

sustainability supplement 2017



HNB

Hatton National Bank PLC

CONTENTS

ABOUT OUR REPORT 01

ENGAGING STAKEHOLDERS 02

DETERMINING MATERIALITY 04

A CATALYST FOR INCLUSIVE GROWTH 06

Value added 06

Risks and opportunities posed by climate change 06

Defined benefit plan obligations and other retirement plans 07

Indirect economic impact 07

Empowering Individuals 07

Financial inclusion 07

Financial mobility 07

Empowering businesses 08

Empowering the Economy 09

PEOPLE EXPERIENCE 10

Happy people: our human capital report 10

Progress on our strategic objectives 10

Nurturing a happy & engaged team 12

Strategic talent management 12

Creating an inclusive workplace 14

Recognizing and rewarding people 16

PARTNERING GROWTH: OUR SOCIAL & RELATIONSHIP CAPITAL REPORT 18

Creating value through stronger stakeholder relationships 19

Customer relationships 19

Enhancing the customer experience 19

Evidence of customer satisfaction 20

Marketing and communication 21

Accolades for creating value for customers 22

Supplier relationships 22

Relationships with community 24

Reducing regional income disparities 24

Promoting social entrepreneurs 24

Strategic philanthropy 24

SLBA sustainable banking initiative 26

HNB sustainability foundation 26

Regulator 26

MANAGING OUR IMPACTS: OUR NATURAL CAPITAL REPORT 27

Green pledge 27

Statement of environment performance 27

Nurturing natural capital 28

Reducing our carbon footprint 28

Paperless office initiative 28

Responsible lending 28

Green lending 29

Green procurement 29

CSR green initiatives 30

Sustainability management is an important precautionary approach to economic, social and environmental risk management. The Bank is committed to serve all strata of society and through careful customer segmentation provides financial access and services across the continuum of socio-demographic groups. Sustainability is at the very core of the Bank's corporate strategy. By integrating social responsibility into core business processes and stakeholder management, the Bank recognises its ability to achieve the ultimate goal of creating both social value and corporate value.

ABOUT OUR REPORT

Our Sustainability supplement for 2017 is part of a suite of reports designed to cater to the specific needs of key stakeholder groups, presenting them with relevant material information in a concise yet comprehensive manner in compliance with legal requirements and international best practice.

		FRAMEWORKS APPLIED	ASSURANCE
SUSTAINABILITY SUPPLEMENT	This report caters to a wide range of stakeholders and provides a balanced review of our economic, environment and social impact and the governance mechanisms in place to measure, monitor and manage the same https://www.hnb.net/2017#sustainability-report-2017	<ul style="list-style-type: none"> » United Nations' Sustainable Development Goals 	DNV-GL has provided assurance on non financial sections of the Sustainability supplement
	<p>INTEGRATED ANNUAL REPORT 2017 (IR)</p> <p>This report is primarily for providers of financial capital and will be of interest to other stakeholders as it summarises information on all material issues impacting our performance</p>	<ul style="list-style-type: none"> » IR Framework issued by the International Integrated Reporting Council » Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka » Companies Act No 7 of 2007 » Banking Act No 30 of 1988 	<p>Assurance has been provided by Ernst & Young on the Financial Statements including the Notes to the Accounts.</p> <p>DNV-GL has provided assurance on non financial sections of the report</p>
	<p>NAVIGATING UNCERTAINTY - CORPORATE GOVERNANCE AND RISK REPORT (CG&RR)</p> <p>This is our Corporate Governance and Risk Management Report intended for providers of financial capital and regulators who require deeper insights to the Bank's governance framework and approach to managing risk</p>	<ul style="list-style-type: none"> » Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2013 » Banking Act Direction No 11 of 2007 (as amended) » Companies Act No 7 of 2007 » Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka » Integrated Risk Management Framework, Direction No 7 of 2011 » Baseline Security Standards for Information Security Management » Banking Act Direction No 1 of 2016 Basel Capital Accord (III) » ISO 27001:2013 Information Security 	The external auditors, Ernst & Young has performed procedures set out in Sri Lanka Standards on Related Service 4400 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4400), to meet the compliance requirement of the Banking Act Direction No 11 of 2007 and subsequent amendments thereto, and provided a report to the Board

ENGAGING STAKEHOLDERS

Robust stakeholder engagement processes have been key to our growth as we recognise that stakeholder concerns provide guidance to our next strategic goal. It is a key input to our strategic planning process as it enables evaluation of our strengths and weaknesses in a systematic manner using feedback from our key stakeholders. The schematic below summarises our engagement mechanisms and stakeholder concerns identified through the same.

Engagement Mechanisms	STAKEHOLDERS							
	Investors	Customers	Employees	Business Partners			Regulator	Community
				Correspondent Banks	Merchants	Suppliers		
Annual Meeting	✓		✓		✓	✓		
Dedicated Channel	✓	✓	✓	✓	✓	✓	✓	✓
Press Releases	✓	✓	✓	✓	✓	✓	✓	✓
Website/Intranet	✓	✓	✓	✓	✓	✓	✓	✓
Written Communications	✓	✓	✓	✓	✓	✓	✓	✓
Structured Group Meetings	✓		✓		✓	✓	✓	
One on One Meetings	✓	✓	✓	✓	✓	✓	✓	✓
Surveys		✓	✓					✓
Social Media		✓	✓					✓

All stakeholders have at least one dedicated grievance handling channel ensuring that concerns are recorded and resolved enabling us to monitor dissatisfaction in delivery of value to stakeholders and address same on a case-by-case basis or through wider systemic initiatives where a holistic response is warranted. Value delivered to stakeholders is highlighted throughout the report reflecting our response to identified concerns.

POINT OF CONTACT

STAKEHOLDER CONCERNS

OUR RESPONSE

POINT OF CONTACT	STAKEHOLDER CONCERNS	OUR RESPONSE
Investors		
» MD/CEO	» Financial performance, sustainable growth, improving shareholder returns	IR Pg 44
» Chief Strategy Officer	» Ethics, corporate governance and regulatory compliance	CG&RR
» Company Secretary	» Responsible lending	IR Pg 64-80
	» Risk Management	CG&RR
	» Innovation	IR Pg 59
Customers		
» Customer Experience Officer	» Product and Service offering	IR Pg 53
» Contact Centre	» Security and privacy	
» Customer Experience Unit	» Accessibility	
	» Convenience	
	» Financial inclusion	Sustainability Supplement
	» Investment returns and cost of borrowing	
Employees		
» Chief Human Resource Officer	» Employee value proposition	IR Pg 50
» Chief Employee Experience Officer	» Remuneration, rewards and recognition	
» Head of HR Management	» Employee motivation	
» Head of Talent Development	» Training and development	
» Human Resource Management Committee	» Occupational health, safety and well being	
» Talent Mobility Appeals Committee	» Employee brand equity	
» Whistle Blowing Mechanisms	» HR best practices	
» Grievance Handling Mechanisms	» Fairplay and equal opportunity	
» HR Roadshows		
» HR Service Days		
Business Partners		
Financial Institution Division	» Ethics, corporate governance and regulatory compliance	CG&RR
» Head of Financial Institution	» Risk management	
Card Centre	» Formal system for handling appeals and other grievances	CG&RR
» Head of Cards		
Banking Services Division	» Preference for Local, SME and Micro.	Sustainability Supplement
» Chief Manager Procurement and Logistics		
Regulator		
» Head of Compliance	» Ethics, corporate governance, regulatory and compliance	CG&RR
	» Responsible lending	IR Pg 64 -80
Community		
» HNB Sustainability Foundation, Chief Human Resource Officer	» Financial inclusion and awareness	IR Pg 53 & 68
	» Responsible lending	IR Pg 64 -80
	» Energy efficiency and carbon footprint	IR Pg 62
	» Ethical behaviour	Sustainability Supplement
	» Employment generation	IR Pg 50

The processes used for stakeholders' engagement are similar to previous years and as such we have reported the process details in brief in this report. Information on stakeholders requirements raised during the year and our responses and achievements, new procedures introduced as relevant, are reported in detail in the respective stakeholder sections of the sustainability report as well as in the integrated report of the bank as appropriate.

DETERMINING MATERIALITY

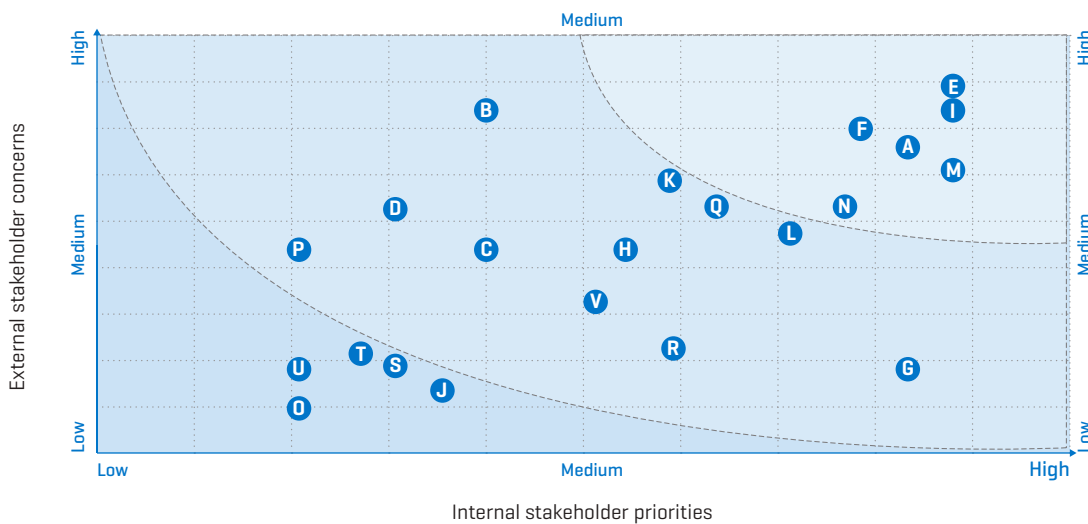
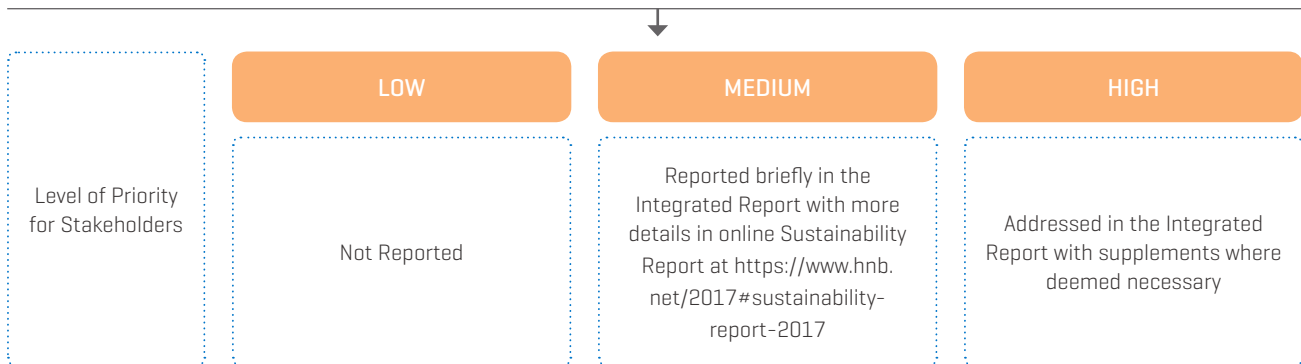
Material issues are factors that can impact our ability to create value across the entire value chain impacting the Bank and/or our stakeholders. Prioritising these issues by the frequency and potential impact of these factors enables us to determine those that require reliable processes to measure, monitor and manage. We continue to refine the processes of determining material topics using the key areas of concern identified from the stakeholder engagement process and potential impacts on our strategic goals. The

