

HATTON  
NATIONAL  
BANK PLC

Annual Report  
2022

# BUILT FOR RESILIENCE



YOUR PARTNER IN PROGRESS





## BUILT FOR RESILIENCE

At Hatton National Bank, we have always modelled ourselves after principles of excellence, continuity and progressive growth — characteristics that have enabled us to shape and transform ourselves to display a spirit of endurance even in the face of seemingly insurmountable odds.

Our wide-ranging products and strong partnerships with our stakeholders have always inspired positivity and growth throughout our sphere of influence. Our sustainable framework and adaptive strategies have enabled us to remain buoyant even amid times of turbulence, even as we continue to augment our value proposition to our stakeholders year after year.

We are armed with the capacity to serve; and as in the past, we pledge to employ the resources at our disposal to maintain our momentum; driven by an overarching purpose to serve as the people's partner and fuel the nation's development. Today, as we look to the future with a renewed purpose, we are committed to remain at the heart of Sri Lanka's journey towards revival.

Ours is the promise of progressive growth both here and beyond, strengthened by a time-tested structure of strength and adaptability.

Hatton National Bank. We're built for resilience.

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*The nautilus is an entity that has lasted across millennia — a being that has captivated mankind for centuries. Their longstanding design has inspired art, architecture, and scientific and mathematical principles, while representing progressive growth, longevity and value.*

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# ABOUT THE REPORT

The 10th Integrated Annual Report of Hatton National Bank PLC seeks to reflect how the Group navigated a year of unimaginable political, social and economic uncertainty during which the country's financial sector has remained resilient. It has been prepared in accordance reflecting our commitment towards institutionalising integrated thinking. The report seeks to provide a balanced review of how the Bank and its subsidiaries created value during the financial year ending 31st December 2022. in line with the frameworks set out below.

This report covers the operations of Hatton National Bank PLC, its subsidiaries and the joint venture. Non-financial information presented within the report, unless explicitly stated, refers to information relating only to the Bank and excludes the subsidiaries and the joint venture as the Bank accounts for over 89% Group PAT, Total Assets & Total Liabilities.

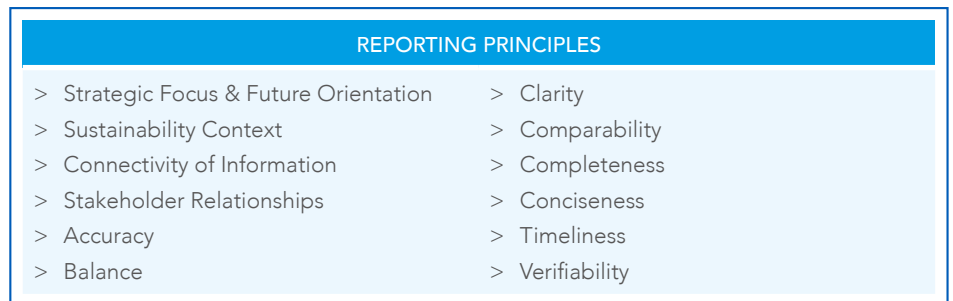
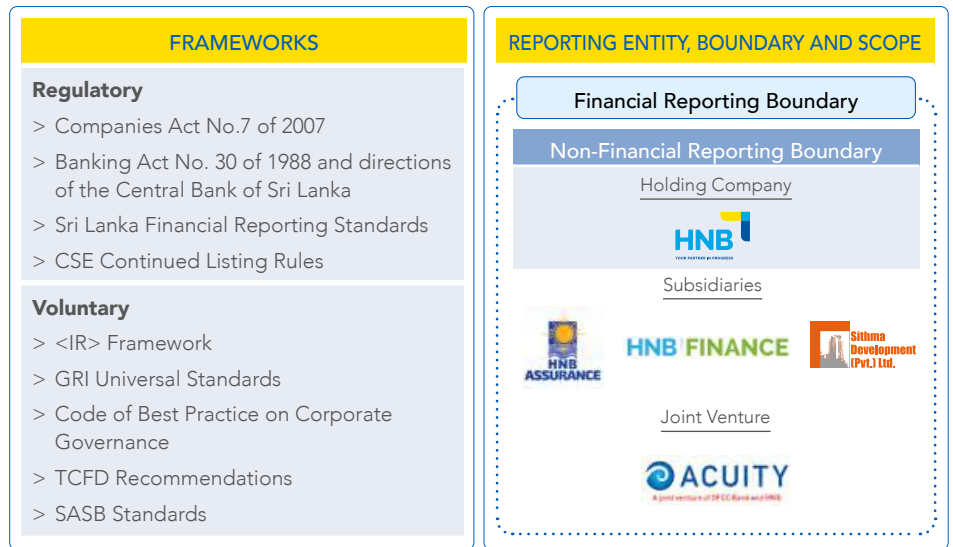
## ASSURANCE

KPMG has provided assurance on the financial statements including the notes to the accounts. They have also reviewed the Corporate Governance Report and provided assurance to the Central Bank of Sri Lanka on the Bank's compliance with the Banking Act, its subsequent amendments and directions issued to licensed commercial banks.

DNV has provided assurance that the report is following the IR Framework and GRI Standards.

## REPORT EVOLUTION

We continue to monitor the developments in sustainability reporting and have noted the efforts to consolidate and improve the interoperability of standards. The establishment of the International Sustainability Standards Board and the issue of Exposure Drafts for IFRS Sustainability 1 and 2 are noted and considered in preparation of our road map for ESG Strategy implementation. Key changes to the report this year are given alongside.



## CONNECTIVITY OF INFORMATION

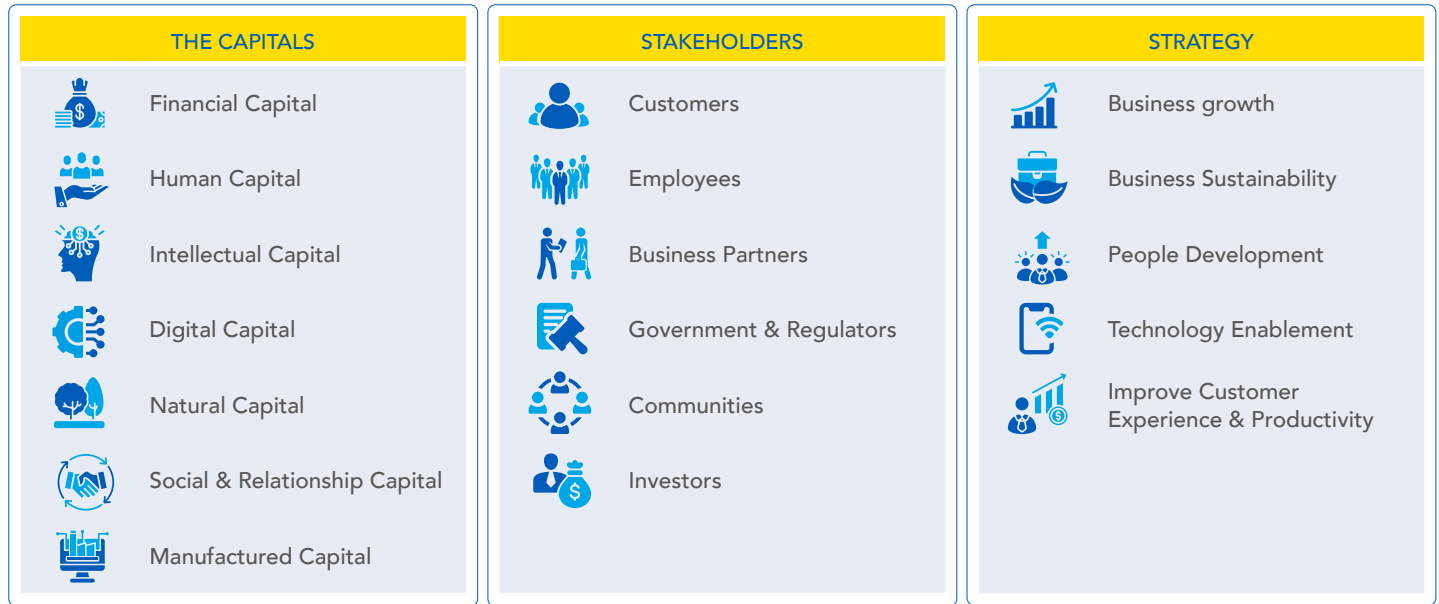
The connectivity of information has been improved by the use of the following icons throughout the report.



Governance



Risk



## FORWARD LOOKING STATEMENTS

Forward looking statements based on our perceptions, opinions and views of external and internal information available at present are included in this report to enable assessment of the Group's ability to create value in the future. These statements are associated with relatively high levels of uncertainty which can be confirmed only with the benefit of hindsight as they relate to future events, outcomes and impacts which are beyond our control but have a significant impact on our ability to create value. As governments around the world seek 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, 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. All forward looking statements are provided without recourse or any liability whatsoever to the Board or other preparers of the Annual Report due to the reasons enumerated above.

