7,122,986</b>	<b>6,258,135</b>
<b>Total financial assets at fair value through other comprehensive income - Group [Note 33 (a)]</b>	<b>256,394,644</b>	<b>133,953,117</b>

## Notes to the Financial Statements

**33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)****Reclassification of financial instruments**

The Bank re-classified its International Sovereign Bond Portfolio consequent to the changes in the business model of managing such assets with effect from 1st April 2020 as per the Guidance Notes issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) on Accounting Consideration of the Covid 19 Outbreak (updated on May 11, 2020). Accordingly, International Sovereign Bond investments amounting to Rs 47 Bn which were previously classified as financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) were re-classified as financial assets measured at amortised cost. There was no change to the effective interest rate used and interest revenue recognised in respect of the reclassified assets for the year ended 31st December 2020.

Had these investments continued to be carried at fair value through other comprehensive income, the fair value of same as at 31st December 2020 would have amounted to Rs 55 Bn and would have resulted in the recognition of a fair value loss of Rs 29 Bn in other comprehensive income during the year.

**33 (a) Analysis**

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>By collateralisation</b>				
Pledged as collateral	12,134,269	19,882,234	12,134,269	19,882,234
Unencumbered	237,137,389	107,812,748	244,260,375	114,070,883
<b>Total</b>	<b>249,271,658</b>	<b>127,694,982</b>	<b>256,394,644</b>	<b>133,953,117</b>
<b>By Currency</b>				
Sri Lankan Rupee	245,093,736	96,399,703	252,216,722	102,657,838
United States Dollar	4,177,922	31,295,279	4,177,922	31,295,279
<b>Total</b>	<b>249,271,658</b>	<b>127,694,982</b>	<b>256,394,644</b>	<b>133,953,117</b>

**33 (b) Quoted Shares Held by the Bank**

As at 31st December	2020			2019		
	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000
DFCC Bank	45,624,242	1,898,337	2,979,263	45,354,596	1,875,660	4,168,088
National Development Bank PLC	6,784,942	969,312	529,904	6,468,864	936,968	646,886
Nations Trust Bank PLC	3,882,252	398,269	232,935	3,882,252	398,269	310,580
<b>Total quoted shares - Bank</b>		<b>3,265,918</b>	<b>3,742,102</b>		<b>3,210,897</b>	<b>5,125,554</b>

### 33 (c) Unquoted Shares Held by the Bank

As at 31st December	2020			2019		
	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000
Credit Information Bureau of Sri Lanka	5,300	530	530	5,300	530	530
Lanka Clear (Pvt) Ltd	2,214,521	24,559	24,559	2,200,000	22,000	22,000
Lanka Financial Services Bureau	500,000	5,000	2,750	225,000	2,250	-
Lanka Rating Agency Limited	1,379,182	16,550	-	1,379,182	16,550	-
Magpek Exports Ltd	359,000	14,360	-	359,000	14,360	-
S.W.I.F.T	27	5,196	-	27	5,196	-
<b>Total unquoted shares - Bank</b>		<b>66,195</b>	<b>27,839</b>		<b>60,886</b>	<b>22,530</b>

### 33 (d) Unquoted Units in Unit Trusts Held by the Bank

As at 31st December	2020			2019		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
JB Vantage Value Equity Fund	19,455,327	400,000	442,700	19,455,327	400,000	376,590
<b>Total unquoted units in unit trusts - Bank</b>		<b>400,000</b>	<b>442,700</b>		<b>400,000</b>	<b>376,590</b>

### 33 (e) Government of Sri Lanka Treasury Bonds

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of Maturity</b>				
2020	-	-	3,550,286	3,569,581
2021	25,659,667	25,663,297	22,638,514	23,486,737
2022	1,078,073	1,080,391	271,509	276,792
2023	8,422,856	9,100,935	5,250,970	5,355,776
2024	5,991,348	6,759,731	4,613,792	4,839,985
2025	1,734,820	2,000,068	1,779,713	1,831,769
2032	3,670,792	3,665,433	-	-
<b>Total government of Sri Lanka treasury bonds - Bank</b>	<b>46,557,556</b>	<b>48,269,855</b>	<b>38,104,784</b>	<b>39,360,640</b>

## Notes to the Financial Statements

## 33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

## 33 (f) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2020	-	-	51,379,942	51,514,389
2021	192,303,670	192,611,240	-	-
<b>Total government of Sri Lanka treasury bills - Bank</b>	<b>192,303,670</b>	<b>192,611,240</b>	<b>51,379,942</b>	<b>51,514,389</b>

## 33 (g) Government of Sri Lanka Sovereign Bonds Held by the Bank

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2021	1,404,871	1,275,545	-	-
2022	1,684,487	1,342,873	1,122,807	1,119,447
2023	1,464,263	1,097,358	970,146	982,340
2024	629,359	462,146	15,779,834	15,808,606
2025	-	-	5,766,879	5,741,442
2026	-	-	4,605,375	4,528,924
2027	-	-	2,463,603	2,408,657
2028	-	-	728,044	705,863
<b>Total government of Sri Lanka sovereign bonds - Bank</b>	<b>5,182,980</b>	<b>4,177,922</b>	<b>31,436,688</b>	<b>31,295,279</b>

**33 (h) Government of Sri Lanka Treasury Bonds Held by Subsidiaries**

As at 31st December	2020		2019	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of Maturity</b>				
2020	-	-	303,517	331,487
2021	874,161	907,496	925,345	958,588
2022	607,398	661,122	554,344	583,389
2023	453,213	514,672	504,989	537,648
2024	861,921	964,988	431,900	462,402
2025	163,190	177,965	104,077	104,446
2026	211,966	250,770	261,574	277,223
2027	385,157	432,634	108,062	113,017
2028	208,053	256,673	313,285	335,895
2029	775,822	892,967	775,822	781,154
2030	1,044,036	1,237,544	1,044,036	1,075,981
2033	102,404	130,939	102,404	112,935
2034	192,025	244,724	192,025	207,475
2044	143,435	157,151	143,435	127,307
2045	222,302	290,686	222,302	236,758
<b>Total government of Sri Lanka treasury bonds - Subsidiaries</b>	<b>6,245,083</b>	<b>7,120,331</b>	<b>5,987,117</b>	<b>6,245,705</b>

**33 (i) Unquoted Shares Held by Subsidiaries**

As at 31st December	2020			2019		
	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000
Credit Information Bureau of Sri Lanka	100	234	2,098	100	234	234
UB Finance	1,742,326	12,196	557	1,742,326	12,196	12,196
Standard Credit Lanka (Formerly Ceylinco investment and Reality Ltd)	38,458,474	38,692	-	38,458,474	38,692	-
<b>Total unquoted shares - Subsidiaries</b>		<b>51,122</b>	<b>2,655</b>		<b>51,122</b>	<b>12,430</b>

**33 (j) Movement in Impairment during the year**

	Bank/Group	
	2020 Rs 000	2019 Rs 000
<b>Stage 1</b>		
Balance as at 1st January	259,065	-
Impairment charge for the year	108,687	259,065
Transfers related to reclassification adjustments	(259,065)	-
Balance as at 31st December	108,687	259,065

## Notes to the Financial Statements

## 34 INVESTMENT IN JOINT VENTURE

**Accounting Policy**

Joint venture is a type of joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group determines joint control, by taking into account similar considerations necessary, to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for, using the equity method and is recognised initially at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects Group's share of the results of operations of the joint venture. Any change in 'other comprehensive income' of the joint venture is presented as part of the Group's 'other comprehensive income'. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any such change, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the income statement outside operating profit.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is an objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss in impairment for loans and other losses in the income statement.

The Group discontinues the use of equity method from the date that it ceases to have joint control over the joint venture and accounts for the investment in accordance with the Group's accounting policy for financial instruments. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal, is recognised in income statement. The Bank's investment in joint venture is carried at cost.

## 34 (a) Investment in unquoted joint venture - Bank

As at 31st December	2020			2019		
	% Holding Value/ Value/	Cost of Investment  Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding Value/ Value/	Cost of Investment  Rs 000	Fair Value/ Directors' valuation Rs 000
Acuity Partners (Pvt) Ltd	50	755,000	2,634,000	50	755,000	2,249,804
Total		755,000			755,000	

Bank received Rs 50 Mn of dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2020 (2019 : Rs 75.50 Mn).

**34 (b) Investment in Unquoted Joint Venture - Group**

As at 31st December	2020 Rs 000	2019 Rs 000
Investment in joint venture (at cost) as at 1st January	755,000	755,000
Group's share of joint venture profit as at 1st January	1,494,803	1,384,339
<b>Group's share of net assets of joint venture company as at 1st January</b>	<b>2,249,803</b>	<b>2,139,339</b>
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
<b>Group's share of net assets of joint venture company as at 1st January (net of unrealised profit)</b>	<b>2,137,665</b>	<b>2,027,201</b>
Share of profit of joint venture (net of income tax) (Note 20)	407,215	186,884
Share of other comprehensive income of equity accounted joint venture	26,931	(920)
Dividend received during the year	(50,000)	(75,500)
<b>Group's share of net assets of joint venture company as at 31st December</b>	<b>2,521,811</b>	<b>2,137,665</b>

**34 (c) Summarised Financial Position of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries**

As at 31st December	2020 Rs 000	2019 Rs 000
Current assets	7,671,324	6,225,284
Non-current assets	19,132,445	11,648,835
Current liabilities	(15,881,343)	(8,259,696)
Non-current liabilities	(2,854,630)	(2,606,620)
Non controlling interest	(2,799,899)	(2,508,197)
Share holder's equity of Joint Venture	5,267,897	4,499,606
Group carrying amount of the investment	2,633,949	2,249,803
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
<b>Group carrying amount of the investment - Net</b>	<b>2,521,811</b>	<b>2,137,665</b>

**34 (d) Summarised statement of profit or loss of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries**

As at 31st December	2020 Rs 000	2019 Rs 000
Revenue	1,885,521	1,499,548
Administration and distribution expenses	(427,696)	(368,042)
Finance cost	(309,673)	(323,942)
Profit from operations	1,148,152	807,564
VAT and NBT on financial services	(37,887)	(26,789)
Profit before tax	1,110,265	780,775
Income tax expenses	91,968	(181,219)
Profit for the year	1,202,233	599,556
Other comprehensive income	107,547	(12,700)
Total comprehensive income for the year	1,309,780	586,856
Non controlling interest	(441,488)	(214,928)
Total comprehensive income for the year	868,292	371,928
<b>Group's share of :</b>		
- profit or loss for the year	407,215	186,884
- other comprehensive income for the year	26,931	(920)
- comprehensive income for the year	434,146	185,964

There are no restrictions on the ability of the joint venture company to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Company has neither contingent liabilities nor capital and other commitments towards its joint venture company.

# Notes to the Financial Statements

## 35 INVESTMENT IN SUBSIDIARIES

### Accounting Policy

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. Where subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the consolidated financial statements, from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries, not owned directly or indirectly by the Bank. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group, is disclosed separately in the consolidated income statement.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. Upon the loss of control, the Group de-recognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control, is recognised in the statement of changes in equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances. All subsidiaries of the Bank as at the reporting date, have been incorporated in Sri Lanka.

The Bank's investments in subsidiaries are carried at cost.

### Accounting Judgement, Estimates and Assumptions

#### Impairment of Investments in Subsidiaries

The Bank follows the guidance of Sri Lanka Accounting Standard - LKAS 36 - "Impairment of Assets" in determining whether an investment in subsidiary is impaired. This determination requires significant judgement. The Bank evaluates, among other factors, the duration and extent to which the fair value of a subsidiary is less than its cost and the financial health of the near-term business outlook of the investment or the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

### 35 (a) Investment in Subsidiaries - Quoted

As at 31st December	2020			2019		
	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
HNB Assurance PLC (29,993,000 ordinary shares)	60	384,285	5,236,778	60	384,285	4,139,034
HNB Finance PLC [Note 35 (b) i] (724,904,118 ordinary shares)	42.16	660,000	7,249,041	-	-	-
Total quoted subsidiaries		1,044,285			384,285	

### 35 (b) Investment in Subsidiary - Unquoted

As at 31st December	2020			2019		
	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)	100	1,973,000	7,811,000	100	1,973,000	7,329,456
HNB Finance PLC [Note 35 (b) i] (724,904,118 ordinary shares)	-	-	-	42.16	660,000	7,249,041
Total unquoted subsidiaries		1,973,000			2,633,000	
Total for the Bank [35 (a) and 35 (b)]		3,017,285			3,017,285	

#### 35 (b) i HNB Finance PLC

Bank holds a stake of 51% in the voting rights of HNB Finance PLC. Accordingly, the said investment is accounted for as an investment in subsidiary. Since the Bank does not hold non-voting shares of HNB Finance PLC, Bank's holding in the said company is 42.16%.

The shares of HNB Finance PLC was listed in Colombo stock exchange on 20th May 2020.

### 35 (c) Subsidiary Held through HNB Assurance PLC

As at 31st December	2020		2019	
	% Holding	Cost of Investment Rs 000	% Holding	Cost of Investment Rs 000
HNB General Insurance PLC (115,000,000 ordinary shares)	100	1,150,000	100	1,150,000
		1,150,000		1,150,000

## Notes to the Financial Statements

## 35 INVESTMENT IN SUBSIDIARIES (Contd.)

## 35 (d) Non-Controlling Interests (NCI) in Subsidiaries

Subsidiary	% of Ownership Interest held by NCI	Share of % of Voting Rights held by NCI	Total Comprehensive Income of NCI for the Year Ended 31st December		NCI as at 31st December		Dividends Paid to NCI	
			2020	2019	2020	2019	2020	2019
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
HNB Assurance PLC (Note 58)	40.00	40.00	614,354	316,073	2,829,695	2,335,343	120,000	120,000
HNB Finance PLC (Note 58)	57.84	49.00	(46,708)	153,035	2,580,269	2,626,975	-	-
			567,646	469,108	5,409,964	4,962,318	120,000	120,000

## 35 (e) Summarised Financial Information of Subsidiaries

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2020	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets	31,725,478	26,620,723	10,461,958	10,266,129	37,414,117	36,664,705
Liabilities	23,555,379	19,915,132	2,683,873	2,936,673	32,900,189	31,862,434
Equity	8,170,099	6,705,591	7,778,085	7,329,456	4,513,928	4,802,271

## 35 (f) Summarised Financial Information of Subsidiaries

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2020	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Revenue	11,598,725	11,003,517	1,035,520	1,023,459	7,389,810	9,298,655
Profit after tax	1,164,457	1,011,047	410,345	339,908	(273,165)	114,856
Total comprehensive income	1,188,414	1,041,279	410,345	339,908	(288,344)	284,371

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2020	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash flows from operating activities	2,371,954	1,659,917	550,225	602,469	2,047,581	281,323
Cash flows from investing activities	(2,058,169)	(965,285)	(505)	(688)	423,492	(389,045)
Cash flows from financing activities	(461,317)	(598,520)	(258,020)	(387,120)	(195,960)	1,099,281

## Assessment of Impairment

The Board of Directors has assessed the potential impairment loss of investment in subsidiaries as at 31st December 2020. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

## 36 INVESTMENT PROPERTIES

### Accounting Policy

#### Basis of Recognition

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

When a portion of the property is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purposes, the Group accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is treated as investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Where the Group provides ancillary services to the occupants of a property it holds, the Group treats such a property as investment property if the services are insignificant to the arrangement as a whole.

#### Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property, is its cost at the date when the construction or development is completed.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard - LKAS 40 on "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment loss.

The Group obtains the services of independent valuers who are not connected with the Bank, in order to determine the fair value of its investment properties annually, for disclosure purposes and such fair values have been disclosed as required by Sri Lanka Accounting Standard - LKAS 40 on "Investment Property".

#### Depreciation

Depreciation is provided on a straight line basis over the estimated life of the class of asset, from the date of purchase up to the date of disposal.

Classes of Asset	% per annum
Hatton National Bank PLC	
Freehold buildings (Refer Note 36 (a))	2.50
Sithma Development (Pvt) Ltd	
Freehold buildings	
HNB Tower	1.00
Others	2.50
Plant, Machinery and equipment integral to freehold buildings referred to above	20.00

#### De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from the use since no future economic benefits are expected. Gains or losses arising from de-recognition of an investment property are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

Transfers are made to and from investment properties only when there is a change in use.

#### Investment Property Leased within the Group

Any property leased out to the parent or a subsidiary in full or where the parent or subsidiary occupies a significant portion of such a property it is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes.

## Notes to the Financial Statements

## 36 INVESTMENT PROPERTIES (Contd.)

**Accounting Judgement, Estimates and Assumptions****Useful Life Time of Investment Properties**

The Group reviews the residual values, useful lives and methods of depreciation of investment properties at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

**Classification of Investment Properties**

Management uses its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgement consistently.

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

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Cost</b>				
Balance as at 1st January	507,684	347,684	1,241,516	1,271,516
Transferred to property, plant and equipment	-	-	-	(190,000)
Transferred from property, plant and equipment [(Note 36 (b) (iv))]	-	160,000	-	160,000
<b>Balance as at 31st December</b>	<b>507,684</b>	<b>507,684</b>	<b>1,241,516</b>	<b>1,241,516</b>
<b>Accumulated depreciation</b>				
Balance as at 1st January	27,240	21,866	215,466	164,044
Adjustment made by subsidiary	-	-	(34,546)	-
Transferred from property, plant and equipment	-	2,806	-	2,806
Charge for the year [Note 18 (b)]	5,335	2,568	31,640	48,616
<b>Balance as at 31st December</b>	<b>32,575</b>	<b>27,240</b>	<b>212,560</b>	<b>215,466</b>
<b>Carrying value as at 31st December</b>	<b>475,109</b>	<b>480,444</b>	<b>1,028,956</b>	<b>1,026,050</b>

**36 (a) Valuation of Investment Properties - Bank**

	Cost/Carrying Amount As at 31st December 2020					Fair Value As at 31st December 2020			Fair Value As at 31st December 2019 Total
	Building sq.ft	Land Perches	Land (Cost) Rs 000	Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Building Rs 000	Total Rs 000	Rs 000
	23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	40,676	77,757	-	-	942,000
479, T B Jayah Mawatha, Colombo 10 [Note 36 (b) ii]	Land	112.96	126,480	-	126,480	2,428,640	-	2,428,640	2,428,640
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	Land	26.62	34,889	-	34,889	665,500	-	665,500	665,500
451, Kandy Road, Kegalle [Note 36 (b)ii]	Land	61.70	83,400	-	83,400	178,750	-	178,750	178,750
181, High Level Road, Nugegoda. [Note 36 (b) iv]	11,096	16.50	82,500	70,083	152,583	99,000	89,874	188,874	188,874
			364,350	110,759	475,109	3,371,890	89,874	4,403,764	4,403,764

**36 (b) Valuation of Investment Properties - Group**

	Cost/Carrying Amount As at 31st December 2020					Fair Value As at 31st December 2020			Fair Value As at 31st December 2019 Total
	Building sq.ft	Land Perches	Land (Cost) Rs 000	Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Building Rs 000	Total Rs 000	Rs 000
	<b>Through the Bank</b>								
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.1	37,081	38,832	75,913	-	-	942,000	942,000
181, High level Road, Nugegoda	11,096	16.5	82,500	71,927	154,427	99,000	89,874	188,874	188,874
<b>Through the Subsidiary</b>									
<b>- Sithma Development (Pvt) Ltd</b>									
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	41,688	-	-	63,432	63,432	-	463,590	463,590	463,590
451, Kandy Road, Kegalle [Note 36 (b) ii]	16,000	-	-	103,124	103,124	-	153,316	153,316	153,316
<b>Through the Subsidiary</b>									
<b>- HNB Finance PLC [Note 36 (b) iii]</b>									
249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	24,952	39.6	151,063	316,327	467,390	296,503	543,497	840,000	840,000
Vihara Road, Rankewatte, Matale	Land	15	9,000	-	9,000	10,500	-	10,500	10,500
44/1, Service Road, Puttalam	Land	25.6	12,800	-	12,800	31,500	-	31,500	31,500
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	20,494	182.59	49,008	59,862	108,870	69,689	85,311	155,000	155,000
06, Abaya Place, 7th Lane, Anuradhapura	Land	13.52	20,000	-	20,000	50,000	-	50,000	30,770
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Land	724	14,000	-	14,000	18,000	-	18,000	18,000
			375,452	653,504	1,028,956	575,192	1,335,588	2,852,780	2,833,550

## Notes to the Financial Statements

**36 INVESTMENT PROPERTIES (Contd.)**

36 (b) i Valued as a condominium property

36 (b) ii Lands situated at No 479, T B Jayah Mw, Colombo 10 on which HNB Towers is built, and No 21, 21A, 23 and 25, Janadhipathi Mawatha, Colombo 01 and No. 451, Kandy Road, Kegalle are leased out to Sithma Development (Pvt) Ltd by the Bank and the Bank receives ground rent. Accordingly, these lands have been classified as investment properties in the statement of financial position of the Bank.

36 (b) iii These properties are held by the subsidiary of the Bank, HNB Finance PLC. and valuations of the said properties were carried out by Messer's R.S.Wijesuriya, DIV, FIV (Sri Lanka) a professional independent valuer. All these properties other than the property situated in Trincomalee have been mortgaged to Seylan Bank PLC by HNB Finance PLC for the financial facilities obtained by the company. The aggregate mortgage value amounts to Rs 665 Mn.

36 (b) iv Building situated at No 181, High level road, Nugegoda was classified as an investment property in the statement of Financial Position since it was leased out to an external party during 2019.

**36 (c) Valuation details of Investment Properties**

In determining fair value, the current condition of the properties, future usability and associated development requirements have been considered. Further, the valuers have made reference to market evidence of transaction prices for similar properties with appropriate adjustments for size and locations.

36 (c) i Bank

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. J.M.J. Fernando	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 4,188,000 25 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs 21,500,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs 25,000,000
451, Kandy Road, Kegalle	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs. 3,250,000
181, High Level Road, Nugegoda	Mr. J.M.J. Fernando	Market comparable method and income approach - Rate per perch for land - Rate per Sq.ft.	Rs. 6,000,000 Rs. 11,500

## 36 (c) ii Group

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
<b>Through the Bank -</b>			
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. J.M.J. Fernando	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 4,188,000 25 25%
<b>Through the subsidiary - Sithma Development (Pvt) Ltd</b>			
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. J.M.J. Fernando	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs. 20,000
451, Kandy Road, Kegalle	Mr. J.M.J. Fernando	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs. 5,000 - Rs 9,000
<b>Through the subsidiary - HNB Finance PLC</b>			
No.249, Stanley Thilekerathna Mawatha, Pagoda, Nugegoda	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount Rate	Rs. 2,922,250 20%
Vihara Road, Rakewatta, Matale	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 700,000
No.44/1, Service Road, Puttalam	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 800,000
No.465/1, Old Police Station Road, Kahathduwa, Polgasowita	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount rate	Rs. 576,875 20%
No. 06, Abaya Place, 7th Lane, Anuradhapura	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 2,500,000
Adampodaivayal, Adampodaimlaikadu, Trincomalee	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 25,000

## 36 (c) iii Fair Valuation of Investment properties

Fair valuation of investment properties held through the Bank and through the subsidiary Sithma Development (Pvt) Ltd was carried out in 2020 while the fair valuation of investment properties held through the subsidiary, HNB Finance PLC was carried out in 2019.

Fair value of the investment properties is determined using the income approach, market comparable method and depreciated replacement cost basis.

**Unobservable inputs used in measuring fair value****- Depreciated replacement cost basis/Market comparable method**

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

**- Income approach**

Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/(lower) fair value.

## Notes to the Financial Statements

## 36 INVESTMENT PROPERTIES (Contd.)

## 36 (d) Statement of Income and Expenditure of investment properties

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Rental income derived from the investment properties	63,455	57,242	158,372	126,451
Direct operating expenses (including repair and maintenance) generating rental income	5,419	2,655	42,878	51,913

## 37 PROPERTY, PLANT AND EQUIPMENT

**Accounting Policy****Basis of Recognition**

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

**Measurement**

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which those are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property or equipment have different useful lives, those are accounted for as separate items (major components) of property, plant and equipment.

**Cost Model**

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

**Revaluation Model**

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Freehold land and buildings of the Group are revalued at least once in every three years on a roll over basis, to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve, or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

**Reclassification as Investment Property**

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as an investment property. Any gain arising on re-measurement, is recognised in the income statement to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in the income statement.

**Subsequent Costs**

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item, is not included under carrying amount of an item.

### De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds, is included in the income statement when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

### Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal. The assets are depreciated at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group other than disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

#### Hatton National Bank PLC and its Subsidiary Companies (except for Sithma Development (Pvt) Ltd)

Class of Asset	% per annum
Freehold buildings	2.50
Motor vehicles	25.00
Computer equipment	16.67
Office equipment	20.00
Furniture and fittings	10.00
Fixtures	10.00

Improvements to leasehold buildings over the lease period

Depreciation is not provided for freehold land.

#### Sithma Development (Pvt) Ltd

Class of Asset	% per annum
Generators, generator panels and associated power cables	2.00
Chillers, cooling towers and associated equipment	4.00
Lifts and escalator	4.00
Building management systems	4.00
Plant and machinery	20.00
Equipment	20.00
Furniture and fittings	10.00

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

### Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings and major plant and machinery awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

### Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 on "Borrowing Costs". A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the income statement in the period in which they incur.

## Notes to the Financial Statements

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

**Assumptions and estimation uncertainties****Fair value of freehold land and buildings**

The freehold land and buildings of the Group are reflected at fair value. The Group engages independent valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard - SLFRS 13 on "Fair Value Measurement".

The methods used to determine the fair value of the freehold land and buildings, are further explained in Note 37 (d) to the financial statements.

**Useful Life Time of Property, Plant and Equipment**

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

Bank	Improvements to Leasehold Buildings Note 37 (b) Rs 000	Freehold Land and Buildings Note 37 (a) Rs 000	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in-Progress Rs 000	2020 Total Rs 000	2019 Total Rs 000
Cost/valuation as at 1st January	1,848,833	17,549,780	5,206,380	6,066,618	147,986	4,529	30,824,126	29,934,589
Additions and improvements	50,424	21,701	506,719	284,331	3,841	23,270	890,286	1,148,451
Disposals during the year	(1,129)	(22)	(16,245)	(99,770)	-	-	(117,166)	(98,914)
Net impairment charge	-	(12,410)	-	-	-	-	(12,410)	-
Transferred to investment properties	-	-	-	-	-	-	-	(160,000)
Transferred from capital work-in-progress	17,646	-	-	2,333	-	(19,979)	-	-
<b>Cost/valuation as at 31st December</b>	<b>1,915,774</b>	<b>17,559,049</b>	<b>5,696,854</b>	<b>6,253,512</b>	<b>151,827</b>	<b>7,820</b>	<b>31,584,836</b>	<b>30,824,126</b>
Accumulated depreciation as at 1st January	1,550,932	193,061	3,499,044	4,401,461	102,867	-	9,747,365	8,630,219
Charge for the year [Note 18 (b)]	107,262	189,462	465,275	471,289	15,600	-	1,248,888	1,217,846
Transferred to investment properties	-	-	-	-	-	-	-	(2,806)
Disposals during the year	(767)	(22)	(16,245)	(99,439)	-	-	(116,473)	(97,895)
Accumulated depreciation as at 31st December	1,657,427	382,501	3,948,074	4,773,311	118,467	-	10,879,780	9,747,365
<b>Carrying value as at 31st December 2020</b>	<b>258,347</b>	<b>17,176,548</b>	<b>1,748,780</b>	<b>1,480,201</b>	<b>33,360</b>	<b>7,820</b>	<b>20,705,056</b>	<b>-</b>
<b>Carrying value as at 31st December 2019</b>	<b>297,901</b>	<b>17,356,719</b>	<b>1,707,336</b>	<b>1,665,157</b>	<b>45,119</b>	<b>4,529</b>	<b>-</b>	<b>21,076,762</b>

Group	Improvements to Leasehold Buildings Note 37 (b) Rs 000	Freehold Land and Buildings Note 37 (a) Rs 000	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in Progress Rs 000	2020 Total Rs 000	2019 Total Rs 000
Cost/valuation as at 1st January	1,848,833	37,622,735	5,652,041	8,926,204	161,953	114,319	54,326,085	52,819,640
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(20,621)
Revaluation surplus	-	-	-	-	-	-	-	205,000
Additions and improvements	50,424	21,701	555,404	361,491	28,912	70,596	1,088,528	1,443,626
Net Impairment charge	-	(12,410)	-	-	-	-	(12,410)	-
Disposals during the year	(1,129)	(22)	(21,834)	(122,837)	(14,994)	-	(160,816)	(151,560)
Transferred from investment properties	-	-	-	-	-	-	-	190,000
Transferred to investment properties Note 36 (b) iv)	-	-	-	-	-	-	-	(160,000)
Transferred from capital work-in-progress	17,646	-	-	2,333	-	(19,979)	-	-
Cost/valuation as at 31st December	1,915,774	37,632,004	6,185,611	9,167,191	175,871	164,936	55,241,387	54,326,085
Accumulated depreciation as at 1st January	1,550,932	714,727	3,785,933	5,704,779	117,097	-	11,873,468	10,402,514
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(20,621)
Charge for the year [Note 18 (b)]	107,262	393,301	523,703	636,918	17,897	-	1,679,081	1,641,618
Transferred to investment properties	-	-	-	-	-	-	-	(2,806)
Disposals during the year	(767)	(22)	(16,823)	(120,437)	(497)	-	(138,546)	(147,237)
Accumulated depreciation as at 31st December	1,657,427	1,108,006	4,292,813	6,221,260	134,497	-	13,414,003	11,873,468
Carrying value as at 31st December 2020	258,347	36,523,998	1,892,798	2,945,931	41,374	164,936	41,827,384	
Carrying value as at 31st December 2019	297,901	36,908,008	1,866,108	3,221,425	44,856	114,319		42,452,617

### 37 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

As required by the Rule 7.6 (viii) of the Listing Rules of the Colombo Stock Exchange.