five part materiality test that was developed with the assistance of an external consultant to assess and prioritise stakeholder concerns was reviewed in 2017 and same is summarised alongside. These priorities were mapped on to the following grid to determine resource allocation for measuring, monitoring and managing them. It also serves to determine the level of reporting required for these priorities as given below.

FIVE PART MATERIALITY TEST TO PRIORITISE STAKEHOLDER CONCERNS

- Direct financial impact
- Policy related performance
- Organisational peer based norms
- Stakeholder behaviour and norms
- Societal norms

PRIORITISATION OF STAKEHOLDER CONCERNS FROM 5 PART MATERIALITY TEST



- | | |
|--|---|
| A Brand Management/Reputation | L Opportunities for financial inclusion and capacity building |
| B Climate Change | M Responsible lending |
| C Community Development | N Risk Management |
| D Conservation/Protection of Environment and Habitats | O Supplier and supply chain management |
| E Customer Satisfaction | P Supplier human right assessment |
| F Direct Economic Value Generated and Distributed [Financial and economic performance] | Q Talent Attraction/Retention |
| G Employee Training & Development | R Thought Leadership in Sustainable Finance |
| H Energy efficiency and carbon foot print | S Waste management |
| I Ethics, corporate governance and regulatory compliance | T Water |
| J Global Economy | U Usage of recycle material |
| K Innovation in Process and Products | V Anti-corruption |

GRI Standards Reported Under Material Aspects

Fully reported	GRI
Financial & Economic performance	201-1, 201-2, 201-3, 203-1
Financial inclusion	Not covered in GRI
Customer experience	102-43 , 102-44 , 417-2 ,417-3
Brand Management and Reputation	102-2 , 417-3 , 206-1, 413-1
Ethics, corporate governance and regulatory compliance	102-27 ,102-29
Responsible lending	Not covered in GRI
Employee motivation and training and development	404-2 , 404-3
Innovation in process and products	Not covered in GRI
Risk management	418-1 , 102-15 , 102-29 , 102-30 , 102-31
Partly Reported	GRI
Opportunities for financial inclusion and capacity building	203-2
Employment generation	102-8 , 401-1
Supplier and supply chain management	102-9 , 204-1
Occupational health, safety and well being	403-1
Energy efficiency and carbon footprint	302-1 , 302-3 , 302-4

Please refer Integrated Report 2017 for GRI content index.

WORKSHOP ON NEW GRI STANDARD AND INTEGRATED SUSTAINABILITY REPORTING 23RD - 24TH NOVEMBER 2017



A CATALYST FOR INCLUSIVE GROWTH

AS SRI LANKA SHIFTS GEARS ON ITS DEVELOPMENT AGENDA WITH A VISION OF BECOMING THE “HUB OF THE INDIAN OCEAN” BY 2025, WE SEE SIGNIFICANT OPPORTUNITIES TO CONTRIBUTE TO ACHIEVING THIS NATIONAL VISION THROUGH OUR TRANSFORMATION AS A BANK FOR THE FUTURE. WHILE WE CONTINUE TO DEVELOP OUR CAPABILITIES TO DISTRIBUTE INCREASING VALUE TO OUR STAKEHOLDERS AS REPRESENTED IN OUR VALUE ADDED STATEMENT, WE WILL CONTINUE TO LEVERAGE OUR ROLE AS A CATALYST FOR INCLUSIVE GROWTH TO DRIVE A MORE EQUITABLE GROWTH BY PROVIDING MORE INDIVIDUALS AND LOCAL BUSINESSES THE OPPORTUNITIES TO PARTICIPATE IN THE COUNTRY’S GROWTH JOURNEY.

VALUE ADDED

As a Domestic Systematically Important Bank (DSIB), HNB creates significant value to the economy as captured in the value-added statement below.

2017 - Direct Economic Value Generated and Distributed

For the year ended 31st December	2017	2016
Direct Economic value generated	Rs 000	Rs 000
Interest Income	96,175,453	75,608,193
Fee Commission Income	8,415,579	7,139,253
Net Gain/(loss) from trading & financial investment	(3,499,074)	(1,683,978)
Other operating income	5,203,236	3,287,355
Total Direct Economic value generated	106,295,194	84,350,823
Economic value distributed		
To Depositors/Debenture Holders as Interest	56,526,138	41,236,605
To Employees as Emoluments	8,866,642	8,703,575
Depreciation/ Amortisation Set Aside	1,128,802	1,035,930
Impairment charge for loans and other losses	3,035,468	237,160
To providers of Supplies and services	8,787,760	7,824,165
To Government as Taxation	9,827,293	10,289,351
- Income tax	4,558,951	5,798,826
VAT and NBT on Financial Services	5,021,446	4,352,756
- Super Gains Tax (SGT)	-	-
- Crop Insurance Levy	201,630	113,473
- Stamp duty and Other Local taxes	45,266	24,296
To Central Bank of Sri Lanka as Deposit insurance premium	621,468	664,611
To Shareholders as Dividends	3,522,979	3,517,095
To Community as Donation/CSR	10,363	20,451
Total Economic value distributed	92,326,913	73,528,943
Economic Value Retained	13,968,281	10,821,880

Value created increased by 26 % as the Bank expanded its activities as described in the Annual Integrated Report of the Bank for 2017. Value to Government, employees and suppliers amounted to 9.2%, 8.3% and 8.3% of the total value created in 2017 respectively while value retained for expansion and growth remained at 13% of total value created as we seek to enhance our capital base.

RISKS AND OPPORTUNITIES POSED BY CLIMATE CHANGE

Addressing the impact of climate change is no longer only a corporate responsibility. It is a business necessity. With agriculture accounting for almost 7 % of our portfolio, the impact of climate change has a significant bearing on our overall performance. As we witnessed during the last two years, adverse weather conditions had a significant impact our SME and Micro portfolios. These businesses which traditionally have greater exposure to the agriculture sector as sector growth declined for 2 consecutive years. All project credit evaluations are subject to environment and social evaluation using our ESMS framework as described on page 63 in IR 2017. Diversifying our portfolio to negate the credit concentration risk has been a key measure for risk mitigation.

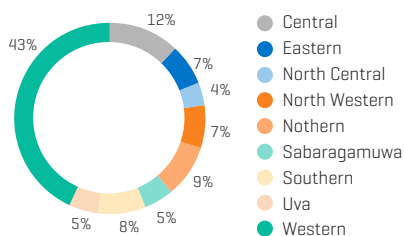
With Sri Lanka’s adoption of the Paris Accord on climate change, we envisage significant opportunities in sectors that produce green products and services in the medium to long term. As a bank of systematic competence,

it is our belief that beyond grown objectives. We have a leadership role to play in this area. Financing these investments represent new sources of growth for the Bank. Further information on our financing of clean energy and other projects are given on page 57 and 62 of IR 2017.

DEFINED BENEFIT PLAN OBLIGATIONS AND OTHER RETIREMENT PLANS

Please refer the Note No 53 of the IR 2017 [Page 225-230]

GEOGRAPHICAL DISTRIBUTION OF CUSTOMERS 2017



INDIRECT ECONOMIC IMPACT

HNB's indirect economic impact is significant as facilitate achievement of financial aspirations for individuals and businesses. Our role as a catalyst in the socioeconomic progress of our country is wide and varied as we support livelihoods and facilitate business growth creating indirect employment. We are unable to quantify many of these impacts for credible disclosure as the information lies beyond our boundaries. We have focused on disclosing those aspects which can be quantified in a systematic manner which are summarized below.

EMPOWERING INDIVIDUALS

We empower individuals by providing opportunities to manage their wealth, providing access to finance and platforms for transactions. Retail Banking and Micro Finance verticals are the key drivers of value creation for individuals and the business line reviews on pages 77 and 78 of our Integrated Report summarise their activities. In our sustainability supplement, we focus on those initiatives which support those activities that focus on inclusive banking.

FINANCIAL INCLUSION

As we increase our penetration in new market segments in accordance with our inclusive banking principles, we are very much aware of the need to enhance financial literacy and engage in capacity building of micro entrepreneurs and SMEs in the belief that it will empower their growth.

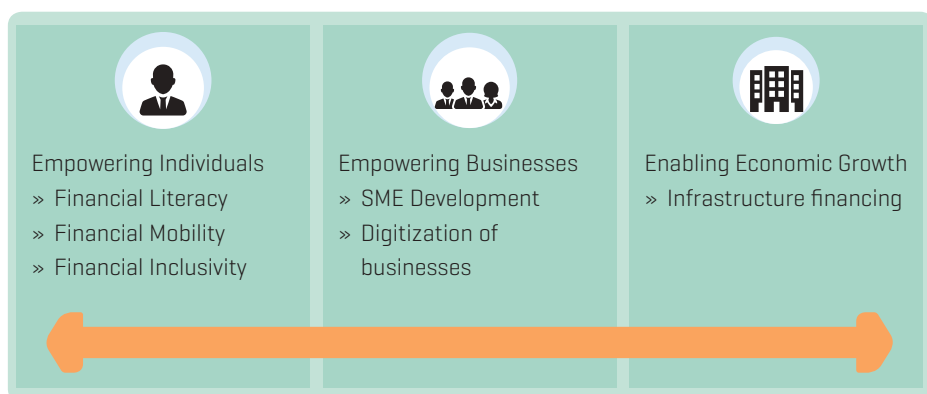
Specific programmes aimed at providing financial literacy to targeted groups were conducted throughout the year. Partnering with Ceylon Chamber of Commerce and Citi Bank in the Rural Economic Empowerment Programme 50 rural entrepreneurs were assisted in improving their financial literacy, business management and provided finance in the first phase with a further 30 assisted in the second phase. Beneficiaries in the first phase were from the Matara and Ratnapura districts while those in the second phase were from the Anuradhapura district. Additionally, the Bank partnered with the International Executive Service Corps (IESC) for USAID-funded YouLead programme to improve technical, vocational education & training, and to increase the employability of young people in Sri Lanka by extending financial assistance to youth-led start-ups. HNB is also a key participating bank in government and donor funded initiatives for this sector.