## THE STATEMENT OF RESPONSIBILITY

Management of Hatton National Bank PLC have prepared and reviewed the Integrated Annual 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 2022 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 17th February 2023 and is signed on its behalf by

Aruni Goonetilleke  
Chairperson

Devaka Cooray  
Chairman  
Board Audit Committee

Jonathan Alles  
Managing Director / CEO

Colombo, Sri Lanka  
17th February 2023

# ABOUT HNB GROUP

As the holding company of a diversified financial services Group and a domestically significant bank, Hatton National Bank PLC is a leading player in the Country's financial services sector. A customer centric culture and an inclusive approach to banking honed over 135 years is pivotal to our growth. Leadership, governance and prudent risk management anchor our growth aspirations, enabling us to navigate safely through turbulent times.

## OUR VISION

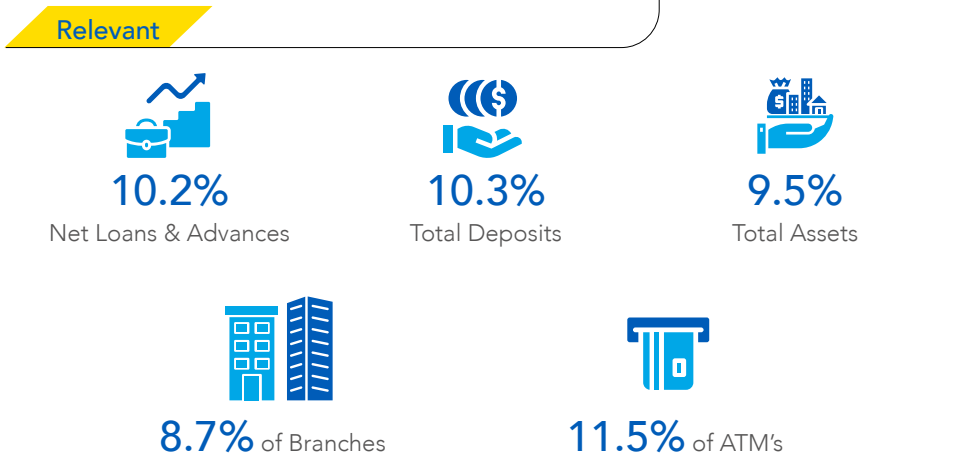
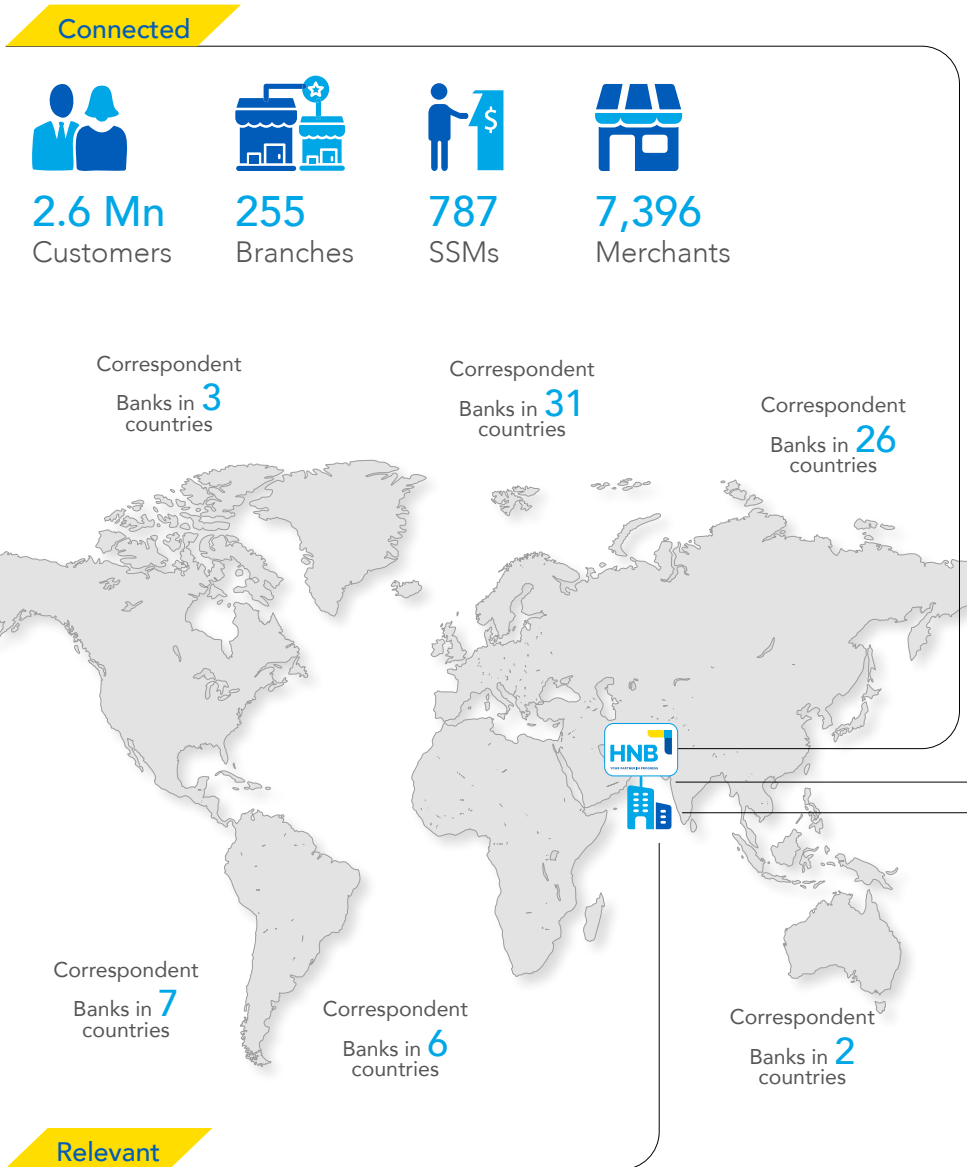
To be the acknowledged leader and chosen partner in providing financial solutions through inspired people.

## OUR MISSION

Combining entrepreneurial spirit with empowered people and leading edge technology to constantly exceed stakeholder expectations.

## OUR VALUES

- > Leading with courage
- > Commitment
- > Teamwork
- > Excellence



HNB's share of Licensed Commercial Bank Assets and Liabilities (as at end of 3Q 2022)

## Diversified

### BANKING SERVICES

#### Wholesale Banking

- > Corporate Banking
- > Trade Finance
- > Treasury
- > Payments & Cash Management
- > Islamic Banking
- > Custodian Services

#### Retail Banking

- > Retail Banking
- > SME
- > Microfinance



### INSURANCE

HNB Assurance PLC

100%

HNB General Insurance Ltd

60%

50%

### INVESTMENT BANKING

#### Acuity Partners Ltd.

100% • Acuity Stockbrokers Ltd

100% • Acuity Securities Ltd

79.8% • Lanka Ventures PLC

### FINANCE

HNB Finance PLC

42%

(Voting rights 51%)