Bank	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land Rs 000	Cost/Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2020 Carrying Value Rs 000	As at 31st December 2019 Carrying Value Rs 000
<b>Akkaraipattu Branch</b> 14, Main Street, Akkaraipattu.	17.5	9,000	72,450	70,634	143,084	6,757	136,327	139,665
<b>Ambalangoda Branch</b> 94/1, New Galle Road, Ambalangoda.	29.9	5,340	119,500	31,890	151,390	2,961	148,429	148,833
<b>Anuradhapura Branch</b> 30, Maithripala Senanayake Mawatha, Anuradhapura.	51.9	9,305	112,000	34,379	146,379	3,057	143,322	143,230
<b>Badulla Branch</b> 15, 15 1/1, Udayaraja Mawatha, Badulla.	27.6	5,502	106,838	41,980	148,818	3,956	144,862	146,859
<b>Bambalapitiya Branch</b> 285, Galle Road, Colombo 04.	20	16,170	380,000	87,821	467,821	8,378	459,443	463,422

## Notes to the Financial Statements

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

## 37 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

Bank	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land Rs 000	Cost/Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2020 Carrying Value Rs 000	As at 31st December 2019 Carrying Value Rs 000
<b>Boralesgamuwa Branch</b> 24, Maharagama Road, Boralesgamuwa.	30.34	6,261	125,588	33,270	158,858	3,155	155,703	157,279
<b>Borella Branch</b> 53/1, D S Senanayake Mawatha, Colombo 08.	28	10,934	315,000	107,385	422,385	10,261	412,124	417,235
<b>Centre of Aspirations</b> 90, Vinayalankara Mawatha, Colombo 10.	236.55	10,250	3,311,700	100,447	3,412,147	8,684	3,403,463	3,407,373
<b>Centralised Operations</b> 10, Sri Uttarananda Mawatha, Colombo 3	40	67,375	880,000	452,392	1,332,392	43,534	1,288,858	1,310,461
<b>City Office</b> 16, Janadhipathi Mawatha, Colombo 1.	84	48,443	1,848,000	101,619	1,949,619	9,543	1,940,076	1,944,461
<b>Chavakachcheri Branch</b> 170, Kandy Road, Chavakachcheri .	31.67	5,352	31,670	28,687	60,357	1,270	59,087	55,731
<b>Dambulla Branch</b> 700B, Anuradhapura Road, Dambulla.	87	7,898	200,000	44,330	244,330	4,121	240,209	240,948
<b>Fruithill Bungalow</b> No 295/6, Dimbula Road, Hatton.	53.08	4,470	20,175	19,825	40,000	1,897	38,103	39,046
<b>Galle Branch</b> 3, Wakwella Road, Galle.	13.8	8,230	95,000	35,035	130,035	3,272	126,763	128,324
<b>Gampaha Branch</b> 148, Colombo Road, Gampaha.	23.5	19,035	93,750	168,291	262,041	16,106	245,935	253,938
<b>Gampola Branch</b> 142, Kandy Road, Gampola.	12.06	12,670	65,643	101,486	167,129	5,833	161,296	164,093
<b>Grandpass Branch</b> 182, St Joseph Street, Colombo 14.	24	11,220	168,000	102,286	270,286	9,777	260,509	265,240
<b>Gunasinghapura Stores</b> 11, Mohandiram's Road, Colombo 12.	48.3	6,022	301,000	27,000	328,000	2,584	325,416	326,700
<b>Ja-Ela Branch</b> 73, Old Negombo Road, Kanuwana, Ja-Ela.	59	4,743	30,400	-	30,400	-	30,400	43,304
<b>Jaffna Metro Branch</b> 177 & 179, Ponnampalam Road, Jaffna.	61.36	30,716	276,000	416,658	692,658	23,133	669,525	681,108
<b>Kahawatte Branch</b> 772 A, Main Street, Kahawatte.	16.14	11,981	32,000	26,007	58,007	2,489	55,518	56,756
<b>Kalmunai Branch</b> 30A, Batticaloa Road, Kalmunai.	23.5	7,141	80,320	45,092	125,412	2,589	122,823	124,112
<b>Kandy Branch</b> 1, Dalada Veediya, Kandy.	57.65	27,573	720,625	218,826	939,451	20,030	919,421	927,427
<b>Kuliyapitiya Branch</b> 225, Main Street, Kuliyapitiya.	25.3	5,920	25,560	16,677	42,237	1,596	40,641	41,435
<b>Kurunegala Branch</b> 6, St. Anne's Street, Kurunegala.	29.25	19,600	163,125	110,716	273,841	10,008	263,833	266,441
<b>Mount Bungalow</b> 16, Mount Road, Hatton.	160.09	5,074	44,025	23,221	67,246	1,936	65,310	63,266

Bank	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land Rs 000	Cost/Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2020 Carrying Value Rs 000	As at 31st December 2019 Carrying Value Rs 000
<b>Mannar Branch</b> 68, Main Street, Mannar.	23	6,335	12,650	20,172	32,822	1,917	30,905	31,712
<b>Marawila Branch</b> 534, Colombo Road, Marawila.	43.8	7,240	34,800	26,218	61,018	2,495	58,523	59,606
<b>Maskeliya Branch</b> 7/11, New Town, Maskeliya.	20.32	8,541	32,512	57,559	90,071	5,508	84,563	87,303
<b>Matara Branch</b> 58D, Esplanade Road, Matara.	22.5	10,751	78,000	45,526	123,526	4,164	119,362	120,311
<b>Minuwangoda Branch</b> 41, Samarakkody Road, Minuwangoda.	20.51	5,553	45,000	30,717	75,717	2,870	72,847	74,205
<b>Managers' Bungalow</b> 295, Dimbula Road, Hatton.	42.2	2,115	15,825	10,175	26,000	974	25,026	25,511
<b>Mount Lavinia Branch</b> 605, Galle Road, Mount Lavinia.	22.66	11,350	124,300	87,188	211,488	7,862	203,626	205,609
<b>Negombo Branch</b> 18, Rajapakse Broadway, Negombo.	8.88	5,460	19,536	21,040	40,576	1,944	38,632	39,138
<b>Negombo Metro</b> 201, Colombo Road, Negombo.	51.98	26,357	133,029	218,964	351,993	20,469	331,524	341,405
<b>Nittambuwa Branch</b> 22, Kandy Road, Nittambuwa.	47	10,115	139,225	140,365	279,590	13,134	266,456	272,819
<b>Nochchiyagama Branch *</b> 10, Puttalam Road, Nochchiyagama.	-	8,128	-	25,775	25,775	2,400	23,375	23,877
<b>Nuwara Eliya Branch/Bungalow</b> 42, Queen Elizabeth Drive, Nuwara Eliya.	220.94	13,705	656,508	103,975	760,483	9,940	750,543	755,493
<b>Nugegoda Branch</b> 190, 190/1, Highlevel Road (New), Nugegoda.	39.65	16,973	297,375	177,989	475,364	8,940	466,424	470,861
<b>Panchikawatte Branch</b> 168, Panchikawatta Road, Colombo 10.	22.55	16,123	225,500	121,901	347,401	11,520	335,881	341,398
<b>Pettah Branch</b> 149-151, Main Street, Colombo 11.	13.03	11,460	293,175	100,139	393,314	9,358	383,956	388,403
<b>Pettah Metro **</b> 88, Main Street, Colombo 11.	-	3,708	-	106,623	106,623	10,192	96,431	101,427
<b>Polonnaruwa Branch *</b> 467, Main Street, Kaduruwela, Polonnaruwa.	-	9,145	-	57,565	57,565	5,507	52,058	54,798
<b>Pussellawa Branch</b> 510, Nuwara Eliya Road, Pussellawa.	10.2	6,570	30,030	37,169	67,199	3,555	63,644	65,413
<b>Ratnapura Branch</b> 21 & 23, Senanayake Mawatha, Ratnapura.	40	18,777	140,000	181,126	321,126	8,982	312,144	318,101
<b>Sea Street Branch</b> 60, Sea Street, Colombo 11.	6.93	9,608	129,938	56,852	186,790	5,423	181,367	183,862
<b>Trincomalee Branch</b> 59, Ehamparam Road, Trincomalee.	31.75	9,156	82,550	53,714	136,264	5,125	131,139	132,266

## Notes to the Financial Statements

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

## 37 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

Bank	Land Perches	Buildings Sq.ft.	Cost/ Valuation of Land Rs 000	Cost/ Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2020 Carrying Value Rs 000	As at 31st December 2019 Carrying Value Rs 000
<b>Vavuniya Branch</b> 43, Inner Circular Road, Vavuniya.	-	9,335	-	33,385	33,385	2,837	30,548	31,608
<b>Wattala Branch</b> 270, 270/1, Negombo Road, Wattala.	53	8,779	265,000	65,752	330,752	6,277	324,475	327,605
<b>Welimada Branch</b> 35, Nuwara Eliya Road, Welimada.	12.5	9,485	51,732	78,343	130,075	7,495	122,580	126,309
<b>Wellawaya Branch</b> 70, Kumaradasa Mawatha, Wellawaya.	22	10,417	22,500	23,517	46,017	2,250	43,767	44,886
<b>Wellawatte Branch</b> 100 & 102, Galle Road, Colombo 06.	36.05	16,650	630,875	152,917	783,792	14,436	769,356	776,107
<b>Total freehold land and buildings - Bank</b>			13,078,429	4,480,620	17,559,049	382,501	17,176,548	17,356,719

\* Buildings constructed on state land given on lease

\*\* Condominium property

## 37 (a) Information on Freehold Land and Buildings of the Group - Extents and Locations

Group	Land Perches	Buildings Sq.ft.	Cost/ Valuation of Land Rs 000	Cost/ Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2020 Net Book Value Rs 000	As at 31st December 2019 Net Book Value Rs 000
479 T B Jayah Mawatha, Colombo 10 [Note 37 (b) iii]	112.96	535,147	2,118,000	15,881,331	17,999,331	689,931	17,309,400	17,490,738
Janadhipathi Mawatha, Colombo 1 [Note 37 (b) ii]	26.62	-	665,500	-	665,500	-	665,500	665,500
451, Kandy Road, Kegalle	61.70	-	154,250	-	154,250	-	154,250	154,250
94 96/1, Kandy Rd, Kurunagela	7.05	5,755	24,187	65,813	90,000	2,879	87,121	88,766
46/A, Tangalle Rd, Hambanthota	9.26	2,113	11,667	13,333	25,000	583	24,417	24,750
677, William Gopallawa Mw, Kandy	9.26	5,400	24,305	56,695	81,000	2,480	78,520	79,937
168, Nawala Rd, Nugegoda	25.90	30,887	193,785	678,215	872,000	29,672	842,328	859,283
No 67/1, Mahinda Place, Kirulapone, Colombo 5	8.00	5,786	40,777	103,223	144,000	4,086	139,914	142,065
No 10/11, Galle Road, Katubedda, Moratuwa	23.00	-	46,000	-	46,000	-	46,000	46,000
<b>Total freehold land and buildings - Subsidiaries</b>			3,278,471	16,798,610	20,077,081	729,631	19,347,450	19,551,289
<b>Total freehold land and buildings - Group</b>			16,356,900	21,279,230	37,636,130	1,112,132	36,523,998	36,908,008

### 37 (b) Improvements to Leasehold Buildings

As at 31st December	Bank				Group			
	Cost of Buildings Rs 000	2020	Net Book Value Rs 000	2019	Cost of Buildings Rs 000	2020	Net Book Value Rs 000	2019
		Accumulated Depreciation Rs 000		Net Book Value Rs 000		Accumulated Depreciation Rs 000		Net Book Value Rs 000
01 - 05 years	1,124,669	956,878	167,791	101,553	1,124,669	956,878	167,791	101,553
06 - 10 years	775,078	690,625	84,453	185,072	775,078	690,625	84,453	185,072
11 - 15 years	4,910	4,477	433	11,122	4,910	4,477	433	11,122
16 - 20 years	11,117	5,447	5,670	154	11,117	5,447	5,670	154
Total	1,915,774	1,657,427	258,347	297,901	1,915,774	1,657,427	258,347	297,901

### 37 (c) The Details of Freehold Land and Buildings Which are Stated at Valuation

As required by the Rule 7.6 (viii) of the Listing Rules of the Colombo Stock Exchange.

Date of valuation : 31st December 2018

	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying value before revaluation of		Revalued amount of		Revaluation Gain/(Loss) Recognised on	
			Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000
Akkaraipattu Branch	Mr. W.M.H.G. Heenbanda	Rs.3,750,000 p.p/ Rs.7,000 p. sq.ft	67,788	66,056	72,450	70,550	4,662	4,494
Ambalangoda Branch	Mr. G.K.D.K. Abeytunga	Rs.4,000,000 p.p/Rs.7,000 to Rs.8,500 p. sq.ft	97,000	20,509	119,500	30,500	22,500	9,991
Anuradhapura Branch	Mr. Tissa Weeratne	Rs.1,100,000 to Rs.2,950,000 p.p/Rs.3,650 to Rs.5,000 p. sq.ft	106,500	30,340	112,000	32,800	5,500	2,460
Badulla Branch	Mr. W.M.H.G. Heenbanda	Rs.3,850,000 p.p/Rs.2,500 to Rs. 7,000 p.sq.ft	104,063	34,015	106,837	38,162	2,775	4,147
Bambalapitiya Branch	Mr. J.M.J. Fernando	Rs.19,000,000 p.p/Rs.12,000 p. sq.ft	300,000	71,660	380,000	87,000	80,000	15,340
Boralessgamuwa Branch	Mr. J.M.J. Fernando	Rs.4,250,000 p.p/Rs.4,500 to Rs.8,500 p. sq.ft	103,425	26,289	125,587	32,413	22,162	6,124
Borella Branch	Mr. J.M.J. Fernando	Rs.11,250,000 p.p/Rs.2,750 to Rs.14,000 p. sq.ft	252,000	91,475	315,000	107,000	63,000	15,525
Centre of Aspiration	Mr. J.M.J. Fernando	Rs.14,000,000 p.p/Rs.8,500 p. sq.ft	2,602,050	57,060	3,311,700	71,300	709,650	14,240
Chavakachcheri Branch	Mr. B. Balenthiran	Rs.1,000,000 p.p/Rs.3,000 to Rs.4,500 p. sq.ft	35,420	15,193	31,670	21,330	(3,750)	6,137
City Office	Mr. J.M.J. Fernando	Rs.22,000,000 p.p/Rs.3,000 to Rs.10,000 p. sq.ft	1,470,000	83,160	1,848,000	98,000	378,000	14,840
Dambulla Branch	Mr. D.D.C. Heendeniya	Rs.1,000,000 to Rs.3,000,000 p.p/Rs.8,000 to Rs.8,500 p. sq.ft	140,000	41,222	200,000	43,000	60,000	1,778
Fruithill Bungalow	Mr. W.M.H.G. Heenbanda	Rs.375,000 p.p/Rs.5,750 p. sq.ft	18,829	17,305	20,175	19,825	1,346	2,520
Galle Branch	Mr. G.K.D.K. Abeytunga	Rs.7,000,000 p.p/Rs.5,500 to Rs.8,000 p. sq.ft	78,000	29,211	95,000	35,000	17,000	5,789

## Notes to the Financial Statements

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

## 37 (c) The Details of Freehold Land and Buildings Which are Stated at Valuation (Contd.)

	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying value before revaluation of		Revalued amount of		Revaluation Gain/(Loss) Recognised on	
			Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000
Gampaha Branch	Mr. N.M. Jayatilake	Rs.3,750,000 p.p/Rs.8,500 to Rs.16,000 p. sq.ft	75,000	162,898	93,750	168,250	18,750	5,352
Gampola Branch	Mr. W.M.H.G. Heenbanda	Rs.3,850,000 p.p/Rs. 7,000 p. sq.ft	63,938	92,541	65,642	101,357	1,704	8,816
Grandpass Branch	Mr. J.M.J. Fernando	Rs.7,000,000 p.p/Rs.12,500 p. sq.ft	132,000	85,404	168,000	102,000	36,000	16,596
Gunasinghepura Stores	Mr. J.M.J. Fernando	Rs.7,000,000 p.p/Rs.2,500 to Rs.6,500 p. sq.ft	255,480	22,400	301,000	27,000	45,520	4,600
Ja-Ela Branch	Mr. Tissa Weeratne	Rs.1,600,000 p.p/Rs.2,600 to Rs.4,650 p. sq.ft	28,500	13,410	30,400	13,500	1,900	90
Jaffna Metro Branch	Mr. B. Balenthiran	Rs.4,500,000 p.p/Rs.12,500 p. sq.ft	276,000	275,797	276,000	415,000	-	139,203
Kahawatte Branch	Mr. G.K.D.K. Abeytungga	Rs.2,000,000 p.p/Rs.4,500 to Rs.8,000 p. sq.ft	26,500	20,000	32,000	26,000	5,500	6,000
Kalmunai Branch	Mr. W.M.H.G. Heenbanda	Rs.3,200,000 p.p/Rs.7,000 p. sq.ft	75,300	40,593	80,320	44,680	5,020	4,087
Kandy Branch	Mr. W.M.H.G. Heenbanda	Rs.12,500,000 p.p/Rs.7,000 to Rs.8,000 p. sq.ft	691,800	184,302	720,625	214,375	28,825	30,073
Kuliypitiya Branch	Mr. Tissa Weeratne	Rs.450,000 to Rs.900,000 p.p/Rs.4,750 p. sq.ft	28,510	16,906	25,560	16,672	(2,950)	(234)
Kurunegala Branch	Mr. N.M. Jayatilake	Rs.4,500,000 p.p/Rs.4,000 to Rs.9,500 p. sq.ft	145,000	105,263	163,125	107,875	18,125	2,612
Mount Bungalow	Mr. W.M.H.G. Heenbanda	Rs.275,000 p.p/Rs.4,750 p. sq.ft	40,023	19,174	44,025	19,975	4,002	801
Mannar Branch	Mr. Tissa Weeratne	Rs.550,000 p.p/Rs.2,800 to Rs.3,600 p. sq.ft	11,500	18,776	12,650	20,000	1,150	1,224
Marawila Branch	Mr. Tissa Weeratne	Rs.525,000 to Rs.1,100,000 p.p/Rs.500 to Rs.4,500 p. sq.ft	32,150	24,206	34,800	25,900	2,650	1,694
Maskeliya Branch	Mr. W.M.H.G. Heenbanda	Rs.1,600,000 p.p/Rs.6,000 to Rs.7,000 p. sq.ft	30,480	53,005	32,512	57,488	2,032	4,483
Matara Branch	Mr. G.K.D.K. Abeytungga	Rs.3,000,000 p.p/Rs.5,000 to Rs.8,000 p. sq.ft	58,500	36,356	78,000	44,000	19,500	7,644
Minuwangoda Branch	Mr. Tissa Weeratne	Rs.2,200,000 p.p/Rs.2,850 to Rs.6,250 p. sq.ft	41,020	25,453	45,000	30,650	3,980	5,197
Manager Bungalow	Mr. W.M.H.G. Heenbanda	Rs.375,000 p.p/Rs.4,000 p. sq.ft	14,769	9,744	15,825	10,175	1,056	431
Mount Lavinia Branch	Mr. J.M.J. Fernando	Rs.5,500,000 p.p/Rs.12,000 p. sq.ft	101,970	68,655	124,300	84,400	22,330	15,745
Negombo Branch	Mr. Tissa Weeratne	Rs.2,200,000 p.p/Rs.850 to Rs.5,050 p. sq.ft	17,760	19,586	19,536	19,800	1,776	214
Negombo Metro Building	Mr. Tissa Weeratne	Rs.2,500,000 p.p/Rs.2,500 to Rs.9,525 p. sq.ft	113,467	201,389	133,029	217,971	19,562	16,582
Nittambuwa Branch	Mr. J.M.J. Fernando	Rs.2,500,000 p.p/Rs.12,000 to Rs.18,000 p. sq.ft	128,101	137,539	139,225	140,275	11,124	2,736

	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying value before revaluation of		Revalued amount of		Revaluation Gain/(Loss) Recognised on	
			Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000
Nochchiyagama Branch*	Mr. Tissa Weeratne	Rs 1,500 to Rs.4,550 p. sq.ft	-	24,160	-	25,000	-	840
Nugegoda Branch	Mr. J.M.J. Fernando	Rs 5,000,000 p.p/Rs.10,000p. sq.ft	82,500	67,144	82,500	77,500	-	10,356
Nugegoda Branch	Mr. J.M.J. Fernando	Rs.7,500,000 p.p/Rs.2,500 to Rs.12,500 p. sq.ft	237,900	155,943	297,375	177,625	59,475	21,682
Nuwara Eliya Branch/ Bungalow	Mr. W.M.H.G. Heenbanda	Rs.3,600,000 to Rs.5,600,000 p.p/Rs.7,000 p. sq.ft	641,605	91,635	656,508	103,492	14,903	11,857
Panchikawatta Branch	Mr. J.M.J. Fernando	Rs.10,000,000 p.p/Rs.12,000 p. sq.ft	180,400	99,071	225,500	119,500	45,100	20,429
Pettah Branch	Mr. J.M.J. Fernando	Rs.22,500,000 p.p/Rs.12,500 p. sq.ft	234,540	82,396	293,175	99,825	58,635	17,429
Pettah Metro**	Mr. J.M.J. Fernando	Rs.28,700 p.sq.ft	-	87,912	-	106,400	-	18,488
Polonnaruwa Branch	Mr. N.M. Jayatilake	Rs.7,000 to Rs.7,750 p. sq.ft	-	54,381	-	57,500	-	3,119
Pussellawa Branch	Mr. W.M.H.G. Heenbanda	Rs.2,100,000 p.p/Rs.7,000 p. sq.ft	28,600	32,910	30,030	36,970	1,430	4,060
Ratnapura Branch	Mr. J.M.J. Fernando	Rs.3,500,000 p.p/Rs.1,800 to Rs.10,500 p. sq.ft	110,023	135,299	140,000	175,000	29,977	39,701
Sea Street Branch	Mr. J.M.J. Fernando	Rs.18,750,000 p.p/Rs.12,000 p. sq.ft	103,950	46,040	129,938	56,462	25,987	10,422
Trincomalee Branch	Mr. D. D. C. Heendeniya	Rs.2,600,000 p.p/Rs.6,750 to Rs.8,500 p. sq.ft	79,375	51,320	82,550	52,450	3,175	1,130
Vavuniya Branch*	Mr. Tissa Weeratne	Rs.1,550 to Rs. 4,600 p. sq.ft	-	24,226	-	26,000	-	1,774
Wattala Branch	Mr. J.M.J. Fernando	Rs.5,000,000 p.p/Rs.1,500 to Rs.12,000 p. sq.ft	212,000	54,488	265,000	65,000	53,000	10,512
Welimada Branch	Mr. W.M.H.G. Heenbanda	Rs.3,600,000 p.p/Rs.7,000 p. sq.ft	50,295	71,243	51,732	78,268	1,437	7,025
Wellawaya Branch	Mr. G.K.D.K. Abeytunga	Rs.850,000 p.p/Rs.3,500 to Rs.5,000 p. sq.ft	7,500	20,053	22,500	23,500	15,000	3,447
Wellawatte Branch	Mr. J.M.J. Fernando	Rs.17,500,000 p.p/Rs.2,000 to Rs.13,000 p. sq.ft	504,700	126,813	630,875	152,125	126,175	25,312
Centralised Operations Building	Mr. J.M.J. Fernando	Rs.22,000,000 p.p/Rs.16,500 p. sq.ft	700,000	351,188	880,000	450,270	180,000	99,082
<b>Total</b>			<b>10,936,231</b>	<b>3,793,114</b>	<b>13,160,926</b>	<b>4,477,110</b>	<b>2,224,695</b>	<b>683,996</b>

\* Buildings constructed on the state land given on lease

\*\* Condominium property

## Notes to the Financial Statements

**37 PROPERTY, PLANT AND EQUIPMENT (Contd.)****37 (d) Fair value measurement of Freehold land and buildings**

Given below are the valuation techniques used in measuring property plant and equipment;

Type	Valuation technique	Inter-relationship between significant unobservable inputs and fair value measurement
Property, Plant and Equipment	Depreciated replacement cost basis	Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.
	Market comparable method	Market comparable method considers the selling price of a similar property within a reasonable period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are compensated for, since the price may not adequately reflect the fair market value.
	Investment method	Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/(lower) fair value.

The fair values of the Bank's freehold land and buildings are determined by independent valuers at least once in every three years according to the Bank's policy.

**37 (e) Temporarily Idle Property, Plant and Equipment - Bank**

There was no temporarily idle property, plant and equipment as at 31st December 2020.

**37 (f) Compensation from Third Parties for Property, Plant and Equipment - Bank**

No compensation was received from third parties for items of property, plant and equipment that were impaired, lost or given up.

**37 (g) Capitalised Borrowing Costs - Bank**

There were no capitalised borrowing costs pertaining to the acquisition of property plant and equipment during the year 2020 (2019 - Nil)

**37 (h) Title restriction on property plant and equipment**

There were no restrictions on the title of the property plant and equipment of the Group/Bank as at the reporting date.

**37 (i) Property plant and equipment pledged as security for liabilities - Group**

There were no item of property, plant and equipment pledged as securities for liabilities as at the reporting date in the Bank.

**37 (j) Capitalisation of Borrowing Costs**

There were no capitalised borrowing costs relating to acquisition of property, plant and equipment during the year (2019 - Nil).

### 37 (k) Fully Depreciated Property, Plant and Equipment

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

As at 31 December	Bank	
	2020 Rs 000	2019 Rs 000
Leasehold building	1,258,881	1,172,147
Computer equipment	2,601,813	2,663,729
Office equipment, furniture and fixtures	3,290,057	3,397,890
Motor Vehicle	85,747	85,747
Total	7,236,498	7,319,513

### 38 RIGHT-OF-USE ASSETS

#### Accounting Policy

In accordance with Sri Lanka Accounting Standard - SLFRS -16 " Lease " Group accounts for all lease hold rights except for short term leases, which are held for use in the provision of services. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### • Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease component and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in the face of the "statement of financial position" and lease liabilities in "other liabilities" in the statement of financial position.

#### • Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## Notes to the Financial Statements

## 38 RIGHT-OF-USE ASSETS (Contd.)

- Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The details of lease receivables which comprise of finance leases where the group acts as the lessor, are disclosed in note 38 (b) of financial statements.

- Leases as lessee

The Bank leases a number of branch and office premises. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Branch and office premises were entered in to many years ago and previously, these leases were classified as operating leases under LKAS 17.

Information about leases for which the Bank is a lessee is presented below.

**Accounting Judgements, Estimates and Assumptions****Right-of-Use Assets and Operating Lease Liability**

The Group uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Group applies judgements in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic benefit for it to exercise either the renewal or termination. Further, the Group cannot readily determine the interest rate implicit in the lease. Therefore, it uses its incremental borrowing rate to measure operating lease liability. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in similar economic environment.

**38 (a) Movement in right-of-use assets**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Cost</b>				
Balance as at 1st January	6,180,287	6,163,805	2,173,638	2,039,090
Additions/renewals of operating leases during the year	807,306	36,616	1,123,355	157,775
Expiration of operating lease agreements during the year	(102,576)	(20,134)	(143,963)	(23,227)
<b>Balance as at 31st December</b>	<b>6,885,017</b>	<b>6,180,287</b>	<b>3,153,030</b>	<b>2,173,638</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	697,609	-	602,319	-
Amortisation for the year [Note 18 (b)]	830,540	697,609	757,405	602,319
Depreciation on Disposals	-	-	(34,526)	
<b>Balance as at 31st December</b>	<b>1,528,149</b>	<b>697,609</b>	<b>1,325,198</b>	<b>602,319</b>
<b>Carrying value as at 31st December</b>	<b>5,356,868</b>	<b>5,482,679</b>	<b>1,827,832</b>	<b>1,571,319</b>

The operating lease liabilities are presented under Note 51 to the financial statements. Given below is the movement of the operating lease liability during the period.

**38 (b) Movement in lease liabilities**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	5,810,225	6,163,805	1,668,211	2,039,090
Additions/renewal of operating lease agreements during the year	807,306	36,616	1,053,899	122,504
Accretion of interest [Note 8 (b)]	907,093	806,449	354,456	247,312
Payments to lease creditors	(1,335,009)	(1,176,511)	(834,110)	(717,468)
Expiration of operating lease agreements during the year	(102,576)	(20,134)	(111,020)	(23,227)
Balance as at 31st December (Note 51)	6,087,039	5,810,225	2,131,436	1,668,211

**38 (c) Future minimum lease payments under non-cancellable operating leases.**

As at 31 December	Bank	
	2020 Rs 000	2019 Rs 000
<b>Maturity analysis – Contractual undiscounted cash flows</b>		
Less than one year	106,681	-
Between one and five years	777,748	1,071,504
More than five years	11,846,309	12,941,736
<b>Total undiscounted lease liabilities at 31st December</b>	<b>12,730,738</b>	<b>14,013,240</b>

**38 (d) Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumption****Sensitivity to Incremental Borrowing Rates**

Increase/(decrease) in incremental borrowing rate as at 31st December 2020 by 1% would have (decreased)/increased the lease liability by approximately Rs 262.72 Mn and Rs 283.53 Mn respectively. Had the Bank increased/(decreased) the discount rate by 1%, the Bank's profit before tax for the year would have (decreased)/increased by approximately Rs 45.07 Mn and Rs 50.54 Mn respectively.

**38 (e) Amounts Recognised in Profit or loss**

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Interest expense on operating lease liabilities	907,093	806,449	354,456	247,312
Amortisation of right-of-use assets	830,540	697,609	757,405	602,319
<b>Total</b>	<b>1,737,633</b>	<b>1,504,058</b>	<b>1,110,940</b>	<b>849,631</b>

**38 (f)** Amounts recognised in statement of cash flows in respect of operating lease liabilities during the year ended 31st December 2020 amounts to Rs 1,136 Mn (2019 - Rs 1,114 Mn)

**38 (g) Extension Options**

Some leases of office premises contain options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

**38 (h) Leases as Lessor**

The details on maturity analysis of finance lease receivables have been provided in Note 61 to the financial statements.

# Notes to the Financial Statements

## 39 INTANGIBLE ASSETS AND GOODWILL

### Accounting Policy

#### Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

#### (a) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 3.1.1 to the financial statements.

#### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss in such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of equity accounted investee.

Any gain on bargain purchase is recognised immediately in the income statement.

#### (b) Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that those will lead to future economic benefits, are included in the statement of financial position under the category 'intangible assets' and are carried at cost less accumulated amortisation and any accumulated impairment losses

#### (c) License

The amount that would be required to obtain a license to operate a registered finance business is recognised as license in the financial statements.