FINANCIAL MOBILITY

Our extensive network and diverse range of products continues to provide financial mobility and empower to individuals across the country. Providing financial solutions throughout the life cycle of our customers, we strive to empower individuals to achieve their aspirations. A wide range of products ranging from children's savings accounts, school savings units, education loans, housing loans and pension products support their financial goals and pave the way to uplift the lives of thousands of people across the nation. Hundreds of success stories from all parts of the country bear testimony to the support extended by HNB through their journey.

For more than a century, HNB's brand identity has been one which transcended ethnic and geographic divides; and today, our customer base spans across a wide demographic and geographic expanse. We continue to expand our footprint by exploring new channels and products in order to reach the widest possible beneficiaries.

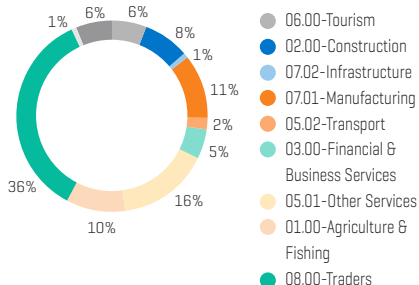
Our strong culture of SME and micro financing has enabled and empowered rural communities and economically less advantaged groups across the country participate more productively in the national economy. The bank continues to uplift the microfinance sector through "HNB Divi Saviya" launched over two decades ago and our pioneering in house financing initiative branded as "Gami Pubuduwa" while the recent acquisition of HNB Grameen has further widened our involvement in the micro finance sector.



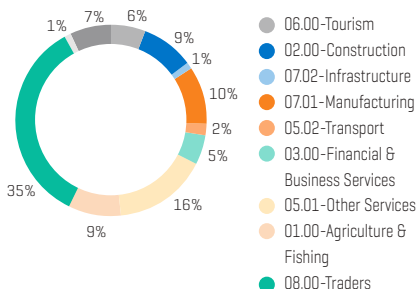
A catalyst for inclusive growth

Growth and distribution of SME Assets

SME ADVANCES SECTORWISE 2016



SME ADVANCES SECTORWISE 2017



EMPOWERING BUSINESSES

SME Development

Our pioneering role in the Small Medium Enterprise [SME] sector is of great pride to us as we believe that the development of a vibrant SME sector is vital for a resilient national economy.

This year we focused on driving export-oriented growth in the SME sector with the introduction of SME Export Credit Facility, a credit facility offering SME export clients upto Rs 40 Mn in export credit with concessionary rates and easy payment terms, in order to enable them to trade on credit with international buyers. This is a pioneering product introduced in collaboration with the Export Development Board and we are proud to be the first to market on this initiative.

Our Bank's engagement with this sector goes beyond providing financial assistance. We work very closely with our customers to understand their business, provide guidance and ultimately help them build profitable and sustainable businesses. Initiatives in this regard include;

- » Training to improve financial literacy management and technical skills.
- » Entrepreneur Development and Customer Awareness programmes across the country
- » Creation of marketing opportunities through trade fairs.

- » Establishing market linkages
- » Introduction of technology to promote customer products and link producers to online buyers;
- » Facilitating tripartite arrangements to facilitate backward integration for small scale suppliers. Over the years these partnerships have helped generate new employment, adopt new technologies and facilitate a transition from subsistence farming to commercial scale.
- » Assisted quality improvements through the introduction of quality assurance experts

Digitization of Businesses

Understanding that e-commerce is the future of the global economy, we are not only transforming ourselves to become a fully digitalized operation but also helping our customers go that path.

Apart from complex solutions we offer our corporate clients such as cash management, transaction banking, school smart Pay App, online payments for customers. We continue to assist SMEs digitize their businesses. During the year we entered into a Memorandum of Understanding with Webex to provide support to our SME clients to enter the digital space. We also have a number of solutions in the pipeline aimed at taking SME's on the e-platform.



EMPOWERING THE ECONOMY

Financing Infrastructure development

During the year HNB was involved in a number of land mark projects such as

	<p>Providing financial capital and enabling transactions for SMEs, Corporates and Government</p>	<ul style="list-style-type: none"> » Disbursed Rs 590 Bn loans to Corporates <ul style="list-style-type: none"> - Infrastructure development project disbursements Rs 5 Bn » SME disbursements Rs 137 Bn » Promoting social entrepreneurship through 'Ath Pawura' » Supporting growth of 240 SME exporters in four regions by arranging workshops
	<p>As a Group HNB is the largest provider of financial capital to the microfinance sector through the Bank's Microfinance department and HNB Grameen</p>	<ul style="list-style-type: none"> » Total disbursements of Rs 24 Bn by HNB and HNB Grameen » 17% of branches and 14% of ATMs located in the three lowest contributing provinces accounting for 14% of GDP » Network of Gami Pubuduwa Officers 100 (barefoot bankers) who reach out to village leaders to identify financial support requirements and visit potential customers » Increased non-collateralised lending to sector » 593 Capacity building workshops and 30,000 beneficiaries
	<p>HNB supports agri business as 10% of its portfolio is invested in the same</p>	<ul style="list-style-type: none"> » Agriculture loans of Rs 45 Bn disbursed » Value chain financing benefited over 1,100 farmers
	<p>Shanthi Housing loans and financing of the housing construction sector</p>	<ul style="list-style-type: none"> » Rs 9 Bn housing loan disbursements in 2017 » Rs 37 Bn financial support provided to construction sector in 2017 » Eight partnerships with merchants for Shanthi loyalty card members
	<p>The Bank supports clean energy through investments in solar energy and by facilitating investments in renewable energy for home owners and the private sector</p>	<ul style="list-style-type: none"> » Generated 2,100,400 kwh of solar energy in 2017 » Arranged a syndicated facility of Rs 9 Bn to fund country's first waste to energy project » Solar panels installed at 69 branches at a total investment of Rs 353.2 Mn » Rs 4 Bn exposure to clean energy projects » Reduced energy consumption from National Grid by 4,087,736 kwhs

The Bank moved in to financing other Micro Finance Institutions which will manage the loans through established networks and agreement has been signed with the Asian Development Bank to cover 50% of the exposure to these MFIs.

HAPPY PEOPLE : NURTURING HUMAN CAPITAL

CUSTOMER , EMPLOYEE AND BUSINESS PARTNER EXPERIENCES DRIVE OUR GROWTH AND HOW WE ARE PERCEIVED IN THE COMMUNITY. WE ARE DEEPLY GRATEFUL FOR THE PATRONAGE OF CUSTOMERS, THE DEDICATION OF THE HATNA FAMILY AND THE SUPPORT OF BUSINESS PARTNERS IN OUR JOURNEY. THIS SEGMENT OF THE SUSTAINABILITY REPORT SETS OUT HOW WE NURTURE OUR RELATIONSHIPS AND THE VALUE DELIVERED TO THESE KEY STAKEHOLDERS IN 2017.

As the Bank embarks on its transformational journey, we foster an engaged, empowered and future-ready team. Vision 2020 will be the foundation of the future direction of the Bank. HNB will transform itself as a beacon of excellence through a process of organisational renewal.

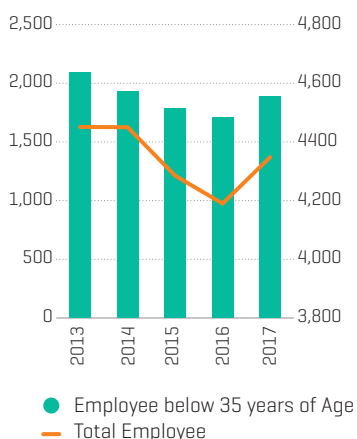
Classroom training increased by 31% year on year whilst virtual learning saw an increase of 98% year on year, showing a significant enhancement in the learning culture of the organization with a greater reliance on virtual learning.

PROGRESS ON OUR STRATEGIC OBJECTIVES

Lean Organisation

Productivity enhancement for a leaner organization.

EMPLOYEE PROFILE AND HEADCOUNT

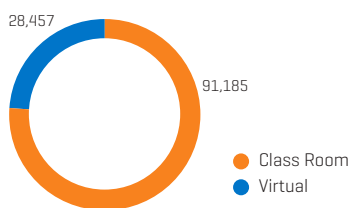


Seamless Learning

Enhancing the Learning Culture in the Organization.

Over 120,000 learning hours were delivered through classroom and virtual learning (excluding self-study, external and foreign training), an average of 27.7 learning hours per employee.

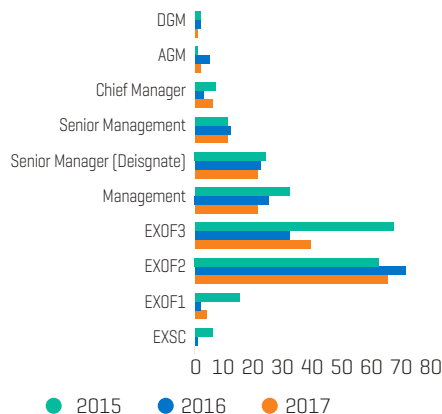
CLASS ROOM VS VIRTUAL TRAINING HOURS 2017



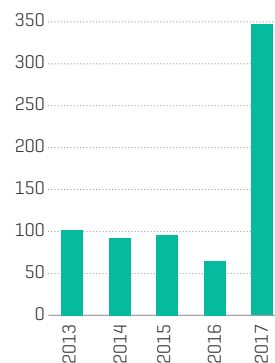
Talent Pipeline

Build a critical mass through succession planning and accelerated development.