### REAL ESTATE

Sithma Developers Ltd

100%

## HNB Group in Numbers



8,581 Group  
5,156 Bank

Employees



3,069 Group  
2,268 Bank

Female Representation



11,357 tCO<sub>2</sub>e Bank

Emissions



Rs 1,443 Bn Group  
Rs 1,408 Bn Bank

Deposits



Rs 1,108 Bn Group  
Rs 1,061 Bn Bank

Loans & Advances



Rs 1,798 Bn Group  
Rs 1,691 Bn Bank

Total Assets



Rs 183 Bn Group  
Rs 159 Bn Bank

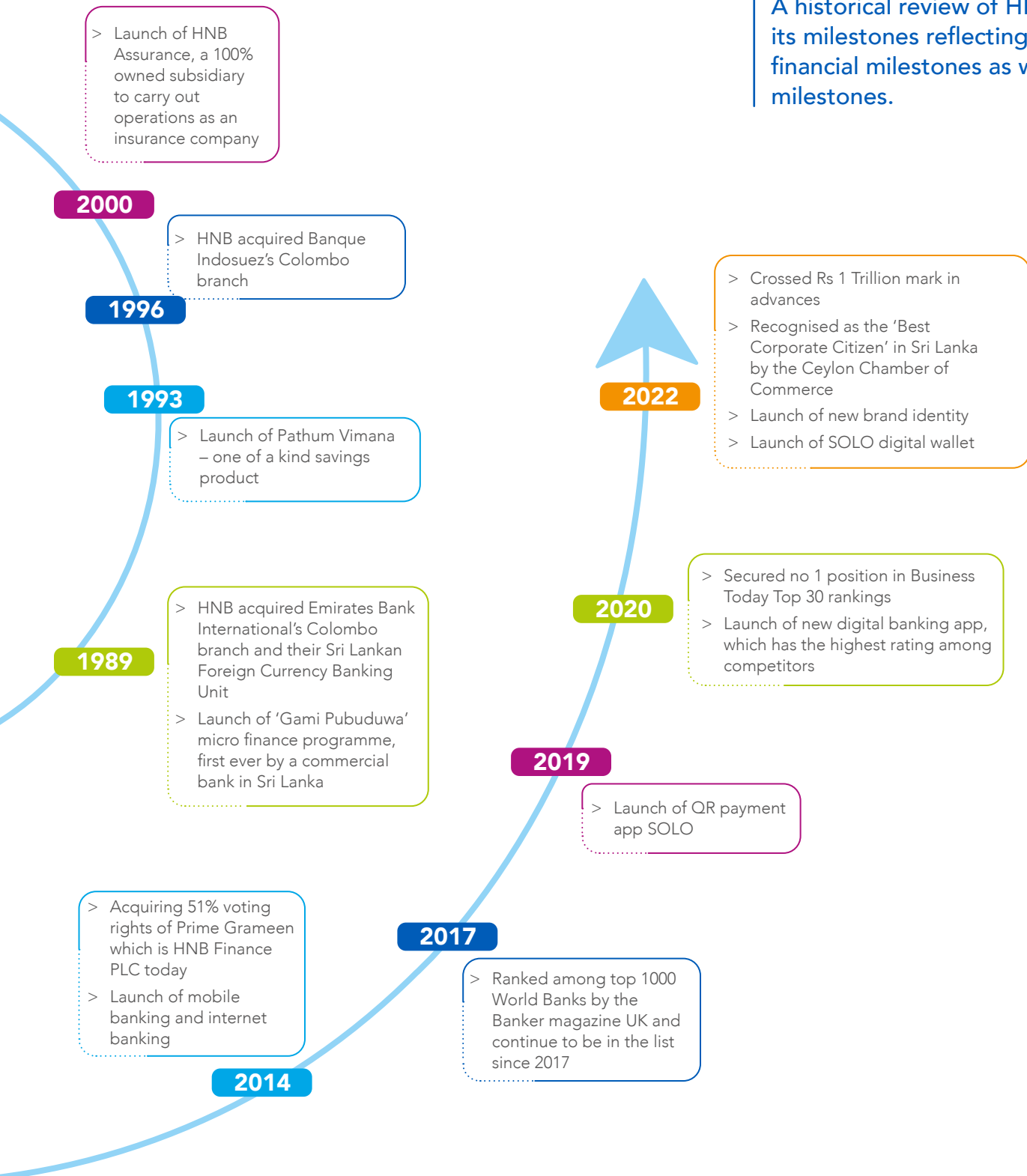
Equity



# CONNECTED & RESILIENT



A historical review of HNB and its milestones reflecting both financial milestones as well as ESG milestones.



# OUR ECONOMIC IMPACT

## NURTURING MSMEs

Many MSMEs have had a difficult period since 2019 and we have remained committed to nurturing this sector, strengthening our processes to manage the risks of expanding our presence in this vital customer segment.



**Rs 77 Bn**

Disbursed during the year to MSMEs

**> 4,500**

Microfinance facilities linked to microinsurance policies activated to support microentrepreneurs without the ability to provide collateral. Loan size was limited to Rs1 Mn or less and insurance policies were attractively priced to address the access to finance issues. Loans were underwritten by 2 guarantors.



Over 80 region-wise Recovery Camps were conducted to assist farmers to regularise their loans, considering their cashflows.

During the year the Bank rescheduled facilities for over 1,000 MSME customers.

## ADDRESSING FOOD SECURITY

A field force of 157 micro finance officers support farmers address their financing needs. Additionally, supply chain financing linking the entire value chain from corporate to farmer

supports holistic solutions for all value creators.



**>2,000 Farmers**

Supported through supply chain finance

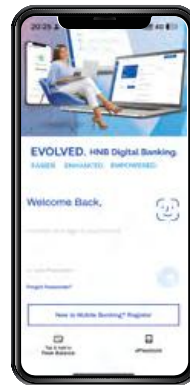


**Rs 26 Bn**

Disbursed to Agriculture Sector in 2022



## LEADING THE WAY IN DIGITALISATION OF THE FINANCIAL SECTOR



**437k**

Downloads



**282k**

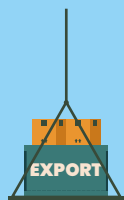
Downloads

## PROMOTING FOREX FLOWS TO THE COUNTRY

Shortage of foreign currency limited the capacity of the banking sector to support imports. In this backdrop HNB intensified its focus on driving exports and remittances.