#### Subsequent expenditure

Expenditure incurred on software is capitalised, only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

#### Amortisation

The useful lives of intangible assets are assessed as either finite or infinite.

Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank/ Group.

The estimated amortisation rates are as follows

Class of Asset	% per annum
Computer software	16.67

Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Expenditure on an intangible item that was initially recognised as an expense by the Group in previous annual financial statements or interim financial statements are not recognised as part of the cost of an intangible asset at a later date. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Goodwill and intangible assets with infinite useful lives are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

#### De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

#### Accounting Judgements, Estimates and Assumptions

##### Impairment of Goodwill

The Group estimates the value in use of the Cash Generating Units (CGU) to which goodwill has been allocated in order to determine whether goodwill is impaired. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

##### Useful Life Time of Intangible Assets

The Group reviews the residual values, useful lives and methods of depreciation of intangible assets at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Cost</b>				
Balance as at 1st January	4,164,571	3,665,492	5,038,558	4,438,567
Additions and improvements during the year	507,094	499,079	550,861	599,991
<b>Balance as at 31st December</b>	<b>4,671,665</b>	<b>4,164,571</b>	<b>5,589,419</b>	<b>5,038,558</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	3,087,930	2,759,839	3,470,478	3,060,703
Amortisation for the year [Note 18 (b)]	274,563	328,091	368,947	409,775
<b>Balance as at 31st December</b>	<b>3,362,493</b>	<b>3,087,930</b>	<b>3,839,425</b>	<b>3,470,478</b>
<b>Carrying value as at 31st December</b>	<b>1,309,172</b>	<b>1,076,641</b>	<b>1,749,994</b>	<b>1,568,080</b>

#### 39 (a) Analysis of Intangible Assets

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Computer Software	1,309,172	1,076,641	1,527,053	1,345,139
Goodwill *	-	-	122,941	122,941
License	-	-	100,000	100,000
	<b>1,309,172</b>	<b>1,076,641</b>	<b>1,749,994</b>	<b>1,568,080</b>

\*Goodwill amounting to Rs 122.94 Mn has been recognised in respect of acquisition of HNB Finance PLC.

#### 39 (a) i Assessment of Impairment

As at 31st December 2020, the Bank carried out an impairment assessment on the goodwill recognised, on acquisition of HNB Finance PLC.

The recoverable value of the goodwill has been determined based on the residual income method.

Key assumptions used in residual income calculation

## Notes to the Financial Statements

### 39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

#### 39 (a) i Assessment of Impairment (Contd.)

##### Profit Growth

Profit growth for the next five years was projected at Compound Annual Growth Rate (CAGR). This was based on a reasonable value growth, taking into account the anticipated growth in micro finance industry and the existing interest margin of the company. Beyond five years terminal growth was assumed to be 0%.

##### Discount factor

The discount rate of 20% used is the risk free rate, adjusted by the addition of an appropriate risk premium.

##### Inflation

The basis used to determine the value assigned to the budgeted cost inflation is the inflation rate based on projected economic conditions.

The Board of Directors has assessed the potential impairment loss of other intangible assets as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

#### 39 (a) ii Title Restriction on Intangible Assets

There are no restrictions on the title of the intangible assets of the Group as at the reporting date.

#### 39 (a) iii Intangible Assets pledged as Security

None of the Intangible assets have been pledged as security as at the reporting date.

#### 39 (a) iv Acquisition of Intangible Assets During the Year

During the financial year, the Bank and Group acquired intangible assets to the aggregate value of Rs. 507 Mn and Rs. 551 Mn respectively (2019 - Rs. 499 Mn and Rs. 600 Mn respectively). Cash payments amounting to Rs. 507 Mn and Rs. 551 Mn respectively (2019 - Rs. 499 Mn and Rs. 600 Mn) were made for purchase intangible assets by the Bank and Group respectively, during the year.

#### 39 (a) v Fully Amortised Intangible Assets in Use

Intangible assets include fully amortised computer software amounting Rs. 2.4 Bn (2019 - Rs. 2.4 Bn) which are in use in the normal business activities of the Group.

### 40 DEFERRED TAX ASSETS AND LIABILITIES

#### Accounting Policy

The policy adopted in accounting for deferred tax are given in Note 21 to the financial statements.

#### Accounting Judgements, Estimates and Assumptions

##### Deferred Tax Assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and on tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Net deferred tax liabilities [Note 40 (a)]	-	1,381,754	5,371,390	7,334,048
Net deferred tax assets [Note 40 (b)]	806,539	-	1,728,958	1,250,755
	806,539	(1,381,754)	(3,642,432)	(6,083,293)

**40 (a) Net Deferred Tax Liabilities**

	Bank		Group	
	2020 Tax Effect Rs 000	2019 Tax Effect Rs 000	2020 Tax Effect Rs 000	2019 Tax Effect Rs 000
Balance as at 1st January	6,466,332	6,286,779	12,908,877	12,353,486
Originating during the year				
Recognised/(realised) in the income statement	106,468	(261,906)	(415,571)	63,124
<b>Recognised in OCI</b>				
Revaluation surplus recognised on buildings	-	-	-	44,522
Government securities	(61,588)	441,459	(61,588)	447,745
<b>Balance as at 31st December</b>	<b>6,511,212</b>	<b>6,466,332</b>	<b>12,431,718</b>	<b>12,908,877</b>
Offset against deferred tax assets	(6,511,212)	(5,084,578)	(7,060,328)	(5,574,829)
<b>Net deferred tax liabilities (Note 40)</b>	<b>-</b>	<b>1,381,754</b>	<b>5,371,390</b>	<b>7,334,048</b>

**40 (b) Net Deferred Tax Assets**

	Bank		Group	
	2020 Tax Effect Rs 000	2019 Tax Effect Rs 000	2020 Tax Effect Rs 000	2019 Tax Effect Rs 000
Balance as at 1st January	5,084,578	4,477,881	6,825,584	6,521,813
Originating during the year				
Recognised/(realised) in the income statement	2,233,173	606,697	1,969,756	303,771
Recognised in OCI	-	-	(6,054)	-
<b>Balance as at 31st December</b>	<b>7,317,751</b>	<b>5,084,578</b>	<b>8,789,286</b>	<b>6,825,584</b>
Offset against deferred tax liabilities	(6,511,212)	(5,084,578)	(7,060,328)	(5,574,829)
<b>Net deferred tax assets (Note 40)</b>	<b>806,539</b>	<b>-</b>	<b>1,728,958</b>	<b>1,250,755</b>

## Notes to the Financial Statements

## 40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)

## 40 (c) Recognised Deferred Tax Assets and Liabilities

## 40 (c) i Recognised Deferred Tax Assets/(Liabilities) - Bank

	Temporary Difference	Statement of Financial Position As at 31st December	Temporary Difference	Statement of Financial Position As at 31st December	Statement of Profit or Loss For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2020	2020	2019	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes								
- Property, plant and equipment	(3,012,771)	(843,576)	(2,638,429)	(738,760)	(104,816)	(111,334)		-
- Intangible assets	(426,632)	(119,457)	(406,393)	(113,790)	(5,667)	78,634		-
- Assets on leasing business	(4,318,768)	(1,209,255)	(4,333,111)	(1,213,271)	4,016	294,607		-
Revaluation of government securities	(1,024,600)	(286,888)	(1,244,557)	(348,476)		-	61,588	(441,459)
Capital gain on land revaluation	(12,067,721)	(3,378,962)	(12,067,721)	(3,378,962)		-		-
Revaluation of freehold buildings	(2,403,836)	(673,074)	(2,403,836)	(673,074)		-		-
Operating lease rights	730,171	204,448	327,546	91,713	112,735	91,713		-
Temporary difference on allowance for impairment	25,404,657	7,113,304	17,831,664	4,992,866	2,120,438	514,984		-
	2,880,500	806,540	(4,934,836)	(1,381,754)	2,126,706	868,604	61,588	(441,459)

## 40 (c) ii Recognised Deferred Tax Assets/(Liabilities) - Group

	Temporary Difference	Statement of Financial Position As at 31st December	Temporary Difference	Statement of Financial Position As at 31st December	Statement of Profit or Loss For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2020	2020	2019	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes								
- Property, plant and equipment	(3,692,196)	(1,033,815)	(3,916,607)	(1,096,650)	62,835	(207,335)		-
- Intangible assets	(426,632)	(119,457)	(406,393)	(113,790)	(5,667)	78,634		-
- Assets on leasing business	(4,712,721)	(1,319,562)	(4,449,557)	(1,245,876)	(73,686)	429,207		-
Revaluation of government securities	(1,055,600)	(295,568)	(1,267,011)	(354,763)		-	54,565	(447,745)
Capital gain on land revaluation	(22,390,486)	(6,269,336)	(22,390,486)	(6,269,336)	-	-	-	-
Revaluation of freehold buildings	(9,305,939)	(2,605,663)	(9,305,939)	(2,605,663)	-	-	-	(63,174)
Undistributed profits of subsidiaries and joint ventures*	(2,330,989)	(652,677)	(4,431,132)	(1,240,717)	588,040	(334,694)		-
Unutilised tax losses	2,590,196	725,255	3,573,832	1,000,673	(275,418)	(289,940)		-
Operating lease rights	725,886	203,248	324,496	90,859	112,389	90,859		-
Temporary difference on allowance for impairment and retirement benefits	27,589,796	7,725,143	20,542,750	5,751,970	1,976,834	668,728	2,102	(2,748)
	(13,008,686)	(3,642,432)	(21,726,046)	(6,083,293)	2,385,327	435,459	56,667	(513,667)

\*During the year recognition of deferred tax liability on undistributed profits from subsidiaries reduced based on the regulatory restrictions on distribution.

#### 40 (d) Movement in tax losses utilization - Subsidiaries

##### HNB Assurance PLC - Group

As per Section 67 of Inland Revenue Act No. 24 of 2017 ('the Act') which was effective from 1st April 2018, HNB Assurance PLC ("HNBA") commence generation of a taxable income due to tax base change. Further the Act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Inland Revenue Act No. 10 of 2006, it was limited to 35% of the total statutory income. As at 31st December 2020, life insurance business had a cumulative tax loss of Rs. 2,590 Mn which was incurred as per Section 92 Inland Revenue Act No. 10 of 2006. According to the transitional provisions of new Act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1st April 2018. HNBA made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. During the year, HNBA utilised a tax loss of Rs.984 Mn against the taxable income generated for the year ended 31st December 2020 which resulted in a reversal of deferred tax asset of Rs. 275 Mn for the year ended 31st December 2020.

The Group does not have unrecognised deferred tax asset as at the reporting date.

#### 40 (e) New amendments to Income Tax Law announced by the Government

##### Corporate income tax rate proposed to reduce to 24%

The Cabinet has approved the reduction of the corporate income tax rate 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 2020 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 5,145.4 Mn recognized through the Statement of Profit or Loss and net deferred tax liability of Rs 4,338.9 Mn recognised through OCI.

Had the Bank applied the reduced income tax rate of 24% to calculate deferred tax assets/liabilities as at 31st December 2020, the net deferred tax liability would have been decreased by Rs 115.2 Mn and the resulting charge to Income Statement and the reversal to other comprehensive income for the year would have been Rs 735 Mn and Rs 619.8 Mn respectively.

#### 41 OTHER ASSETS

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Un-amortised cost on staff loans	3,507,696	4,882,708	3,597,683	4,981,046
Other debtors	1,428,648	2,438,133	3,522,072	4,973,356
Reimbursement under special senior citizen deposit scheme	1,866,333	3,649,155	1,866,333	3,649,155
Deposits and prepayments	1,757,421	1,911,927	2,112,335	1,839,044
Stationary and other consumables	64,396	132,045	68,006	132,045
Allowance for impairment [Note 41 (a)]	(108,655)	(106,734)	(120,950)	(106,734)
	8,515,839	12,907,234	11,045,479	15,467,912

As at 31st December 2020 other assets includes Rs 2,279 Mn (2019 - Rs 4,341 Mn) financial assets in the Bank and Rs 3,851 Mn (2019 - Rs 4,697 Mn) in the Group.

#### 41 (a) Movement in Impairment Allowance

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	106,734	71,724	106,734	71,724
Net impairment charge/(reversal) for the year	1,921	35,010	14,216	35,010
As at 31st December	108,655	106,734	120,950	106,734

## Notes to the Financial Statements

## 42 DUE TO BANKS

**Accounting Policy**

Due to banks represents refinance borrowings, call and time deposits and borrowings from banks. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Local bank borrowings	8,975,341	39,106,423	8,975,341	39,923,089
Foreign bank borrowings	68,028,599	44,566,757	68,028,599	44,566,757
Refinance borrowings	11,812,686	2,148,326	11,812,686	2,148,326
Other balances	930,083	574,798	930,083	574,798
	89,746,709	86,396,304	89,746,709	87,212,970

The maturity analysis of due to banks is given in Note 61 to the financial statements

## 43 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

**Accounting Policy**

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position, as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset and a corresponding obligation to return it with accrued interest, as 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Securities sold under repurchase agreements				
With banks	6,000,750	13,225,068	6,000,750	13,225,068
With customers	4,360,633	4,344,326	4,360,633	4,344,326
	10,361,383	17,569,394	10,361,383	17,569,394

#### 44 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - DUE TO DEPOSITORS

##### Accounting Policy

Due to depositors include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call, certificate of deposits and margin deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method, except where the Group designates liabilities measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are de-recognised. Group has not designated any liabilities at fair value through profit or loss as at the reporting date.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Local currency deposits	783,984,735	665,478,509	811,406,831	690,741,178
Foreign currency deposits	183,836,669	144,556,605	183,542,081	144,318,968
	967,821,404	810,035,114	994,948,912	835,060,146

#### 44 (a) Analysis of Due to Customers

##### 44 (a) i By Product

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Current account deposits	63,999,271	49,793,200	63,301,642	49,478,023
Savings deposits	319,664,996	234,998,308	321,968,238	237,744,174
Time deposits	582,147,218	523,443,105	607,669,113	546,037,448
Certificates of deposit	338,098	385,196	338,098	385,196
Margin deposits	1,671,821	1,415,305	1,671,821	1,415,305
	967,821,404	810,035,114	994,948,912	835,060,146

## Notes to the Financial Statements

## 44 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - DUE TO DEPOSITORS (Contd.)

44 (a) ii By Currency

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Sri Lankan Rupees	783,984,735	665,478,509	811,406,831	690,741,178
United States Dollars	159,028,401	122,676,543	158,735,434	122,440,329
Great Britain Pounds	10,699,629	9,713,021	10,699,629	9,713,021
Euros	5,769,782	5,684,623	5,768,161	5,683,200
Australian Dollars	6,822,056	5,320,326	6,822,056	5,320,326
Other currencies	1,516,801	1,162,092	1,516,801	1,162,092
	967,821,404	810,035,114	994,948,912	835,060,146

The maturity analysis of due to depositors is given in Note 61 to the financial statements.

## 45 DIVIDENDS PAYABLE

Details of dividends declared for the year after the reporting date are given in Note 23 (a) to the financial statements as an event after the reporting period in accordance with the Sri Lanka Accounting Standard - LKAS 10 on "Events after the reporting period".

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	1,449,472	994,812	1,466,959	1,009,468
Final cash dividends declared in the prior year	1,751,424	1,724,277	1,871,424	1,864,277
Interim cash dividends declared during the year	-	500,407	-	540,407
Transfer to retained earning	(32,153)	(29,922)	(32,153)	(29,922)
Dividends paid during the year	(2,206,558)	(1,740,102)	(2,325,723)	(1,917,271)
Balance as at 31st December	962,185	1,449,472	980,507	1,466,959

#### 46 FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

##### Accounting Policy

Other borrowings represent refinance borrowings and borrowings from other financial institutions. Subsequent to initial recognition these borrowings are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Refinance borrowings	3,276,624	4,216,046	3,276,624	4,216,046
Foreign borrowings	27,249,637	18,387,993	27,249,637	18,387,993
	30,526,261	22,604,039	30,526,261	22,604,039

The maturity analysis of financial liabilities at amortised cost – other borrowings is given in Note 61 to the financial statements.

#### 47 DEBT SECURITIES ISSUED

##### Accounting Policy

Debt securities issued represent funds borrowed for long term funding purposes. Subsequent to initial recognition debt securities are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Interest rate of comparative government securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
								As at 31.12.2020 Rs 000	As at 31.12.2019 Rs 000	As at 31.12.2020 Rs 000	As at 31.12.2019 Rs 000
2013/2023	Listed	Annually	2,000,000	8.00%	10 Years	30th Aug 2013	29th Aug 2023	1,791,002	1,713,604	1,766,243	1,689,910
		Semi Annually	84,040	8.33%	10 Years	15th Dec 2014	15th Dec 2024	84,040	84,040	64,040	63,998
2014/2024*	Not Listed	Monthly	665,000	(1 Yr Avg TB rate)	20 Years	01st Apr 2011	31st Mar 2040	-	-	581,125	615,078
Total debt securities issued								1,875,042	1,797,644	2,411,408	2,368,986
Due within one year								54,356	54,208	54,356	54,003
Due after one year								1,820,686	1,743,436	2,357,052	2,314,983
Total debt securities issued								1,875,042	1,797,644	2,411,408	2,368,986

HNB Assurance PLC, subsidiary of the Bank has invested Rs 47 Mn in debt securities issued by the Bank.

\* Debt securities issued by HNB Finance PLC. Capital repayment will commence from 2024.

## Notes to the Financial Statements

## 48 CURRENT TAX LIABILITIES

**Accounting Policy**

The policy adopted in accounting for current tax liabilities are given in Note 21 (c) to the financial statements.

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	5,348,985	9,184,814	5,621,389	9,559,852
Provision for the year	5,745,249	6,285,880	6,307,827	6,841,562
Reversal of (over)/under provision	-	(986,526)	(4,439)	(990,418)
Payments during the year	(3,202,642)	(9,084,423)	(3,665,332)	(9,587,000)
Notional tax credits	-	-	(42,467)	(3,700)
Withholding tax/other credits	(165,861)	(50,760)	(123,394)	(198,907)
Balance as at 31st December	7,725,731	5,348,985	8,093,584	5,621,389

## 49 INSURANCE PROVISION - LIFE

The insurance provision-life represents the life fund of the subsidiary HNB Assurance PLC, which is carrying out life insurance business.

**Accounting Policy****Insurance Provision - Life Insurance**

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Regulatory Commission of Sri Lanka. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation.

**Liability Adequacy Test (LAT)**

As required by Sri Lanka Accounting Standard - SLFRS 4 - "Insurance Contracts", the entity performed a Liability Adequacy Test (LAT) in respect of life insurance contract liabilities with the assistance of an external actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. Number of valuation techniques are applied including discounting cash flow, interest rate applied is based on the management's expectation of current market interest rates. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses.

## Accounting Judgements, Estimates and Assumptions

### Valuation of Life Insurance Contract Liabilities of Subsidiary, HNB Assurance PLC (HNBA)

The liability for life insurance contracts with Discretionary Participation Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time, increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on HNBA's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for HNBA's own risk exposure.

As at 31st December	Group	
	2020 Rs 000	2019 Rs 000
<b>Insurance Contract Liabilities</b>		
Life Insurance Fund	16,841,994	14,269,182
Claims Outstanding	231,039	199,684
<b>Total Insurance Contract Liabilities - Life Insurance</b>	<b>17,073,033</b>	<b>14,468,866</b>

	Group	
	2020 Rs 000	2019 Rs 000
Balance as at 01st January	14,269,182	12,112,106
<b>Change in contract liabilities - life fund</b>		
Increase in life insurance fund before surplus distribution to shareholders	3,197,316	2,860,667
Surplus distributed to shareholders	(612,203)	(687,416)
<b>Increase in life insurance fund</b>	<b>2,585,113</b>	<b>2,173,251</b>
Effect of taxation on surplus/bonus transferred to policyholders	(12,301)	(16,175)
<b>Change in contract liabilities - life fund (after tax)</b>	<b>2,572,812</b>	<b>2,157,076</b>
<b>Balance as at 31st December</b>	<b>16,841,994</b>	<b>14,269,182</b>

The valuation of the Life Insurance business as at 31st December 2020 was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messrs. Actuarial Partners Consulting Sdn Bhd. Valuation of Life Insurance business is performed on a semi annual basis.

According to the appointed actuary's report, the reserve for the year amounted to Rs. 17,073 Mn (2019 : Rs 14,468 Mn) and in the opinion of the actuary this amount is adequate to cover the liabilities pertaining to the Life insurance business of HNB Assurance PLC.

## Notes to the Financial Statements

## 49 INSURANCE PROVISION - LIFE (Contd.)

## Sensitivity of the Value of Insurance Liabilities

31st December	Change in assumptions	Impact on gross liabilities	
		2020 %	2019 %
Mortality	+10%	0.21	0.24
	-10%	(0.21)	(0.24)
Discount rate	+50% basis points	(0.74)	(0.89)
	-50% basis points	0.76	0.93
Expense	+10%	0.40	0.50
	-10%	(0.40)	(0.50)

## Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for life insurance contract Liability was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messrs Actuarial Partners Consulting Sdn Bhd, as at 31st December 2020 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability. According to the Consultant Actuary's Report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2020. No additional provision was required against the LAT as at 31st December 2020.

## 50 INSURANCE PROVISION - NON LIFE

The insurance provision non life balance represents the non life fund of subsidiary HNB General Insurance Limited which is carrying out general insurance business.

**Accounting Policy****Insurance Provision – Non Life Insurance**

Non life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

**Claims liabilities**

Claims liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation by the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims Incurred But Not Reported ("IBNR") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for adverse Deviation (PRAD) calculated at line of business level.

**Premium liabilities**

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserve (UPR) and the best estimate value of the insurer's Unexpired Risk Reserves (URR) at the valuation date and the PRAD calculated at line of business level.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Group uses 1/24th basis to defer the gross written premium of all policies, except for the marine insurance policies and title insurance policies, where marine insurance premiums are deferred based on 60:40 basis and title insurance premiums are transferred to reserves for title insurance for reporting period.

**Liability Adequacy Test (LAT)**

As required by Sri Lanka Accounting Standard - SLFRS 4 on "Insurance Contracts", the entity performed a Liability Adequacy Test (LAT) in respect of general insurance contract liabilities with the assistance of an external actuary.

### Title Insurance Reserve

Title insurance reserve is maintained by the Group to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in the first year. From the second year onwards, profit is recognised by amortising the premium received over a five year period using the straight line method. Profit in the first year will be recognised in the second year and thereafter it will be periodically recognised.

### Accounting Judgements, Estimates and Assumptions

#### Valuation of Non Life Insurance Contract Liabilities of Subsidiary, HNB General Insurance Limited (HNBGI)

The estimates of non life insurance contracts have to be made, both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred But Not yet Reported (IBNR), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjusted estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims, inflation or loss ratios.

As at 31st December	2020 Rs 000	2019 Rs 000
Unearned premium		
Gross	2,505,096	2,367,660
Reinsurance	(397,076)	(420,688)
<b>Net</b>	<b>2,108,020</b>	<b>1,946,972</b>
Reserve for title insurance	56,731	53,522
	2,164,751	2,000,494
<b>Claims outstanding - gross</b>	<b>950,112</b>	<b>716,945</b>
Claims incurred but not reported - gross	194,287	153,978
<b>Total</b>	<b>3,309,150</b>	<b>2,871,417</b>

#### Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2020 have been actuarially computed by Mr. Sivaraman Kumar, FIA, for and on behalf of NMG Financial Services Consulting Pte Limited. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis and ensured adequate reserves are maintained.

#### Sensitivity of claims outstanding

As at	Change in assumptions	Reported Claim Outstanding Rs '000	Impact on Gross Liabilities Rs '000	Impact on Net Liabilities Rs '000	Impact on Profit before tax Rs '000	Impact on Equity after tax Rs '000
31st December 2020	+/- 10%	950,111.00	+/- 95,011	+/- 58,833	+/- 58,833	+/- 42,144
31st December 2019	+/- 10%	716,944.00	+/- 71,694	+/- 50,696	+/- 50,696	+/- 36,501

#### Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for non life insurance contract liability was carried out by Mr. Sivaraman Kumar, FIA, for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2020 as required by Sri Lanka Accounting Standard SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on semi annual basis. According to the Consultant Actuary's report, HNB General Insurance Limited adequately satisfies the LAT as at 31st December 2020. No additional provision was required against the LAT as at 31st December 2020.

## Notes to the Financial Statements

## 51 OTHER LIABILITIES

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Bills payable	1,416,957	1,356,546	1,416,957	1,356,546
Employee benefit obligations [Note 53 (a)]	2,569,551	922,124	3,116,238	1,334,593
Impairment allowance for off-balance sheet credit exposures [Note 51 (b)]	2,210,246	2,135,714	2,210,246	2,135,714
Operating lease liability [Note 38 (b)]	6,087,039	5,810,225	2,131,436	1,668,211
Other creditors	2,731,117	3,130,302	5,130,585	5,129,598
Payable to vendors for lease creditors	1,263,123	698,467	1,446,535	870,744
<b>Total Other Liabilities</b>	<b>16,278,033</b>	<b>14,053,378</b>	<b>15,451,997</b>	<b>12,495,406</b>

As at 31st December 2020 other liabilities includes Rs 2,377 Mn (2019 - Rs 717 Mn) for the Bank and Rs 4,652 Mn (2019 - Rs 2,835 Mn) for the Group.

## 51 (a) Employee benefit obligations

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Net pension liability	2,360,318	704,868	2,360,318	704,868
Liability for EPF interest rate guarantee [Note 53 (c)]	82,639	80,292	82,639	80,292
Liability for leave accrual plan [Note 53 (d)]	126,594	136,963	126,594	136,962
Provision for gratuity benefits	-	-	546,688	412,471
	<b>2,569,551</b>	<b>922,124</b>	<b>3,116,238</b>	<b>1,334,593</b>

## 51 (b) Movement in Impairment for Off Balance Sheet Credit Exposure During the Year

### Accounting Policy

The expected credit loss on off balance sheet credit exposures is measured based on the methodology described in Note 31 (b) to the financial statements.

### Accounting Judgements, Estimates and Assumptions

#### Impairment for Financial Guarantees, Letters of Credit and Undrawn Loan Commitments

The Group assesses impairment for off balance sheet exposures such as financial guarantees, letter of credit and undrawn commitments in line with ECL principles as detailed in Note 31 (l) to the financial statements.

	Bank/Group	
	2020	2019
	Rs 000	Rs 000
<b>Stage 1</b>		
Balance as at 1st January	810,503	771,580
Net impairment (reversal)/charge for the year	(74,932)	38,923
Balance as at 31st December	735,571	810,503
<b>Stage 2</b>		
Balance as at 1st January	201,327	230,064
Net impairment charge for the year	54,777	(28,737)
Balance as at 31st December	256,104	201,327
<b>Stage 3</b>		
Balance as at 1st January	1,123,884	274,280
Net impairment charge for the year	94,687	849,604
Balance as at 31st December	1,218,571	1,123,884
Total impairment allowance for off balance sheet credit exposures	2,210,246	2,135,714

## 52 SUBORDINATED TERM DEBTS

### Accounting Policy

Subordinated term debts represent funds borrowed for long term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated term debts are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000
Subordinated debentures [Note 52 (a)]	28,298,365	28,150,861	28,945,457	28,801,544
Subordinated loan [Note 52 (b)]	-	4,544,360	-	4,544,360
	28,298,365	32,695,221	28,945,457	33,345,904

## Notes to the Financial Statements

## 52 SUBORDINATED TERM DEBTS (Contd.)

## 52 (a) Subordinated Debentures

	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Interest Rate	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
								As at 31.12.2020 Rs 000	As at 31.12.2019 Rs 000	As at 31.12.2020 Rs 000	As at 31.12.2019 Rs 000
(i) Year of issuance 2006	Listed	At maturity	514,345	11.00%	15 Year	1st Apr 2006	31st Mar 2021	501,428	451,633	466,403	420,093
			1,362,800	11.25%	18 Year	1st Apr 2006	31st Mar 2024	964,288	866,579	964,288	866,579
(ii) Year of issuance 2007	Listed	Annually	700,000	16.75%	15 Year	1st Aug 2007	31st Jul 2022	758,625	758,625	758,625	758,625
(iii) Year of issuance 2011	Listed	Semi Annually	2,000,000	11.50%	10 Year	5th Sep 2011	4th Sep 2021	2,000,000	2,000,000	2,000,000	2,000,000
(iv) Year of issuance 2016	Listed	Annually	7,000,000	11.25%	5 Year	28th Mar 2016	28th Mar 2021	7,599,795	7,599,795	7,328,525	7,328,512
			2,000,000	11.75%	5 Year	1st Nov 2016	1st Nov 2021	2,039,274	2,039,274	2,039,274	2,039,274
			4,000,000	13.00%	7 Year	1st Nov 2016	1st Nov 2023	4,086,904	4,086,904	4,086,904	4,086,904
(v) Year of issuance 2019	Listed	Annually	1,922,570	12.30%	5 Year	23rd Sep 2019	22nd Sep 2024	1,987,358	1,987,358	1,970,530	1,970,535
			8,077,430	12.80%	7 Year	23rd Sep 2019	22nd Sep 2026	8,360,693	8,360,693	8,297,178	8,297,202
			1,033,820	13.20%	5 Year	30th Dec 2019	30th Dec 2024	-	-	1,033,730	1,033,820
Total subordinated debentures								28,298,365	28,150,861	28,945,457	28,801,544
Due within one year								12,634,077	1,132,648	12,327,782	1,097,365
Due after one year								15,664,288	27,018,213	16,617,675	27,704,179
Total subordinated debentures								28,298,365	28,150,861	28,945,457	28,801,544

Subsidiaries of the Bank, HNB Assurance PLC and HNB Finance PLC have invested Rs 224 Mn and Rs 162.7 Mn respectively, in subordinated debentures issued by the Bank. Further HNB Assurance PLC has invested Rs 125 Mn in the debentures issued by HNB Finance PLC.

## 52 (b) Subordinated Loan

The repayment of USD 25 Mn subordinated loan from German Development Financial Institution (DEG) which was due to be repaid in June 2020 was extended by one year, which has been classified under debt securities as at 31st December 2020.