PROMOTIONS ABOVE EXECUTIVE CATEGORY



PROMOTIONS BELOW EXECUTIVE CATEGORY

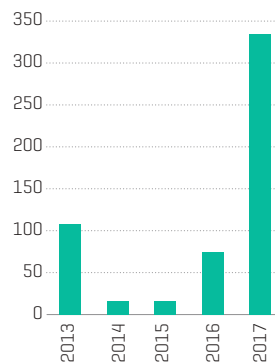


Future Organization

Workforce alignment to future readiness for Gen Ys and Gen Zs.

Significant changes to entry qualifications which included basic IT knowledge as compulsory. Increased the age limit for trainee bank associate to 25 to allow for more scope for applicants with part/fully completed professional/academic qualifications.

RECRUITMENTS BELOW 30 YEARS OF AGE

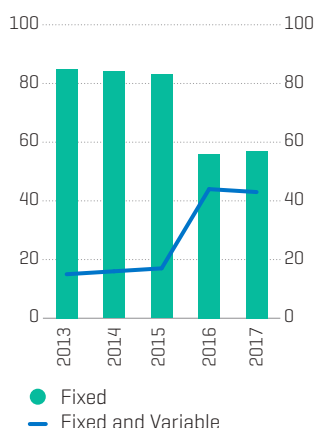


Agile Rewards

Superior rewards for superior performance and new recognition scheme for team based results

- » Significant shift in reward distribution
- » Recognition of Team Vs Individual
- » 70:30 split between Team: Individual rewards
- » Communication of the reward structure at the beginning of the year
- » Strategic shift in rewards philosophy

% OF EMPLOYEES IN VARIABLE AND FIXED REWARD SCHEMES

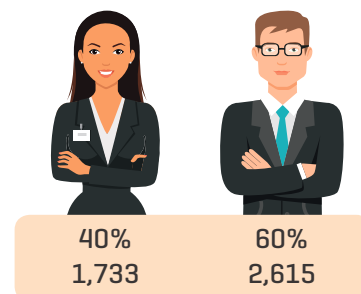


NURTURING HUMAN CAPITAL

Initiatives Implemented 2017	Initiatives Planned 2018
Empowerment through knowledge	
<ul style="list-style-type: none"> » Increased talent development initiatives with 232 in-house training programmes for all categories of staff. » Average training hours per employee 27.70 [excluding e-learning, external/foreign training] » Internal promotions in 2017: 406 » Training OMNI Channel contact centre team for inbound calls » Focused training on credit, operations, compliance, cyber security, leadership and soft skills development 	<ul style="list-style-type: none"> » Increased investment for talent development » Implementation of leadership development modules <ul style="list-style-type: none"> - Multiple modules across leadership tiers - Top talent identification and development » Implementation of an organisation wide 'Service Excellence' initiative » Creation of the organisational competency key to define competency and trainings for identified roles. » Implementation of self-development training modules that add value to life in general.
Employee Experience	
<ul style="list-style-type: none"> » Mentoring 575 employees through RISE, mentoring programme » Appointment of Chief Employee Experience Officer (CEEO) » Total issues received for resolution 84, resolved 90% concerns, grievances escalated to CEEO » Structured meetings with employee unions, Employee Focus Group Meetings. » CEO Newsletters and Town hall meetings. 	<ul style="list-style-type: none"> » Promote our employee innovation and Ideation programme with IDEABOX » Consolidation and strengthening the role of Chief Employee Experience Officer. » Implementation of a regular employee happiness level monitoring tool » Drive culture transformation » Happy and Bright initiatives for employees
Tech savvy, Future Ready Team	
<ul style="list-style-type: none"> » HNB Talent Space, an e-learning platform with multiple learning and engagement facilities including peer group discussions » Information security and data loss prevention training 	<ul style="list-style-type: none"> » Digital literacy » Cyber security » Cutting edge Performance Management System
Talent analytics and HRIS	
<ul style="list-style-type: none"> » Greater compliance through employee behaviour analytics 	<ul style="list-style-type: none"> » Launch of TalentEdge a superior dynamic HRIS » Optimise utilisation of features of Talent Space and TalentEdge » Centralisation of staff loans facilities.

The Hatna Team

Female	Staff Category	Male
3	Corporate Management	12
10	Senior Management	46
196	Managers & Executives	653
337	Junior Executives	577
890	Bank Associates	1,092
244	Secretaries	5
0	Support staff	193
Employment Type		
53	Contract staff	37
1,680	Permanent	2,578
Geographical Diversity		
81	Central Province	230
47	Eastern Province	161
16	North Central Province	109
66	North Western Province	158
72	Northern Province	131
40	Sabaragamuwa Province	103
53	Southern	207
22	Uva	93
1,336	Western	1,423
Recruitment & Turnover		
208	New Recruits	127
76	Employee Turnover	101



All banking functions are carried out by the bank employees and services such as courier services, security services and cash transport are outsourced. There were no significant seasonal variations in the numbers in this regard.

Happy People : Nurturing Human Capital

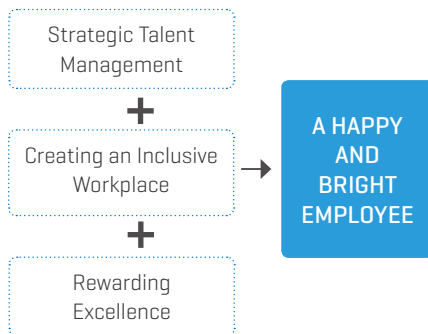


MEASURING SUCCESS

Employee Voice	Employee Value Contribution	Employee Inclusion																		
<p>Measuring Employee Experience : Leadership Top 100 Happy and Bright Survey Highlights:</p> <p>Continue to do:</p> <ul style="list-style-type: none"> » Mentor, guide, coach » Innovation » Cherish Hatna Family <p>Start :</p> <ul style="list-style-type: none"> » Showing value in outstation placements <p>Improve:</p> <ul style="list-style-type: none"> » Meeting productivity 	<p>PRODUCTIVITY & GROWTH</p> <table border="1"> <caption>Productivity & Growth Data (2013-2017)</caption> <thead> <tr> <th>Year</th> <th>Value Contribution (Left Axis)</th> <th>Percentage (Right Axis)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>~4,500</td> <td>~12%</td> </tr> <tr> <td>2014</td> <td>~4,300</td> <td>~13%</td> </tr> <tr> <td>2015</td> <td>~4,200</td> <td>~15%</td> </tr> <tr> <td>2016</td> <td>~4,100</td> <td>~22%</td> </tr> <tr> <td>2017</td> <td>~4,300</td> <td>~28%</td> </tr> </tbody> </table>	Year	Value Contribution (Left Axis)	Percentage (Right Axis)	2013	~4,500	~12%	2014	~4,300	~13%	2015	~4,200	~15%	2016	~4,100	~22%	2017	~4,300	~28%	<p>The Hatna family creates</p> <ul style="list-style-type: none"> » Economic value » Emotional value » Social value <p>to the stakeholders we serve by consistently upholding our commitment to nurture relationships</p> <ul style="list-style-type: none"> » Happy and Bright employees are the driving force of our culture transformation
Year	Value Contribution (Left Axis)	Percentage (Right Axis)																		
2013	~4,500	~12%																		
2014	~4,300	~13%																		
2015	~4,200	~15%																		
2016	~4,100	~22%																		
2017	~4,300	~28%																		
		<ul style="list-style-type: none"> » We are proud to claim that we have gender diversity at all levels » We have taken active steps to create an inclusive workplace for all employees » We promote family friendly workplace policies » We are committed to generate employment creation in all parts of the island » We have a healthy mix of 4 generations in our workforce » Our policies and best practices have helped our retention levels to record a low attrition rate of 4% 																		

NURTURING A HAPPY & ENGAGED TEAM

We take a holistic approach to building an engaged and happy team by providing our people with a supportive environment. They are empowered and motivated to achieve both personal and career aspirations. A robust governance structure and framework of HR policies define our objectives. We ensure that systems and processes support superior performance and living our values.

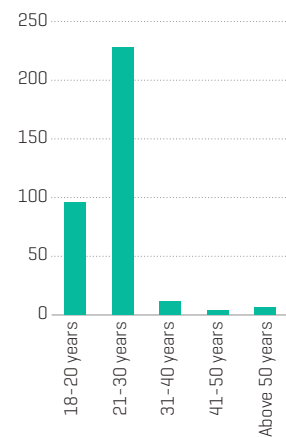


STRATEGIC TALENT MANAGEMENT

Talent Acquisition

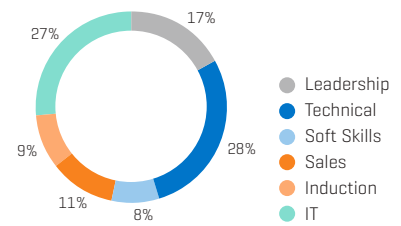
Building an engaged team begins with having the right people with the right skill set on the team. Our recruitment strategies are closely aligned to the Bank's Vision of 2020. To this end we are pro-actively building a "Tech savvy" by specifically aiming recruitment drives at applicants with strong technology backgrounds while providing our existing employees the necessary training and support to meet future demands of our business.

NEW HIRES 2017





2017 PROGRAMS BY TYPE



To stay ahead of the curve, in a rapidly changing business environment it is critical that we are a lean and agile and able to adapt to change fast. We continue to explore alternate recruitment mechanisms such as school leaver, undergraduate, graduate internship programmes which enables us to expand our talent pools. This approach affords us flexibility in allocating resources and building a steady pipeline for the future. It paves the way for us to interact with the youth of the country and contribute meaningful employment. During the 2017 we hired 335 new recruits out of which 243 were trainees.

Talent Development

We foster a culture of continuous improvement where people are encouraged to continuously acquire knowledge, competencies and develop skills. This serves as the foundation for talent development at the Bank. Dedicated training facilities with the capacity to host over 250 participants at a given time in 5 rooms equipped with audio visual training equipment ensures that face to face training is scheduled and implemented throughout the year. Our facilities were enhanced during the year with HNB Talent Space, a cloud based solution which includes courses, library, discussion boards, examination modules, gamified learning with ranks & badges which can be accessed from anywhere anytime, through any personal device. This has successfully enabled our people fulfil their training needs at their convenience in a more interactive and enjoyable way, modernising and gamifying training.

Our training programmes are aimed at developing well rounded individuals, well equipped to anticipate and address our

customers diverse needs. Consequently, training requirements of individuals are evaluated through a process of discussion with line managers and individual employees to provide the most relevant training which could be internal or external. The training completed in 2017 is given alongside.

The Bank also promotes life-long learning through reimbursement of membership subscriptions for executive staff for their professional memberships.