**USD 1,000 Mn**

Exports supported



**> USD 570 Mn**

Remittances routed through HNB



**105%**

Growth in digital transactions volumes



**Rs 682 Mn**

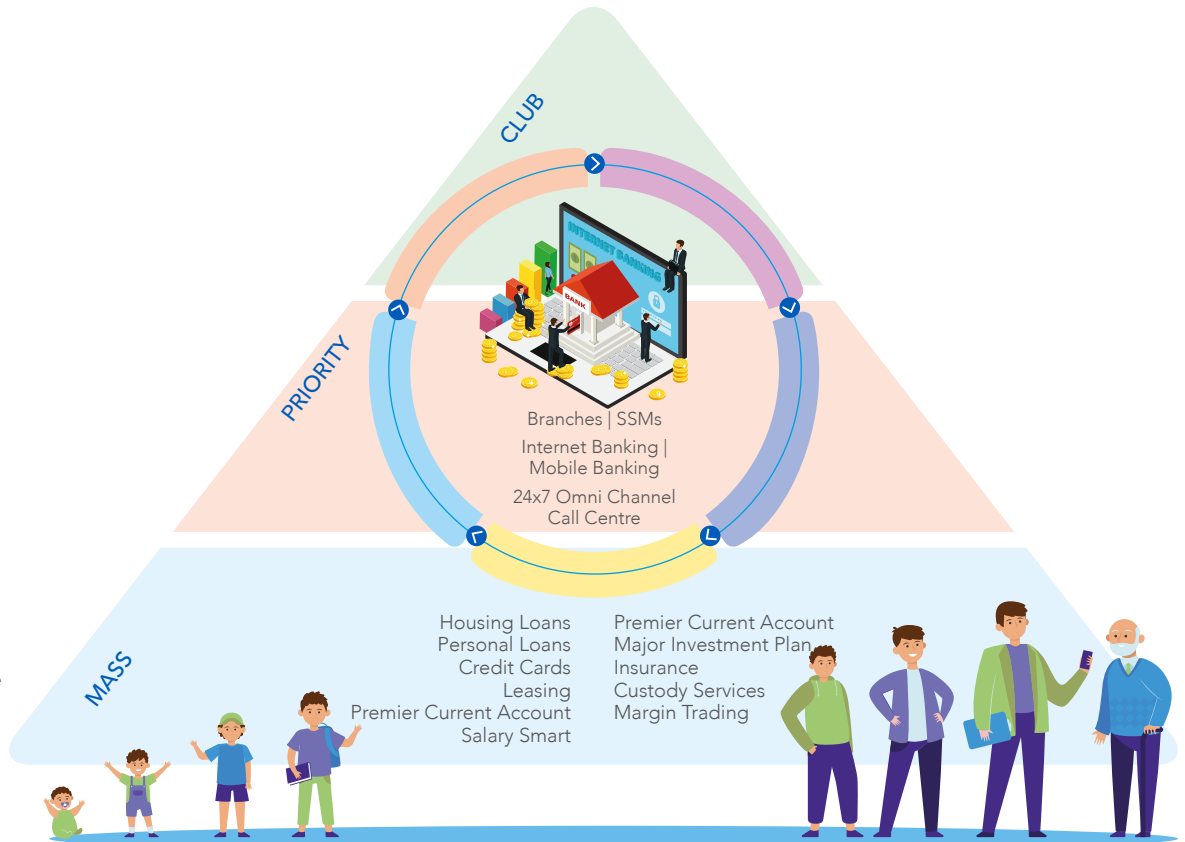
Invested in Digitalisation in 2022



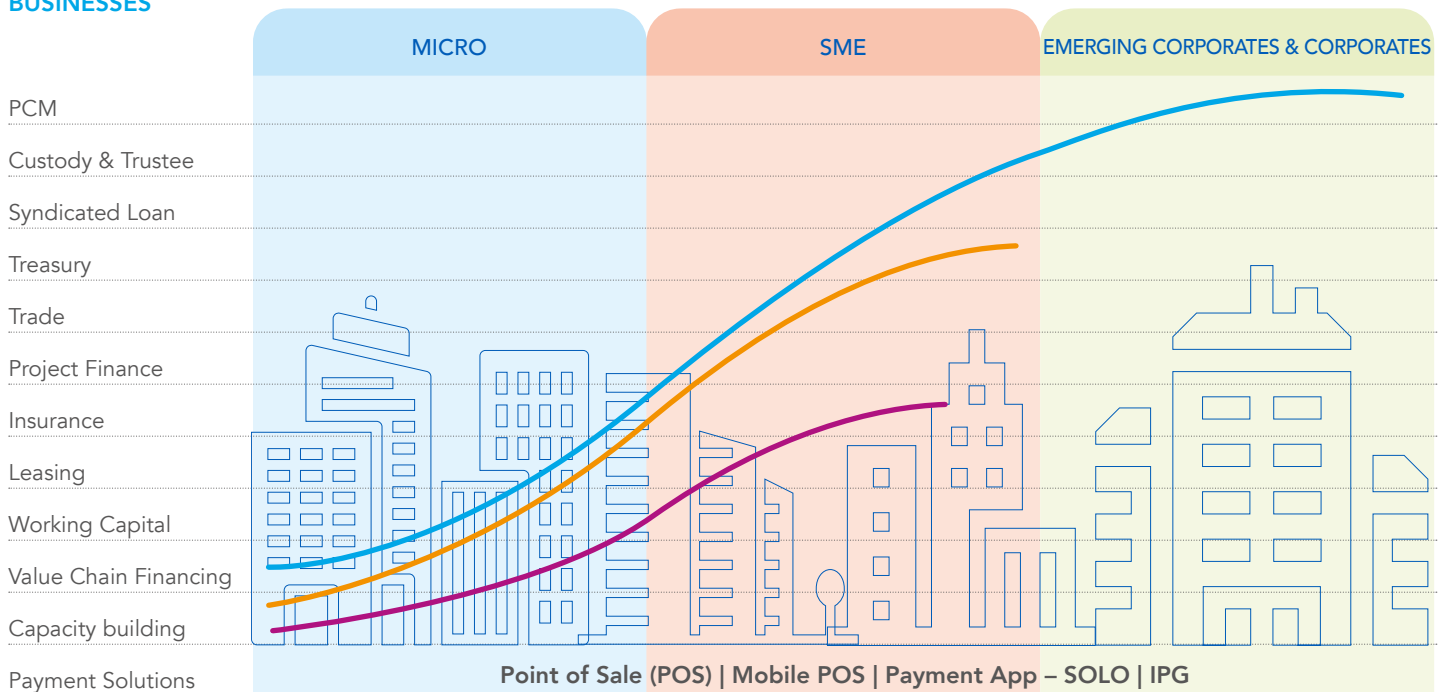
# MEANINGFUL RELATIONSHIPS

## FOR INDIVIDUALS

As a diversified financial conglomerate, HNB Group seeks to build lasting relationships that grow with the customers' changing needs, supporting lifestyle and business needs. This year, we deepened our relationships, supporting customers through their journey. Recognition of HNB Assurance as the Best Bancassurance Provider in Sri Lanka 2022 by Global Banking and Finance Review for the second consecutive time affirms the success of our approach, reflecting the increasing confidence of our customers.



## FOR BUSINESSES



# PERFORMANCE HIGHLIGHTS

	2022 Rs Mn	BANK 2021 Rs Mn	Change	2022 Rs Mn	GROUP 2021 Rs Mn	Change
<b>A RESILIENT PERFORMANCE</b>						
Gross income	242,412	115,047	110.7%	270,509	135,710	99.3%
Net interest income	102,877	49,559	107.6%	111,567	56,462	97.6%
Net fee & commission income	15,174	9,623	57.7%	15,902	10,316	54.1%
Total operating income	137,924	65,735	109.8%	160,875	84,404	90.6%
Impairment charges	90,461	18,778	381.7%	91,736	19,534	369.6%
Operating expenses	30,388	22,634	34.3%	49,804	37,349	33.3%
Operating profit before tax on financial services	17,075	24,324	-29.8%	19,336	27,521	-29.7%
Profit before income tax	11,974	19,825	-39.6%	14,420	23,054	-37.4%
Profit after tax	14,033	17,300	-18.9%	15,748	20,084	-21.6%
<b>FINANCIAL STABILITY</b>						
Shareholders' funds	159,327	152,041	4.8%	183,292	176,668	3.7%
Customer deposits	1,407,800	1,075,709	30.9%	1,443,179	1,107,066	30.4%
Gross loans & advances	1,061,372	928,972	14.3%	1,107,500	968,907	14.3%
Total assets	1,690,539	1,358,337	24.5%	1,798,275	1,453,651	23.7%
Total liabilities	1,531,212	1,206,295	26.9%	1,608,188	1,270,383	26.6%
<b>PROFITABILITY</b>						
Net interest margin (%)	7.55%	4.04%	351 bps	7.77%	4.39%	338 bps
Cost to income ratio (%)	22.03%	34.43%	-1240 bps	30.96%	44.25%	-1329 bps
Return on assets (%)	0.92%	1.31%	-38 bps	0.97%	1.42%	-45 bps
Return on equity (%)	9.01%	12.10%	-309 bps	8.52%	11.50%	-298 bps
<b>ASSET QUALITY</b>						
Impaired loans (stage 3) ratio (%)	3.40%	2.55%	85 bps			
Impairment (stage 3) to stage 3 loans ratio (%)	56.99%	56.11%	88 bps			
<b>INVESTOR INFORMATION</b>						
Earnings per share (Rs)	26.20	32.30	-18.9%	28.62	35.52	-19.4%
Net assets per share (Rs)	297.50	283.89	4.8%	342.25	329.88	3.7%
Market value per voting share (Rs)	78.90	135.00	-41.6%			
Total dividends per share (Rs)	5.00	9.00	-44.4%			
Cash dividends per share (Rs)	-	6.50	-			
<b>REGULATORY RATIOS</b>						
Core capital ratio (%)	11.06%	14.53%	-347 bps	11.42%	14.45%	-303 bps
Total capital ratio (%)	14.00%	18.16%	-416 bps	14.15%	17.80%	-365 bps
Statutory liquid assets ratio (%)	33.95%	28.02%	593 bps			



Brand Value  
**Rs 24.2 Bn** ↑  
**Rs 1.1 Bn**

INTELLECTUAL CAPITAL



Brand Rating  
**9th**  
 Most Valuable Brand  
 by Brand Finance

**Top 1000**

World Bank by  
 The Banker UK



**43%**

Value created for employees

HUMAN CAPITAL



	Bank	
	2022	2021
# of Employees	5,156	5,042
Retention Rate	90.5%	93.5%
New Recruits	683	645
Average Training Hours Per Employee	24.4	22.2



DIGITAL CAPITAL



Capex  
**Rs 682 Mn**  
 Digital Transactions



SOCIAL & RELATIONSHIP CAPITAL

**178k** New customer relationships  
**99.7%** Customer Satisfaction Score  
**Rs 29 Mn** CSR Investments  
**130%** Growth in no of SOLO Merchants

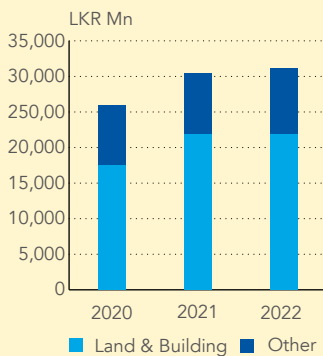
Deeper relationship through focused cross sell



MANUFACTURED CAPITAL



Property, Plant & Equipment



**Rs 21.6 Bn**  
 Land & Building

**48**  
 Branches housed  
 in own premises

**Rs 721 Mn**  
 Invested in Capex  
 (excluding Digital Capital)

**1,846 MWh**

Solar energy generated

NATURAL CAPITAL



**Rs 9.4 Bn**

Clean Energy Portfolio

**22%**

Reduction in paper usage

**13%**

Energy consumption of branches through Solar





**Every crisis is an opportunity for change and Sri Lanka's economic crisis is no different. Banks play a critical role in the country's efforts to move beyond the current crisis mode to a growth mode and HNB is leading the way in unleashing potential with appropriate checks and balances. We are also moving fast to lead the way in the industry by ensuring that we remain connected to global markets and opportunities by harnessing technology.**

# A PATH TO OPPORTUNITY

## CHAIRPERSON'S MESSAGE

Dear Stakeholders,

The year under review was unprecedented, with a combination of economic stress, social unrest, and political instability which resulted in systemic shocks affecting all Sri Lankans and all sectors of the economy and the banking industry in particular. Consequently, the Board remained vigilant, carefully recalibrating its priorities to maintain stability whilst supporting customers and keeping all stakeholders closely engaged as the crisis unfolded.

### RESPONDING TO AN UNFOLDING CRISIS

The first quarter was marked by rising inflation, a dollar liquidity crisis, a growing energy crisis and a devaluation of the rupee which led to economic hardship and social unrest, which gained momentum in the second quarter. Businesses needed dollars for import of raw materials and the country needed dollars for import of essential items including gas, food and medicines. The Board maintained focus on three key aspects, to maintain liquidity, capital and people with a view to mitigating potential impacts. The Bank was in a strong position going into the crisis with high levels of capital, sound asset quality and robust risk management processes. The pace of growth was moderated to maintain financial stability while driving growth prudently. Accordingly, the Bank intensified its efforts to grow exports and remittances, successfully restoring dollar liquidity to manageable levels and enabling customers to meet their requirements. It was heartening to note the commitment with which employees came to work and kept branches open during this time despite several challenges.

The devaluation of the rupee, an increase of 700 bps in policy rates and Sri Lanka's suspension of payments on foreign debt in April 2022 marked the beginning of the second quarter. While widely anticipated as a much-needed correction, the policy

changes nevertheless gave rise to high levels of volatility which needed to be managed. In April, the government approached the International Monetary Fund for assistance. The resignation of the Prime Minister in May, the President in July and the appointment of a President for the remainder of the term also added to the volatility which carried on till mid-July 2022. The newly appointed government has since implemented certain measures to reduce subsidies and increase government revenues through taxation.