## 53 EMPLOYEE BENEFIT OBLIGATIONS

**Accounting Policy****Defined Benefit Plan**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

**(a) Pension Fund**

The Bank operates an approved pension fund to facilitate the following payments for permanent staff of the Bank:

**i Pensions to Retiring Staff**

Pensionable staff members who are in the permanent cadre are eligible to draw pension from the pension fund as per the trust deed dated 24th September 1981.

**ii Benefits to Staff who Opted for the Optional Scheme for Pension introduced in 2005**

Staff members who opted for the optional scheme for pension introduced in 2005 are eligible for the payment in accordance with the terms and conditions agreed upon.

**iii Gratuity**

Gratuity would be the payments to staff who satisfy the criteria as per the Gratuity Act No 12 of 1983 at the time of leaving the services of the Bank without pension rights. Payment of gratuities to employees who have completed more than five years of service under the said act is covered through the Bank's own non-contributory pension scheme which is in force.

These liabilities are assessed either by actuarial valuation using project credit method by the use of gratuity formula.

The Bank's obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, and discounting that benefit to determine its present value, then deducting the fair value of any plan assets to determine the net amount to be shown in the statement of financial position. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Bank. An economic benefit is available to the Bank if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The Bank determines the net interest expense/(income) on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The demographic assumptions underlying the valuation are retirement age (55 yrs), early withdrawals from service and retirement on medical grounds, death before and after retirement etc. The assets of the fund are held separately from those of the Bank's assets and are administered independently by the trustees of the fund.

Details of pension fund are given in Note 53 (a) to the financial statements.

**(b) Other Long-term Employee Benefits**

The Bank's net obligation in respect of long-term employee benefits other than pension fund, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligation. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in the statement of profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long term employee benefits.

**(c) Gratuity Obligation - Group Companies**

The subsidiaries of the Bank do not operate pension funds and make a provision for gratuity obligation. These liabilities are assessed either by actuarial valuations using projected credit method or by the use of gratuity formula. Provision for gratuity benefits of group companies is given in Note 53 (a) to the financial statements.

**(d) Employees' Provident Fund - Bank**

Employees' Provident Fund is an approved private provident fund which has been set up to meet the provident fund liabilities of the Bank to which the Bank and employees contribute at 12% and 8% respectively on the salary of each employee. Staff members who are members of the fund are entitled to receive a minimum interest rate which is the higher of one year fixed deposit rate of HNB or National Savings Bank on their balance on a semi-annual basis. Accordingly this obligation was treated as a defined benefit liability and an actuarial valuation was conducted to value the Bank's obligation of the same.

**(e) Widows', Widowers' and Orphans' Pension Fund**

The Bank operates a separate Widows', Widowers' and Orphans' Pension Scheme (WW & OP) which was established with effect from 1st September 1995. The contributions are from employees only and the Bank does not have any legal or constructive obligation towards the above scheme.

Details of Widows', Widowers' and Orphans' Pension Fund are given in Note 53 (d) to the financial statements

**(f) Defined Contribution Plans**

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay a further contribution if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. Obligations for contributions to defined contribution plans are recognised as an expense in the statement of profit or loss as and when they are due.

## Notes to the Financial Statements

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

## (i) Employees' Trust Fund

The Bank and the Group contribute 3% of the salary of each employee to the Employees' Trust Fund.

## (ii) Employees' Provident Fund – Group Companies

The Group entities and their employees contribute at 12% and 8% respectively on the salary of each employee to Employees' Provident Fund except for the Bank as explained above.

**Accounting Judgements, Estimates and Assumptions****Defined Benefit Obligation**

The defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, increase in cost of living allowances and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Government of Sri Lanka Treasury Bonds with maturities corresponding to the expected duration of defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Group.

53 (a) As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Unfunded defined benefit plans [Note 53 (a) i]	209,233	217,255	755,921	629,726
Funded defined benefit plan [Note 53 (b) i]	2,360,318	704,869	2,360,318	704,869
Total employee benefit obligations	2,569,551	922,124	3,116,238	1,334,593
53 (a) i Unfunded defined benefit plans				
Liability for EPF interest rate guarantee plan [Note 53 (c)]	82,639	80,292	82,639	80,292
Liability for leave accrual plan [Note 53 (d)]	126,594	136,963	126,594	136,963
Provision for gratuity benefits	-	-	546,688	412,471
	209,233	217,255	755,921	629,726

## 53 (b) Funded defined benefit plan

**Pension Fund - Bank**

An actuarial valuation of the pension fund was carried out as at 31st December 2020 by Mr M Poopalanathan, AIA, Messrs Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the projected unit credit method, the method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

The Bank did not contribute to the pension fund in 2019 with a view of realising the net surplus as at 31st December 2018, where as contributions amounting to 2.96% out of the pensionable salary was made to the pension fund in respect of all employees in 2018.

The assets of the fund, which are independently administered by the trustees as per the provision of the Trust Deed are held separately from those of the Bank.

No additional provision has been made in the financial statements of the Bank for gratuities to employees who have completed five or more years of service, payable under the Payment of Gratuity Act No 12 of 1983 as the Bank contributes for all permanent employees to its own non-contributory pension scheme, which is in force.

53 (b) i Deficit on funded defined benefit plan - pension fund

As at 31st December	Bank/Group	
	2020 Rs 000	2019 Rs 000
Present value of funded obligation [Note 53 (b) iii]	20,687,877	17,765,531
Total present value of obligations	20,687,877	17,765,531
Fair value of plan assets [Note 53 (b) ii]	(18,327,559)	(17,060,662)
Deficit on funded defined benefit plan - pension fund	2,360,318	704,869
Recognised liability for defined benefit obligations - pension fund	2,360,318	704,869

The Bank recognised a net payable of Rs. 2,360 Mn in respect of pension fund as at 31st December 2020 (2019 - Rs. 705 Mn).

53 (b) ii Fair Value of Plan Assets consists of the following

As at 31st December	Bank/Group	
	2020 Rs 000	2019 Rs 000
Equity securities and debentures	2,160,812	1,805,909
Government securities	1,856,720	2,835,675
Balance with Hatton National Bank PLC	171,118	4,276
Fixed deposits	14,188,728	12,593,377
Others	(49,819)	(178,575)
	18,327,559	17,060,662

53 (b) iii Movement in the Present Value of Defined Benefit Obligations

	Bank/Group	
	2020 Rs 000	2019 Rs 000
Liability for defined benefit obligations as at 1st January	17,765,531	15,076,495
Current service cost	844,754	749,127
Interest on obligation	1,918,677	1,726,259
Actuarial gains	1,308,089	863,404
Benefits paid by the plan	(1,149,174)	(649,754)
Liability for defined benefit obligations as at 31st December	20,687,877	17,765,531

## Notes to the Financial Statements

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

## 53 (b) iv Movement in the Present Value of Plan Assets

	Bank/Group	
	2020 Rs 000	2019 Rs 000
Fair value of plan assets as at 1st January	17,060,662	16,424,014
Expected return on plan assets	1,842,553	1,880,549
Contributions paid into plan	821,926	-
Benefits paid by the plan	(1,149,174)	(649,754)
Actuarial losses	(248,408)	(594,147)
Fair value of plan assets as at 31st December	18,327,559	17,060,662

## 53 (b) v Net Interest on Defined Benefit Asset

As at 31st December	Bank/Group	
	2020 Rs 000	2019 Rs 000
Interest on obligation	1,918,677	1,726,259
Expected return of plan assets	(1,842,552)	(1,880,550)
Net interest on defined benefit asset	76,125	(154,291)

## 53 (b) vi Actuarial Gains and Losses Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Actuarial loss on present value of defined benefit obligations	(1,308,089)	(863,404)	(1,360,590)	(855,707)
Actuarial loss on fair value of plan assets	(248,408)	(594,147)	(248,408)	(594,147)
Actuarial loss recognised during the year	(1,556,497)	(1,457,551)	(1,608,998)	(1,449,854)

## 53 (b) vii Actuarial Assumptions

	Bank/Group	
	2020 Rs 000	2019 Rs 000
Discount rate	9.00%	10.80%
Expected return on plan assets as at 1st January	10.80%	11.45%
Future salary increment rate	8.50%	10.30%
Future pension increments	Nil	Nil
Increase in cost of living allowance	8.50%	10.30%
Normal retirement age	55 years	55 years
Mortality	1967-70	1967-70
	Mortality Table	Mortality Table
	issued by the	issued by the
	Institute of	Institute of
	Actuaries	Actuaries

The average duration of the pension fund obligation is 30 years as at 31st December 2020 (2019 - 31 years).

53 (b) viii Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in the statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the pension fund as at 31st December 2020.

Increase/(decrease) in Discount Rate	Increase/(decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Increase/(decrease) in results for the year Rs 000	Sensitivity Effect on Pension Fund Surplus Increase/(decrease) Rs 000
1%		18,669,788	
-1%		23,145,416	
	1%		22,023,489
	-1%		19,492,064

53 (c) Provision for EPF Interest Rate Guarantee Plan - Bank/Group

EPF is an approved provident fund which has been set up to meet the provident fund liabilities of the Bank. Staff members who are members of the fund are entitled to receive a minimum interest rate which is the higher of one year fixed deposit rate of HNB or National Savings Bank on their balance on a semi-annual basis. Accordingly, this obligation was treated as a defined benefit liability and an actuarial valuation was conducted by Mr. M. Poopalanathan, AIA, Messers Actuarial and Management Consultants (Pvt) Limited to value the Bank's obligation on same with the following actuarial assumptions.

Actuarial assumptions

As at 31st December	Bank/Group	
	2020 Rs 000	2019 Rs 000
Discount rate	9.00%	9.50%
Long term interest rate to credit the fund	9.00%	9.50%

Liability for EPF interest rate guarantee

	Bank/Group	
	2020 Rs 000	2019 Rs 000
Present value of obligation as at 1st January	80,292	70,170
Provision made during the year (Note 16)	2,347	10,122
Present value of obligation as at 31st December (Note 53)	82,639	80,292

## Notes to the Financial Statements

**53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)****53 (d) Provision for Leave Accrual Plan - Bank/Group**

Employees are entitled to accumulate annual leave up to a maximum of ninety days and such accumulated leave to be utilised prior to their retirement. This has been treated as other long term benefit in terms of Sri Lanka Accounting Standards - LKAS 19 on "Employee benefits" and an actuarial valuation has been conducted by Mr. M. Poopalanathan, AIA, Messers Acturial and Management Consultants (Pvt) Limited on same with the following assumptions.

Liability for EPF interest rate guarantee

As at 31st December	Bank/Group	
	2020	2019
	Rs 000	Rs 000
Discount rate	9.00%	10.80%
Future salary increase	9.00%	10.30%

Liability for leave accrual plan

As at 31st December	Bank/Group	
	2020	2019
	Rs 000	Rs 000
Present value of obligation as at 1st January	136,963	126,448
Provision made during the year (Note 16)	(10,369)	10,515
Present value of obligation as at 31st December (Note 53)	126,594	136,963

**53 (e) Widows', Widowers' and Orphans' Pension Fund**

The results of the actuarial valuation of the Widows', Widowers' and Orphans' Pension Fund conducted by Mr. M. Poopalanathan, AIA, Messers Acturial and Management Consultants (Pvt) Limited indicate that the actuarial present value of the promised benefit is Rs 1,366.24 Mn and that the fair value of the fund assets is Rs 2,351.54 Mn resulting in a past service surplus of Rs 985.3 Mn (2019 : Rs 1,140 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2020.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 116.3 Mn.

**53 (f) Provision for gratuity benefits**

	Group	
	2020	2019
	Rs 000	Rs 000
Balance as at 1st January	412,471	358,160
Provision during the year [Note 16 (a)]	97,597	79,837
Actuarial (gain)/loss recognised in OCI	52,502	(7,697)
Payments during the year	(15,882)	(17,829)
Balance as at 31st December	546,688	412,471

	Group	
	2020	2019
Actuarial Assumptions		
Discount rate	7% - 10%	10% - 11%
Future salary increment rate	8.5% - 8%	9.00%

Actuarial valuations for HNB Assurance PLC and HNB Finance PLC as at 31st December 2020 and 31st March 2020 respectively were carried out by actuary, Mr. Pushpakumar Gunasekara, Associate of Institute of Australia of Messers Smiles Global (Pvt) Ltd .

## 54 STATED CAPITAL

In accordance with Section 58 of Companies Act No 7 of 2007, which became effective from 3rd May 2007, share capital and share premium have been classified as stated capital.

### 54 (a) Stated Capital - Bank/Group

As at 31st December	2020		2019	
	Number of shares	Value Rs 000	Number of shares	Value Rs 000
<b>Voting ordinary shares</b>				
Balance as at 1st January	401,343,863	27,839,768	395,451,248	26,649,460
Issue of shares through scrip dividend [Note 54 (b)]	8,975,741	1,404,704	5,892,615	1,190,308
Balance as at 31st December	410,319,604	29,244,472	401,343,863	27,839,768
<b>Non-voting ordinary shares</b>				
Balance as at 1st January	99,062,844	5,981,137	97,199,341	5,688,566
Issue of shares through scrip dividend [Note 54 (b)]	2,593,268	346,720	1,863,503	292,571
Balance as at 31st December	101,656,112	6,327,857	99,062,844	5,981,137
Total	511,975,716	35,572,329	500,406,707	33,820,905

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue costs. The shares of the Bank are quoted on the Colombo Stock Exchange. The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The non-voting shares rank pari passu in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay dividends for three consecutive years, these shares will automatically be converted into voting ordinary shares.

### 54 (b) Issue of Shares through Script Dividends

Bank issued 8,975,741 voting shares in the form of scrip dividend at a price of Rs 156.50 and 2,593,268 non-voting shares at a price of Rs. 133.70 on 29th May 2020.

## 55 STATUTORY RESERVE FUND

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	7,060,000	6,260,000	7,060,000	6,260,000
Transfers during the year	600,000	800,000	600,000	800,000
Balance as at 31st December	7,660,000	7,060,000	7,660,000	7,060,000

### Nature and purpose of reserve

Statutory reserve fund is maintained as per the statutory requirements in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

This fund is built up by transferring a sum equivalent to not less than 5% of the profit after tax before any dividend is declared or any profits are transferred until the fund equals 50% of the Bank's stated capital. Thereafter, a further sum equal to 2% of profit after tax is transferred until the fund equals to the stated capital of the Bank.

## Notes to the Financial Statements

## 56 RETAINED EARNINGS

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	17,980,160	15,728,513	23,072,623	20,181,416
Profit for the year	11,462,636	14,032,252	13,095,420	14,670,104
Other comprehensive income for the year	(1,706,874)	(1,198,486)	(1,736,150)	(1,196,778)
Transfer to other reserves	(1,600,000)	(6,800,000)	(1,600,000)	(6,800,000)
Transfer of unclaimed dividends	32,153	29,922	32,155	29,922
Dividends	(3,502,848)	(3,948,961)	(3,502,848)	(3,948,961)
Gains realised on derecognition of equity instruments reclassified to retained earnings	-	136,920	-	136,920
Balance as at 31st December	22,665,227	17,980,160	29,361,200	23,072,623

This represents cumulative net earnings, inclusive of final dividend proposed amounting to Rs 4,096 Mn. The balance is retained and reinvested in the business of the Bank/Group.

## 57 OTHER RESERVES

## 57 (a)

As at 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Capital reserve [Note 57 (b)]	10,782,706	10,790,994	23,054,710	23,062,998
General reserve [Note 57 (c)]	56,100,000	55,100,000	56,100,000	55,100,000
Fair value reserve [Note 57 (d)]	1,221,363	2,752,097	1,270,055	2,759,863
Life policy holder reserve fund [Note 57 (e)]	-	-	748,391	172,297
Restricted regulatory reserve [Note 57 (f)]	-	-	381,156	381,156
Exchange equalization reserve [Note 57 (g)]	-	-	101,634	78,378
	68,104,069	68,643,091	81,655,946	81,554,692

**57 (b) Capital Reserve**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	10,790,994	10,790,994	23,062,998	22,994,510
Impairment during the year	(8,288)	-	(8,288)	68,488
Balance as at 31st December	10,782,706	10,790,994	23,054,710	23,062,998

**Nature and purpose of reserve**

Capital reserve relates to revaluation surplus that resulted from the revaluations of freehold land and buildings.

**57 (c) General Reserve**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	55,100,000	49,100,000	55,100,000	49,100,000
Transfer during the year	1,000,000	6,000,000	1,000,000	6,000,000
Balance as at 31st December	56,100,000	55,100,000	56,100,000	55,100,000

**Nature and purpose of reserve**

General reserve comprises of the amounts appropriated by the Board of Directors as a general banking reserve.

**57 (d) Fair Value Reserve**

	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Balance as at 1st January	2,752,097	1,536,439	2,759,863	1,537,723
Gains realised on de-recognition of equity instruments	-	(136,920)	-	(136,920)
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category	17,292	-	17,292	-
Gain realised on derecognition of debt instruments	(1,053,543)	-	(1,106,649)	82,348
Net change in fair value during the year	(494,483)	1,352,578	(400,451)	1,276,712
Balance as at 31st December	1,221,363	2,752,097	1,270,055	2,759,863

**Nature and purpose of reserve**

The fair value reserve comprises of net change in fair value of financial assets - fair value through other comprehensive income.

## Notes to the Financial Statements

## 57 OTHER RESERVES (Contd.)

## 57 (e) Life Policy Holder Reserve Fund

	Group	
	2020 Rs 000	2019 Rs 000
Balance as at 1st January	172,297	(197,803)
Transfer to/(from) life policy holder reserve fund	576,094	370,100
Balance as at 31st December	748,391	172,297

## Nature and purpose of reserve

The life policyholders' reserve fund includes the fair value gains/(losses) recorded under other comprehensive income arising from life insurance related financial assets categorised as measured at fair value through other comprehensive income.

## 57 (f) Restricted Regulatory Reserve

	Group	
	2020 Rs 000	2019 Rs 000
Balance as at 1st January	381,156	381,156
Transfer to/(from) Restricted Regulatory Reserve	-	-
Balance as at 31st December	381,156	381,156

## Nature and purpose of reserve

## Restricted regulatory reserve – HNB Assurance PLC "Company"

As per Direction No. 16 issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL) all life insurance companies were allowed to transfer one - off surplus attributable to policyholders' non participating fund to shareholders' fund with the approval of the IRCSL. This transfer has been presented as a separate reserve as Restricted Regulatory Reserve under equity in accordance with the Direction.

## 57 (g) Exchange Equalization Reserve

	Group	
	2020 Rs 000	2019 Rs 000
Balance as at 1st January	78,378	66,368
Transfer to/(from) exchange equalization reserve	23,256	12,010
Balance as at 31st December	101,634	78,378

## Nature and purpose of reserve

Exchange equalization reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations within the joint venture group.

## 58 NON-CONTROLLING INTERESTS

### Accounting Policy

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has non-controlling interest in two subsidiaries namely, HNB Assurance PLC (NCI of 40%) and HNB Finance (NCI of 49%) as at the reporting date as follows:

As at 31st December	Group	
	2020 Rs 000	2019 Rs 000
<b>Subsidiaries</b>		
HNB Assurance PLC	2,829,695	2,335,343
HNB Finance PLC	2,580,269	2,626,975
<b>Total</b>	<b>5,409,964</b>	<b>4,962,318</b>

The details of non controlling interest in subsidiaries have been given in Note 35 (d) to the financial statements.

## 59 CONTINGENT LIABILITIES AND COMMITMENTS

### Accounting Policy

#### Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on "Provisions, contingent liabilities and contingent assets".

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including stand by letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Group also form part of commitments of the Group. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and therefore form part of the overall risk of the Group.

All discernible risks are accounted for in determining the amount of all known liabilities. The Group's share of any contingencies and capital commitments of a subsidiary or joint venture for which the Group is also liable severally or otherwise are also included with appropriate disclosures.

#### Financial Guarantees

Financial guarantees are initially recognised in the financial statements within other liabilities at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Expected credit loss provisions recognised for same are set out in Note 51 (a) to the financial statements.

## Notes to the Financial Statements

## 59 CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

Any increase in the liability relating to financial guarantees is recorded in the income statement. The premium received is recognised in the income statement in net fee and commission income on a straight line basis over the life of the guarantee.

No material losses are anticipated as a result of these commitments and contingencies.

**Accounting Judgements, Estimates and Assumptions****Provisions and Other Contingent Liabilities**

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operation. As a result, it is involved in various litigation and regulatory investigations and proceedings, arising in the ordinary course of the business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and such outflows are probable, the Group records a provision against the case. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless those are remote.

## 59 (a) Contingent Liabilities and Commitments - Bank/Group

As at 31st December	2020 Rs 000	2019 Rs 000
Documentary credit	28,334,448	25,006,460
Guarantees	104,470,363	120,954,668
Acceptances	26,213,711	16,606,253
Bills for collection	16,127,896	13,476,994
Forward exchange contracts		
Forward exchange sales	28,293,790	43,950,802
Forward exchange purchases	63,759,268	68,878,649
Cheques sent on clearing	3,851,339	5,236,930
Commitments for unutilised facilities - direct	152,404,973	156,159,365
Commitments for unutilised facilities - indirect	208,492,441	222,960,692
<b>Total</b>	<b>631,948,229</b>	<b>673,230,813</b>

## 59 (b) Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs 303 Mn.

As at 31st December	Bank/Group	
	2020 Rs 000	2019 Rs 000
Approved and contracted but not provided for	297,209	290,296
Approved and not contracted for	5,990	36,723
	<b>303,199</b>	<b>327,019</b>

## 59 (c) Litigation against the Bank

In the banking industry, litigation is a common incidence due to the nature of the transactions agreed between various stakeholders including the customers and the Bank.

The Bank has formal controls and policies in place for managing legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Bank makes adjustments to account for any adverse effects of such claims on its financial standing.

Based on the assessment carried out Bank is of the view that apart from four legal cases pertaining to guarantee related issues (vi 2 H.C. (civil) 657/2019 MR 534 SPL, M 5491 and CHC 143/2020) the other legal cases filed against the Bank will not have a material impact on the financial position of the Bank.

## 59 (d) Tax Assessments

### 59 (d) i Tax assessments against the bank

Assessments to the value of Rs 230.9 Mn on financial services (relating to 2003,2004 and 2012), assessment to the value of Rs 1,292 Mn on VAT on non – financial services (relating to the taxable periods ended 31st March 2016, 30th June 2016, 30th September 2016, 31st December 2016 and 31st December 2017) and assessment to the value of Rs 12.2 Mn on PAYE for the Y/A 2015/16 received by the Bank are outstanding and have been duly appealed.

### 59 (d) ii Tax assessments against Group entity - HNB Assurance PLC (HNBA)

Assessments to the value of Rs 21.99 Mn on VAT on reinsurance claims and commissions (relating to Y/A 2010/11), assessments to the value of Rs 109.66 Mn on VAT and NBT on financial services (relating to 2014, 2015 and 2016), assessments to the value of Rs 9.58 Mn on VAT and assessments to the value of Rs 1,156 Mn on Income tax (relating to Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 ,2016/17and 2017/18) received by the HNBA are outstanding and have been duly appealed.

The Group is of the view that the above assessments will not have any material impact on the financial statements.

## 60 RELATED PARTY DISCLOSURES

The Group carries out transactions with parties who are defined as related parties in the Sri Lanka Accounting Standard - LKAS 24 on “Related party disclosures”, in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

### 60 (a) Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

### 60 (b) Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 on “Related party disclosures”, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity.

Accordingly, the Bank’s KMP include the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

#### Key Management Personnel (KMP) of the Group

Bank is the ultimate parent of its subsidiaries listed out in Note 34 to the financial statements. Thus the KMPs of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group and have been identified as KMPs of the Group as well.

Close Family Members (CFMs) of KMPs are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the entity. CFMs may include the domestic partner and children of KMP, the children of KMP’s domestic partner and dependents of KMP and the KMP’s domestic partner.

### 60 (b) i Compensation to KMP

For the year ended 31st December	Bank		Group	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
Short term employee benefits and contributions to post employment benefit plans	149,554	153,156	154,050	154,934
Total	149,554	153,156	154,050	154,934

## Notes to the Financial Statements

## 60 RELATED PARTY DISCLOSURES (Contd.)

60 (b) ii Transactions, Arrangements and Agreements involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

## Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	112,505	156,554	173,772	172,424
	112,505	156,554	173,772	172,424
<b>Liabilities</b>				
Debt securities issued and subordinated term debts	10,000	10,000	10,000	10,000
Financial liabilities measured at amortised cost - due to depositors	539,322	545,619	609,457	502,455
	549,322	555,619	619,457	512,455

## Commitments and Contingencies

As at 31st December	Closing Balance	
	2020 Rs 000	2019 Rs 000
<b>Commitments for unutilised facilities</b>		
Direct	80,537	31,192
	80,537	31,192

## Direct and indirect accommodation – Bank

As at 31st December	2020	2019
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	0.13%	0.13%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

## Income Statement - Bank

For the year ended 31st December	2020	2019
Interest income	10,632	16,912
Interest expenses	37,505	37,565
Fee and commission income/(expenses)	188	154

No impairment losses have been recorded against balances outstanding with KMP and CFM.

## Number of shares held by KMP

As at 31st December	2020	2019
Voting	240,264	110,963
Non-Voting	63,686	28,061

Cash dividends paid to KMP amount to Rs. 1,306,630 in 2020 (2019 - Rs. 860,004)

60 (b) iii Transactions, Arrangements and Agreements with Entities which are Controlled and/or Jointly Controlled by the KMP or their Close Family Members (CFMs)

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost				
- loans and advances to customers	-	40,521	30,990	29,029
	-	40,521	30,990	29,029
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	335	26,968	22,959	25,964
	335	26,968	22,959	25,964

Commitments and Contingencies

As at 31st December	Closing Balance	
	2020 Rs 000	2019 Rs 000
<b>Guarantees</b>	-	53,060
Commitments for unutilised facilities		
Direct	-	2,279
Indirect	-	108,240
	-	163,579

Income Statement - Bank

For the year ended 31st December	2020	2019
	Rs 000	Rs 000
Interest income	2,687	3,550
Interest expenses	1,938	2,709
Fee and commission income/(expenses)	62	152

60 (c) Transactions with Group Entities

The group entities include subsidiaries and joint venture of the Bank.

## Notes to the Financial Statements

## 60 RELATED PARTY DISCLOSURES (Contd.)

## 60 (c) i Transactions with Subsidiaries

## Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	-	1,549,352	778,795	2,485,430
Other assets	726,695	811,983	616,500	808,364
	<b>726,695</b>	<b>2,361,335</b>	<b>1,395,295</b>	<b>3,293,794</b>
<b>Liabilities</b>				
Debt securities issued and subordinated term debt	427,185	426,873	387,944	418,944
Financial liabilities measured at amortised cost - due to depositors	2,878,405	1,737,623	3,783,023	2,046,501
	<b>3,305,590</b>	<b>2,164,496</b>	<b>4,170,967</b>	<b>2,465,445</b>

## Commitments and contingencies

As at 31st December	Closing Balance	
	2020	2019
	Rs 000	Rs 000
Guarantees	27,690	18,850
Commitments for unutilised facilities		
Direct	2,051,150	1,050,050
	<b>2,078,840</b>	<b>1,068,900</b>

## Income Statement - Bank

For the year ended 31st December	2020	2019
	Rs 000	Rs 000
Interest income	132,326	383,692
Interest expenses	243,625	201,548
Fee and commission income/(expenses)	355,617	285,166
Other income	196,051	299,917
Other expenses	749,840	840,441
<b>Other transactions</b>		
Expenses reimbursed to the bank	37,887	42,574
Expenses reimbursed by the bank	73,169	77,163
Insurance claims received	22,836	14,902

## 60 (c) ii Transactions with the Joint Venture

## Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost				
- loans and advances to customers	761,231	471,063	447,638	433,889
	761,231	471,063	447,638	433,889
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	242,322	99,681	70,761	108,793
Securities sold under repurchase agreements	-	11,350	-	8,120
	242,322	111,031	70,761	116,913

## Commitments and contingencies

As at 31st December	Closing Balance	
	2020	2019
	Rs 000	Rs 000
Letter of Guarantees	30,190	12,480
Commitments for unutilised facilities		
Direct	3,408,650	3,740,940
Indirect	32,320	44,110
	3,440,970	3,785,050

## Income Statement - Bank

For the year ended 31st December	2020	2019
	Rs 000	Rs 000
Interest income	43,715	55,722
Interest expenses	810	5,712
Fee and commission income/(expenses)	2,703	2,805
Other income	56,310	80,545
Other expenses	-	10,164

## Notes to the Financial Statements

## 60 RELATED PARTY DISCLOSURES (Contd.)

## 60 (d) Transactions with Post Employment Benefit Plans of the Bank

## Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	8,119,479	6,395,821	7,446,603	7,012,373
Debt securities issued and subordinated term debts	760,644	707,289	737,228	737,228
Securities sold under repurchase agreements	6,100	409,000	242,500	216,855
	8,886,223	7,512,110	8,426,338	7,966,456
<b>Equity</b>				
Stated capital	56,157	53,131	54,644	52,140
	56,157	53,131	54,644	52,140

## Income Statement - Bank

For the year ended 31st December	2020 Rs 000	2019 Rs 000
Interest expenses	655,471	829,443
<b>Other transactions</b>		
Dividends paid	6,887	5,120
Contributions made	2,101,529	1,236,651

## 60 (e) Transactions with Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds 27.01% of the voting rights of the Bank as at 31st December 2020 through Sri Lanka Insurance Corporation Ltd, Employees Provident Fund, National Savings Bank and Employees Trust Fund. Accordingly, the Bank has considered Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (government related entities) as related parties according to Sri Lanka Accounting Standard - LKAS 24 on "Related Party Disclosures".

During the year ended 31st December 2020, the Bank has carried out transactions with the Government of Sri Lanka and other government related entities in the ordinary course of its business, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and its unrelated customers.