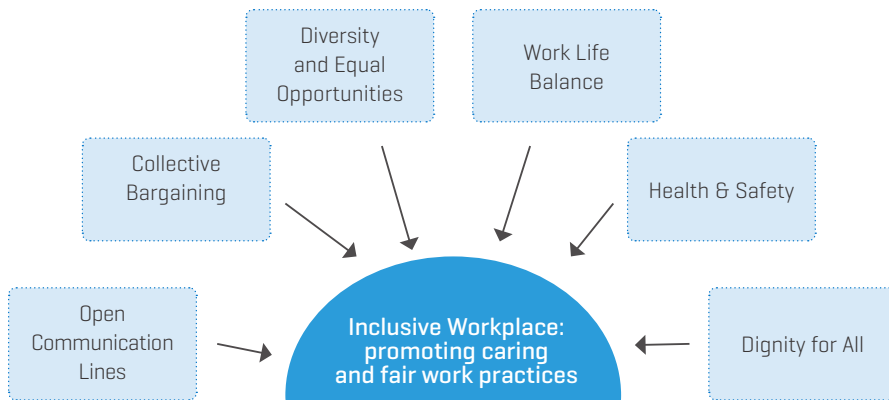
Grooming Future Leaders

We are committed to developing young employees with future leadership potential, and continuously invest in ongoing management and leadership development programmes to accelerate their career growth. During 2017 65 staff members were provided overseas exposure through foreign training and networking opportunities.

Talent Development by Employee Category		Number of Participants		
Avg. Learning Hours	Employee Category	Internal	Local	Overseas
12.89	Corporate Management	93	23	10
10.44	Senior Management	710	42	10
8.68	Managers & Executives	1646	223	30
7.32	Junior Executives	2709	60	11
12.84	Bank Associates	2169	8	4
8.5	Secretaries	286	1	0
8.15	Support Staff	214	5	-
20.09	Contract/Outsourced Staff/Interns	847	-	-

Talent Development by Learning Category - Number of Participants	Internal	Local
Leadership & Management Development	2878	14
Marketing, Sales & Customer Service Excellence	642	23
Banking Operations Competency tests	711	57
Credit Evaluation and Administration	928	12
Treasury, Trade finance & International	279	91
IT	1381	44
Communication Skills	527	2
Environment, Energy Efficiency	10	3
Orientation & People Management	966	22
Others	352	94

Happy People : Nurturing Human Capital



CREATING AN INCLUSIVE WORKPLACE

We believe that a happy team is an engaged team and that enhancing our peoples experience at work will directly translate to a more motivated and productive team. Consequently, we strive to create a happy environment where our people thrive and give of their best.

HNB became the first bank in Sri Lanka to create the position of Chief Employee Experience Officer (CEEO), a specific role independent of HR created to address all employee experience related matters. The CEEO 's role has thus become yet another independent channel by which employees could highlight issues and bring forth suggestions or solutions to improve the overall employee experience. During the period January to December 2017, CEEO heard 84 issues raised of which over 90% were resolved.

The L.E.A.D (loyalty, experience, achievement orientation and determination) programme aims to prepare staff newly promoted to the executive cadre prepare for their new roles. During the six-month programme 266 potential leaders were exposed to a holistic leadership programme covering leadership, business success and branch operation which enabled them to practise their learnings as they settled in to their new responsibilities.

- Quarterly In-house magazine 'Hatna Mag', Weekly circulars, daily emails notifications
- Employee engagement surveys
- HR service days (Monthly)
- One to one meetings (as required)
- Structured career conversations (annual/ biannual/need based)
- Exit interviews upon resignation
- Skip level meetings.

Selecting for training is based on need and merit. As an organization committed to empowering women to reach their full potential, we have developed tailor-made leadership programmes that empower potential women leaders in which 70 participated.

We continued the "RISE" - Employee Champion Programme" introduced in 2016 giving structure to the mentoring culture that prevails at HNB. RISE" identifies a formal workplace champion programme to mentor/coach employees and to effectively communicate the exciting vision and opportunities ahead using techniques of mentoring and reverse mentoring. During 2017, 530 banking assistants, 45 managers and assistant managers participated in the programme.



Communicating with our Team

- Open door policy
- Monthly Town Hall meetings.
- HR roadshows
- CEO's annual strategy presentation
- Monthly email "From the CEO's Desk"
- Weekly divisional heads meetings.
- Monthly corporate management meetings.
- Quarterly strategic plan review meetings



Open Communication

We encourage both formal and informal lines of communication as we believe that a culture of open communication is the basis for continuous improvement, innovation and engagement. As a significant percentage of our employees are tech savvy millennials we consciously encourage the use social media and other informal channels such as WhatsApp to disseminate information and create discussion forums.

Freedom of Association & Collective Bargaining

We actively engage with our trade unions, whom we view as a crucial stakeholder and partner in our long-term success and sustainability. As at end 2017, 81 % of our staff were members of the Ceylon Bank Employees Union and the HNB Officers Union. Constructive dialogue has been maintained facilitated by regular structured meetings which foster insights in to their concerns. Collective agreements are signed regularly. The Bank is a member of the Employers' Federation of Ceylon (EFC).

Whistle Blowing and Grievance Mechanisms

Our people are encouraged to bring forward any grievances. We believe this prevents small problems from becoming big issues. The following formal processes provide a platform for raising issues:

- » HR Roadshows – HR Teams visit the branches to talk to them, proactively reaching out to ensure that weak signals are heard at the centre. In 2017 the HR Team covered 45 branches engaging over 521 employees to identify concerns

as well as to motivate energize and galvanize them to vision 2020.

- » HR Service Days – senior HR staff are made available for employees to meet and discuss any issues.
- » Chief Employee Experience Officer – Provides as an independent channel for suggestions and concerns to be aired and resolved outside HR processes and line management.
- » Whistle Blowing – A Whistle blowing policy is in place with Independent Director Mrs. Rose Cooray as the reporting authority enabling employees to raise concerns on compliance.

Diversity and Equal Opportunity

As an inclusive bank, we place a strong emphasis on building a diverse workforce. The diversity of our team in terms of gender, age, ethnicity, religious and social backgrounds brings with it a wealth of experience and perspective. This enables us to truly understand the needs of an equally diverse customer base and take the HNB brand into the wider community.

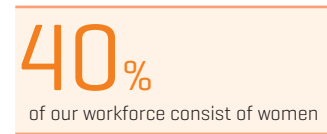
Our people come from all regions of the country giving us extensive reach throughout Sri Lanka. We make maximum effort to fill regional human resource requirements from respective regions themselves, deepening our understanding of the customs and challenges that our customers face as we build a team that represents all regions of this country.

Female representation in our team is 40%, well above the country's female labour force participation rate of 35.9%. There is strong female representation across all levels of the Bank, particularly at senior levels. This inspires

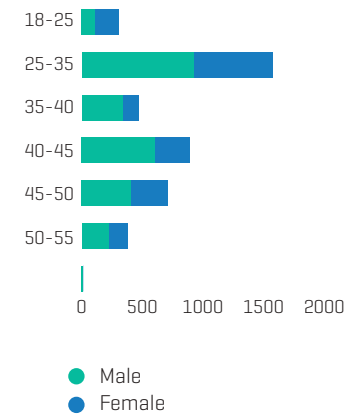
and encourages other women to realise their potential as there is greater understanding of the issues related to women at work. Our "Women at Work" initiatives in particular which included personal coaching sessions to encourage more women to reach their full potential and has enabled us to build a pipeline of female talent that will continue to sustain gender diversity in the years to come in our team.



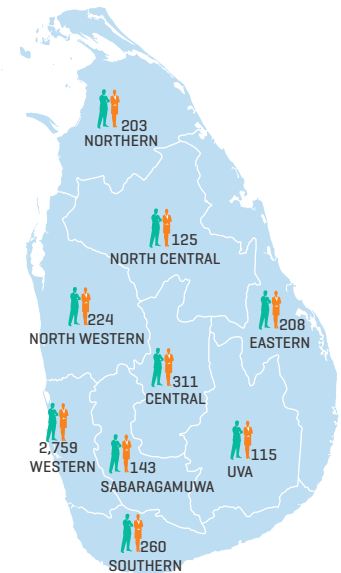
Gender diversity



WORKFORCE BY AGE



NO. OF EMPLOYEES BY PROVINCES



HNB celebrate international women's day 2017.

Happy People : Nurturing Human Capital

HNB is an equal opportunity employer and remuneration, rewards and career development, are strictly merit based. We take pride in the fact that each and every member of the HATNA family has an equal opportunity to realize their aspirations and map their own journey through the organization.

Work Life Balance

The holistic approach to our people strategy means that we provide a supportive environment where our employees are better able to manage personal and work commitments. This has proven to be a win-win strategy as indicative from increased productivity, employee morale, staff retention and reduced absenteeism as a result of more employee friendly policies such as flexible work options, integration of family in social and sports activities of the Bank, access to health related information and access to counselling where necessary. This is a key area of focus for 2018 as we roll our pilot projects to ensure that both males and females remain engaged with their families, sharing family responsibilities.

Health & Safety

We encourage physical and emotional wellbeing through a health and safety policy that goes well beyond the minimum health and safety regulations stipulated by the authorities. Apart from taking every precaution to ensure that all our locations are accident free environments, we have conducted programmes on various aspects of health and wellness issues.

Programmes Providing Employee Wellbeing	No of Participants
Fitness and wellness challenge programme	220
Awareness programme on Diabetes	50
Discounted rates for health checkups/ screening	Available to all 4,348 staff

Safeguarding our employees and their families for ill health features high in our agenda. We provide one of the best healthcare benefits in the industry on indoor and outdoor health care.

We have an active calendar of social and sports events which also encourages family participation. This has engendered a stronger meaning and purpose to the concept of Hatna Family.

Dignity for All

The Bank has pledged to uphold the ten principals of the UN Global Compact and our governance framework incorporate the Universal Declaration of Human Rights proclaimed by United Nations. These include specifying a minimum working age to prevent child labour, decent working hours, elimination of any form of compulsory labour, health and safety in the work environment, procedures to eliminate sexual harassment and discrimination at work place and preserving the freedom of association and collective bargaining.