These changes necessitated wide-ranging reviews across the HNB Group to assess their impact on customers, stakeholders and the Bank. The Bank's investments in foreign currency denominated sovereign debt was a key issue that was stress tested under various scenarios to ensure that the Bank would remain liquid and adequately capitalized. The impact of increased interest rates on customers and the Bank was another area of concern which needed specific interventions. Many customers faced significant difficulties in managing cashflows due to the increased interest rates, necessitating careful monitoring of recoveries and asset quality. The Board noted strong growth in deposits as customers took flight to safety, moving deposits to the banks which had a tried and tested model for strength and resilience. Capital management was a key priority to safeguard the depositors and the Board remained vigilant throughout the year in this regard. HNB was one of the few banks that did not raise capital during the year as its CAR and SLR remained comfortably above regulatory requirements reflecting the cautious approach adopted by the Board in building margins of comfort to capital management.

The second half of the year saw a gradual stabilization of the exchange rate and an easing of dollar liquidity as imports declined and exports maintained an upward trend. Remittances also increased as a result of renewed economic activity and

**"Cash combined with courage in a time of crisis is priceless"**

*Warren Buffet*

## CHAIRPERSON'S MESSAGE

relative stability in the Country. However, the uncertainty relating to the foreign debt restructuring and debt sustainability continues even at the reporting date although progress has been made in discussions with the IMF.

### RESILIENCE, RETURNS & GROWTH

The main priority of the Board was building resilience with resultant trade-offs on growth and profitability, which saw a moderation in 2022.

While the Total Capital Adequacy Ratio and the Tier 1 Capital Ratio declined to 14% and 11% by the close of 2022, they remain above the regulatory requirements of 13.5% and 9.5% and a further 2.5% of capital conservation buffer which the Bank could drawdown upon if required. This was achieved despite the increased provisioning made during the year as discussed below. These were the anchors around which strategy was realigned in the short term to build resilience for the difficult times ahead. Credit growth moderated to 6% although the balance sheet growth reflects a higher rate of 14% largely due to revaluations of foreign currency denominated assets.

Accordingly, the Group and the Bank recorded Profit After Tax of Rs 15.7Bn and Rs 14Bn respectively for the year ended 31st December 2022, curtailing the year on year decrease to 22% and 19% in a year in which the country's economy contracted by an estimated 7.1% in the first nine months.

It is necessary to discuss the returns to investors, which declined during the year. We believe that their longer term interests were preserved during this challenging year as decisions were made to manage a crisis in the shorter term with a view to remaining sustainable for the long term. Adverse movements in the Colombo Stock Exchange further dampened returns. HNB remains an attractive long term investment at the current valuations and we remain committed to strengthening the investor value proposition through our long term strategy.

**Digitalisation has been at the top of the Board agenda as it is perhaps the most impactful and the most resource intensive aspiration. The Bank has consistently invested in IT to deliver future ready solutions to customers to meet the demands of evolving lifestyles. Reaping the digital dividend is perhaps one of the most challenging as technologies change, shifting goal posts as projects typically have long gestation periods. Acceptance by users is a key determinant of success and the number of downloads and app ratings are encouraging.**

### MAINTAINING FOCUS ON THE LONG TERM

There is no doubt that three successive years of crisis have tested our mettle and sharpened our wits. Our long term commitment to delivering our strategy remains steadfast as we strongly believe that a future focus is necessary to move out of crisis mode. The long-term strategy laid out on page 32, becomes the north star for the Group. Our long-term aspirations for the Bank are clearly articulated – to be the most customer centric bank, the best digital bank, the most preferred employer and the most resilient and sustainable bank. Every project initiated needs to support the realization of these central objectives. The heritage of 135 years rooted in inclusive banking, a strong balance sheet, global networks and future ready digital infrastructure are key strengths that support a skilled and motivated team to deliver on these goals.

We will continue to focus on becoming the most resilient Bank creating value to customers and contributing to our communities whilst delivering sustainable returns to investors. I am delighted that Hatton National Bank was awarded the Best Corporate Citizen, affirming that we are on the right track to realising this aspiration. A Board led agenda to mainstream ESG into strategy, risk management and reporting processes is critical to driving this aspiration and we are continuously evolving in this area.

Customer centricity is being actively driven throughout the Bank as this will be a key differentiator. A dedicated Customer Experience unit supports the Board, monitoring this key area of success

objectively, using data analytics to support its scores and findings. We are pleased to note the significant progress made with a score of 62% affirming that the wide-ranging initiatives implemented are effective.

Digitalization has been at the top of the Board agenda as it is perhaps the most impactful and the most resource intensive aspiration. The Bank has consistently invested in IT to deliver future ready solutions to customers to meet the demands of evolving lifestyles. Reaping the digital dividend is perhaps one of the most challenging as technologies change, shifting goal posts as projects typically have long gestation periods. Acceptance by users is a key determinant of success and the number of downloads and app ratings are encouraging. We will continue to focus on moving totally away from legacy systems and practices to continuously enhance customer experience.

Becoming the preferred employer is important as we need to attract, develop and retain the best talent to hone our competitive edge. We also need to fix talent leakage which has been a significant issue in 2022 due to high levels of economic migration. The Bank has a dynamic HR Department that continues to review, realign and enhance the employee value proposition proactively with oversight by the HR & Remuneration Committee of the Board.

Every crisis is an opportunity for change and Sri Lanka's economic crisis is no different. Global growth is also moderating with persistently high inflation impacting demand and growth. Geopolitics are also a

key factor and present tensions need to be monitored to understand potential impacts of escalation. However, it is important to focus on driving up the denominator in the debt to GDP formula that is commonly used to assess economic stress. Banks play a critical role in the country's efforts to move beyond the current crisis mode to a growth mode and HNB is leading the way in unleashing potential with appropriate checks and balances. We are also moving fast to lead the way in the industry by ensuring that we remain connected to global markets and opportunities by harnessing technology.

### MAINSTREAMING ESG

A bank plays a multifaceted role. It is part of the infrastructure required in a community to facilitate economic activity. It becomes the pivotal point for trade, facilitating transactions both within its boundaries and markets beyond its boundaries. It becomes a trusted custodian of wealth and a source of finance for investment and consumption needs. It can influence sustainable development by directing financial resources to identified sectors of the economy. There is now an urgency to direct investment into industries that will support the country's economic growth while also supporting its transition to a low carbon economy with reduced inequalities. Accordingly, the Bank will look to increase investments into exports, local manufacturing, renewable energy, and IT. We will also support the recovery of the Leisure sector on a more selective basis as the industry needs financing to restore its vibrancy and accelerate growth in earnings from tourism.

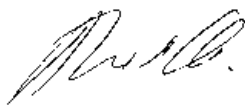
As one of the largest player in the MSME sector, the Group plays a key role in addressing financial inequality through access to finance and also providing safety nets through HNB Assurance Group. The Group adopts a holistic approach to the sector, providing a full spectrum of value adding features that range from the well-established capacity building and financial literacy to the more innovative access to markets, technical assistance, export credit and payment solutions products. We hope to expand the assistance to this segment with structured products that combine the expertise of the Group while also driving synergies. Supply chain financing is an example of how this sector provided

finance to thousands of farmers together with supermarket chains to maintain healthy cashflows. This was a priority due to its impact on the country's food security and we look to roll out more projects that contribute positively, in collaboration with reliable partners.

Our own use of resources is being reviewed as part of a larger cost management exercise and we hope to drive significant change to reduce our carbon footprint. We will also look to drive change through our own supply chains, mainstreaming ESG throughout the HNB Group.

### APPRECIATION

On behalf of the Board, I commend the dedication and commitment demonstrated by our staff in keeping branches and call centers open and delivering results in yet another difficult year. Similarly, the leadership provided by the Chief Executives of the Group in rallying their teams has been the critical factor behind the holistic performance set out in the report. I thank our stakeholders who trusted us to partner their journeys and look to work with them as we move forward. We are appreciative of the support provided by the officers of the Central Bank of Sri Lanka and other regulators. We are moving forward with cautious optimism to support the resurgence of a country that has shifted to a new trajectory of prosperity for all.



**Aruni Goonetilleke**  
*Chairperson*

Colombo, Sri Lanka  
17th February 2023





**Winning this award in a year in which Sri Lanka went through multiple crises affirms that the HNB Group stepped up to play our part as a responsible corporate citizen. This was not by chance but by deliberate strategy that was aligned to meet the urgent needs of the country, the people and the businesses.**

# A PROGRESSIVE JOURNEY

## MANAGING DIRECTOR/CEO'S MESSAGE

To Our Stakeholders,

Penning this message soon after Hatton National Bank was judged as the Best Corporate Citizen by the Ceylon Chamber of Commerce, I would like to start by sharing why the HATNA family is elated by this achievement. The awards programme looks for a holistic performance that goes beyond profit to assess how much value the entity creates for the economy and how it contributes towards the sustainable development of the country. Therefore, winning this award in a year in which Sri Lanka went through multiple crises affirms that the HNB Group stepped up to play our part as a responsible corporate citizen. This was not by chance but by deliberate strategy that was aligned to meet the urgent needs of the country, the people and the businesses, which was delivered through a network of 255 branches by over 5,000 people.