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2020 Rs 000	2019 Rs 000	2020 Rs 000	2019 Rs 000
<b>Assets</b>				
Balances with Central Bank of Sri Lanka	7,212,395	22,795,332	19,280,815	25,268,706
Reverse repurchase agreements	-	-	-	3,833,330
Financial assets measured at amortised cost - debt and other instruments	185,522,038	144,711,779	158,391,027	143,433,971
Financial assets measured at fair value through other comprehensive income	245,059,017	122,170,309	200,655,750	101,532,165
Financial assets measured at fair value through profit or loss	-	908,065	1,009,347	1,532,111
Financial assets measured at amortised cost - loans and advances to customers	55,503,605	57,008,492	53,559,438	56,908,978
Placements with banks	-	-	-	4,933,894
	493,297,055	347,593,977	432,896,377	337,443,155
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	8,123,437	6,631,541	6,346,501	12,190,367
Due to banks	12,565,962	4,932,204	13,295,677	10,942,533
Debt securities issued/Subordinated term debts	14,624,745	14,797,937	14,624,745	17,297,936
Securities sold under repurchase agreements	6,032,510	8,634,630	2,749,020	12,190,968
Financial liabilities measured at amortised cost - other borrowings	-	-	-	2,672,814
Current tax liabilities	7,725,731	5,348,985	6,681,649	8,394,790
	49,072,385	40,345,297	43,697,592	63,689,408

Commitments and contingencies

As at 31st December	Closing Balance	
	2020 Rs 000	2019 Rs 000
Forward foreign exchange contracts		
Sales	189,000	2,994,717
Purchases	27,547,110	15,536,750
Documentary credit	396,925	481,680
Guarantee	8,193,340	7,018,640
Commitments for unutilised facilities		
Direct	14,859,880	22,873,995
Indirect	14,683,303	4,634,860

## Notes to the Financial Statements

### 60 RELATED PARTY DISCLOSURES (Contd.)

#### 60 (f) Transactions with Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka (Contd.)

Income Statement - Bank

For the year ended 31st December	2020	2019
	Rs 000	Rs 000
Interest income	29,308,262	25,562,088
Interest expenses	2,485,720	3,335,402
Fee and commission income/(expenses)	35,469	66,275
Other income	80,623	59,428
Impairment charge/(reversal) for loans and other losses	2,329	(237,652)
Tax expenses (income tax, financial services VAT, NBT, DRL)	9,614,898	13,209,880

Number of Shares held by Government

As at 31st December	2020	2019
Voting	110,889,094	102,865,035
Non voting	2,351,113	2,006,430

Cash dividends paid to government related entities amounts to Rs. 470.02 Mn in 2020 (2019 - Rs. 310.57 Mn)

Transactions which are not individually significant

Apart from the transactions listed above the Bank has carried out transactions with the Government of Sri Lanka and other government related entities in the form of utility bills, telephone charges, crib charges etc. The total of such payments made during the year ended 31st December 2020 was Rs. 483.24 Mn (2019 - Rs. 630.19 Mn).

#### 60 (g) Disclosure Requirement under Section 9.3.2 (a) and section 9.3.2 (b) of the Listing Rules of Colombo Stock Exchange (CSE)

- Recurrent related party transactions

In accordance with rule No. 9.3.2 (b) there are no recurrent related party transactions which in aggregate exceeds more than 10% of the gross revenue of the Bank.

- Non-recurrent related party transactions

In accordance with rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Bank.

## 61 MATURITY ANALYSIS

### 61 (a) As at 31st December 2020

	Bank			Group		
	Within	More than	Total	Within	More than	Total
	12 months	12 months		12 months	12 months	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>						
Cash and cash equivalents	34,123,562	-	34,123,562	34,898,957	-	34,898,957
Placements with banks	-	-	-	7,720,500	4,405,934	12,126,434
Balances with central banks	-	7,212,395	7,212,395	-	7,212,395	7,212,395
Reverse repurchase agreements	-	-	-	2,827,050	-	2,827,050
Derivative financial instruments	1,032,318	-	1,032,318	1,032,318	-	1,032,318
Financial assets recognised through profit or loss - Measured at fair value	84,499	-	84,499	1,094,827	-	1,094,827
Financial assets at amortised cost - loans and advances	393,184,055	379,396,665	772,580,720	410,080,231	390,735,740	800,815,971
Financial assets at amortised cost - debt and other instruments	51,201,487	135,404,029	186,605,516	53,176,376	140,173,120	193,349,496
Financial assets measured at fair value through other comprehensive income	219,550,082	29,721,576	249,271,658	220,457,578	35,937,066	256,394,644
Investment in joint venture	-	755,000	755,000	-	2,521,811	2,521,811
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	475,109	475,109	-	1,028,956	1,028,956
Property, plant and equipment	-	20,705,056	20,705,056	-	41,827,384	41,827,384
Right-of-use assets	622,983	4,733,885	5,356,868	415,220	1,412,612	1,827,832
Intangible assets and goodwill	-	1,309,172	1,309,172	-	1,749,994	1,749,994
Deferred tax assets	-	806,539	806,539	-	1,728,958	1,728,958
Other assets	3,159,618	5,356,221	8,515,839	6,153,817	4,891,662	11,045,479
<b>Total assets</b>	<b>702,958,604</b>	<b>588,892,932</b>	<b>1,291,851,536</b>	<b>737,856,874</b>	<b>633,625,632</b>	<b>1,371,482,506</b>
<b>LIABILITIES</b>						
Due to banks	82,722,773	7,023,936	89,746,709	82,722,773	7,023,936	89,746,709
Derivative financial instruments	337,014	-	337,014	337,014	-	337,014
Securities sold under repurchase agreements	10,361,383	-	10,361,383	10,361,383	-	10,361,383
Financial liabilities at amortised cost - due to depositors	929,892,091	37,929,313	967,821,404	952,356,290	42,592,622	994,948,912
Dividends payable	962,185	-	962,185	980,507	-	980,507
Financial liabilities at amortised cost - other borrowings	12,192,693	18,333,568	30,526,261	12,192,693	18,333,568	30,526,261
Debt securities issued	54,356	1,820,686	1,875,042	58,453	2,352,955	2,411,408
Current tax liabilities	7,725,731	-	7,725,731	8,093,584	-	8,093,584
Deferred tax liabilities	-	-	-	-	5,371,390	5,371,390
Insurance provision - life	-	-	-	-	17,073,033	17,073,033
Insurance provision - general	-	-	-	3,309,150	-	3,309,150
Other provisions	3,917,784	-	3,917,784	4,266,262	-	4,266,262
Other liabilities	8,910,182	7,367,851	16,278,033	12,291,241	3,160,756	15,451,997
Subordinated term debts	12,634,077	15,664,288	28,298,365	12,490,450	16,455,007	28,945,457
Total shareholders' equity	-	134,001,625	134,001,625	-	154,249,475	154,249,475
Non-controlling interests	-	-	-	-	5,409,964	5,409,964
<b>Total liabilities</b>	<b>1,069,710,269</b>	<b>222,141,267</b>	<b>1,291,851,536</b>	<b>1,099,459,800</b>	<b>272,022,706</b>	<b>1,371,482,506</b>
Maturity gap	(366,751,665)	366,751,665		(361,602,926)	361,602,926	
Cumulative gap	(366,751,665)	-		(361,602,926)	-	

## Notes to the Financial Statements

## 61 MATURITY ANALYSIS (Contd.)

## 61 (b) As at 31st December 2019

	Bank			Group		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>						
Cash and cash equivalents	29,089,189	-	29,089,189	30,263,654	-	30,263,654
Placements with banks	7,602,543	-	7,602,543	12,374,564	3,115,703	15,490,267
Balances with central banks	-	22,795,332	22,795,332	-	22,795,332	22,795,332
Reverse repurchase agreements	-	-	-	2,072,482	-	2,072,482
Derivative financial instruments	527,193	-	527,193	527,193	-	527,193
Financial assets measured at fair value through profit or loss	131,702	881,672	1,013,374	273,667	881,672	1,155,339
Financial assets measured at amortised cost						
- loans and advances to customers	370,988,006	370,781,067	741,769,073	385,707,741	383,684,428	769,392,169
Financial assets measured at amortised cost - debt and other instruments	70,110,873	79,609,961	149,720,834	73,152,059	83,359,218	156,511,277
Financial assets measured at fair value through						
other comprehensive income	56,803,946	70,891,036	127,694,982	57,147,865	76,805,252	133,953,117
Investment in joint venture	-	755,000	755,000	-	2,137,665	2,137,665
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	480,444	480,444	-	1,026,050	1,026,050
Property, plant and equipment	-	21,076,762	21,076,762	-	42,452,617	42,452,617
Right-of-use assets	614,619	4,868,060	5,482,679	556,503	1,014,816	1,571,319
Intangible assets and goodwill	-	1,076,641	1,076,641	-	1,568,080	1,568,080
Deferred tax assets	-	-	-	-	1,250,755	1,250,755
Other assets	6,290,420	6,616,814	12,907,234	9,348,795	6,119,117	15,467,912
<b>Total assets</b>	<b>542,158,491</b>	<b>582,850,074</b>	<b>1,125,008,565</b>	<b>571,424,523</b>	<b>626,210,705</b>	<b>1,197,635,228</b>
<b>LIABILITIES</b>						
Due to banks	60,729,184	25,667,120	86,396,304	60,521,267	26,691,703	87,212,970
Derivative financial instruments	573,365	-	573,365	573,365	-	573,365
Securities sold under repurchase agreements	17,569,394	-	17,569,394	17,569,394	-	17,569,394
Financial liabilities measured at amortised cost - due to depositors	784,210,276	25,824,838	810,035,114	800,274,736	34,785,410	835,060,146
Dividends payable	1,449,472	-	1,449,472	1,466,959	-	1,466,959
Financial liabilities measured at amortised cost - other borrowings	12,426,679	10,177,360	22,604,039	12,426,679	10,177,360	22,604,039
Debt securities issued	54,207	1,743,437	1,797,644	54,207	2,314,779	2,368,986
Current tax liabilities	5,348,985	-	5,348,985	5,621,389	-	5,621,389
Deferred tax liabilities	-	1,381,754	1,381,754	-	7,334,048	7,334,048
Insurance provision - life	-	-	-	195,352	14,273,514	14,468,866
Insurance provision - general	-	-	-	2,871,417	-	2,871,417
Other provisions	3,599,739	-	3,599,739	4,171,801	-	4,171,801
Other liabilities	8,345,339	5,708,039	14,053,378	11,261,674	1,233,731	12,495,405
Subordinated term debts	5,677,008	27,018,213	32,695,221	5,677,008	27,668,896	33,345,904
Total shareholders' equity	-	127,504,156	127,504,156	-	145,508,220	145,508,220
Non-controlling interests	-	-	-	-	4,962,318	4,962,318
<b>Total liabilities</b>	<b>899,983,648</b>	<b>225,024,917</b>	<b>1,125,008,565</b>	<b>922,685,249</b>	<b>274,949,979</b>	<b>1,197,635,228</b>
Maturity gap	(357,825,157)	357,825,157	-	(351,260,726)	351,260,726	-
Cumulative gap	(357,825,157)	-	-	(351,260,726)	-	-

## 62 SEGMENT REPORTING

### Accounting Policy

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Unallocated items comprise mainly corporate assets, expenses, tax assets and liabilities.

### 62 (a) Basis for Segmentation

Group's activities have been segregated into eight different segments (corporate, retail, SME, micro, treasury, real estate, insurance and NBF) based on the business activities that each unit is engaged for the purpose of reviewing the operating results of the Group as well as to make decisions about resource allocation. The operating results of the Bank is split between corporate, retail, SME, micro and treasury. Real estate, insurance and NBF represent the operating results and financial position of the subsidiaries, Sithma Development (Pvt) Ltd, HNB Assurance PLC and HNB Finance PLC respectively.

Segment performance is evaluated based on operating income, profits or losses which, in certain respects, are measured differently from operating profits or losses in the consolidated financial statements.

Inter segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services on an arm's length basis. Such transfers are eliminated on consolidation.

Income taxes are not allocated to operating segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidation adjustments.

The Group's management reviews internal management reports from each division at least monthly.

### 62 (b) Information about reportable segments

Segment information is presented in respect of the Group's business segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

## Notes to the Financial Statements

## 62 SEGMENT REPORTING (Contd.)

## 62 (b) Information about reportable segments (Contd.)

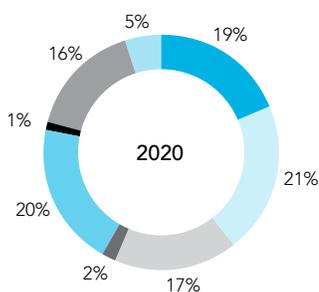
As at 31st December	Corporate		Retail		SME		Micro	
	2020	2019	2020	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	11,408,567	12,693,009	13,162,875	17,679,690	10,284,251	12,233,069	1,058,418	1,147,710
Foreign exchange income	141,001	216,934	302,708	133,065	174,080	300,060	1,895	2,714
Net fee and commission income	2,049,347	3,188,375	2,120,768	2,182,053	1,914,798	3,232,568	103,971	157,399
Other operating income	-	-	-	-	-	-	-	-
Total operating income	13,598,915	16,098,318	15,586,351	19,994,808	12,373,129	15,765,697	1,164,284	1,307,823
Impairment charge for loans and other losses	6,809,032	4,208,798	3,164,742	758,645	2,459,902	3,861,902	240,984	436,085
Net operating income	6,789,883	11,889,520	12,421,609	19,236,163	9,913,227	11,903,795	923,300	871,738
Profit from operations	-	-	-	-	-	-	-	-
Share of profit of joint venture	-	-	-	-	-	-	-	-
Income tax expenses	-	-	-	-	-	-	-	-
Non - controlling interests	-	-	-	-	-	-	-	-
Net Profit for the year attributable to equity holders of the parent company	-	-	-	-	-	-	-	-
Segment assets	382,560,873	382,364,216	205,465,205	177,165,905	208,950,182	199,218,901	25,938,834	25,386,323
Investment in joint venture	-	-	-	-	-	-	-	-
Total assets	382,560,873	382,364,216	205,465,205	177,165,905	208,950,182	199,218,901	25,938,834	25,386,323
Segment liabilities	164,499,393	112,150,128	614,340,708	528,438,974	175,585,198	149,687,256	7,444,919	6,287,043
Total liabilities	164,499,393	112,150,128	614,340,708	528,438,974	175,585,198	149,687,256	7,444,919	6,287,043
Information on cash flows								
Cash flows from operating activities	60,251,523	(11,867,620)	73,188,785	45,650,673	28,539,790	27,728,527	1,769,649	2,144,496
Cash flows from investing activities	5,500,000	2,461,970	-	-	-	-	-	-
Cash flows from financing activities	-	-	-	-	-	-	-	-
Net cash flow generated during the year	65,751,523	(9,405,650)	73,188,785	45,650,673	28,539,790	27,728,527	1,769,649	2,144,496
Capital expenditure								
- Property, plant and equipment	-	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-	-
Total Capital Expenditure	-	-	-	-	-	-	-	-

## Geographic information

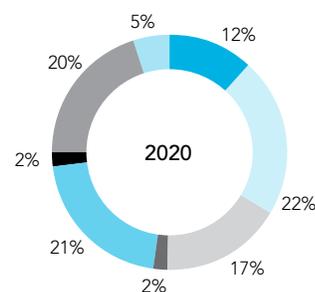
The Group function in one geographic location. Accordingly, geographic information is not presented in the financial statements.

\*Business of HNB Finance PLC

## TOTAL OPERATING INCOME



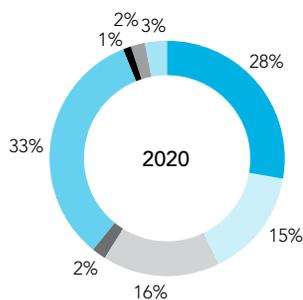
## NET OPERATING INCOME



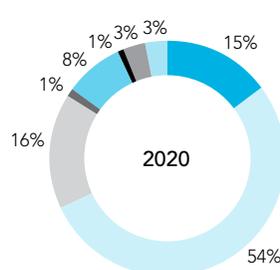
■ Corporate ■ Retail ■ SME ■ Micro ■ Treasury ■ Real Estate ■ Insurance ■ Finance

	Treasury		Real Estate		Insurance		NBF1*		Eliminations/Unallocated		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	11,867,577	7,618,034	(24,071)	(78,412)	2,443,101	2,189,573	3,075,333	4,388,962	(2,438,864)	(1,516,124)	50,837,187	56,355,511
	1,220,131	341,585	-	-	-	-	-	-	536,071	(68,076)	2,375,886	926,282
	446,326	895,877	-	-	140,843	170,992	339,664	812,915	909,840	(663,049)	8,025,557	9,977,130
	1,062,258	108,866	997,063	986,972	9,023,037	8,589,241	162,893	332,747	(410,001)	(766,089)	10,835,250	9,251,737
	14,596,292	8,964,362	972,992	908,560	11,606,981	10,949,806	3,577,890	5,534,624	(1,402,954)	(3,013,338)	72,073,880	76,510,660
	2,583,799	362,825	-	-	13,853	(224)	774,256	1,771,037	10	27,756	16,046,578	11,426,824
	12,012,493	8,601,537	972,992	908,560	11,593,128	10,950,030	2,803,634	3,763,587	(1,402,964)	(3,041,094)	56,027,302	65,083,836
	-	-	-	-	-	-	-	-	-	-	17,173,109	20,257,873
	-	-	-	-	-	-	-	-	-	-	407,215	186,884
	-	-	-	-	-	-	-	-	-	-	(3,918,061)	(5,415,685)
	-	-	-	-	-	-	-	-	-	-	(566,843)	(358,968)
	-	-	-	-	-	-	-	-	-	-	13,095,420	14,670,104
	441,699,725	291,580,743	10,461,958	10,266,129	31,725,478	26,620,723	37,414,117	36,664,705	24,744,323	46,229,917	1,368,960,695	1,195,497,562
	-	-	-	-	-	-	-	-	2,521,811	2,137,665	2,521,811	2,137,665
	441,699,725	291,580,743	10,461,958	10,266,129	31,725,478	26,620,723	37,414,117	36,664,705	27,266,134	48,367,582	1,371,482,506	1,197,635,227
	87,457,891	99,117,811	10,461,958	10,266,129	31,725,478	26,620,723	37,414,117	36,664,705	242,552,844	228,402,458	1,371,482,506	1,197,635,227
	87,457,891	99,117,811	10,461,958	10,266,129	31,725,478	26,620,723	37,414,117	36,664,705	242,552,844	228,402,458	1,371,482,506	1,197,635,227
	28,713,832	27,863,294	550,225	602,469	2,371,954	1,659,917	2,047,581	281,323	(32,659,843)	(39,238,173)	164,773,496	54,824,906
	(164,297,770)	(48,762,832)	(505)	(688)	(2,058,169)	(965,285)	423,492	(389,045)	(710,101)	(919,666)	(161,143,053)	(48,575,546)
	-	-	(258,020)	(387,120)	(461,317)	(598,520)	(195,960)	1,099,281	(1,443,676)	5,917,834	(2,358,973)	6,031,475
	(135,583,938)	(20,899,538)	291,700	214,661	(147,532)	96,112	2,275,113	991,559	(34,813,620)	(34,240,005)	1,271,470	12,280,835
	-	-	(505)	(688)	(82,901)	(59,965)	(114,836)	(234,684)	(890,286)	(1,148,289)	(1,088,528)	(1,443,626)
	-	-	-	-	(36,702)	(9,584)	(7,065)	(91,327)	(507,094)	(499,080)	(550,861)	(599,991)
	-	-	(505)	(688)	(119,603)	(69,549)	(121,901)	(326,011)	(1,397,380)	(1,647,369)	(1,639,389)	(2,043,617)

#### SEGMENT ASSETS



#### SEGMENT LIABILITIES



## Notes to the Financial Statements

## 63 NET ASSETS VALUE PER ORDINARY SHARE

As at 31st December	Bank		Group	
	2020	2019	2020	2019
<b>Amount used as the numerator:</b>				
Equity holders funds (Rs 000)	134,001,626	127,504,156	154,249,475	145,508,220
<b>Number of ordinary shares used as the denominator:</b>				
Total number of shares* ('000) [Note 22 (c)]	511,976	511,976	511,976	511,976
<b>Net assets value per ordinary share (Rs)</b>	<b>261.73</b>	<b>249.04</b>	<b>301.28</b>	<b>284.21</b>

\*Number of shares used in net assets value per ordinary share calculation of 2019 has been adjusted by the number of shares issued as scrip dividends in 2020.

## 64 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date the financial statements are authorised for issue.

There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements, other than those disclosed below:

## 64 (a) PROPOSED DIVIDENDS

Refer Note 23 (a) to the financial statements.

## 65 COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure the comparability with the current year.

	Note	Bank			Group		
		As disclosed previously Rs 000	Bank Current Presentation Rs 000	Adjustment Rs 000	As disclosed previously Rs 000	Group Current Presentation Rs 000	Adjustment Rs 000
<b>Statement of Financial position</b>							
Deferred tax liabilities	40	1,381,754	1,381,754	-	6,083,293	7,334,048	(1,250,755)
Deferred tax assets	40	-	-	-	-	1,250,755	1,250,755

Deferred tax assets of Rs 1.25 Bn in the Group which was previously netted off against deferred tax liabilities have been reclassified.

## 66 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements.

Please refer to page 144 for the statement of the Directors' Responsibility for Financial Reporting.

# Income Statement in Us Dollars

For the year ended 31st December	Bank		Group	
	2020 US\$ 000	2019 US\$ 000	2020 US\$ 000	2019 US\$ 000
<b>Gross income</b>	616,194	694,778	715,276	801,767
Interest income	553,044	635,295	600,295	688,661
Less : Interest expenses	315,166	363,921	329,813	377,906
<b>Net interest income</b>	237,878	271,374	270,482	310,755
Fee and commission income	41,473	50,766	44,691	56,983
Less: Fee and commission expenses	1,329	1,175	1,990	1,967
<b>Net fee and commission income</b>	40,144	49,591	42,701	55,016
<b>Net interest, fee and commission income</b>	278,022	320,965	313,183	365,771
Net gains/(losses) from trading	(398)	(12,578)	(291)	(12,481)
Net gain from financial investments at fair value through other comprehensive income	1,103	1,034	1,113	1,049
Net insurance premium income	-	-	47,394	46,130
Net gains arising on de-recognition of financial assets	5,606	-	5,888	454
Net other operating income	15,366	20,261	16,186	20,971
<b>Total operating income</b>	299,699	329,682	383,473	421,894
Less: Impairment charge for loans and other losses	81,184	53,245	85,377	63,010
<b>Net operating income</b>	218,515	276,437	298,096	358,884
<b>Less : Operating expenses</b>				
Personnel expenses	60,970	63,106	73,974	77,339
Benefits, claims and underwriting expenditure	-	-	39,238	39,102
Other expenses	56,715	67,902	71,974	84,430
<b>Total operating expenses</b>	117,685	131,008	185,186	200,871
<b>Operating profit before taxes on financial services</b>	100,830	145,429	112,910	158,013
Less: Taxes on financial services	20,589	43,620	21,540	46,307
<b>Operating profit after taxes on financial services</b>	80,241	101,809	91,370	111,706
Share of profit of joint venture (net of income tax)	-	-	2,167	1,030
<b>PROFIT BEFORE INCOME TAX</b>	80,241	101,809	93,537	112,736
Less: Income tax expense	19,253	24,432	20,846	29,863
<b>PROFIT FOR THE YEAR</b>	60,988	77,377	72,691	82,873
Profit attributable to:				
Equity holders of the Bank	60,988	77,377	69,675	80,894
Non-controlling interests	-	-	3,016	1,979
<b>PROFIT FOR THE YEAR</b>	60,988	77,377	72,691	82,873
<b>Earnings per share</b>				
Basic earnings per ordinary share (\$)	0.12	0.15	0.14	0.16
Diluted earnings per ordinary share (\$)	0.12	0.15	0.14	0.16
<b>Dividend per share</b>				
Dividend per share: Gross (\$)	0.04*	0.04	0.04*	0.04

Exchange rate of US\$ 1 was Rs. 187.95 as at 31st December 2020 (Rs. 181.35 as at 31st December 2019)

The income statement given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements

\* Final dividend proposed, which is to be approved at the Annual General Meeting

# Statement of Profit or Loss and Other Comprehensive Income in Us Dollars

For the year ended 31st December	Bank		Group	
	2020 US\$ 000	2019 US\$ 000	2020 US\$ 000	2019 US\$ 000
<b>PROFIT FOR THE YEAR</b>	60,988	77,377	72,691	82,873
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>				
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income	(7,302)	444	(7,302)	444
Gains realised on de-recognition of equity instruments reclassified to retained earnings	-	755	-	755
Remeasurement of post-employment benefit obligations	(8,281)	(8,038)	(8,561)	(7,994)
Revaluation gain on freehold land and buildings	-	-	-	1,244
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	124	5
Less: Tax expense relating to items that will not be reclassified to profit or loss	-	-	11	(364)
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>	<b>(15,583)</b>	<b>(6,839)</b>	<b>(15,728)</b>	<b>(5,910)</b>
<b>Other comprehensive income that will be reclassified to profit or loss in subsequent periods</b>				
<b>Debt instruments at fair value through other comprehensive income :</b>				
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	4,435	8,694	8,135	11,386
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to income statement	(5,606)	-	(5,888)	(438)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	(800)	1,428	(800)	1,429
Transfer to life policy holder reserve fund	-	-	(3,065)	(2,041)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	20	(10)
Less: Tax expense relating to items that will be reclassified to profit or loss	328	(2,434)	290	(2,469)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>	<b>(1,643)</b>	<b>7,688</b>	<b>(1,308)</b>	<b>7,857</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>(17,226)</b>	<b>849</b>	<b>(17,036)</b>	<b>1,947</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>43,762</b>	<b>78,226</b>	<b>55,655</b>	<b>84,820</b>
Total comprehensive income attributable to:				
Equity holders of the Bank	43,762	78,226	52,635	82,233
Non-controlling interests	-	-	3,020	2,587
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>43,762</b>	<b>78,226</b>	<b>55,655</b>	<b>84,820</b>

Exchange rate of US\$ 1 was Rs. 187.95 as at 31st December 2020 (Rs. 181.35 as at 31st December 2019)

The statement of profit or loss and other comprehensive income given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements

# Statement of Financial Position in US Dollars

As at 31st December	Bank		Group	
	2020 US\$ 000	2019 US\$ 000	2020 US\$ 000	2019 US\$ 000
<b>ASSETS</b>				
Cash and cash equivalents	181,557	160,404	185,682	166,880
Placements with banks	-	41,922	64,519	85,416
Balances with Central Bank of Sri Lanka	38,374	125,698	38,374	125,698
Reverse repurchase agreements	-	-	15,042	11,428
Derivative financial instruments	5,492	2,907	5,493	2,907
Financial assets measured at fair value through profit or loss	450	5,588	5,825	6,371
Financial assets measured at amortised cost - loans and advances to customers	4,110,565	4,090,262	4,260,793	4,242,582
Financial assets measured at amortised cost - debt and other instruments	992,847	825,590	1,028,728	863,034
Financial assets measured at fair value through other comprehensive income	1,326,266	704,136	1,364,164	738,644
Investment in joint venture	4,017	4,163	13,417	11,788
Investment in subsidiaries	16,054	16,638	-	-
Investment properties	2,528	2,649	5,475	5,658
Property, plant and equipment	110,163	116,221	222,545	234,092
Right-of-use assets	28,501	30,233	9,725	8,664
Intangible assets and goodwill	6,965	5,937	9,311	8,647
Deferred tax assets	4,291	-	9,199	8,897
Other assets	45,309	71,173	58,768	85,293
<b>Total assets</b>	<b>6,873,379</b>	<b>6,203,521</b>	<b>7,297,060</b>	<b>6,603,999</b>
<b>LIABILITIES</b>				
Due to banks	477,503	476,406	477,503	480,910
Derivative financial instruments	1,793	3,162	1,793	3,162
Securities sold under repurchase agreements	55,129	96,881	55,128	96,881
Financial liabilities measured at amortised cost - due to depositors	5,149,356	4,466,695	5,293,689	4,604,688
Dividends payable	5,120	7,993	5,217	8,089
Financial liabilities measured at amortised cost - other borrowings	162,417	124,643	162,417	124,643
Debt securities issued	9,976	9,913	12,830	13,063
Current tax liabilities	41,105	29,495	43,062	30,998
Deferred tax liabilities	-	7,619	28,579	40,441
Insurance provision - life	-	-	90,838	79,784
Insurance provision - non-life	-	-	17,607	15,834
Other provisions	20,845	19,850	22,699	23,004
Other liabilities	86,608	77,493	82,213	68,902
Subordinated term debts	150,563	180,288	154,006	183,876
<b>Total liabilities</b>	<b>6,160,415</b>	<b>5,500,438</b>	<b>6,447,581</b>	<b>5,774,275</b>
<b>EQUITY</b>				
Stated capital	189,265	186,495	189,265	186,495
Statutory reserve fund	40,755	38,930	40,756	38,930
Retained earnings	120,592	99,146	156,218	127,227
Other reserves	362,352	378,512	434,456	449,709
<b>Total shareholders' equity</b>	<b>712,964</b>	<b>703,083</b>	<b>820,695</b>	<b>802,361</b>
Non-controlling interests	-	-	28,784	27,363
<b>Total equity</b>	<b>712,964</b>	<b>703,083</b>	<b>849,479</b>	<b>829,724</b>
<b>Total equity and liabilities</b>	<b>6,873,379</b>	<b>6,203,521</b>	<b>7,297,060</b>	<b>6,603,999</b>
Contingent liabilities and commitments	3,362,321	3,712,329	3,362,321	3,712,329
Net assets value per ordinary share (\$)	1.39	1.37	1.60	1.57

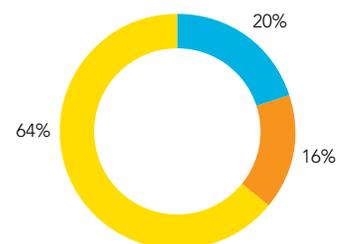
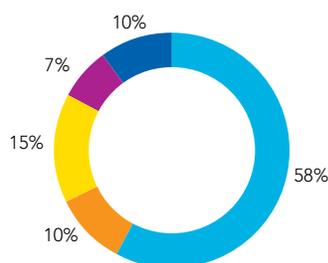
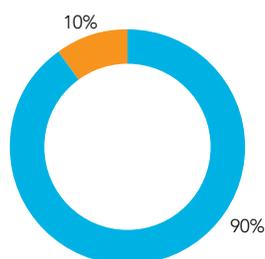
Exchange rate of US\$ 1 was Rs. 187.95 as at 31st December 2020 (Rs. 181.35 as at 31st December 2019)