RECOGNIZING AND REWARDING PEOPLE

Performance Evaluation

HNB has a finely honed Performance Management System which clearly communicates employee goals linked to the Bank's strategic goals. This inspires and provides direction to them in planning and performing in their respective roles. The system also enables identification of personal development needs. It is used to determine elements of their remuneration such as increments and bonus and also serves as a basis for determining career progression. All employees are evaluated on an annual basis whilst the executive evaluations are conducted on bi annual basis. During 2017 the Bank replaced its balanced score card model for executives with a competency framework and KRA/KPI based appraisal method developed in consultation with Society for Human Resource Management (SHRM) India.



A Healthy Workforce

FIT Account
Lose to win programme for employees
Gym at the Head Office and swimming pool subscriptions paid to encourage a healthy lifestyle
Encouraging sports with HNB teams at mercantile level and internal sports days at regional level



Women at Work Initiative

Healthy gender representation at all levels including Board and Senior Management.
99% of women returning to work after maternity leave
Leadership programmes tailor made for women



Life-long Learning

Rs 38.2 Mn invested in developing our employees
Reimbursement of professional membership subscriptions for executive staff.
On-demand learning solutions - classroom, virtual, office home or on the commute



An inclusive Workplace

Employee remuneration and rewards Rs 8.9 Bn
81% of employees are members of trade unions
Employee pulse surveys taken regularly
Appointment of Chief Employee Experience Officer

Remuneration and benefits

Remuneration is made up of fixed pay and performance based variable pay to encourage productivity. Executive officers including Executive Directors receive incentives for performance vis a vis mutually agreed benchmarks which is linked to the performance appraisal system and a defined reward matrix. The variable component for non-executives is a fixed amount based on respective collective agreements and is negotiated periodically. We are gradually moving towards a combination of fixed and performance-based remuneration for non-executive employees to bring about greater alignment between individual performance and rewards. Further to a pilot project where we introduced a performance-based bonus to 1100 junior executives which proved to be very successful, we are now reviewing proposals to introduce performance based rewards across the board.

Full time employees receive a wide range of benefits including medical, holiday allowances, loans at concessionary rates of interest, scholarships etc.

We constantly strive to ensure that the rewards and benefits we offer our people are competitive. The Bank is fully compliant with local regulatory requirements which are embedded in to HR processes. Guaranteed pay and benefits are determined with reference to periodic market surveys to identify trends in the banking and mercantile sectors in Sri Lanka. Collective agreements, enables retention of a strong talent pipeline of engaged and motivated employees.

In 2017, we accelerated rewarding and recognition of staff enabling department heads to show appreciation of performance on a particular project or initiative or delivering an enhanced customer experience. Commendation letters, notes and gift vouchers helps encourage high performance on a continuous basis throughout the year with a positive impact on employee morale as well.

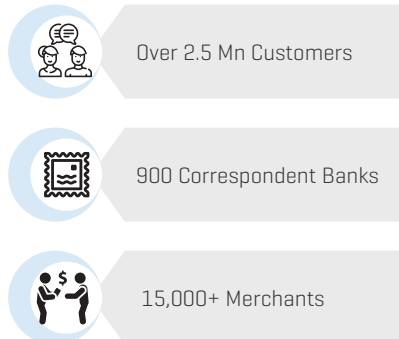


PARTNERING GROWTH: OUR SOCIAL & RELATIONSHIP CAPITAL REPORT

Customers drive our growth while our business partners enable us to extend our reach and enhance the customer experience. We understand that we grow together with our community and support the socioeconomic progress of the country through a responsible business model that enables access to finance and through strategic philanthropy.

Nurturing Social & Relationship Capital Measuring Success

Our Partners



Initiatives Implemented 2017	Initiatives Planned 2018
Enhancing Customer Experience	
<ul style="list-style-type: none"> » Launch of Customer Complaint Management System » Launch of Knowledge Hub giving information on key products to employee screens enhancing user experience » Service Champions appointed at branches » Launch of Net Promoter Score » Launch of products to promote a healthy lifestyle 	<ul style="list-style-type: none"> » Setting up an omni channel call centre » Training on service excellence » Improve turnaround times through process improvements
Capacity building	
<ul style="list-style-type: none"> » Conducted financial literacy workshops » Programme to drive SME exports. 	<ul style="list-style-type: none"> » Continue capacity building, financial literacy programmes for customers



MEASURING SUCCESS

VALUE TO CUSTOMERS

Rs 47.5 Bn paid as interest

Rs 785 Bn disbursed

Facilitated over Rs 300 Bn in imports and exports

VALUE TO OTHER BUSINESS PARTNERS

Rs 8.8 Bn paid to suppliers

Facilitated Rs 175 Bn in transactions for merchants

VALUE TO REGULATORS & COMMUNITY

Loans over Rs 15 Mn reviewed for social and environment compliance through ESMS

57% of the customers outside the Western Province

Rs 145 Bn disbursed to MSMEs

CREATING VALUE THROUGH STRONGER STAKEHOLDER RELATIONSHIPS

Strong relationships are the basis for building a sustainable business in the long run. In today's rapidly evolving competitive landscape, fostering dynamic relationships that are mutually beneficial ensures that we

continue to stay relevant and that we continue to address our diverse and ever evolving stakeholder expectations. It is this ethos of sustainable long-term relationships that will make us stand out against our competitors in the long run.

Our Stakeholder Relationship Drivers

Enhanced Customer Experience	Relevant Products	Convenience & Accessibility	A Stable Partner for Progress
<ul style="list-style-type: none"> » Launch of Customer Complaints Centre » Developing Knowledge Hub to enhance customer service » Introduced Net Promoter Score 	<ul style="list-style-type: none"> » Launch of HNB FIT App incentivising a healthy lifestyle » Launch of Smart Pay providing secure cashless transaction for students at educational institutions » Launch of cardless worker remittance encashment facility 	<ul style="list-style-type: none"> » Enhancements to ATM Network » Strategic relocation of branches » Setup digital branches » Added 21 Partnerships for home loans 	<ul style="list-style-type: none"> » Disbursed Rs 785 Bn in loans » Adjudged Best Retail Bank in Sri Lanka by Banker Magazine » Credit Rating of AA-[lka] with a stable outlook

CUSTOMER RELATIONSHIPS

Banking for us goes beyond mere transactions and is truly a partnership of mutual progress. We understand that our progress is intrinsically linked to that of our customers and thus constantly strive to create value for our customers by pro-actively anticipating their expectations and consistently enhance their banking experience; all the while offering the stability, trust and strength that has come to be the hallmark of our brand. For us, creating value for customers will always involve a human aspect and personal touch,

however the game-changer has been our investments in cutting edge technology and the digital drive which has helped us take our value creation process for customers to the next level.

ENHANCING THE CUSTOMER EXPERIENCE

Engaging our customers

We seek to deepen our customer relationships, engaging them across our full range of products by mapping their needs to optimize wealth creation. Satisfaction is

measured across all customer segments annually to identify and address their concerns and improve our customer value proposition.

Developing tailor-made solutions to address the diverse requirements of our customers is an evolving process. We constantly review our product offering to evaluate product relevance and ensure that we are meeting our customer's requirements.



Partnering Growth: Our Social & Relationship Capital Report

EVIDENCE OF CUSTOMER SATISFACTION

We offer a full range of products across the customer's life cycle, enabling them to grow with us as their primary bank.



MARKETING AND COMMUNICATION

We ensure compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship. Customers are provided with adequate information about the products and services through the website, digital screens available at customer centres, brochures and applications printed in all 3 languages and through other advertising channels. Avenues for complaints and suggestions are available through the suggestion boxes placed in branches and through various processes described in our website (<https://www.hnb.net/contact-us>).

Responding to identified Customer Needs and Concerns

We seek to deepen our customer relationships, engaging them across our full range of products by mapping their needs to optimize wealth creation. Satisfaction is measured across all customer segments annually to identify and address their concerns and improve our customer value proposition.

Developing tailor-made solutions to address the diverse requirements of our customers is an evolving process. We constantly review our product offering to evaluate product relevance and ensure that we are meeting our customer's requirements.

Convenience & Accessibility

Customer Touch Points	2014	2015	2016	2017
Customer Centres	249	249	251	251
HNB Student Banking Centres	168	168	150	152
Village Based Gami Pubuduwa Units	2	-	-	-
Branch Based Gamu Pubuduwa Units	125	127	129	134
Micro Banking Units	9	9	9	9
Mobile Banking Service units	1	1	1	1
ATMs (including kiosks)	451	468	485	595

In keeping with evolving life styles, customer expectations and technology advances, we continue to explore and develop multiple channels for banking, particularly in the digital space. To this end we continue to invest heavily in continuously improving our mobile banking and electronic banking platforms.

A Stable Partner for Progress

As a financial institution, our business depends on the trust our customers place in us in exchange for the confidence we offer in terms of strength, stability and integrity.

Listening to our customer is vital as it gives us valuable feedback as to how we address their concerns. During the year we streamlined our customer complaint processes with the launch of a new Customer Complaints Centre equipped with state of the art under the purview of the Customer Experience Officer. Initiatives have been implemented by the Customer Experience Unit formed in 2016 together with customer service champions to ensure that customer concerns and pain points are addressed swiftly and Net Promoter Scores are reviewed regularly to assess the effectiveness of our responses.

We adhere to the requirements of the Central Bank of Sri Lanka customer charter which requires that any information displayed or provided to our customers, including our written agreements with our customers, is in plain language and easy to understand. This also applies when communicating our pricing structures. All communication is carried out in the 3 national languages.

We ensure that anti-competitive behaviour, anti-trust, and monopoly practices which can affect the customers are prevented through adherence to the Customer Charter (<https://www.hnb.net/customer-charter>). Channels are available for customers through formal channels and staff through the Whistle blowing policy to complain about such malpractices [Refer Annual Report 2015 for more details of the Policy].

The attributes of stability, trust and strength synonymous with our Bank are those that have been developed over the last 129 years. They are however not aspects we take for granted; and thus strive tirelessly to maintain through a multi-pronged framework of responsible lending comprising a customer charter, customer value propositions, ethics, Corporate Governance and compliance.

Digital Banking

In line with the Bank's objective of being the most future ready bank we continue to

CUSTOMER CONVENIENCES IMPLEMENTED IN 2017



- Launched HNB Smart Pay card for educational institutions
- Powering the PickMe in-app payment gateway to facilitate taxi and tuktuk hires from mobiles
- Educating our teams on ethical and transparent in dealing with customers and safeguarding their interest
- 60% of counter transactions have been moved away from counter to digital channels.
- Conversion of magnetic stripe debit cards to CHIP
- We continue to expand our merchants networks facilitating cashless transactions with over 15,000+

develop our digital offering with the most cutting-edge technology in order to offer our customers a superior banking experience in terms of accessibility and product offering.