### BUILD-UP OF STATIC

The downside risks discussed in my message last year materialised rapidly, escalating to social unrest mere days after signing off on the report. By the time of the Annual General Meeting, the exchange rate had risen sharply by 49% for the 1st quarter of 2022, climbing to 80% by May 2022. The energy and food crises together with rising inflation gave rise to island-wide protests that continued to gather momentum during the second quarter. These resulted in the installation of a new Governor of the Central Bank of Sri Lanka in March 2022, the resignation of the Prime Minister in May 2022 as well as the resignation of the President and the appointment of a caretaker President in July 2022.

With the installation of the new Governor, the Monetary Board increased policy rates by 700 bps in April 2022 and by a total of 950 bps for the year targeting inflation which had risen to 17.5% as measured by the National Consumer Price Index by then.

The benchmark AWDR and AWPLR moved up by 912 bps and 1,863 bps respectively during the year reflecting the pressure on key market interest rates. As AWPLR reached 27.24% by the close of the year, this put enormous pressure on businesses to manage their finance costs, driving down the demand for credit. Accordingly, private sector credit growth remained relatively flat as businesses deferred investments for many reasons including the cost of raising capital. Increasing inflation was a key factor weighing down the economy, rising to a peak of 73.7% in September and declining thereafter to 59.2% by the close of the year. Food inflation was a key driver, reaching 94.9% in September 2022 as the sudden prohibition of import of fertilizer resulted in poor harvests and a shortage of food in the country. Non-food inflation also followed an upward trajectory driven by increased costs of fuel, electricity, transport and health. The Country's poverty line which was Rs 7,913 in 2021 moved to Rs 13,777 by December 2022 resulting in an estimated 25% of the population living below the official poverty line.

Exports were the main source of foreign currency inflows during the year, amounting to USD 13.01 Bn and recording a growth of 4.9% boosted by increased demand for industrial and mineral products. Worker remittances declined by 31% in 2022 to USD 3.79 Bn during the height of the foreign exchange liquidity crisis. The situation eased towards the close of the year, resulting in an uptick in worker remittances in the fourth quarter. Tourism also moved up in the 4th quarter with the lifting of the travel advisories upon the restoration of normalcy in the country.

On 12th April 2022, Central Bank of Sri Lanka announced the temporary suspension of repayment of external debt and approached the IMF for financial assistance, which is yet to be finalised as at the reporting date. On a prudent basis banks have made provisions on account of the investments in

### DELIVERING STRATEGY

#### – Best Corporate Citizen

*Most resilient and sustainable bank*

#### – NPS 62%

#### – Deposit growth >30%

*Most customer centric bank*

#### – Digital transactions volume growth 105%

#### – Highest rated digital app and digital wallet in the market

*Best digital bank*

#### – Employee retention > 90%

*Most preferred employer*

## MANAGING DIRECTOR/CEO'S MESSAGE

foreign currency denominated government securities and these significant impairment charges have weighed down profitability of the banking sector.

Additionally, local banks were adversely impacted by the related sovereign downgrades as it led to the cancellation of foreign funding lines by correspondent banks and no support from foreign banks in Sri Lanka. These actions resulted in increased pressure in managing foreign exchange liquidity and limitations in the ability to provide solutions for our customers who needed them.

### STEPPING UP

HNB Group has been supporting its customers and other stakeholders weather four consecutive years of extreme financial vulnerability, commencing with the Easter Sunday terror attacks in 2019, two years of the pandemic and the economic crisis in 2022. From ensuring access to cash to extending moratoria, the Bank provided a range of targeted interventions that balanced their interests while ensuring sustainability of the Group.

**MSME's were the most vulnerable during the crisis and we renewed our efforts in supporting them to manage their cashflows. Efforts focused mainly on ensuring businesses stayed afloat in stressed conditions instead of overburdening these entities with costly debt. Accordingly, the more intensive work of pulling them out of danger commenced with portfolio reviews and realigning payment schedules to meet cashflows in a stressed economic scenario.**

Our commitments to stakeholders through the time of crisis were wide-ranging. Potential disruptions to business continuity due to the energy and fuel crisis were a concern for most of the year. I commend the commitment of our HATNA team as they kept the branches open and digital infrastructure operational with unruffled calm and professionalism that is part of our 135 year heritage, ensuring our customers had access to funds for urgent needs and that urgent transactions could be done. HNB was able to deliver relief to our customers in numerous ways due to the concern and hard work of the team to steer them through the turbulence.

The foreign exchange liquidity crisis was the most troubling to manage as it affected so many customers who were faced by import bans and even if they could import, the access to foreign currency was a major issue. HNB maintained a priority list giving preference to food, medicine and energy imports to meet the basic needs of the country, eking out the meagre foreign exchange resources at the height of the crisis. It was not just importers who were affected but exporters including local manufacturers and also the students who were unable to send fees overseas for educational purposes. A daily firefight where we were unable to help so many deserving customer was a disheartening experience. We have strategised and moved out of this very painful period and are now able to meet rational needs of customers given the extraordinary circumstances.

MSMEs were the most vulnerable during the crisis and we renewed our efforts in supporting them to manage their cashflows. Efforts focused mainly on ensuring businesses stayed afloat in stressed conditions instead of overburdening these entities with costly debt. Accordingly, the more intensive work of pulling them out of danger commenced with portfolio reviews and realigning payment schedules to meet cashflows in a stressed economic scenario. Consequently, portfolio growth was not an actively pursued strategy, rather restoring the health of the businesses and capacity building. We also focused on creating market access for MSME with Appigo, WebexPay and Cord360 partnership supporting integration into a digitalised era to grow the top lines.





## DELIVERING STRATEGY

Despite the daunting challenges, the leadership of the Bank remained focused on delivering the long term strategy of the Bank. Resource allocation needed to connect very clearly to the goals and linked to a strategic pillar and our foundation of business sustainability, ensuring that scarce resources were optimised. Our results affirm that we have made considerable progress along this forecast growth trajectory.

As mentioned above, HNB was honoured as the Best Corporate Citizen and this goes a long way towards our goal of becoming the most resilient and sustainable bank. Our customer satisfaction scores as measured by the NPS Score moved up from 56% in 2021 to 62% in 2022 reflecting the progress made on customer centricity. Our journey to become the best digital bank commenced a few years ago and we continue to make headway in empowering both internal and external customers through digitalisation. Our app ratings consistently maintain over 4 stars on the Google Playstore and the Apple App Store reflecting our progress in this important aspect. The digital transaction volumes have also increased by 105% in 2022 reflecting the customer acceptance of our digital platforms providing additional evidence of our progress. The goal of becoming the most preferred employer is also one on which we've made considerable progress, retaining over 90% of our staff in a year of unprecedented economic hardships that led to migration of talent.

## BUILT FOR RESILIENCE

HNB Group recorded a profit after tax of Rs15.7 Bn in 2022, a moderation in profitability of 22% due to absorption of impairment charges which spiked sharply by 370% to Rs 91.7 Bn. The Group was able to withstand this industry wide shock stemming from macroeconomic stresses on the credit portfolio and the temporary suspension of debt repayment on external debt as the Group has been built for resilience, having weathered multiple industry cycles over its 135 years of existence. Total assets of the Group increased by 24% to Rs 1,798 Bn largely due to revaluation of foreign currency denominated assets and a modest growth of loans and advances. Low credit growth reflected the high interest rates

and the cautious approach to new lending. Consequently, the Loans and Advances portfolio growth was at 14%, with the group gross portfolio amounting to Rs 1,108 Bn by the close of the year. Liquid assets comprising cash, balances with banks and CBSL noticeably increased by 134% to Rs 171 Bn reflecting the emphasis on optimising liquidity while the statutory liquid asset ratio stood at 33.95% well above the regulatory requirement of 20%. On the funding side, deposits increased by 30% to Rs 1,443 Bn reflecting the confidence placed in the Bank and the Brand by customers during a time of extreme uncertainty. However, CASA declined as high interest rates attracted depositors to time deposits.

## SEGMENTAL PERFORMANCE

The Bank has eight business segments of which five are part of the Bank. The Insurance and Finance businesses are headed by two subsidiaries which are public listed companies and are regulated. The Real Estate segment comprises the operations of Sithma, a subsidiary of the Bank. Subsidiaries are governed by separate Boards which include members of the parent company Board and members of the Senior Leadership Team of the Bank who serve as a conduit for oversight of the operations, communication and policy alignment.

### Retail Banking

Retail Banking plays a critical role in mobilising funds for the Bank through an island-wide network of branches. Customer centricity and digital enablement are critical to the growth of this business segment as activity is characterised by a large number of small transactions. Retail Banking has on-boarded over 700k customers to digital platforms which has supported growth and customer satisfaction which are key strategic KPIs.

During 2022, Retail Banking increased deposits by 21% to Rs 835 Bn, raising Rs 148Bn for the Bank. Although we were cautious towards lending in the second half of the year, the first half of the year saw the retail segment recording a modest growth. The segment is well positioned for growth, as the country recovers leading the way in building the Brand through inclusive

banking principles while also catering to the discerning high end customers.

### Corporate Banking

Corporate Banking has the largest portfolio of loans and advances within the Group and manages relationships of large and emerging corporates to support their financing, trade and transactional needs. It offers a full range of corporate banking services delivered through Relationship Managers who are able to draw on the specialised expertise within the Bank to structure innovative and customised solutions for its customers. It also supported growth in deposits, raising Rs 85 Bn in 2022 to record segment liabilities of Rs 258 Bn as at the close of the year, an increase of 50% over the previous year. Loans and advances increased by 24% to Rs 552 Bn. Highlights during the year included the growth of the export business which offset the lull in import activity to a large extent.