The statement of financial position given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statement

## Sources and Utilisation of Income

	2016 Rs 000	2017 Rs 000	2018 Rs 000	2019 Rs 000	2020 Rs 000
<b>Sources of Income</b>					
Interest	75,608,193	96,175,453	108,104,923	115,210,769	103,944,602
Non interest income	8,742,630	10,119,741	13,251,166	10,787,317	11,869,016
<b>Total</b>	<b>84,350,823</b>	<b>106,295,194</b>	<b>121,356,089</b>	<b>125,998,086</b>	<b>115,813,618</b>
<b>Utilisation of income</b>					
<b>Employees</b>					
Salaries and other payment to Staff	8,703,575	8,866,642	10,717,978	11,444,259	11,459,352
<b>Suppliers and providers of funding</b>					
Interest paid	41,236,605	56,526,138	60,525,342	65,997,133	59,235,456
Other expenses	8,501,199	9,419,591	9,963,875	10,091,780	8,376,596
	49,737,804	65,945,729	70,489,217	76,088,913	67,612,052
<b>Provisions and depreciation</b>					
Depreciation and amortisation	1,035,930	1,128,802	1,354,762	2,246,114	2,359,326
Impairment for loans and other losses	237,160	3,035,468	9,292,421	9,656,010	15,258,468
	1,273,090	4,164,270	10,647,183	11,902,124	17,617,794
<b>Net Income before Government Taxes and Levies</b>	<b>24,636,354</b>	<b>27,318,553</b>	<b>29,501,711</b>	<b>26,562,790</b>	<b>19,124,420</b>
<b>Government</b>					
Income Tax, VAT, SGT, NBT, Crop Insurance, DRL (Incl. Deferred Tax)	10,492,948	10,851,763	13,983,508	12,530,538	7,661,784
<b>Shareholders</b>					
Dividends - Cash	2,071,683	3,175,513	2,463,253	2,251,830	2,303,891
Retained through scrip dividend	1,451,296	977,592	1,724,277	1,751,423	1,791,915
Retained profits	10,620,427	12,313,685	11,330,673	10,028,999	7,366,830
<b>Total</b>	<b>84,350,823</b>	<b>106,295,194</b>	<b>121,356,089</b>	<b>125,998,086</b>	<b>115,813,618</b>

### SOURCES AND UTILIZATION OF INCOME 2020



Interest  
Non Interest Income

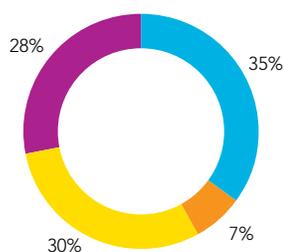
Suppliers and providers of funding  
Employees  
Provisions and depreciation  
Government  
Shareholders

Dividends - Cash  
Dividends - Scrip  
Retained Profits

# Value Added Statement

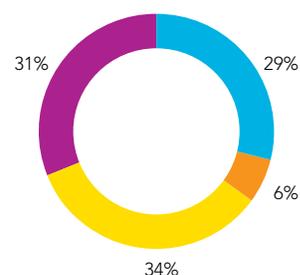
	2020 Rs 000	%	2019 Rs 000	%
<b>Value Added</b>				
Income earned by providing banking services	114,300,644		127,621,790	
Cost of services	67,612,052		76,786,521	
Value added by banking services	46,688,593		50,835,269	
Non-banking income	327,000		469,752	
Net Gain/(loss) from trading & Financial investment	1,185,974		(2,093,457)	
Impairment for loans and other losses	(15,258,468)		(9,656,010)	
	32,943,098		39,555,554	
<b>Value allocated to employees</b>				
Salaries,wages & other benefits	11,459,352	34.79	11,444,259	28.93
<b>To providers of capital</b>				
Dividends to shareholders	2,303,891	6.99	2,251,830	5.69
<b>To Government</b>				
Income tax	5,745,249		5,299,353	
Value Added tax on financial services	3,869,649		4,744,641	
Debt Recovery Levy	-		2,586,825	
Nation building tax on financial services	-		579,061	
Crop insurance levy	134,255		147,012	
Local Taxes	15,776		18,195	
Stamp Duty	23,561	9,788,489	24,053	13,399,141
		29.71		33.88
<b>To expansion and growth</b>				
Retained income	7,366,830	22.36	10,028,999	25.35
Retained through Scrip dividend	1,791,914	5.44	1,751,423	4.43
Depreciation & Amortization	2,359,326	7.16	1,548,505	3.91
Deferred Taxation	(2,126,705)	(6.46)	(868,603)	(2.19)
	32,943,098	100.00	39,555,554	100.00

ANALYSIS OF VALUE ADDITIONS 2020



■ Employees  
■ Providers of Capital  
■ Government  
■ Expansion & Growth

ANALYSIS OF VALUE ADDITIONS 2019



■ Employees  
■ Providers of Capital  
■ Government  
■ Expansion & Growth

## Value Created to Stakeholders

For the year ended 31st December	2020 Rs 000	2019 Rs 000
<b>Direct Economic value generated</b>		
Interest Income	103,944,602	115,210,769
Fee Commission Income	7,794,929	9,206,399
Net Gain/(loss) from trading & Financial investment	1,185,974	(2,093,457)
Other operating income	2,888,113	3,674,375
<b>Total Direct Economic value generated</b>	<b>115,813,618</b>	<b>125,998,086</b>
<b>Economic value distributed</b>		
To Depositors/Debenture Holders as Interest	59,235,456	65,997,133
To Employees as Emoluments	11,459,352	11,444,259
Depreciation/Amortisation Set Aside	2,359,326	1,548,505
Impairment charge for loans and other losses	15,258,468	9,656,010
To providers of Supplies and services	7,527,756	10,052,717
To Government as Taxation	9,788,489	13,399,140
- Income tax	5,745,249	5,299,353
- VAT and NBT on Financial Services	3,869,649	5,323,702
- Debt Recovery Levy	-	2,586,825
- Crop Insurance Levy	134,255	147,012
- Stamp duty and Other Local taxes	39,336	42,248
To Central Bank of Sri Lanka as Deposit insurance premium	823,771	730,121
To Shareholders as Dividends	2,303,891	2,251,830
To Community as Donation/CSR	25,069	6,551
<b>Total Economic value distributed</b>	<b>108,781,578</b>	<b>115,086,266</b>
<b>Economic Value Retained</b>	<b>7,032,041</b>	<b>10,911,820</b>

# Ten Year Statistical Summary

Year ended 31st December (Rs Mn)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>OPERATING RESULTS</b>										
Income	37,066	51,539	61,006	59,500	61,153	84,351	106,295	121,356	125,998	115,814
Interest income	33,176	47,326	56,771	51,868	52,615	75,608	96,175	108,105	115,211	103,945
Interest expense	16,530	25,368	31,424	26,967	26,280	41,237	56,526	60,525	65,997	59,235
Non interest income	3,890	4,213	4,236	7,633	8,538	8,743	10,120	13,251	10,787	11,869
Operating expenses (Incl. financial VAT, NBT & DRL)	12,148	16,294	19,575	20,470	19,824	22,968	27,719	37,879	41,538	41,497
Profit before income tax	8,388	9,876	10,008	12,064	15,050	20,146	22,050	22,952	18,463	15,081
Income tax on profit	2,123	2,342	2,998	3,059	4,601	6,002	5,583	7,433	4,431	3,619
Profit after taxation	6,265	7,534	7,010	9,005	10,449	14,143	16,467	15,518	14,032	11,463
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>										
Customer deposits	291,357	341,424	387,158	419,327	527,126	623,495	701,519	799,975	810,035	967,821
Refinance borrowings	7,045	6,429	5,615	4,889	4,227	4,140	5,244	5,639	6,364	15,089
Other liabilities	42,923	50,496	66,084	87,736	128,424	154,080	134,884	163,312	179,723	174,939
Deferred tax liabilities	1,175	1,111	-	-	379	231	5,083	1,809	1,382	-
Shareholders' funds	37,984	46,899	51,454	60,899	65,051	77,017	108,148	115,754	127,504	134,002
Total	380,484	446,358	510,310	572,851	725,208	858,963	954,878	1,086,489	1,125,009	1,291,852
<b>ASSETS</b>										
Loans and receivables to customers (Net)	257,198	302,761	351,965	396,277	498,342	584,413	639,102	749,049	741,769	772,581
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	33,446	39,024	29,238	33,838	35,033	52,042	63,533	62,342	59,487	41,336
Property, plant and equipment	7,835	9,418	9,521	9,305	11,474	13,945	17,905	21,304	21,077	20,705
Deferred tax assets	314	-	768	287	-	-	-	-	-	807
Other assets	81,690	95,155	118,818	133,144	180,360	208,564	234,337	253,794	302,676	456,423
Total	380,484	446,358	510,310	572,851	725,208	858,963	954,878	1,086,489	1,125,009	1,291,852
<b>RATIOS</b>										
Return on average shareholders funds (%)	18	18	14	16	17	20	18	14	12	9
Income growth (%)	6	39	18	(2)	3	38	26	14	4	(8)
Return on average assets (%)	1.8	1.8	1.5	1.7	1.6	1.8	1.8	1.5	1.3	0.9
Dividend cover (Times)	2.1	2.2	2.1	2.6	3.0	4.0	4.0	3.7	3.5	2.8
Property, plant and equipment to shareholders' funds (%)	21	20	19	15	18	18	17	18	17	15
Total assets to shareholders' funds (Times)	10	10	10	9	11	11	9	9	9	10
Liquid assets to liabilities (%)	22	22	23	23	24	24	24	24	30	40
<b>SHARE INFORMATION</b>										
Market value per share (Rs)										
- Voting	151.30	148.00	147.00	194.90	210.60	225.00	249.00	214.00	172.20	126.50
- Non Voting	83.20	112.50	119.00	152.90	177.90	190.00	195.00	168.50	135.50	100.60
Group Earnings per share (Rs)	16.30	20.75	19.20	24.50	25.67	34.99	33.31	35.25	29.32	25.58
*Group Earnings per share (Adjusted) (Rs)	13.32	15.51	14.94	19.18	20.61	28.82	31.15	34.45	28.65	25.58
Price earnings ratio	9.28	7.13	7.66	7.96	8.20	6.43	7.48	6.07	5.87	4.95
Group Net Assets per share (Rs)	101.83	131.02	144.06	168.67	186.20	220.61	247.79	265.11	290.78	301.28
**Group Net Assets per share (Adjusted) (Rs)	81.20	101.66	112.43	132.63	147.59	178.31	238.31	259.12	284.21	301.28
Dividend per share (Rs)	7.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.00	8.00
Cash dividend per share (Rs)	7.50	8.50	8.50	8.50	5.00	5.00	6.50	5.00	4.50	4.50
Gross dividends (Rs Mn)	2,915	3,379	3,400	3,431	3,451	3,523	4,153	4,188	4,003	4,096
<b>OTHER INFORMATION</b>										
No of employees	4,584	4,679	4,604	4,451	4,285	4,190	4,348	4,781	4,913	4,836
No of customer centres	240	247	250	249	249	251	251	250	252	252
No of student banking centres	164	166	168	168	168	150	152	155	156	162

\* Earnings per share has been adjusted for weighted average number of shares outstanding during the current year.

\*\* Net Assets per share has been computed for the current number of shares issued as at 31st December 2020

# Quarterly Statistics

For the three months ended	2020				2019											
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st								
<b>Statement of Financial Position</b>																
<b>(Rs. Mn)</b>																
Total assets	1,291,852	1,248,149	1,169,789	1,146,079	1,125,008	1,091,820	1,072,469	1,084,466								
Loans and advances to customers	772,581	743,048	734,019	753,995	741,769	709,803	724,884	749,827								
Due to customers	967,821	922,448	865,313	841,078	810,035	801,121	792,780	799,667								
Shareholders' funds	134,002	133,362	130,537	130,207	127,504	123,108	119,126	115,459								
Average assets	1,213,967	1,172,256	1,146,959	1,135,544	1,093,441	1,083,811	1,081,141	1,085,478								
<b>Income Statement</b>																
<b>(Rs 000)</b>																
Net interest income	10,895,870	11,372,954	11,016,380	11,423,942	11,380,973	11,960,733	12,898,625	12,973,305								
Net fee and commission income	2,119,504	1,966,774	1,387,957	2,070,814	2,304,301	2,240,422	2,219,502	2,228,998								
Net gain/(loss) from trading	580,104	(276,503)	230,594	(609,085)	497,370	(1,915,317)	(1,498,846)	635,824								
Net gain from financial investments at fair value through other comprehensive income	-	39,637	154,660	13,024	-	22,128	-	165,384								
Net gains arising on de-recognition of financial assets	1,053,543	-	-	-	-	-	-	-								
Net other operating income	123,458	572,783	321,695	1,870,177	194,923	2,886,037	1,646,424	(1,053,009)								
Total operating income	14,772,479	13,675,645	13,111,286	14,768,872	14,377,567	15,194,003	15,265,705	14,950,502								
Less : Impairment charge for loans and other losses	3,446,940	2,723,394	4,424,278	4,663,856	1,543,714	1,859,490	2,131,905	4,120,901								
Net operating income	11,325,539	10,952,251	8,687,008	10,105,016	12,833,853	13,334,513	13,133,800	10,829,601								
Less : Operating expenses	5,455,665	5,432,686	5,374,107	5,856,527	5,774,272	6,040,536	6,024,909	5,918,520								
Taxes on financial services	1,096,466	1,067,941	793,713	911,529	2,007,206	2,142,135	2,109,411	1,651,775								
Income tax expenses	1,049,728	1,175,851	694,063	698,902	(932,787)	1,904,910	2,230,719	1,227,909								
Profit for the quarter ended	3,723,680	3,275,773	1,825,125	2,638,058	5,985,162	3,246,932	2,768,761	2,031,397								
Other comprehensive income for the quarter ended	(3,116,299)	(442,208)	904,364	(583,465)	(1,118,328)	734,984	897,690	(360,253)								
Total comprehensive income for the quarter ended	607,381	2,833,565	2,729,489	2,054,593	4,866,834	3,981,916	3,666,451	1,671,144								
<b>Ordinary share information</b>																
Market price per share (Rs)	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV
High	135.30	105.50	120.00	91.00	120.00	91.00	174.00	139.00	188.00	144.00	199.00	160.00	185.00	153.00	214.90	168.50
Low	110.00	80.10	90.00	74.50	90.00	74.50	103.10	97.10	153.00	133.70	133.00	118.30	130.50	122.50	173.50	142.60
Closing	126.50	100.60	113.30	87.70	113.30	87.70	105.10	100.30	172.20	135.50	153.90	135.00	134.50	124.90	175.00	147.00
V- Voting																
NV - Non Voting																
Net Asset Value per Share (Adjusted)	261.73	260.49	254.97	254.32	249.04	240.46	232.68	225.52								
<b>Financial measures</b>																
<b>Profitability (Annualised)</b>																
Interest Margin (%)	3.68	3.85	3.91	4.02	4.50	4.65	4.79	4.78								
Return on Assets (before Tax) (%)	1.24	1.17	1.02	1.18	1.69	1.65	1.53	1.20								
Return on Equity (%)	8.68	7.91	6.90	8.19	11.57	9.06	8.22	7.03								
<b>Productivity</b>																
Cost to Income Ratio (%)	36.93	39.73	40.99	39.65	40.16	39.76	39.47	39.59								
<b>BASEL III</b>																
<b>Risk weighted capital ratios</b>																
Common Equity Tier I Capital (%)	14.73	14.69	15.25	13.85	14.57	13.84	13.02	12.56								
Tier I Capital (%)	14.73	14.69	15.25	13.85	14.57	13.84	13.02	12.56								
Total Capital (%)	17.98	18.33	19.07	17.25	18.28	17.86	15.57	14.79								
Leverage Ratio (%)	7.73	7.84	8.46	7.90	8.14	8.79	8.42	-								
<b>Asset quality</b>																
Gross NPA ratio (%)	4.31	6.51	6.40	5.90	5.91	4.71	4.69	4.63								
Net NPA ratio (%)	0.90	3.03	3.16	3.13	3.27	2.28	2.43	2.92								

\* Quarterly information has been amended based on classification changes made in 2020.

# Investor Relations

## 1 STOCK EXCHANGE LISTING

The issued ordinary shares of Hatton national Bank PLC are listed with the Colombo Stock Exchange. The audited Income Statement for the year ended 31st December 2020 and the audited Balance Sheet of the Bank as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock Exchange code for Hatton national Bank PLC shares is "HNB". Reuter code of Hatton national Bank PLC is "HNBL"

## 2 ORDINARY SHAREHOLDERS

### SHARE INFORMATION - VOTING

There were 8,517 registered Voting Shareholders as at 31st December 2020 (2019 - 5,393) distributed as follows.

		Resident			Non-Resident			Total		
		No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1	- 1,000	5,078	1,390,048	0.44	52	17,358	0.02	5,130	1,407,406	0.34
1,001	- 10,000	2,384	7,709,158	2.46	47	156,092	0.16	2,431	7,865,250	1.92
10,001	- 100,000	751	22,290,148	7.12	30	807,311	0.84	781	23,097,459	5.64
100,001	- 1,000,000	116	28,240,925	9.02	17	5,302,307	5.51	133	33,543,232	8.19
Over	1,000,000	27	253,601,322	80.96	15	89,867,721	93.47	42	343,469,043	83.91
		8,356	313,231,601	100.00	161	96,150,789	100.00	8,517	409,382,390	100.00

### ANALYSIS OF SHAREHOLDERS

#### Resident/Non-Resident

	31st December 2020			31st December 2019		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	8,356	313,231,601	76.51	5,231	262,731,908	65.61
Non-Resident	161	96,150,789	23.49	162	137,695,242	34.39
Total	8,517	409,382,390	100.00	5,393	400,427,150	100.00

#### Individuals/Institutions

	31st December 2020			31st December 2019		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	8,058	79,240,002	19.36	5,002	67,765,863	16.92
Institutions	459	330,142,388	80.64	391	332,661,287	83.08
Total	8,517	409,382,390	100.00	5,393	400,427,150	100.00

As at 31/12/2020 the average size of holding of ordinary shareholding was 48,066 voting shares. (31/12/2019 - 74,249 voting shares)

As per the rule No. 7.6 (iv) of the Listing Rules of the Colombo Stock Exchange, percentage of public holding of voting shares as at 31st December 2020 was 68% approximately. (69% as at 31st December 2019).

As per the rule No. 7.13.1 of the Listing Rules of the Colombo Stock Exchange, No. of shareholders, representing public holding as at 31st December 2020 - 8,499. (5,369 as at 31st December 2019).

\* An aggregate of 937,214 number of shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act, and these unregistered shares are not included herein.

### 3 SHARE INFORMATION - NON VOTING

There were 12,190 registered Non Voting Shareholders as at 31st December 2020 (2019 - 10,430) distributed as follows.

		Resident			Non-Resident			Total		
		No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1	- 1,000	7,273	2,414,913	3.57	42	14,401	0.04	7,315	2,429,314	2.39
1,001	- 10,000	3,956	12,744,417	18.84	45	161,951	0.48	4,001	12,906,368	12.70
10,001	- 100,000	749	19,864,163	29.36	19	600,377	1.77	768	20,464,540	20.13
100,001	- 1,000,000	85	22,381,229	33.08	8	1,452,324	4.27	93	23,833,553	23.45
Over	1,000,000	5	10,250,777	15.15	8	31,771,560	93.44	13	42,022,337	41.34
		12,068	67,655,499	100.00	122	34,000,613	100.00	12,190	101,656,112	100.00

#### ANALYSIS OF SHAREHOLDERS

##### Resident/Non-Resident

	31st December 2020			31st December 2019		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	12,068	67,655,499	66.55	10,303	53,703,208	54.21
Non-Resident	122	34,000,613	33.45	127	45,359,636	45.79
Total	12,190	101,656,112	100.00	10,430	99,062,844	100.00

##### Individuals/Institutions

	31st December 2020			31st December 2019		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	11,812	43,581,313	42.87	10,120	34,157,639	34.48
Institutions	378	58,074,799	57.13	310	64,905,205	65.52
Total	12,190	101,656,112	100.00	10,430	99,062,844	100.00

As at 31/12/2020 the average size of holding of ordinary shareholding was 8,339 non-voting shares. (31/12/2019 - 9,498 non-voting shares)

As per the rule No. 7.6 (iv) of the Listing Rules of the Colombo Stock Exchange, percentage of public holding as at 31st December 2020 was 99% approximately. (99% as at 31st December 2019).

As per Rule No. 7.13.1 of the Listing Rules of the Colombo Stock Exchange, No. of shareholders representing public holding as at 31st December 2020 - 12,179. (10,418 as at 31st December 2019).

#### 4 SHARE TRADING

VOTING	2020	2019
Number of transactions	49,819	11,186
Number of shares traded (Mn)	142	29
Value of shares traded (Rs Mn)	16,286	5,056
NON VOTING	2020	2019
Number of transactions	31,199	4,927
Number of shares traded (Mn)	48	5
Value of shares traded (Rs Mn)	4,205	689

#### 5 DIVIDENDS

	2020		2019	
1st Interim (Rs) - Cash Dividend	-	No Interim Dividend	1.00	Paid in December 2019
2nd Interim (Rs) - Cash Dividend	4.50	Proposed to be paid in April 2021	3.50	Paid in April 2020
Final (Rs) - Scrip Dividend	3.50	Proposed to be paid in April 2021	3.50	Paid in April 2020
Cash Dividend payout ratio (%)	20.10		16.05	

#### 6 EARNINGS

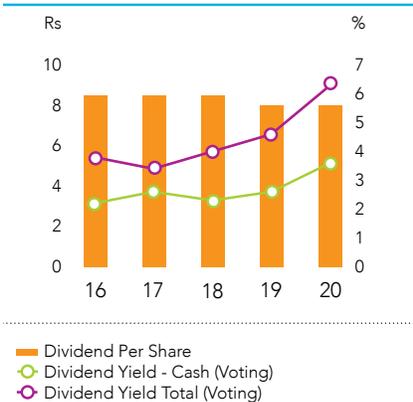
VOTING	2020	2019
Group Earnings per share (Rs)	25.58	29.32
Price earnings ratio (Times)-Voting Shares	4.95	5.87

#### 7 MARKET VALUE

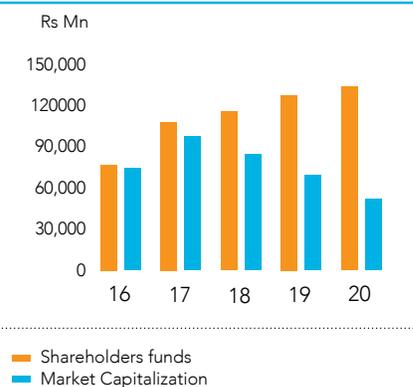
	Highest Rs.	Lowest Rs.	Year End Rs.
2016 - Voting	235.00	185.00	225.00
- Non Voting	202.00	165.50	190.00
2017 - Voting	271.00	220.00	249.00
- Non Voting	214.00	184.10	195.00
2018 - Voting	257.50	200.00	214.00
- Non Voting	200.00	150.00	168.50
2019 - Voting	214.90	130.50	172.20
- Non Voting	168.50	118.30	135.50
2020 - Voting	173.20	91.70	126.50
- Non Voting	136.20	74.70	100.60

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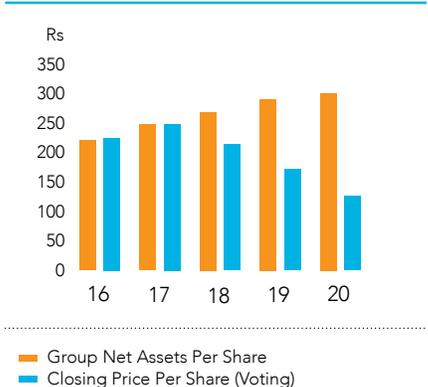
**DIVIDEND PER SHARE AND DIVIDEND YIELD**



**SHAREHOLDERS FUNDS AND HNB MARKET CAPITALIZATION**



**GROUP NET ASSETS PER SHARE AND CLOSING PRICE PER SHARE**



**8 MARKET CAPITALISATION (AS AT 31ST DECEMBER)**

	Capital & Reserves Rs Mn	*HNB Market Capitalization Rs Mn	CSE Market Capitalization Rs Mn	HNB Market Capitalization as a % of CSE Market Capitalization	Market Capitalization Ranking
2016	77,017	74,420	2,745,410	2.71	7
2017	108,148	97,684	2,899,290	3.37	5
2018	115,754	84,627	2,839,450	2.98	5
2019	127,504	69,111	2,851,310	2.42	9
2020	134,002	51,905	2,960,648	1.75	16

\*HNB Market Capitalization includes only Voting shares

**9 PUBLIC SHAREHOLDING**

	2020 Number	%	2019 Number	%
Number of shareholders representing the public holding (Voting)	8,499	68%	5,369	69%
Number of shareholders representing the public holding (Non Voting)	12,179	99%	10,418	99%
Compliant under Option 1 - Float Adjusted Market Capitalization (Rs Bn)	35.3		47.7	

**10 INFORMATION ON MOVEMENT IN SHARE CAPITAL**

Year	Issue	Basis	No of Shares
	Prior to public issue		50,000
1971	Public issue		220,000
1977	Rights issue (@ Rs 10/-)	42:50	230,000
1980	Rights issue (@ Rs 10/-)	1:1	500,000
1982	Bonus	1:1	1,000,000
1988	Bonus	1:1	2,000,000
1990	Bonus	1:2	2,000,000
1993	Bonus	1:1	6,000,000
1996	Bonus	2:3	8,000,000
1998	Bonus	1:2	10,000,000
1999	Bonus	2:3	20,000,000
1999	Rights (non voting @ Rs 70/-)	3:10	15,000,000
2002	Bonus	1:10	6,500,000
2004	Rights (voting @ Rs 55/- and non voting @ Rs 33/-)	2:5	28,600,000
2005	Issue of underlying shares for GDR		17,664,700
2007	Bonus	1:1	117,764,700
2009	Shares issued under ESOP		240,747
2010	Shares issued under ESOP		2,198,875
2011	Sub division of shares	1:2	119,179,782
2011	Rights (voting @ Rs 219.50 and non voting @ Rs 119.50)	1:10	21,858,851
2011	Private placement of unsubscribed rights		8,975,700
2011	Shares issued under ESOP		613,488
2012	Scrip Dividend		7,890,528
2012	Shares issued under ESOP		759,078
2013	Shares issued under ESOP		2,308,752
2014	Shares issued under ESOP		3,042,455
2015	Shares issued under ESOP		3,223,714
2016	Shares issued under ESOP		1,314,043
2016	Scrip Dividend		6,680,061
2017	Shares issued under ESOP		1,201,044
2017	Scrip Dividend		5,830,259
2017	Rights issue (voting @ Rs 220/- and non voting @ Rs 190/-)	1:6	67,706,913
2018	Shares issued under ESOP		263,948
2018	Scrip Dividend		3,832,951
2019	Scrip Dividend		7,756,118
2020	Scrip Dividend		11,569,009
	Total		511,975,716

**11 20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2020**

Name	% on total capital	% on total voting capital	No. of Shares 2020	No. of Shares 2019
1. Employees Provident Fund	7.81	9.75	39,993,959	39,119,092
2. Sri Lanka Insurance Corporation - Life Fund	7.09	8.85	36,310,723	33,180,391
3. Milford Exports (Ceylon) Limited	6.34	**7.91	32,446,141	31,736,382
4. Stassen Exports Ltd	5.49	**6.85	28,123,237	27,508,042
5. Mr.Sohli Edelji Captain	5.22	6.51	26,713,485	26,129,128
6. Sonetto Holdings Limited	3.94	4.91	20,166,790	19,725,642
7. CitiBank Newyork S/A Norges Bank Account 2	3.78	4.72	19,374,800	4,945,634
8. Sri Lanka Insurance Corporation - General Fund	3.61	4.50	18,465,839	16,989,898
9. Distilleries Company of Sri Lanka PLC	2.46	**3.07	12,582,692	12,307,446
10. National Savings Bank	2.30	2.87	11,773,268	11,515,728
11. Indra Traders (Pvt) Ltd	1.80	2.25	9,230,457	-
12. SSBT-AI Mehwar Commercial Investments LLC	1.69	2.11	8,651,958	7,292,350
13. Standard Chartered Bank Singapore S/A HL Bank Singapore	1.50	1.88	7,701,334	7,532,868
14. Ms.Leesha Anne Captain	1.50	1.87	7,668,457	7,500,710
15. RBC Investor Services Bank - RBC Emerging Markets Small - CAP Equity Fund	1.42	1.77	7,261,129	7,102,292
16. BNYM SANV-LF Ruffer Total return Fund	1.17	1.46	6,000,000	6,313,648
17. Employees Trust Fund Board	0.83	1.04	4,254,621	1,854,413
18. BNYM SA NV Re-First State Investments ICVC - First State Asia All-Cap Fund	0.75	0.93	3,817,988	3,536,655
19. BNYM SA NV Re-LF Ruffer Investment Funds - LF Ruffer Pacific and emerging markets fund	0.64	0.80	3,302,008	3,229,777
20. BNYM SA/NV Re-Neon Liberty Lorikeet Master Fund LP	0.60	0.75	3,084,293	3,016,825
Sub total	59.95	74.80	306,923,179	270,536,921
* Unregistered Shares	0.18	0.23	937,214	916,713
Balance held by 8,497 voting shareholders (Total voting shareholders- 8,517)	20.01	24.97	102,459,211	129,890,229
Total voting shares	80.14	100.00	410,319,604	401,343,863
Shares held by 12,190 Non-voting shareholders	19.86		101,656,112	99,062,844
Total No. of Ordinary shares	100.00		511,975,716	500,406,707

\* 937,214 shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act.

\*\* 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.