In keeping with evolving life styles, customer expectations and technology advances, we continue to explore and develop multiple channels for banking, particularly in the digital space. To this end we continue to invest heavily in continuously improving our mobile banking and electronic banking platforms. Progress in Digital Banking is described in detail in Digitisation on page 48-49 in IR 2017.

Responsible Banking

Responsible banking goes well beyond compliance with minimum regulatory requirements. It is woven into the very fabric of our culture through well-structured policies, business practices and codes of conduct adopted throughout the HNB group. From educating our customers about our products to provide them with a holistic understanding of the risks and benefits associated with a product to closely monitoring projects financed by us in order to offer assistance when required; we combine best practices in banking to realise mutual growth with our customers.

Partnering Growth: Our Social & Relationship Capital Report

Measurement	Achievement
Grievances about environment and human rights impacts and discrimination filed, addressed and resolved through formal mechanisms	No significant incidents recorded during the year
Legal action for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	No significant incidents recorded during the year
Significant fines and total number of non-monetary sanctions for non-compliance with environmental and social laws and regulations	No significant incidents recorded during the year
Negative impact on local communities, due to business operations and grievances about impacts on society filed, addressed and resolved through formal grievance mechanism	No significant incidents recorded during the year
Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	No significant incidents recorded during the year
Incidents of non-compliance with regulations and voluntary codes concerning marketing communication including advertising, promotion and sponsorship	No significant incidents recorded during the year
Substantiated complaints regarding breaches of customer privacy and losses of customer data	One incident was recorded during the year. The issue was addressed, and necessary action taken to prevent future occurrences.
Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No significant incidents recorded during the year
Sales of banned or disputed products	No significant incidents recorded during the year

ACCOLADES FOR CREATING VALUE FOR CUSTOMERS

Creating value for customers has and always will continue to be at the core of our business, it was therefore heartening to be recognized as the "Best Retail Bank in Sri Lanka" at The Asian Banker Awards held in 2017 for the ninth time. The award which recognizes our efforts to leverage cutting-edge technology to offer superior customer service and convenience and thereby differentiate our offering is a validation of our strategy in customer relationships. Other rankings and accolades affirming value created for customers are given below.



ACCOLADES FOR CUSTOMER EXPERIENCE

- Best Retail Bank in Sri Lanka at Asian Banker Awards
- Best Microfinance in the Region at Asian Banker Awards
- #1 in Leasing with over 5% market share
- Best ATM Network in Sri Lanka at LankaPay Technnovation Awards 2017.
- The Islamic Banking Unit of Corporate Banking, HNB Al-Najaah was awarded with multiple awards at the IFFSA Awards (Islamic Finance Forum of South Asia).
- Silver Award as the "Entity of the Year"
- Silver Award for the "Unit of the Year"
- Bronze Award for the "Deal of the Year"
- Gold Award for the "Takaful Unit of the year"

SUPPLIER RELATIONSHIPS

Over 60% of Suppliers are SME & Micro category who received Rs 8.8 Bn in 2017

Our supplier relationships are driven by our philosophy of engendering sustainable business practices both in our own operation as well as in all of our supplier operations. This is why we always seek to balance cost considerations with sustainable procurement practices such as green procurement.

Over 60% of the Bank's suppliers are from the SME and micro category and are also our customers. We view our supply chain as another avenue to stimulate economic activity; thus, nearly all our procurement is from Sri Lankan suppliers.

TYPE OF SUPPLIERS	LOCATION
Stationery	Sri Lanka
Fixed assets	Sri Lanka
Outsourced services	Sri Lanka
Premises	Sri Lanka
Computer hardware & software / communication equipment	Sri Lanka and foreign
Utilities	Sri Lanka

Aspect	Process
Transparency	<ul style="list-style-type: none"> · Tender process ensures transparency · Multiple procurement evaluation committees · Final approval by Board of Directors
Confidentiality	<ul style="list-style-type: none"> · Supplier information treated with confidentiality · Fair Trading
Supplier Selection	<ul style="list-style-type: none"> · A rating process based on criteria defined in procurement policy ensures fair supplier selection
Supplier concerns and discontent	<ul style="list-style-type: none"> · Supplier engagement mechanisms enables them to raise concerns and issues · Appeal schemes in place to raise issues directly or whistle blow to AGM-Services and/or to the Chief Operating Officer
Facilities to support suppliers	<ul style="list-style-type: none"> · Credit accommodation
Termination	<ul style="list-style-type: none"> · Based on stringent review process and remedial dialogue with supplier · Termination in accordance with terms of agreement with reference to penalties and other conditions
Service Improvements	<ul style="list-style-type: none"> · Operation and procedure manuals on service quality checks

GREEN PROCUREMENT

Our procurement policy ensures that the Bank's sustainability criteria are included in the specifications we send to suppliers and that the criteria are met and the suppliers' environmental credentials are evaluated when awarding contracts. We follow a comprehensive process of engagement in this regard with suppliers whose turnover exceeds Rs. 1 Million.

We adhere to the highest standards in procurement through our comprehensive supplier rating scheme; thereby ensuring that our principles of humane, ethical and environmentally sustainable business practices are passed on to our supplier network as well.

In addition to stringent procurement processes we also ensure regular engagement with our suppliers to help create awareness of best practices and provide support and guidance to becoming a sustainable business. It is therefore of much pride to us that a significant number of our suppliers have grown from micro to SME level as a result of our association.

We ensure the highest standards in procurement with a Procurement Committee overseeing implementation of the procurement policy. Key aspects of procurement are as follows:



Partnering Growth: Our Social & Relationship Capital Report

RELATIONSHIPS WITH COMMUNITY

Staying socially relevant is the key driving force behind all of our interactions with our community. It is indeed the fact that we have remained socially relevant to our communities throughout the 129 years of our existence that has enabled us to not only stand the test of time, but to thrive as an organization.

We measure our social relevance by the degree to which we make a positive impact on society. Be it how we contribute to reducing regional income disparities or by promoting social entrepreneurs or how we address key societal concerns such as female empowerment, access to health and education through our CSR initiatives.

REDUCING REGIONAL INCOME DISPARITIES

As one of the country's leading financial institutions; we fully realize the integral role we play in the development agenda of the nation. Reducing income inequality by driving growth in the SME and micro sectors in particular has been a focus area of the government's development agenda and an area we are proud to have made great strides in.

Our Micro Finance programme "Gami Pubuduwa" - the first ever micro finance initiative in the country by a Bank, is in its 28th year and continues to enrich diverse communities across rural Sri Lanka. "HNB Divi Saviya" launched over two decades ago

continues to provide agri-finance to small holders while our recent acquisition of HNB Grameen has further widened our involvement in the sector. We continue to find innovative ways to further uplift the sector as indicative from the recent launch of Distributor Financing made available to small scale distributors of large corporates

PROMOTING SOCIAL ENTREPRENEURS

"HNB Ath Pavura", Sri Lanka's first business TV reality show aims at directing entrepreneurs towards more sustainable, scalable and commercially viable enterprises that can impact society and environment. Through this show, local entrepreneurs are given the opportunity to promote their innovative solutions to social and environmental problems on television and link up with a new generation of impact investors who are willing to invest their money, time and resources in social entrepreneurs expecting a financial return as well as a measured social impact.

STRATEGIC PHILANTHROPY

Our CSR initiatives transcend philanthropy to strategically provide tangible long term support to community empowerment and development. Accordingly, our CSR initiatives are carried out under four pillars

Employee engagement is one of the key reasons of the success of our CSR initiatives. As in the past, there was significant interest and effort for successful implementation of community development initiatives. We also



Care for Education



Care for Nature













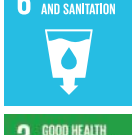

Care for Empowering Entrepreneurship






Care for Health

worked in partnership with Non-Governmental Organisations with required expertise and credibility to extend our reach and impact. While we are pleased with the progress made with our partners, we continue to evaluate these relationships to ensure that we deliver value to under served communities.



CSR Pillar	Project	Project Outcome	SDG
Care for Children	HNB Nena Pubuduwa and other educational projects in school units	New Nena Pubuduwa school libraries in Panamura Sri Sudarshana Vidyalaya, Embilipitiya & Kosgama MV, Madulkelle , Library renovations in 12 schools , Library book donations to 200 Nena Pubuduwa libraries	
	Safe and Secure Future for children	Donation to 'The Tropical Purple Hearing Aids'	
	Grade 05 Scholarship Examinations	Donated cash gifts, school books & stationery items to children and HNB Grameen "Yale" savings account holders that successfully completed the year 5 scholarship examinations.	
Care for Health	HIV & AIDS Programme	HIV/AIDS Testing Day 2017 · World Aids Day National event	
	Cancer Programme	Cancer counselling centre maintenance, Donation to Sri Lanka Cancer Society , Donation to Give to Sri Lanka-Fund Donations of Rs. 5000 per month for 6 months for 100 needy cancer patients	
	Chronic Kidney Disease/ Water and Sanitation Projects	Installation of safe drinking water systems in 3 schools in Anuradhapura	 
	Assistance to rural hospitals	Donation of Water Filters to the General Hospital of Mannar, Renovation of female ward at Mulleriyawa mental hospital , set up Dengue High Dependency Unit at the Kiribathgoda base hospital , Donation of medical equipment to Lahugala hospital , Emergency Trauma Unit project at Teaching hospital Batticaloa	 
	Water Purification Project	Installation of water purification facilities at, Udispattuwa Secondary School Warankatagoda Maha Vidyalaya Pallegama Secondary School Neeththa Maha Vidyalaya Godakumbura Secondary School Mylambaveli Sri Vigneswara Vidyalayam Eriyawa Mahinda Primary School	
	Disaster Relief	A project to provide rainwater harvesting systems to schools affected by the Aranayake landslide and currently do not have water for sanitation. [completed in 2017] , Assistance to flood / landslide victims through collections from staff	 

Partnering Growth: Our Social & Relationship Capital Report

CSR Pillar	Project	Project Outcome	SDG
Care for Society	Culture and Heritage Programmes	Venue provided free of charge for National Trust Sri Lanka monthly lecture on cultural heritage	
	Railway safety project	Installation of 150 safety signs at places where pedestrians cross the railway	
	Supporting Differently Abled	Donation of books to the Ceylon School for the Deaf and Blind Ratmalana.	