### SME

The SME Loans and Advances portfolio remained flat at Rs 228 Bn as the focus on this sector was mainly about supporting businesses to ride the storm as discussed above. HNB is one of the largest lenders to this sector which forms the backbone of the Country's economy. This vertical was able to increase the deposits by 36% to Rs 258 Bn in 2022. During the year, the Bank focused heavily on supporting customers to revive their businesses.

### Micro

The Micro segment remained resilient during the year, focusing on managing asset quality and mobilising deposits. The portfolio declined by 10% to Rs 26 Bn as some migrated to SME status while deposits increased sharply by 53% to Rs 15 Bn.

### Treasury

The Treasury had an extremely challenging year. High interest rates supported a strong growth in NII while the rupee devaluation enabled to record a 47% increase in Foreign Exchange gains. However, the impairment charges largely stemming from exposure to GOSL debt securities denominated in foreign currency amounting to Rs 59Bn negatively impacted the bottom line.

# MANAGING DIRECTOR/CEO'S MESSAGE

## Insurance

The HNB Assurance Group delivered a strong performance during the year, recording its highest Gross Written Premiums in its history, outpacing industry growth in both Life and General Insurance business. Growth of its sales force, and branches was supported by increased investments in its digital infrastructure to support growth. A comprehensive suite of products and clear focus on client segmentation enabled the companies to identify the potential areas of growth despite the negative impacts of high inflation on its business.

## Finance

HNB Finance Group also faced a challenging year as their customer base comprising MSMEs was adversely impacted by the economic stress. A highlight during the year was the completion of the amalgamation of Prime Finance PLC following its acquisition in 2021. Consequently, the balance sheet of the company grew by 19% to Rs 53 Bn. However, the company made a loss for the year, as NII declined and impairment charges increased.

## Acuity Partners

Acuity Partners carries on investment banking, stockbroking, advisory, and primary dealership activities. The Group recorded a solid performance, strengthened by the performance of the Primary Dealership and venture capital arm Lanka Ventures PLC.

## PEOPLE

As a financial services organisation, people are our most valuable asset as every individual activity is connected to create something that is greater than the sum of its parts. This year, every action mattered, due care, diligence, application of sound banking principles and ethics were necessary for us to steer through the perfect storm that was 2022. But our work is not done as we need to drive a resurgence and it is our team that has to deliver the strategy. We are investing in our people as never before, conscious that they all face challenges at work and at a personal level. The Bank has a broad and important mandate to upskill and enhance capabilities, particularly those needed to function in a more digitalised

As a financial services organisation, people are our most valuable asset as every individual activity is connected to create something that is greater than the sum of the parts. This year, every action mattered, due care, diligence, application of sound banking principles and ethics were necessary for us to steer through the perfect storm that was 2022. But our work is not done as we need to drive a resurgence and it is our team that has to deliver the strategy. We are investing in our people as never before, conscious that they all face challenges at work and at a personal level.

workplace. This year, the Bank and its subsidiaries supported our teams through the periods of high inflation and also the adjustment to higher levels of taxation. We remain committed to the wellbeing of our team, conscious that we can move to the next level, only if we invest in the skills required for the next phase of our journey. In recognition of HNB's pursuit of attracting best talent, HNB was once again recognised among the Top 20 Employers by AICPA and CIMA (UK).

## SUSTAINABLE GROWTH – THE WAY FORWARD

As we survey the aftermath of 2022, the urgency is to rebuild with stronger foundations for a longer term recovery. The Sustainable Financing direction issued in 2022 is timely in this regard as it points the way to a country that can transition to a low carbon economy and shared prosperity. Uncertainties have become a part of our life and Sri Lanka is not the only country facing high levels of stress. However, it is important that we remain risk aware and not necessarily risk wary while the uncertainties remain largely weighed to the downside. HNB is committed to our long term strategy articulated above and now we are eager to move forward on this agenda. We will select the right opportunities to pursue as we are aware of the buffers we need to maintain and the finite resources available. Risk management will be pivotal to our journey and it is indeed fortunate that we invested in these foundations over the past few years.

## ACKNOWLEDGEMENTS

It has been my privilege to have the unstinting support of the Hatna family led by the Corporate Management Team, with a single-minded vision and passion to perform. I acknowledge the diligence and vigilance of the Board of directors who have guided strategy and provided objective oversight during a difficult year; I thank them for their efforts. I extend my sincere gratitude to the Governor and the Officials of the Central Bank of Sri Lanka for their guidance and support to navigate through these turbulent times. The support of our customers and business partners has been encouraging and these relationships remain the foundation for our success. I thank our investors for their continuous confidence despite the adverse economic landscape. The HNB Group was built for resilience from the days in the hills and we are committed to strengthening it in the years ahead.



Jonathan Alles  
Managing Director / CEO

Colombo, Sri Lanka  
17th February 2023



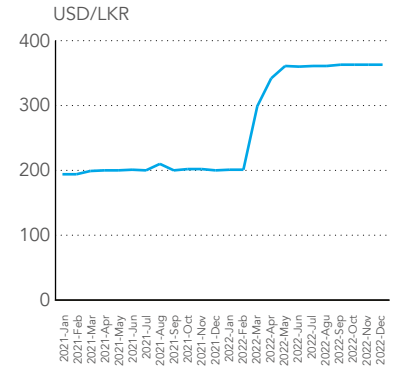
# OPERATING ENVIRONMENT

Downside risks in the operating landscape escalated to an economic crisis in the country resulting in social and political turmoil in the first half of 2022. While stability has been restored, it remains fragile with high levels of uncertainty in key aspects. Those issues including those stemming from the crisis which had a significant impact are summarised here together with the HNB Group's response.

## Heightened challenges in the external sector

Impact on foreign reserves witnessed post Covid continued to further aggravate during 2022 resulting in the usable official reserves depleting to near zero levels in April 2022. Consequently the government announced the suspension of all external foreign currency debt repayments and requested for IMF support. The artificial exchange rate cap was removed as a result which led to the currency being devalued by nearly 80% during a very short period of time.

## Exchange Rate



Source: CBSL



Stakeholders Impacted

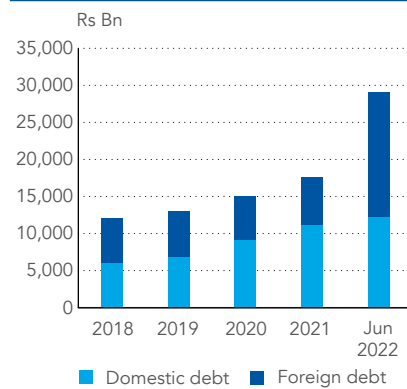


### Our Response

- > Allocation of foreign exchange for priority sectors
- > Support exports and local manufacturing
- > Drive remittances to the country
- > Compliance with increased regulation and monitoring to facilitate management of FX flows

## GOSL restructuring of foreign currency denominated debt

### GOSL Debt



Source: CBSL



Stakeholders Impacted



Since IMF has classified Sri Lanka's debt as unsustainable, Sri Lanka's debt has to be restructured in order to be eligible for an extended fund facility from the IMF. The restructuring will ensure that Sri Lanka can meet the covenants set out by the IMF to ensure debt sustainability.

At present the government is in negotiation with the bilateral creditors of Sri Lanka. India and Paris Club have already provided their financial assurances and once the assurance is received from other parties, Sri Lanka can proceed to obtain Board Level approval from IMF. Thereafter negotiations will commence with private creditors.

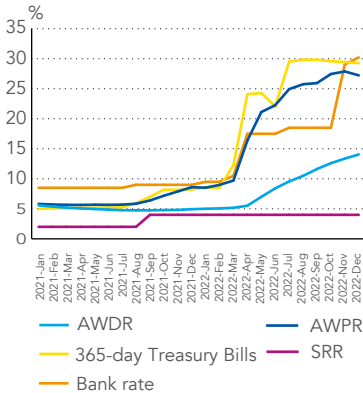
### Our Response

- > Banking sector joined together to set-up a consortium and the consortium appointed a legal and financial advisor to safeguard the interest of the banking sector.
- > Working closely with GOSL, its advisors and the IMF
- > Recognised a significant impairment on investments held in ISBs
- > Stress testing key indicators of financial stability to gain insights
- > Strengthened focus on capital and liquidity management

# OPERATING ENVIRONMENT

## Sharp increase in interest rates

### Interest Rates & Liquidity



Source: CBSL

CBSL tightened the monetary policy, increasing policy interest by a total of 950 basis points during the year to curb the inflationary pressure. Additionally, liquidity concerns also exerted upward pressure on benchmark rates as indicated alongside.

#### Our Response

- > Remained at the shorter end of the yield curve on investments
- > Repriced loans
- > Maintained liquidity through deposit mobilisation.
- > A cautious approach adopted towards lending to ensure asset quality is maintained.