**12 20 MAJOR SHAREHOLDERS (NON-VOTING) OF THE BANK AS AT 31ST DECEMBER 2020**

Name	% on total capital	% on total voting capital	No. of Shares 2020	No. of Shares 2019
1. UBS AG Zurich	1.76	8.86	9,011,481	8,781,597
2. BNYM SA/NV-Frontaura Global Frontier Fund LLC	1.10	5.53	5,623,544	5,480,087
3. CITI Bank Newyork S/A Norges Bank Account 2	0.97	4.90	4,980,831	9,987,885
4. Akbar Brothers Pvt Ltd A/c No. 01	0.80	4.01	4,080,215	3,915,474
5. BNYM SA/NV-Neon Liberty Lorikeet Master Fund LP	0.74	3.71	3,767,091	3,670,992
6. BNYM SA/NV-LF Ruffer Total Return Fund	0.59	2.95	3,000,000	3,171,728
7. CB Europe Plc LUX S/A Dunross & Co. AB	0.41	2.07	2,101,637	2,048,024
8. Employees Trust Fund Board	0.40	1.99	2,023,004	1,247,347
9. BNYM SA/NV-LF Ruffer Absolute Return Fund	0.39	1.97	2,000,000	2,112,783
10. Mr. Sohli Edelji Captain	0.31	1.55	1,574,132	1,533,976
11. Rubber Investment Trust Limited A/c # 01	0.29	1.47	1,492,052	1,453,990
12. BNYM SANV Re-LF Ruffer Investment Funds:LF Ruffer Pacific Fund	0.25	1.27	1,286,976	1,254,145
13. Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	0.21	1.06	1,081,374	1,053,788
14. Hatton National Bank PLC A/c No. 2	0.14	0.72	731,535	712,874
15. Saboor Chatoor (Pvt) Ltd	0.14	0.68	696,100	671,124
16. Mr. E Chatoor	0.13	0.65	659,000	641,131
17. The Ceylon Investment PLC A/c No. 2	0.12	0.59	601,427	586,085
18. Deutsche Bank AG as Trustee to Assetline Income plus Growth Fund	0.12	0.59	600,000	-
19. JN Lanka Holdings Company (Pvt) Ltd	0.12	0.59	600,000	-
20. Phoenix Ventures (Pvt) Ltd	0.11	0.57	580,889	-
Sub total	9.08	45.74	46,491,288	48,323,030
Balance held by 12,170 Non-voting shareholders (Total Non-voting shareholders-12,190)	10.77	54.27	55,164,824	50,739,814
Total Non-voting shares	19.86	100.00	101,656,112	99,062,844
Shares held by 8,517 voting shareholders	79.96		409,382,390	400,427,150
* Unregistered voting Shares	0.18		937,214	916,713
Total voting shares	80.14		410,319,604	401,343,863
Total No. of Ordinary shares	100.00		511,975,716	500,406,707

\* 937,214 arregrate of shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act.

**13 DEBENTURE INFORMATION**

**HNB SUBORDINATED DEBENTURES 2006**

i) **Market Value**

12 months ended 31st December 2020

These debentures have not traded during the year ended 31st December 2020

ii) **Interest Rate**

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
15 year Fixed Rate (11.00% p.a.) (Zero Coupon)	501,428	-	11.00	4.69	451,633	-	11.00	8.49
18 year Fixed Rate (11.25% p.a.) (Zero Coupon)	964,288	-	11.25	6.24	866,579	-	11.25	9.57

**HNB SUBORDINATED DEBENTURES 2007**

i) **Market Value**

12 months ended 31st December 2020

These debentures have not traded during the year ended 31st December 2020

ii) **Interest Rate**

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
15 year Fixed Rate (16.75% p.a.)	758,625	16.75	16.75	5.55	758,625	16.75	16.75	8.86

#### HNB SUBORDINATED DEBENTURES 2011

i) **Market Value**

12 months ended 31st December 2020

These debentures have not traded during the year ended 31st December 2020

ii) **Interest Rate**

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (11.50% p.a.)	2,000,000	11.50	11.83	4.85	2,000,000	11.50	11.83	8.57

#### HNB SENIOR DEBENTURES 2013

i) **Market Value**

12 months ended 31st December 2020

	Market Value			Traded Yield		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
10 year Fixed Rate (8.00% p.a.)	89.40	89.40	89.40	12.12	12.12	12.12

ii) **Interest Rate**

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (8.00% p.a.)	1,791,002	8.00	14.25	5.95	1,713,605	8.00	14.25	9.41

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HNB SUBORDINATED DEBENTURES 2014

i) Market Value

12 months ended 31st December 2020

These debentures have not traded during the year ended 31st December 2020

ii) Interest Rate

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (8.33% p.a.)	84,040	8.33	8.50	6.45	84,040	8.33	8.50	9.64

HNB SUBORDINATED DEBENTURES 2016 - March

i) Market Value

12 months ended 31st December 2020

	Market Value			Traded Yield		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
5 year Fixed Rate (11.25% p.a.)	100.80	98.00	100.80	15.26	8.41	8.41

ii) Interest Rate

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
5 year Fixed Rate (11.25% p.a.)	7,599,795	11.25	11.25	4.69	7,599,795	11.25	11.25	8.49

## HNB SUBORDINATED DEBENTURES 2016 - November

### i) Market Value

12 months ended 31st December 2020

	Market Value			Traded Yield		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
7 year Fixed Rate (13.00% p.a.)	107.19	99.47	107.19	13.17	10.00	10.00

year debentures have not traded during the year ended 31st December 2020

### ii) Interest Rate

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
5 year Fixed Rate (11.75% p.a.)	2,039,274	11.75	11.75	4.98	2,039,274	11.75	11.75	8.64
7 year Fixed Rate (13.00% p.a.)	4,086,904	13.00	13.00	5.98	4,086,904	13.00	13.00	9.41

## HNB SUBORDINATED DEBENTURES 2019 - September

### i) Market Value

12 months ended 31st December 2020

These debentures have not traded during the year ended 31st December 2020

### ii) Interest Rate

12 months ended 31st December

	2020				2019			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
5 year Fixed Rate (12.30% p.a.)	1,987,358	12.30	12.30	6.42	1,987,358	12.30	12.30	9.55
7 year Fixed Rate (12.80% p.a.)	8,360,693	12.80	12.80	6.82	8,360,693	12.80	12.80	9.75

Note: HNB Senior Debenture information is listed under Debt Securities issued, Note 47 of the Financial Position.

Note: HNB Debenture information is listed under Subordinated Term Debts, Note 52 of the Financial Position.

### Ratios

	2020	2019
Debt to Equity Ratio (%) *	67.56	69.53
Interest Cover (Times) **	3.95	4.25
Liquidity Asset Ratio (LAR) (%)	39.57	29.55

\* Debt includes Borrowings and Debentures

\*\* Includes interest paid on Borrowings and Debentures

# Independent Assurance Statement



## SCOPE AND APPROACH

DNV GL AS represented by DNV GL Business Assurance Lanka (Private) Limited ('DNV GL') was engaged by Hatton National Bank Limited PLC ('HNB' or 'the Bank', Company Registration Number PQ 82) to undertake an independent assurance of the non-financial/sustainability performance disclosed in the Bank's Annual Report 2020 ('the Report') in its printed format. This Report is prepared based on the Guiding Principles and Content Elements of the International <IR> Framework (December 2013, the '<IR> Framework') of the International Integrated Reporting Council ('IIRC') and the Global Reporting Initiative's (GRI's) Sustainability Reporting Standards ('GRI Standards') to bring out the various Content Elements of the <IR> Framework and performance trends related to identified material topics. The intended user of this Assurance Statement is the management of the Bank. Our assurance engagement was planned and carried out during December 2020 - February 2021.

We performed a Type 2 Moderate Level of assurance using AccountAbility's AA1000 Assurance Standard v3 (August 2020, 'AA1000AS v3') and DNV GL's assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practices including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised\* and the GRI's Principles for Defining Report Content and Quality.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion, and our process did not involve engagement with external stakeholders. In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report using the Guiding Principles of the <IR> Framework, together with HNB's protocols for how the non-financial performance was measured, recorded and reported.

The reporting topic boundaries of non-financial performance is based on the internal and external materiality assessment covering HNB's operations in Sri Lanka and is as set out in the Report in the section "About Our Report" and "Determining Material Matters" for the reporting period 1st January 2020 to 31st December 2020.

Our scope of work focussed on verification of non-financial disclosures only and excluded verification of the reported data on financial performance of the Bank and the Group including its subsidiaries, as financial disclosures and data has been subject to a separate independent statutory audit process.

## RESPONSIBILITIES OF THE MANAGEMENT OF HNB AND OF THE ASSURANCE PROVIDER

The Management team of the Bank have the sole accountability for the preparation of the Report and are responsible for the information disclosed in the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing assurance work, our responsibility is to the management of the Bank; however, this statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of the Bank.

DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith and free from any misstatements. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

## Basis of our Opinion

We planned and performed our work to obtain the evidence considered necessary to provide a basis for our assurance opinion as part of the assurance engagement. We adopted a risk-based approach, i.e. we concentrated our verification efforts on the issues of high material relevance to Bank and its key stakeholders. As part of the engagement, a multi-disciplinary team of sustainability and assurance specialists reviewed sustainability disclosures related to HNB's Head Office in Colombo, and six (6) operational branches of the Bank, in Sri Lanka, based on DNV GL's sampling plan. Due to the outbreak of the COVID-19 pandemic and associated travel restrictions, we carried out remote assessments as one-to-one discussions and onsite location assessments were not feasible. We undertook the following activities:

- Reviewed the Bank's approach to addressing the Guiding Principles and Content Elements of the <IR> Framework, including stakeholder engagement and its materiality determination process;
- Verified the value creation disclosures related to the seven (7) capitals identified by the Bank (ie. six (6) capitals of the <IR> Framework and Digital Capital) as well as claims made in the Report;
- Assessed the robustness of the data management system, data accuracy, information flow and controls for the reported disclosures;
- Examined and reviewed documents, data and other information made available by the Bank related to non-financial disclosures presented within the Report;
- Conducted interviews with top and senior management team of the Bank and other representatives, including data owners and decision-makers from different divisions and functions of the Bank to validate the disclosures. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Bank's sustainability objectives;
- Review of processes and systems for preparing site level sustainability/non-financial data and implementation of sustainability strategy through remote assessments and interviews with management teams at HNB's Head Office and six (6) branches at Chunnakam, Jaffna Metro, Trincomalee, Kilinochchi North, Batticaloa and Nuwara Eliya. We were free to choose the sites we sampled for our remote assessments;
- Performed sample-based reviews of the mechanisms for implementing the Bank's sustainability related policies, as described in the Report;

- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report based on the selected GRI Standards.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

## OPINION AND OBSERVATIONS

On the basis of the assurance work undertaken, nothing has come to our attention that causes us to believe that the Report does not properly describe HNB's adherence to the criteria of reporting (Guiding Principles and Content Elements) related to the <IR> Framework, representation of the material topics, business model, disclosures on value creation through seven (7) identified capitals, related strategies and management approach and chosen topic-specific disclosures from the GRI Standards for identified material topics. Without affecting our assurance opinion, we also provide the following observations.

### AA1000 Accountability Principles Standard (2018)

#### Inclusivity

People should have a say in the decisions that impact them.

The Report brings out the process through which the Bank has identified its key stakeholders ie. customers, employees, regulators, community, business partners and investors, as well as descriptions of the various channels and mechanisms which have been established to identify and respond to their key concerns and expectations. participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity.

#### Materiality

Decision makers should identify and be clear about the sustainability topics that matter

The materiality determination process considers stakeholder concerns, existing strategies, and relevant standards and codes for value creation based on the Bank's business model and external environment. The Report brings out the process for determining the Bank's material matters considering expectations of financial capital providers and other key stakeholders, impacts on the Bank's strategic goals, common interests, trade-offs and accountability, to arrive at twelve (12) material topics which affect the Bank's ability to create long term value.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Materiality.

#### Responsiveness

Organisations should act transparently on material sustainability topics and their related impacts

The Report brings out the Bank's strategies, disclosures on management approach, policies and governance mechanisms for the twelve (12) identified material topics including the processes related to monitoring identified key performance indicators, potential opportunities and risks. Further, the disclosures on Capitals and business line reviews presented within the Report also bring out how the Management and leadership teams capture and respond to key concerns of stakeholders to create value through the Bank's business lines and enablers.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.

#### Impact

Organisations should monitor, measure, and be accountable for how their actions affect their broader ecosystems

The Report brings out HNB's metrics and management processes established to measure the effects of its performance on internal and external stakeholders and processes related to monitoring impacts related to its material matters for the seven (7) capitals, and the Report adequately describes these processes, systems and outcomes.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Impact.

#### Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by HNB for its non-financial/sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities and goals achieved for the reporting period.

#### Reliability

The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems

The Report brings out HNB's non-financial performance for identified material matters through chosen GRI Topic Specific Standards. The majority of data and information verified through our remote assessments at the Head Office and sampled sites were found to be fairly accurate and reliable. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and these errors have been corrected.

# Independent Assurance Statement



Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Reliability.

## Additional principles as per DNV GL VeriSustain

### Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported

The Report brings out value creation through its seven (7) identified capitals, its business model, strategies and management approach disclosures in line with the <IR> Framework and its key requirements as well as non-financial performance related to material topics through chosen GRI Standards for the identified scope and boundary of reporting for the Bank's operations in Sri Lanka.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness.

### Neutrality

The extent to which a report provides a balanced account of an organization's performance, delivered in a neutral tone

The Report brings out the Bank's challenges, macroeconomic environment, concerns related to key stakeholders and responses to

challenges during the reporting period in a neutral tone in terms of content and presentation.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality.

### Statement of Competence and Independence

DNV GL applies its own management standards and compliance policies for quality control, in accordance with ISO IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

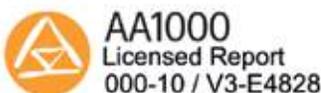
We have complied with the DNV GL Code of Conduct during the assurance engagement and maintain independence where required by relevant ethical requirements including the AA1000AS v3 Code of Practice. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report. DNV GL maintains complete impartiality toward stakeholders interviewed during the assurance process. DNV GL did not provide any services to HNB and its subsidiaries in the scope of assurance during 2020 that could compromise the independence or impartiality of our work.

For and on behalf of DNV GL AS  
Colombo, Sri Lanka  
25th February 2021

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Lead Verifier,  
DNV GL Business Assurance India Private  
Limited, India.

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# Annexure

## APPLICATION OF <IR> GUIDING PRINCIPLES

This report is prepared in accordance with the <IR> Framework and has applied the following guiding principles:

IR Guiding Principle	How we have Complied
Strategic Focus and Future Orientation	<p>The strategic focus and future orientation is derived by the management team considering inputs from diverse sources including our risk management process and evaluation of external environment</p> <p>Our Bank strategy related to key material topics are presented on page 38-39 and our future plans are given in all business line reviews and the Chairman's and Managing Director/CEO's messages on pages 14 and 19 respectively.</p>
Connectivity of Information	<p>We have provided links to other reports for additional and supporting information related to identified material topics. The Business Model on page 34-35 provides an overview of our business operations and interactions between capitals, business lines, risks and opportunities and value delivered to Stakeholders.</p>
Stakeholder Relationships	<p>We have a process of stakeholder identification and engagement and details of stakeholder engagement and relationship management is discussed and signposted on page 36</p>
Materiality	<p>The process for determining materiality is based on identifying relevant matters and evaluating importance based in &lt;IR&gt; framework and is described on page 38.</p>
Conciseness	<p>We have made every effort to present relevant material information, including organisational context, strategy, governance, performance and prospects in a concise and effective manner.</p>
Reliability & Completeness	<p>We have established an internal and external process of evaluating our nonfinancial disclosures further external auditors have provided assurance on financial statements as given page 145-148, and non-financial disclosures related to the integrated reporting framework has been assured by DNV GL and their Independent assurance statement is given on page 350-352</p>
Consistency & Comparability	<p>We have provided possible comparable information on a consistent basis for the benefit of stakeholders to understand our performance trends. Where there has been a departure in computation or measurement criteria or restatements, same has been indicated in the relevant segment</p>

GRI Standards	Disclosures	Reference	Page No
<b>GRI 101 : Foundation 2016</b>			IR 7
<b>GENERAL DISCLOSURES</b>			
<b>GRI 102 : General Disclosures 2016</b>	<b>ORGANISATIONAL PROFILE</b>		
	GRI 102-01	Name of the organisation	IR 367
	GRI 102-02	Activities, brands, products and services	IR 9, 12-13
	GRI 102-03	Location of headquarters	IR 367
	GRI 102-04	Location of operations	IR 53, 365-366
	GRI 102-05	Ownership and legal form	IR 367
	GRI 102-06	Markets served	IR 9, 53
	GRI 102-07	Scale of the organisation	IR 10-11
	GRI 102-08	Information on employees and other workers	IR 64-67
	GRI 102-09	Supply chain	IR 61, 78-97
	GRI 102-10	Significant changes to the organization and its supply chain	IR 34-35
	GRI 102-11	Precautionary principle or approach	IR 38-39, 119
	GRI 102-12	External initiatives	IR 58-63
	GRI 102-13	Membership of associations	IR 7-8, 62-63
	<b>STRATEGY</b>		
	GRI 102-14	Statement from senior decision-maker	IR 14-19
	GRI 102-15	Key impacts, risks and opportunities	IR 115-118 / CG & RR 41-84
	<b>ETHICS AND INTEGRITY</b>		
	GRI 102-16	Values, principles, standards and norms of behaviour	IR 9, 66 / CG & RR 21, 48
	GRI 102-17	Mechanisms for advice and concerns about ethics	IR 36
	<b>GOVERNANCE</b>		
	GRI 102-18	Governance structure	CG & RR 45
	GRI 102-19	Delegating authority	IR 102-110
	GRI 102-20	Executive-level responsibility for economic, environmental and social topics	IR 103 / CG & RR 10
	GRI 102-22	Composition of the highest governance body and its committees	IR 102-103 / CG & RR 4-5
	GRI 102-23	Chair of the highest governance body	IR 103 / CG & RR 7-9
	GRI 102-24	Nominating and selecting the highest governance body's	IR 113-114 / CG & RR 11
	GRI 102-25	Conflicts of interest	CG & RR 22
	GRI 102-26	Role of highest governance body in setting purpose, values and strategy	IR 14-19
	GRI 102 -27	Collective knowledge of highest governance body	CG & RR 6, 17
	GRI 102-28	Evaluating the highest governance body's performance	CG & RR 7, 15
	GRI 102-29	Identifying and managing economic, environmental and social impacts	IR 15 / CG & RR 26-27
	GRI 102-30	Effectiveness of risk management process	CG & RR 41-44
	GRI 102-31	Review of economic, environmental and social topics	IR 115-118
	GRI 102-32	Highest governance body's role in sustainability reporting	IR 7-8, 38-39, 70-73
	GRI 102-33	Communicating critical concerns	IR 36 / CG & RR 22-23
	GRI 102-34	Nature and total number of critical concerns	IR 59, 67
	GRI 102-35	Remuneration policies	IR 64, 111-112
	GRI 102-36	Process for determining remuneration	IR 67, 111-112

GRI Standards	Disclosures	Reference	Page No
	GRI 102-37	Stakeholders involvement in remuneration	IR 36, 111-112 / CG & RR 23
<b>STAKEHOLDER ENGAGEMENT</b>			
	GRI 102-40	List of stakeholder groups	IR 36
	GRI 102-41	Collective bargaining agreements	IR 67
	GRI 102-42	Identifying and selecting stakeholders	IR 36
	GRI 102-43	Approach to stakeholder engagement	IR 36 / CG & RR 24
	GRI 102-44	Key topics and concerns raised	IR 36
<b>REPORTING PRACTICE</b>			
	GRI 102-45	Entities included in the consolidated financial statements	IR 158
	GRI 102-46	Defining report content and topic boundaries	IR 350-352
	GRI 102-47	List of material topics	IR 46-47
	GRI 102-48	Re-statements of information	IR 143
	GRI 102-49	Changes in reporting	IR 7-8
	GRI 102-50	Reporting period	IR 143, IR 367
	GRI 102-52	Reporting cycle	IR 367
	GRI 102-53	Contact point for questions regarding the report	IR 367
	GRI 102-54	Claims of reporting in accordance with the GRI standards	IR 7-8
	GRI 102-55	GRI content index	IR 354-358
	GRI 102-56	External assurance	IR 145-148, 350-352
<b>ECONOMIC PERFORMANCE</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 45-51
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 201 : Economic Performance 2016	GRI 201-1	Direct economic value generated and distributed	IR 10
	GRI 201-2	Financial implications and other risks and opportunities due to climate change	IR 17, 73, 134-135
	GRI 201-3	Defined benefit plan obligation and other retirement plans	IR 304-305
<b>MARKET PRESENCE</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 43-44
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 202 : Market Presence 2016	GRI 202-2	Proportion of senior management hired from the local community	IR 64-66
<b>INDIRECT ECONOMIC IMPACTS</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 58-63, IR 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 203 : Indirect Economic Impact 2016	GRI 203-1	Infrastructure investment and services supported	IR 5, 52-53
	GRI 203-2	Significant indirect economic impacts	IR 5, 335-336
<b>PROCUREMENT PRACTICES</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 58-63
	GRI 103-3	Evaluation of the management approach	IR 37

## GRI Index

GRI Standards	Disclosures	Reference	Page No
GRI 204 : Procurement Practices 2016	GRI 204-1	Proportion of spending on local suppliers	IR 61
<b>ANTI-COMPETITIVE BEHAVIOUR</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19 / CG & RR 21
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 206 : Anti-competitive Behaviour 2016	GRI 206-1	Legal action for anti-competitive behaviour, anti-trust and monopoly practices	IR 143, 316
<b>TAX 2019</b>			
GRI 103 : Management Approach 2019	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 222-226
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 207 : Tax 2019	GRI 207-1	Approach to tax	IR 222-226
	GRI 207-2	Tax governance, control and risk management	IR 223-225
	GRI 207-3	Stakeholder engagement and management concerns related to tax	IR 14-15, 36
<b>MATERIALS</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 301 : Materials 2016	GRI 301-1	Materials used by weight or volume	IR 72
	GRI 301-2	Recycled input materials used	IR 72
<b>ENERGY</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 302 : Energy 2016	GRI 302-1	Energy consumption within the organisation	IR 71
	GRI 302-3	Energy intensity	IR 71
	GRI 302-4	Reduction of energy consumption	IR 71
<b>BIODIVERSITY</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 304 : Biodiversity 2016	GRI 304-2	Significant impact of activities, products and services on biodiversity	IR 62-63, 73
	GRI 304-3	Habitats protected or restored	IR 62-63, 73
<b>EMISSIONS</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 305 : Emissions 2016	GRI 305-1	Direct (Scope 1) GHG emissions	IR 71

GRI Standards	Disclosures	Reference	Page No
	GRI 305-2	Energy indirect (Scope 2) GHG emission	IR 71
	GRI 305-4	GHG emissions intensity	IR 71
	GRI 305-5	Reduction of GHG emissions	IR 71
<b>WASTE 2020</b>			
GRI 103 : Management Approach 2020	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 306 : Waste 2020	GRI 306-1	Waste generation and significant waste-related impacts	IR 72
	GRI 306-2	Management of significant waste-related impacts	IR 72
	GRI 306-3	Waste generated	IR 72
	GRI 306-4	Waste diverted from disposal	IR 72
	GRI 306-5	Waste directed to disposal	IR 72
<b>ENVIRONMENTAL COMPLIANCE</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 70-73
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 307 : Environmental Compliance 2016	GRI 307-1	Non-compliance with environmental laws and regulations	IR 72
<b>EMPLOYMENT</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 64-67
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 401 : Employment 2016	GRI 401-1	New employee hires and employee turnover	IR 65
	GRI 401-2	Benefits provided to full time employees that are not provided to temporary or part-time employees	IR 67
<b>LABOUR MANAGEMENT RELATIONS</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 64-67
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 402 : Labour Management Relations 2016	GRI 402-1	Minimum notice periods regarding operations changes	IR 36, 67
<b>OCCUPATIONAL HEALTH AND SAFETY</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 64-67
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 403 : Occupational Health and Safety 2016	GRI 403-1	Workers representation in formal joint management - Worker health and safety committees	IR 66
<b>TRAINING AND EDUCATION</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 64-67
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 404 : Training and Education 2016	GRI 404-1	Average hours of training per year per employee	IR 65

## GRI Index

GRI Standards	Disclosures	Reference	Page No
	GRI 404-2	Programs for upgrading employees skills and transition assistance programs	IR 65-66
	GRI 404-3	Percentage of employees receiving regular performance and career development reviews	IR 67
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The Management approach and its components	IR 14-19, 64-67
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 405 : Diversity and Equal Opportunity 2016	GRI 405-1	Diversity of governance bodies and employees	IR 64
<b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 58-63
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 407 : Freedom of Association and Collective Bargaining 2016	GRI 407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	IR 61
<b>HUMAN RIGHTS ASSESSMENT</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 64-67
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 412 : Human Rights Assessment 2016	GRI 412-2	Employee training on human rights policies or procedures	IR 65
<b>LOCAL COMMUNITIES</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 58-63
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 413 : Local Communities 2016	GRI 413-1	Operations with local community engagement, impact assessments and development programs	IR 62-63
<b>MARKETING AND LABELLING</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 76-97
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 417 : Marketing and Labelling 2016	GRI 417-1	Requirements for product and service Information and labelling	IR 76 -97
	GRI 417-2	Incidents of non-compliance concerning product and services information and labelling	IR 76 -97
	GRI 417-3	Incidents of non-compliance concerning marketing communication	IR 76 -97
<b>CUSTOMER PRIVACY</b>			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary	IR 38-39
	GRI 103-2	The management approach and its components	IR 14-19, 58-63
	GRI 103-3	Evaluation of the management approach	IR 37
GRI 418 : Customer Privacy 2016	GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	IR 55, 59

# Glossary of Financial/Banking Terms

## A

### ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the Bill. In other words a Bill of Exchange that has been accepted.

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

### ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

### ACTUARIAL GAIN/LOSS

Gain or loss arising from the difference between estimates and actual experience in a company's pension plan.

### AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

### AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

### ASSOCIATE

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

## B

### BILLS SENT FOR COLLECTION

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his Bank with a request to collect the proceeds.

### BONUS ISSUE

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) in to issued capital and hence does not involve an infusion of cash.

## C

### CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### CAPITAL RESERVE

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank.

### CASH EQUIVALENTS

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

### CEDED INSURANCE ARRANGEMENTS

An arrangement where an insurance company passes the part or all of its risks from its insurance policy portfolio to a reinsurance firm.

### COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover

losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

### COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

### COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees and letters of credit.

### COMPREHENSIVE INCOME

The change in equity of a business enterprise during a period from non-owner sources. This includes all changes in equity during a period except those resulting from investments by owners and distributions to the owners. Comprehensive income equals net income plus other comprehensive income.

### CONTINGENCIES

Conditions or situations at the reporting date, the financial effect of which are to be determined by the future events which may or may not occur.

### CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

### CORPORATE GOVERNANCE

The system of internal controls and procedures by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### CORRESPONDENT BANK

A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

## Glossary of Financial/Banking Terms

### **COST INCOME RATIO**

Operating expenses excluding loan loss provision as a percentage of total operating income.

### **COST METHOD**

Cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

### **COST-PUSH INFLATION**

A continuous increase in average price levels due to an increase in production costs.

### **CREDIT RATINGS**

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

### **CREDIT RISK**

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/equity securities.

### **CURRENCY RISK**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### **CURRENCY SWAPS**

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of same currency for forward settlement.

## **D**

### **DEBT RESTRUCTURING/RESCHEDULING**

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment

schedule as well as debt or interest charge reduction.

### **DEFERRED TAX**

Sum set aside in the financial statements for taxation that may become payable in a financial year other than the current financial year.

### **DELINQUENCY**

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed.

### **DERECOGNITION**

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

### **DERIVATIVES**

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (eg. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

### **DEMINIMIS**

Features that could impact the cash flows of a financial asset by a de minimis amount both on a period by period basis and cumulatively.

### **DEPRECIATION**

The process of systematically allocating the cost of long - lived (tangible) assets to the periods during which the assets are expected to provide economic benefits.

### **DILUTED EARNINGS PER SHARE**

The earnings per share that would result if all dilutive securities were converted into common shares.

### **DIVIDEND COVER**

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

### **DIVIDEND YIELD**

Dividend earned per share as a percentage of its market value.

### **DIVIDEND PAYOUT RATIO**

It is the percentage of earnings paid to shareholders in dividends.

### **DOCUMENTARY LETTERS OF CREDIT**

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

## **E**

### **EARNINGS PER SHARE (EPS)**

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

### **ECONOMIC VALUE ADDED (EVA)**

A measure of productivity which takes into consideration cost of total invested equity.

### **EFFECTIVE INTEREST RATE**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

### **EFFECTIVE TAX RATE**

Income tax expense for the year divided by the profit before tax.

### **EQUITY INSTRUMENT**

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

### **EQUITY METHOD**

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

## EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

## ESOP (EMPLOYEE SHARE OPTION PLAN)

A method of giving employees shares in the business for which they work.

## EX-DIVIDEND DATE

The first date that a share trades without the (i.e. "ex") dividend

## EXERCISE PRICE

The fixed price at which an option holder can buy or sell the underlying.

## EXPECTED CREDIT LOSSES (ECL)

Expected credit losses are a probability – weighted estimate of credit losses over the expected life of the financial instrument.

## 12 MONTH EXPECTED CREDIT LOSSES (12MECL)

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

## EXPOSURE AT DEFAULT (EAD)

Gross carrying amount of financial instruments subject to impairment calculation.

## F

### FAIR VALUE

The amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

### FINANCE LEASE

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

## FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

## FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## FINANCIAL RISK

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index.

## FOREIGN EXCHANGE INCOME

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

## FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## FORWARD-LOOKING INFORMATION

Incorporation of macroeconomic scenarios into the impairment calculations.

## G

### GOODWILL

An intangible asset that represents the excess of the purchase price of an acquired company over the value of the net assets acquired.

### GROSS DIVIDENDS

The portion of profit inclusive of tax withheld distributed to shareholders.

### GROUP

A group is a parent and all its subsidiaries.

## GUARANTEES

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

## H

### HEDGING

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.). A hypothetical combination of the derivative and its underlying that eliminates risk.

### HELD TO MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

## I

### IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

### IMPAIRMENT ALLOWANCES

Impairment allowances are provisions held on the statement of financial position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

### INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

## Glossary of Financial/Banking Terms

### INCURRED BUT NOT ENOUGH REPORTED (IBNER)

The reserves for claims that become due with the occurrence of the events covered under the insurance policy, but have not been reported yet.