SLBA SUSTAINABLE BANKING INITIATIVE

The Sri Lanka Banks Association sustainable banking initiative was launched in 2015 and HNB has signed for the 11 sustainable banking principals developed for Sri Lanka through the initiative, the Kick off meeting of the 2nd phase [implementation phase] was hosted by HNB and two staff members of the bank represented the core group who drive the initiative on behalf of the SLBA. The bank has taken strides to further improve its environment and social management [Principle- 1] and to reduce the bank's carbon foot print [Principle-2] during the year [further discussed under natural capital] as a proactive step to showcase the bank's commitment to implement the principals

why we take a holistic approach to compliance which involves constantly engaging with the government and regulators to responsibly influence the design of an effective regulatory framework while continuously improving our internal governance frameworks.

Ways in which we engage with regulators

- » Targeted consultations on policy matters
- » Regular meetings with staff and representatives of regulators
- » Submissions to regulatory consultations
- » Managing regulator reviews and examinations
- » Participation in industry engagement/ forums
- » Hosting regulator delegations



HNB SUSTAINABILITY FOUNDATION

The HNB sustainability foundation serves as a watchdog of the sustainability initiative of the bank. The foundation consists of 8 trustees including the MD/CEO, and a senior non independent director. The trustees meet once in every two months. CSR reports for the period, ESMS progress and the sustainability dash boards which includes economic environmental and social indicators are reviewed at these meetings. Further the future plans for sustainability are also discussed.

REGULATOR

Compliance is becoming increasingly important to our stakeholders not only because of the high cost of non-compliance but also because of the wider social impact of a stable financial system. We believe that a sound regulatory system is the bedrock of a safer, more stable financial system. This is



MANAGING OUR IMPACTS: OUR NATURAL CAPITAL REPORT

GREEN PLEDGE

Our commitment to environmentally sustainable practices is built into our culture through our Green Pledge. We view environmentally friendly practices as an investment in our collective future. This is why as a responsible corporate citizen we constantly seek to introduce best practices in our own business as well as in the businesses and communities we impact indirectly.



Reduce our Carbon Foot Print



Waste Management



Green Initiatives

STATEMENT OF ENVIRONMENT PERFORMANCE

Non-Financial

	Key Indicators	Unit	2017	2016	Further details on
Social & Network Capital	Total Taxes	Rs Bn	10.6	10.4	IR Pg 53
	Correspondent Banks	No	900+	800+	
	Loans Disbursed to MSMEs	Rs Bn	145	105	
	No of community project beneficiaries	No	53,957	89,762	
Human & Intellectual Capital	No of Employees	No	4,348	4,190	IR Pg 50
	Retention Rate	%	95.9	96.0	
	Employee remuneration and rewards	Rs Bn	8.9	8.7	
	Investment in Training & Development	Rs Mn	38	28	
	Training Coverage	%	100	100	
	Gender Diversity Ratio (Male: Female)	Ratio	60:40	62:38	
	Profit per Employee	Rs Mn	3.8	3.4	
Manufactured Capital	Branches	No	251	251	IR Pg 48
	ATMs	No	595	485	
	Investment in Technology	Rs Mn	632	495	
	Investment in PPE	Rs Mn	2,004	774	
	Online customer migration	%	12.3	8.9	
	Online Transactions	Mn	1.2	0.9	
Natural Capital	Energy Consumption	Kwh	12,357,011	15,508,707	IR Pg 62
	Carbon Footprint	Kg /Sqft	4.0	5.6	
	Paper Reused/Recycled	No	14,040	6,064	
	Solar Energy	Kwh	2,100,400	776,147	

Managing Our Impacts: Our Natural Capital Report

Our commitment to environmentally sustainable practices is integrated in to our culture through our Green Pledge which is a promise that we will join hands to combat climate change. The Green Pledge is now in its 9th year and has evolved in to a multi-pronged approach to minimize our negative impacts on the environment, create awareness of the need for action on climate change and rejuvenating the environment.

As the Bank accounts for 90% of the total assets of the Group, the indicators for environmental performance includes only

those of the Bank. We have reported on the relevant and material indicators which are monitored on a quarterly basis on the CEO's sustainability dashboard introduced in 2016. It monitors key indicators such as carbon footprint, material usage and disposal, supply chain assessments and risks, occupational injuries, customer safety and security. The dashboard which monitors progress on a quarterly basis against pre-determined targets has resulted not only in better monitoring of sustainability performance but has also strengthened the decision-making process.

Reduced emissions

We have also commenced migrating to ozone friendly gases in air-conditioning across all branches in an attempt to reduce emissions. During the year 2017, 207 units were replaced and this has resulted in emissions being reduced by 408.8 kg

PAPERLESS OFFICE INITIATIVE

Our "paperless office initiative" continued during the year with a number of internal documentation processes being automated and re-engineered in order to further reduce paper usage. As a result, the paper consumption during the year reduced by a significant amount.

The Bank also opened its first ever hybrid/digital banking units in four branches namely Kollupitiya, Nugegoda, Ratnapura and Trace City during the year with a view towards a paperless banking culture.

RESPONSIBLE LENDING

As a lender to the nation, we are aware of the tremendous impact we can have indirectly through engagement with customers and society. The Bank's Environmental and Social Management System (ESMS) ensures that the Bank's credit portfolio conforms with all financial, judicial, regulatory and socially acceptable standards and applies a process of Environmental and Social (E&S) risk assessment to ensure that the portfolio is E&S risk free. In addition, the ESMS also promotes improved social and environmental performance by customers, which may arise from existing weaknesses in local legislation.

We continue to conduct training on ESMS and aim at achieving 100% training and certification of all employees responsible for business loan approval by 2018. Additionally, 275 staff were trained on Environmental and Social Management System (ESMS) in 2017.


NURTURING NATURAL CAPITAL

Initiatives Implemented 2017	Initiatives Planned 2018
Management Approach	
<ul style="list-style-type: none"> » Continued to monitor sustainability indices through the CEO dashboard implemented in 2016. » Reviewed and revised process for determining material topics » 220 employees trained on ESMS system 	<ul style="list-style-type: none"> » Further strengthen the environment and social management system.
Responsible Business	
<ul style="list-style-type: none"> » Invested Rs 353.2 Mn in clean energy initiatives within the Bank » Financed Rs 1.8 Bn in renewable power generation projects with corporates » Financed Rs 33.3 Mn in solar energy project for homes » Arranged syndication of Rs 9 bn waste to energy projects 	<ul style="list-style-type: none"> » Continue to invest in solar PV system installation project in branches » Introduce energy efficient lighting systems in branches
CSR	
<ul style="list-style-type: none"> » 24% of total CSR spent on projects that care for the environment 	<ul style="list-style-type: none"> » Continue to support ecofriendly initiatives

REDUCING OUR CARBON FOOTPRINT

Energy Efficiency

We aim to halve our carbon footprint by 2020. One of the key initiatives in this regard is our solarising project which involves the systematic conversion of branches to solar power. As part of this project, we installed solar energy at 25 of our branches during the year to generate 2,100 Mwh of power; reducing dependence on the national grid by 17% and achieving significant reductions in the energy bill. As at the end of 2017, a total of 69 branches have been completely converted to solar power. Apart from this we continue to introduce more energy efficient processes throughout the Bank, such as investing in energy efficient lights, an better utilisation of space in order to optimize energy efficiency.

 MEASURING SUCCESS		
	2017	2016
Emissions Scope 1 & 2 - MT	4,643.69	6,551.27
Emissions Intensity - Kg/ Sqft	4.0	5.6
Diesel Usage for Generators - Ltrs	99,500	161,258
Electricity Usage - kWh	12,357,011	15,120,494
Renewables - kWh	2,100,400	776,147
Renewable Energy as percentage of Total Energy - %	17.00%	5.13%



Responsible Consumption

Continued investment in energy efficient measures such as solar powered branches, better utilisation of space, paperless initiative and sustainability dashboard



Bio Diversity Conservation

CSR Initiatives that revolved around creating awareness on bio diversity conservation



Environmentally Friendly Investments

Reducing emissions by investing in ozone friendly gases in air-conditioning across all branches

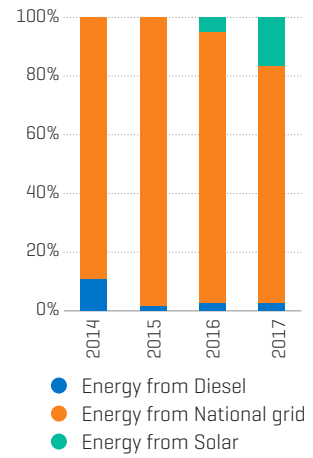
HNB has continuously been in the forefront of lending to the renewable power sector



A comprehensive ESMS

Our ESMS ensures that Bank's credit portfolio conforms with all financial, judicial, regulatory and socially acceptable standards and applies a process of Environmental and Social (E&S) risk assessment

ENERGY MIX



GREEN LENDING

HNB has continuously been in the forefront of lending to the renewable power sector. During 2017, three new green energy projects of solar and hydro were financed with a total exposure amounting to Rs 1.8 Bn. HNB's most recent involvement has been as the lead arranger to a syndicated loan of Rs 9 Bn towards the construction of a 10MW waste-to-energy power plant that will contribute to the national grid through the conversion of between 500-700 metric tonnes of garbage into energy.

GREEN PROCUREMENT

Our suppliers' environmental credentials are evaluated when awarding contracts. We follow a comprehensive process of engagement in this regard with suppliers whose turnover exceeds Rs. 1 Million.



Managing Our Impacts: Our Natural Capital Report

CSR GREEN INITIATIVES

Our CSR green initiatives during the year revolved around creating awareness about bio diversity conservation. Some of the programme carried out during the year are listed below.

- » The Bank partnered with Sri Lanka Water Partnership and conducted a project on disaster risk reduction through climate change adaptation for landslide effected communities in Aranayake. The Bank has funded rain water harvesting units in 10 schools in the areas effected by catastrophic landslides in 2016. Awareness programmes on disaster risk reduction were conducted for effected communities, school children and the public sector. The bank also conducted catchment conservation programmes, such as planting trees and applying soil conservation methods identified locations.
- » Sponsored the International Day of Biological Diversity on 21st of May 2017. Organised by 'Biodiversity Sri Lanka' with the aim of creating awareness on the conservation of bio diversity.
- » Conducted a workshop on waste management for corporates, highlighting opportunists for innovative waste management projects in collaboration with Bio-diversity Sri Lanka.
- » HNB also sponsored a beach cleaning project together with project partners. Partners were made up from students of the Faculty of Management & Finance of the University of Colombo, Nalanda College Colombo and St.Peter's College



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