### INCURRED BUT NOT REPORTED (IBNR)

An estimate of the liability for claim-generating events that have taken place but have not yet been reported to the insurer or self-insurer.

### INDIVIDUALLY SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

### INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate banking business of the Group are assessed individually.

### IRREVOCABLE COMMITMENT

A loan amount that may be drawn down, or is due to be contractually funded in the future.

### INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

### INTEREST MARGIN

Net interest income as a percentage of average interest earning assets.

### INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

### INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

### INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

### INSURANCE RISK

Risk, other than financial risk, transferred from the holder of a contract to the issuer.

### INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

### INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## J

### JOINT CONTROL

Joint control is the contractually agreed sharing of the control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

### JOINT VENTURE

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

## K

### KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

## L

### LETTER OF CREDIT (L/C)

Written undertakings by a Bank on behalf of its customer (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such

undertakings are established for the purpose of facilitating international trade.

### LIABILITY ADEQUACY TEST (LAT)

Assessment on each reporting date whether the recognized insurance liabilities are adequate, using current estimates of future cash flows under the insurance contract.

### LIFE TIME EXPECTED CREDIT LOSSES (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

### LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other Banks, Bills of Exchange and Treasury Bills.

### LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### LOANS AND RECEIVABLES

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

### LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

## M

### MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

### MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

## **MATERIALITY**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

## **N**

### **NET ASSET VALUE PER SHARE**

Shareholders' funds divided by the number of ordinary shares in issue.

### **NET-INTEREST INCOME**

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### **NON CONTROLLING INTEREST**

Equity in a subsidiary not attributable, directly or indirectly to a parent.

### **NON – GENUINE**

A cash flow characteristic that affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

### **NET PREMIUM METHOD**

A Net Premium Valuation is an actuarial calculation, used to place a value on the liabilities of a life insurer.

## **O**

### **OFF BALANCE SHEET TRANSACTIONS**

Transactions that are not recognised as assets or liabilities in the statement of financial position, but which give rise to contingencies and commitments.

### **ONEROUS CONTRACT**

A type of contract where the costs involved with fulfilling the terms and conditions of the contract are higher than the amount of economic benefits received.

### **OPERATIONAL RISK**

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

## **P**

### **PARENT**

A parent is an entity that has one or more subsidiaries.

### **PAST DUE**

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### **PRICE EARNINGS RATIO (P/E RATIO)**

Market price of an ordinary share divided by earnings per share (EPS).

### **PROBABILITY OF DEFAULT (PD)**

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

### **PRUDENCE**

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## **R**

### **REGULAR WAY TRADES**

A type of trade that is settled through the regular settlement cycle required for the particular investment being traded. The settlement cycle is the time that the regulations of the securities market allows for the buyer to complete payment and for the seller to deliver the goods being purchased.

### **REPURCHASE AGREEMENT**

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

### **RETURN ON AVERAGE ASSETS (ROAA)**

A profitability ratio calculated as profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

### **RETURN ON AVERAGE EQUITY (ROAE)**

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### **REVENUE RESERVE**

Reserves set aside for future distribution and investment.

### **REVERSE REPURCHASE AGREEMENT**

Transaction involving the purchase of government securities by a Bank or dealer and resale back to the seller at a given price on a specific future date.

### **RIGHTS ISSUE**

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

### **RIGHT OF USE ASSETS**

The Right of use asset is a lessee's right to use an asset over the life of a lease.

### **RISK-WEIGHTED ASSETS**

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off - balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

## **S**

### **SEGMENT REPORTING**

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

### **SHAREHOLDERS' FUNDS**

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

### **SOLELY PAYMENTS OF PRINCIPAL AND INTEREST TEST (SPPI )-**

Classification decision for non- equity financial assets under SLFRS 9.

## Glossary of Financial/Banking Terms

### SPECIFIC IMPAIRMENT PROVISIONS

Impairment is measured individually for loans that are individually significant to the Bank.

### STATE-OWNED ENTERPRISE

A state-owned enterprise is a legal entity that is created by a government in order to partake in commercial activities on the government's behalf.

### STATUTORY RESERVE FUND

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

### SUBSIDIARY

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

### SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## T

### TIER I CAPITAL

Consists of the sum total of paid up ordinary shares, non cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

### TIER II CAPITAL

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

### TOTAL CAPITAL

Total capital is the sum of Tier I capital and Tier II capital.

### TRANSACTION COSTS

Incremental cost that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

## U

### UNEARNED PREMIUM RESERVE

The premium corresponding to the time period remaining on an insurance policy.

### UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

## V

### VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

## Y

### YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

# Branch Network 2020

## CENTRAL PROVINCE - 26

<b>Kandy - 15</b>	Kundasale	<b>Nuwara Eliya - 08</b>
Akurana	Kurunduwatte	Bogawanthalawa
Asiri Hospital (Pay Office)	Nawalapitiya	Ginigathhena
Digana	Peradeniya	Hatton
Galaha	Pilimathalawa	Maskeliya
Gampola	Rikillagaskada	Nuwara Eliya
Gelioya	<b>Matale - 03</b>	Pussellawa
Kandy	Dambulla	Ragala
Kandy City Centre (Extension Office)	Galewela	Thalawakele
Katugastota	Matale	

## EASTERN PROVINCE - 25

<b>Ampara - 11</b>	<b>Batticaloa - 05</b>	<b>Trincomalee - 09</b>
Akkaraipattu	Batticaloa	Kantale
Ampara	Eravur	Kinniya
Dehiattakandiya	Valachchenai	Marathamunai
Kalmunai	Kaluwanchikudy	Mullipathana
Karaitivu	Kattankudy	Muttur
Ninthavur		Trinco Metro
Pottuvil		Serunuwara
Samanthurai		Trincomalee
Thandavenvely		Uppuveli
Thirukkovil		
Uhana		

## NORTHERN PROVINCE - 21

<b>Jaffna - 12</b>	<b>Kilinochchi - 02</b>	<b>Mullaitivu - 02</b>
Atchchuveli	Kilinochchi North	Mullaitivu
Chankanai	Kilinochchi South	Mulliyawalai
Chavakachcheri	<b>Mannar - 03</b>	<b>Vavuniya - 02</b>
Chunnakam	Mannar	Kurumankadu
Jaffna	Mallavi	Vavuniya
Jaffna Metro	Nanattan	
Kaithady		
Kodikamam		
Manipay		
Nelliady		
Point Pedro		
Thirunelvely		

## SOUTHERN PROVINCE - 25

<b>Galle - 09</b>	<b>Hambantota - 8</b>	<b>Matara - 08</b>
Ambalangoda	Ambalantota	Akuressa
Batapola	Angunakolapelessa	Deniyaya
Elpitiya	Hambantota	Devinuwara
Galle	Middeniya	Dickwella
Hikkaduwa	Sooriyawewa	Hakmana
Karapitiya	Tangalle	Matara
Koggala	Tissamaharama	Urubokka
Pitigala	Walasmulla	Weligama
Yakkalamulla		

## NORTH CENTRAL PROVINCE - 10

<b>Anuradhapura - 07</b>	<b>Polonnaruwa - 03</b>
Anuradhapura	Aralaganwila
Anuradhapura Metro	Medirigiriya
Kekirawa	Polonnaruwa
Medawachchiya	
Nochchiyagama	
Padavi	
Parakramapura	
Thambuttegama	

## NORTH WESTERN PROVINCE - 18

<b>Kurunegala - 09</b>	<b>Puttalam - 09</b>
Alawwa	Anamaduwa
Galgamuwa	Chilaw
Giriulla	Dankotuwa
Hettipola	Madampe
Kuliyapitiya	Marawila
Kurunegala	Norochchole
Kurunegala Metro	Puttalam
Nikaweratiya	Udappuwa
Wariyapola	Wennappuwa

## Branch Network 2020

## SABARAGAMUWA PROVINCE - 11

**Kegalle - 04**

Mawanella  
Kegalle  
Pinnawala  
Warakapola

**Ratnapura - 07**

Balangoda  
Embilipitiya  
Godakawela  
Kahawatta  
Kalawana  
Pelmadulla  
Ratnapura

## UVA PROVINCE - 12

**Badulla - 06**

Badulla  
Bandarawela  
Haputale  
Mahiyanganaya  
Passara  
Welimada

**Monaragala - 06**

Buttala  
Bibile  
Kataragama  
Monaragala  
Siyambalanduwa  
Wellawaya

## WESTERN PROVINCE - 104

**Colombo - 63**

Aluthkade  
Asiri Surgical Hospital  
(Pay Office)  
Athurugiriya  
Avisawella  
Bambalapitiya  
Boralesgamuwa  
Borella  
Cinnamon Gardens  
City Office  
Dehiwela  
Dematagoda  
Grandpass  
Greenpath  
Hanwella  
Head Office Branch  
Homagama  
Hulftsdorp  
International Water  
Management Institute  
(Pay Office)  
Jampettah  
Sri Jayawardenapura  
Hospital (Pay Office)  
Kaduwela  
Kirulapone  
Kohuwela

Kollupitiya

Kolonnawa

Kotahena

Kottawa

Kotte

Maharagama

Pettah Metro

Malabe

Maligawatte

Maradana

Mirihana

Moratumulla

Moratuwa

Mount Lavinia

Mutwal

Narahenpita

Nawala

Nawaloka (Pay Office)

Nawam Mawatha

Nugegoda

One Galle Face Mall  
(Pay Office)Overseas School of  
Colombo (Pay Office)

Padukka

Pamankada

Panchikawatte

Pettah

Piliyandala

Ratmalana

Sea Street

SLPA (Pay Office)

Thalangama

Thalawathugoda

Asiri Central Hospital  
(Pay Office)

Thimbirigasyaya

Wellawatte

Wijerama

World Trade Centre

Orian City (Pay Office)

Pension Department  
(Pay Office)Lanka Hospital PLC  
(Pay Office)**Gampaha - 32**

Airport Departure  
Counter (Pay Office)  
Biyagama  
Delgoda  
Divulapitiya  
Ekala  
Gampaha  
Ganemulla  
Hendala  
Ja-Ela  
Kadawatha  
Kandana  
Katunayake  
Kelaniya  
Kiribathgoda  
Kirindiwela  
Kochchikade  
Marandagahamula  
Minuwangoda  
Mirigama  
Negombo  
Negombo Metro  
Nittambuwa  
Pamunugama  
Peliyagoda  
Pugoda

Ragama

Seeduwa

Sri Lankan Airlines  
(Pay Office)

Veyangoda

Wattala

Weliweriya

Yakkala

**Kalutara - 09**

Aluthgama  
Bandaragama  
Beruwala  
Horana  
Ingiriya  
Kalutara  
Mathugama  
Panadura  
Wadduwa

# Corporate Information

## GENERAL

### Name of Company

Hatton National Bank PLC

### Legal Form

A public limited company incorporated on 5th March 1970 under the Laws of the Republic of Sri Lanka. The Company was re-registered under the Companies Act No 7 of 2007 on 27th September 2007. It is a Licensed Commercial Bank under the Banking Act.

### Company Registration Number

PQ 82 (Previous PBS 613)

### Accounting Year End

31st December

### Stock Exchange Listing

The ordinary shares and the unsecured subordinated redeemable debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.

### Registered Office

"HNB Towers"  
No. 479, T B Jayah Mawatha  
(Darley Road),  
P O Box 837,  
Colombo 10,  
Sri Lanka.

### Head Office

"HNB Towers",  
No. 479, T B Jayah Mawatha  
(Darley Road),  
P O Box 837,  
Colombo 10,  
Sri Lanka.

Cable Address : HATNABANK

Telephone Nos : +94 11 2664664

: +94 112662772

: +94 11 4764764

Fax No : +94 112662832

Swift : Bic Code - HBLILKLX

e-mail : hnbconnect@hnb.lk

Web : www.hnb.net

### Credit Ratings

The Bank has been assigned a national long term rating of AA-(lka) by Fitch Ratings Lanka Limited

### Joint Venture Companies

**Acuity Partners (Pvt) Ltd**  
(Financial Services)  
Voting rights - 50%

### Subsidiary Companies

**HNB Assurance PLC**  
(Insurance Services)  
Voting rights - 60%

**Sithma Development (Pvt) Ltd**  
(Property Development)  
Voting rights - 100%

**HNB Finance Limited**  
(Financial Services)  
Voting rights - 51%

### Auditors

KPMG Sri Lanka  
Chartered Accountants  
32A, Sir Mohamed Macan Markar Mawatha,  
Colombo 03,  
Sri Lanka.

### Investor Information

Institutional Investors, Stockbrokers and Security Analysts requiring financial information should contact the Chief Financial Officer  
"HNB Towers"  
Level 16, No. 479,  
T B Jayah Mawatha,  
Colombo 10,  
Sri Lanka.

Telephone : +94 11 2661178

Fax : +94 11 2662815

e-mail : investor.relations@hnb.lk

## BOARD OF DIRECTORS AND COMMITTEES

### Board of Directors

Mr Dinesh Weerakkody (Chairman)  
Mr Jonathan Alles (Managing Director/CEO)  
Mr R S Captain  
(Alternate Director - Mr P R Saldin)  
Mr Amal Cabraal  
Mr D Soosaipillai  
Mr A N de Silva  
Mr Damien Fernando  
(Alternate Director - Dr Prasad Samarasinghe)  
Mr Madu Ratnayake  
Dr L J S Harsha Cabral, PC  
Mr Devaka Cooray  
Mr Dilshan Rodrigo (Executive Director/COO)  
Mr Palitha Pelpola  
- Retired with effect from 27.02.2020  
Mr Asoka Pieris  
- Resigned with effect from 02.07.2020  
Dr Rohan Karunaratne  
- Retired with effect from 06.10.2020

### Board Secretary

Ms K A L Thushari Ranaweera  
Attorney-at-Law, LL.M (Cambridge),  
Dip in Int'l Affairs (BCIS)

### Audit Committee

Mr Devaka Cooray – Chairman  
Mr Rusi Captain  
Mr Nilanth de Silva  
Mr Damien Fernando  
Mr Madu Ratnayake

### Invitee

Mr D Soosaipillai – Director

### Nomination Committee

Mr Dinesh Weerakkody – Chairman  
Mr Rusi Captain  
Dr Harsha Cabral

### HR & Remuneration Committee

Mr Dinesh Weerakkody – Chairman  
Mr Amal Cabraal  
Mr D Soosaipillai

### Board Integrated Risk Management Committee

Mr D Soosaipillai – Chairman  
Mr Jonathan Alles – MD/CEO  
Mr Madu Ratnayake  
Mr Rusi Captain  
Mr Damien Fernando  
Mr Ruwan Manatunga – Chief Risk Officer/  
DGM (Risk)  
Mr Janath Ilangantileke – AGM (Compliance)

### Invitee

Mr Devaka Cooray

# Notice of Meeting

## 1. NOTICE OF MEETING AND AGENDA

Notice is hereby given that the Fifty Second (52nd) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Tuesday, the Thirtieth (30th) day of March 2021 at the Auditorium on Level 22 of "HNB Towers" at No. 479, T.B. Jayah Mawatha, Colombo 10, at 10.00 in the forenoon when the following business will be transacted:

- i. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Bank for the year ended 31st December 2020 and the Auditor's Report thereon.
- ii. To declare a final dividend as recommended by the Board of Directors, to consider and if thought fit, to pass the following resolutions:

### ORDINARY RESOLUTION

#### - DECLARATION OF DIVIDEND AND APPROVAL OF ITS METHOD OF SATISFACTION:

- (a) IT IS HEREBY RESOLVED THAT a final dividend of Rupees Eight (Rs 8/-) per share constituting a total sum of Rs 4,095,805,728.00 be paid on the issued and fully paid ordinary voting shares and ordinary non-voting shares of the Bank for the financial year ended 31st December 2020 based on the issued ordinary voting shares and ordinary non-voting shares as at February 19th, 2021;
- (b) THAT the shareholders entitled to such dividend would be those shareholders (holders of both ordinary voting shares and ordinary non-voting shares), whose names have been duly registered in the Register of Shareholders and those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd ('CDS') as at end of trading on the date on which the requisite resolution of the Shareholders in regard to the final dividend is passed ('entitled Shareholders');
- (c) THAT the said final dividend of Rs 8/- per share be distributed and satisfied partly by the payment of cash and partly by the allotment and issue of new ordinary voting shares and ordinary non-voting shares (the "distribution scheme") based on the share prices of ordinary voting shares and ordinary non-voting shares as at February 18th, 2021 in the following manner, subject however to any necessary revision being made to the amount of dividends to be distributed and the number of shares to be issued pursuant to any changes to the applicable law:
  - i. By way of cash distribution:
 

A cash distribution (A) a sum of Rs 1,846,438,218.50 be made to the holders of ordinary voting shares and (B) a sum of Rs 457,452,504/- be made to the holders of ordinary non-voting shares respectively, on the basis of Rupees Four and cents Fifty (Rs 4.50) per each share.
  - ii. By way of the allotment of and issue of new shares:
    - A. For voting shares:
 

A sum of Rs 1,436,118,614.00 be distributed to the holders of ordinary voting shares in the form of a scrip dividend at the rate of Rupees Three and cents Fifty (Rs 3.50) per each share, by the issue of a total of 10,540,320 ordinary voting shares computed on the basis of one (1) ordinary voting share for every 38.9285718080 ordinary voting shares currently in issue (which computation is based on a valuation of Rs. 136.25 per each ordinary voting share).
    - B. For non-voting shares:
 

A sum of Rs 355,796,392 be distributed to the holders of ordinary non-voting shares in the form of a scrip dividend at the rate of Rupees Three and cents Fifty (Rs 3.50) per each share, by the issue of 3,388,537 ordinary non-voting shares computed on the basis of one (1) ordinary non-voting share for every 30.0000005902 non-voting shares currently in issue (which computation is based on a valuation of Rs 105.00 per each ordinary non-voting share).
- (d) THAT the shares arising from the aggregation of the residual fractions consequent to the scrip dividend be issued to and disposed of in the market by the trustees to be nominated by the Board of Directors and the proceeds to be distributed for charitable purposes as may be approved by the Board of Directors.

Fractional shares/entitlement referred to herein will mean the fractions arising after applying the following formula:

In the context of ordinary voting shares

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM Date} \times 1}{38.9285718080}$$

In the context of ordinary non-voting shares

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the AGM Date} \times 1}{30.0000005902}$$

- (e) THAT (a) the new ordinary voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment thereof to the entitled Shareholders rank equal and pari passu in all respects with the existing issued and fully paid ordinary voting shares of the Bank and (b) the new ordinary non-voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment thereof to the entitled Shareholders rank equal and pari passu in all respects with the existing issued and fully paid ordinary non-voting shares of the Bank, and shall be listed on the Colombo Stock Exchange.
- (f) THAT the new ordinary voting shares and ordinary non-voting shares to be so allotted and issued shall not be eligible for the payment of dividend declared hereby.
- (g) THAT accordingly, the Bank's management be and is hereby authorized to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary voting shares and ordinary non-voting shares of the Bank.

**SPECIAL RESOLUTION – APPROVAL OF THE HOLDERS OF VOTING SHARES UNDER SECTION 99 OF THE COMPANIES ACT NO. 7 OF 2007, FOR THE ISSUE OF SHARES BY WAY OF A SCRIP DIVIDEND**

IT IS HEREBY RESOLVED THAT the issue by the Bank of (a) 10,540,320 ordinary voting shares to the holders of ordinary voting shares on the basis of one (1) ordinary voting share for every 38.9285718080 ordinary voting shares currently in issue and (b) 3,388,537 ordinary non-voting shares to the holders of ordinary non-voting shares on the basis of one (1) ordinary non-voting share for every 30.0000005902 ordinary non-voting shares currently in issue, by way of a scrip dividend (subject to any necessary revision being made to the number of shares to be so issued pursuant to any changes to the applicable law) with the shares arising from the aggregation of the residual fractions consequent to the scrip dividend being issued to and disposed of in the market by the trustees to be nominated by the Board of Directors and the proceeds from such disposal being distributed to charitable purposes, be and is hereby approved.

- iii. To re-elect Dinesh Stephen Weerakkody, who retires at the Annual General Meeting, as a Non- Executive Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- iv. To re-elect Mutuantrige Parakrama Devaka Cooray as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- v. To re-elect Dilshan Peter Niros Rodrigo, as an Executive Director of the Bank in terms of Article 30 (ii) of the Articles of Association of the Bank.
- vi.
  - (a) To appoint Messrs KPMG - Sri Lanka (Chartered Accountants) as the Bank's Auditors for the ensuing year.
  - (b) To authorize the Board of Directors to determine the remuneration for such Auditors for the ensuing year.
- vii. To authorize the Directors to determine payments for the year 2021 for charitable and other purposes.

**2. MODALITIES OF CONDUCTING THE 52ND ANNUAL GENERAL MEETING**

- (1) In the interest of protecting public health and facilitating compliance with the Health and Safety guidelines issued by the authorities, the 52nd Annual General Meeting of the Bank will be held by participants assembling physically and through audio or audio and visual means in the manner set forth below:
  - (i) The Chairman, certain members of the Board of Directors, the MD/CEO, the Company Secretary, the Bank's Auditor and the Legal Counsel will be assembled at the place/venue specified above;
  - (ii) A maximum of 50 shareholders or such number of shareholders together holding twenty percent (20%) of the issued shares of the Bank, whichever is higher (who registers with the Bank for participation in the Annual General Meeting on a first come first serve basis) will also be allowed to assemble physically and participate in the meeting at the place set out in Paragraph (1) above either in person or by proxy;
  - (iii) All shareholders who, on registration as referred to (ii) above, do not get the opportunity to participate in the meeting by assembling physically at the place referred to in Paragraph (1) above and shareholders who wish to participate at the meeting remotely through audio or audio and visual means, may participate in the Annual General Meeting via MS Teams meeting platform. The shareholders referred to herein who wish to participate at the meeting through audio or audio and visual means should forward their e-mail address to [info@hnb.lk](mailto:info@hnb.lk) not less than 24 hours prior to the time fixed for the meeting to enable the Bank to share the meeting login information.
- (2) All individuals participating at the meeting remotely through audio or audio and visual means are required to identify themselves at the time of voting. Further, Individuals must also identify themselves when speaking at the Annual General Meeting during the time allotted for comments by shareholders as directed by the Chairman. At that point, the individual will be required to give his/her name and address for purposes of identification as a shareholder or proxy.
- (3) If it is likely that the Bank will be unable to post this Notice due to any situation beyond its control, then, this Notice will be published in one issue of a daily newspaper in the Sinhala, Tamil and English languages and if the circumstances permit, in one issue of the Gazette. The Notice will also be

## Supplementary Information

# Notice of Meeting

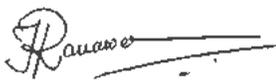
published in the Website of the Colombo Stock Exchange (<https://www.cse.lk/home/market>) and the Website (<https://www.hnb.net>) and the Facebook page of the Bank along with the separate proxy formats for voting and non-voting shareholders.

- (4) The shareholders who are unable to participate at the Meeting physically or via audio or audio and visual means could send their queries, if any, to email address [info@hnb.lk](mailto:info@hnb.lk) any time before the meeting time and the responses to same will be included in the minutes of the meeting whilst publishing same in the Report that will be uploaded after the Annual General Meeting in the HNB Website (<https://www.hnb.net>) as well as CSE web site (<https://www.cse.lk/home/market>).

### 3. PROXIES

- (1) A member entitled to attend or attend and vote at the meeting, is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
- (2) A proxy need not be a member of the Company. The Form of Proxy is enclosed.
- (3) The completed Form of Proxy should be emailed to [info@hnb.lk](mailto:info@hnb.lk) or deposited with the Board Secretary at the Registered Office of the Company at No. 479, T.B. Jayah Mawatha, Colombo 10 (at "HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the meeting.
- (4) The Board of Directors encourages that the shareholders appoints an independent director in the Board as their proxy, having marked their preferences in respect of the agenda items. This is to avoid potential health issues which could arise in light of the prevailing situation in the Country if the shareholders are to participate at the meeting physically.

By order of the Board of Hatton National Bank PLC,



K A L Thushari Ranaweera (Mrs)  
Deputy General Manager (Legal)/Board Secretary

Colombo, Sri Lanka.  
19th February 2021

### NOTICE OF MEETING

#### SUMMARY OF ARTICLE 22 OF THE ARTICLES OF ASSOCIATION OF HATTON NATIONAL BANK PLC PROCEDURE ON VOTING AND HOW A POLL IS TO BE TAKEN

1. Voting at a meeting of shareholders shall, unless a poll is demanded, be by a show of hands, or voting by voice as may be determined by the Chairman.
2. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands or voting by voice as aforesaid every member who is present at the meeting shall have one (01) vote, and on a poll every member who is present in person at the meeting shall be entitled to one (01) vote for each voting share held by him/her.
3. A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded.
4. At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No.7 of 2007 by,
  - the Chairman;
  - not less than five (5) shareholders having the right to vote at the meeting; or
  - a shareholder or shareholders representing not less than ten per centum (10%) of the total voting rights of all shareholders having the right to vote at the meeting.
5. A poll may be demanded either before or after the vote is taken on a resolution. A demand for a poll may be withdrawn any time before the poll is taken.
6. If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
7. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
8. A declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost, and an entry made to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such a resolution.

# Form of Proxy (Voting)

I/We .....  
 ..... of .....  
 ..... being \*a member/members of the Hatton National Bank PLC,  
 hereby appoint .....  
 ..... of .....

or failing him/her, Dinesh Stephen Weerakkody or failing him, Antonio Jonathan Alles or failing him, Rusi Sohli Captain or failing him, Damian Amal Cabraal or failing him, Eugen Duliksha Pratharp Soosaipillai or failing him, Appu Hennadige Don Anthony Nilanth de Silva or failing him, Lintotage Udaya Damien Fernando or failing him Wanniarachchi Mudiyanseleage Madura Duminda Ratnayake or failing him Liyanamohottige Joseph Sri Harsha Cabral or failing him Mututantrige Parakrama Devaka Cooray or failing him Dilshan Peter Niros Rodrigo as \*my/our proxy, to attend, vote and speak on \*my/our behalf and to represent \*me/us at the Fifty Second (52nd) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Thirtieth (30th) day of March, 2021 at 10.00 in the forenoon and at any adjournment thereof.

\*I/we the undersigned hereby authorize \*my/our proxy to vote on \*my/our behalf in accordance with the preference\*\* indicated below:

(i)	To declare the recommended dividend of Rs. 8 per share as the final dividend for 2020 and	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(a)	to adopt Ordinary Resolution - Declaration of Dividend and approval of its method of satisfaction	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(b)	to adopt Special Resolution – Approval of the holders of voting shares under section 99 of the Companies Act No. 7 of 2007, for the issue of shares by way of a scrip dividend	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(ii)	To re-elect Mr Dinesh Stephen Weerakkody as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iii)	To re-elect Mututantrige Parakrama Devaka Cooray as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iv)	To re-elect Dilshan Peter Niros Rodrigo as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(v)	To appoint Messrs KPMG - Sri Lanka (Chartered Accountants) as the Bank's Auditors for the ensuing year and authorize the Directors to fix their remuneration	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(vi)	To authorize the Directors to determine payments for 2021 for charitable and other purposes	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>

\* Delete inappropriate words \*\* Mark your preference with "✓" or "x"

Signed this ..... day ..... 2021.

Signature/s .....

.....

Please provide the following details:

Shareholder's NIC No/Company Registration No.	:	.....
Folio No/Number of Shares held	:	.....
Proxy holder's NIC No (if not a Director)	:	.....

## Form of Proxy (Voting)

### Instructions to complete proxy

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to [info@hnb.lk](mailto:info@hnb.lk) or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
  - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Bank.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

# Form of Proxy (Non-Voting)

I/We .....  
..... of .....  
..... being \*a member/members of the Hatton National Bank PLC,  
hereby appoint .....  
..... of.....

or failing him/her, Dinesh Stephen Weerakkody or failing him, Antonio Jonathan Alles or failing him, Rusi Sohli Captain or failing him, Damian Amal Cabral or failing him, Eugen Duliksha Pratharp Soosaipillai or failing him, Appu Hennadige Don Anthony Nilanth de Silva or failing him, Lintotage Udaya Damien Fernando or failing him Wanniarachchi Mudiyanseelage Madura Duminda Ratnayake or failing him Liyanamohottige Joseph Sri Harsha Cabraal or failing him Mututantrige Parakrama Devaka Cooray or failing him Dilshan Peter Nirosh Rodrigo as \*my/our proxy, to attend, vote and speak on \*my/our behalf and to represent \*me/us at the Fifty Second (52nd) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Thirtieth (30th) day of March, 2021 at 10.00 in the forenoon and at any adjournment thereof.

\* Delete inappropriate words

Signed this ..... day ..... 2021.

Signature/s .....  
.....

Please provide the following details:

Shareholder's NIC No/Company Registration No.	:	.....
Folio No/Number of Shares held	:	.....
Proxy holder's NIC No (if not a Director)	:	.....

Note - See reverse hereof for instructions to complete the proxy.

## Form of Proxy [Non-Voting]

### Instructions to complete proxy

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to [info@hnb.lk](mailto:info@hnb.lk) or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the Meeting.
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  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

# Investor Feedback Form

To request information or submit a comment/query to the Company, please complete the following and return this page to -

Chief Financial Officer,  
 Hatton National Bank PLC,  
 No. 479, T.B. Jayah Mawatha, Colombo 10.  
 Sri Lanka

Email : investor.relations@hnb.lk

Name	..... .....			
Permanent Mailing Address	..... ..... .....			
Contact Numbers	(Tel)			
		Country Code	Area Code	Number
	(Fax)			
		Country Code	Area Code	Number
E-mail	..... .....			
Name of Company (If Applicable)	..... .....			
Designation (If Applicable)	..... .....			
Company Address (If Applicable)	..... ..... .....			

Queries/Comments

Please tick "✓" the appropriate box

	Yes	No
Would you like to receive soft copies of the HNB annual and interim reports via e-mail?	<input type="checkbox"/>	<input type="checkbox"/>
Would you like to receive news and press releases of HNB via e-mail?	<input type="checkbox"/>	<input type="checkbox"/>
Would you like to receive any information on our products/services?	<input type="checkbox"/>	<input type="checkbox"/>



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Photography by Wildlight (Pvt) Ltd and Dimitri Crusz



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