Stakeholders Impacted



## Extraordinarily high levels of inflation

Devaluation of the rupee, rising energy prices, excessive money printing and a reduced harvest resulted in a sharp increase in consumer prices. Policy intervention targeted at stabilising inflation has been effective in reducing inflation in 4Q of 2022 although it remains high. However, inflation is expected to settle below 10% levels by end of the year 2023.

#### Our Response

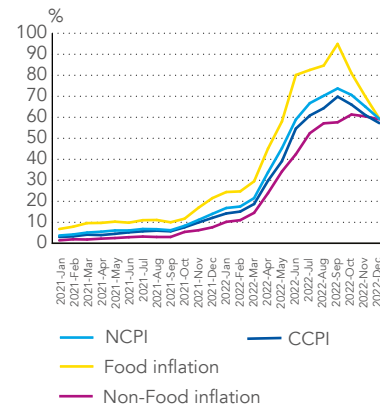
- > Managing cost escalation through reduction in energy consumption and paper usage
- > Negotiate with vendors on discounts especially on IT contracts



Stakeholders Impacted



### Inflation- NCPI & CCPI



Source: Department of Census & Statistics

## Digitalisation

**21.8 Mn**

Internet subscribers

Increase in Internet based payments (Q2, 2022)

**39.7%**  
Volume

**71.4%**  
Value

The 4th Industrial revolution witnessed the convergence of internet-connected technologies including the Internet of Things (IoT), cloud computing, big data, robotics and artificial intelligence (AI) - digital transformation. Sri Lanka's integration is underpinned by high levels of penetration as given indicated:

#### Our Response

- > The Bank embarked on a holistic digital transformation and is now reaping the benefits of the investment
- > Customer centric digitalisation and onboarding of customers
- > Reduced turnaround times in internal processes and lower costs though RPAs
- > Investments in IT security
- > Leveraging data .



Stakeholders Impacted

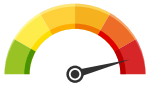


## Increased risk of default

Credit risk is the largest exposure on the Bank's balance sheet and a key factor in determining the soundness. Increased interest rates, spillover effects of the pandemic and a challenging macroeconomic environment combined to make 2022 a difficult year for businesses and individuals.

### Our Response

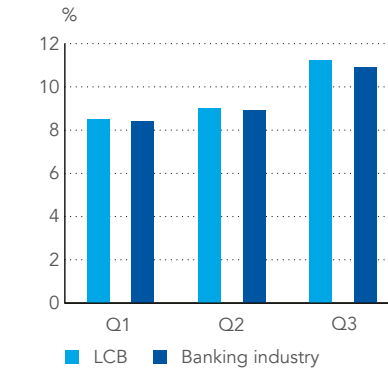
- > Proactive relationship management
- > Moratoria to customers in need
- > Managing customers in distress through a special asset management unit
- > Tightening credit approval control processes
- > Multi-layered processes for recoveries
- > Processes to recognise early warning signs
- > Prudent provision for impairments



Stakeholders Impacted



### Stage 3 Loans to Total Loans and Advances



Source: CBSL

## People issues gain precedence

The economic crisis saw unprecedented migration of skilled professionals in 2022 resulting in significant leakage in talent pipelines. Inflation and increased taxation also exerted pressure on payroll necessitating a review of the salaries to retain talent and address urgent employee concerns.



Stakeholders Impacted



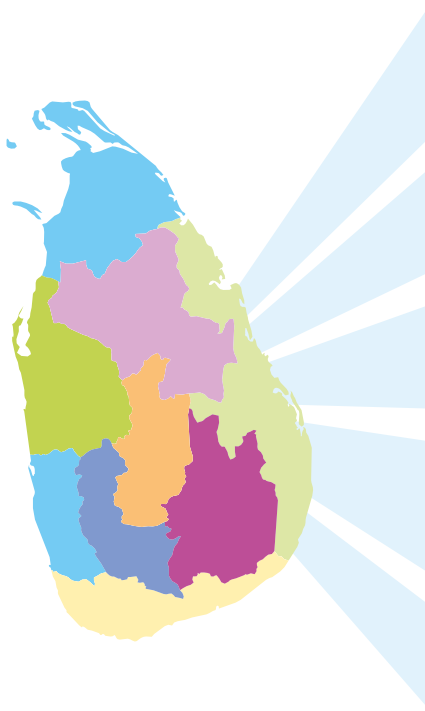
### Our Response

- > A proactive HR function that engages with the people to understand their concerns
- > Recalibration of salaries and benefits to address urgent concerns.
- > Salary scale adjustments based on market survey
- > Roadmap developed to improve employee engagement score

**ADB estimates that over 220,000 people migrated in the first 9 months of 2022 of which 30% were skilled workers**

# OUTLOOK, RISKS & OPPORTUNITIES

The socioeconomic outlook for the country and its monetary and fiscal policies impact the performance of the banking sector. Forecasts from reputed agencies have been set out below to guide investors. Due to the volatility of markets, investors are advised to update themselves on estimates given below at the time of evaluation as these could change due to numerous factors.



> **Unlocking the IMF USD 2.9 Bn Extended Fund Facility is key**

A staff-level agreement on a 48-month Extended Fund Facility programme of USD2.9 Bn between the IMF and GOSL was reached in September 2022. The government is in the process of negotiating with all bilateral, creditors for financial assurances to unlock the facility.

> **A contracting economy**

The economy is estimated to have contracted by 9.2% in 2022 and is expected to contract further by 4.2% in 2023.

> **Interest rates adjust downwards**

Improved liquidity in the domestic market, moderating deposit rates and monetary expansion from peak levels are expected to support downward movement of interest rates.

> **Monetary policy remains tight to rein in inflation**

Inflation is forecast to decline in 2023, continuing the trend observed in the 4th quarter. However, revisions of electricity prices, lags in passing down globally increasing food and energy prices, and supply disruptions could exert upward pressure on inflation.

> **External Sector is expected to remain resilient**

Measures implemented to curb imports, steady exports and an uptick in tourism and worker remittances are expected to support improvement in the external outlook.

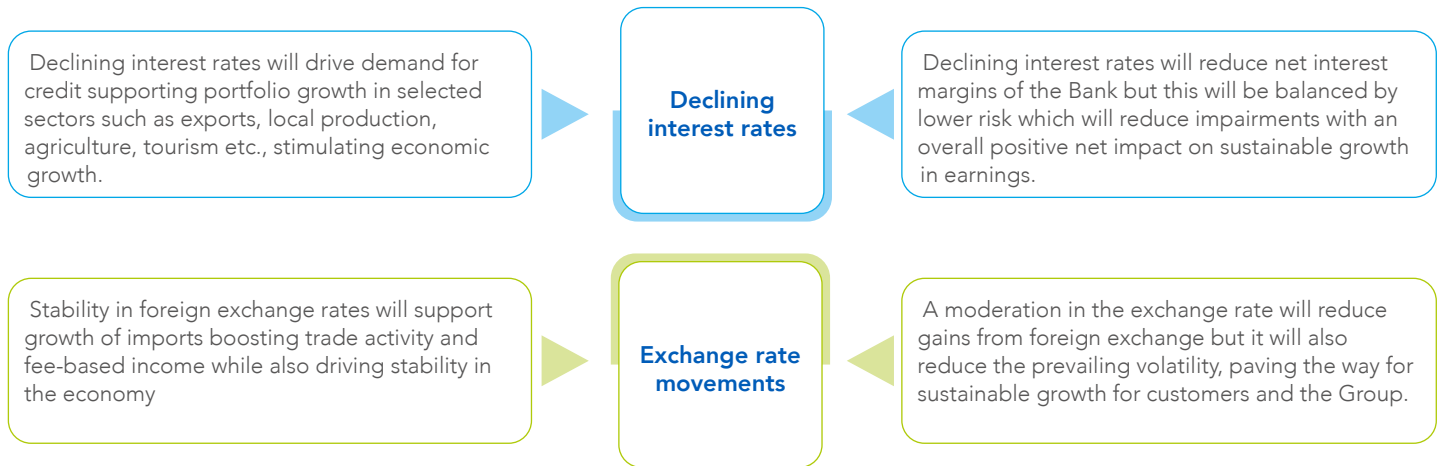
## INDUSTRY OUTLOOK

The Banking sector has remained resilient through four consecutive years of multiple crises and have moderated growth to build capital buffers to weather another year of uncertainty and volatility. Provisions have been made for foreign currency denominated GOSL securities and expected credit losses which reduced profitability in 2022. Players in the sector have increased the rigour of capital and liquidity management as well as credit risk. However, there is no doubt that the financial sector is being severely tested by the ongoing crisis.

## HNB GROUP PLANS




- > HNB Group will continue to prioritise maintenance of liquidity and capital buffers to navigate expected turbulence in 2023.
- > The Group will also pursue its long term strategy as set out on page 32, tempering growth aspirations to be in line with economic conditions and the Group's strengths.
- > Sustainable development will be a key focus as this will support the country's long term socioeconomic stability with shared prosperity.

Risks and opportunities are two sides of the same coin and the Group will continue to pursue opportunities while building adequate buffers to manage risks, leverage its considerable strengths as a domestically significant bank and a financial sector conglomerate.



# LISTENING TO STAKEHOLDERS

We engage extensively with our stakeholders to understand their needs and concerns, particularly over the past four years as paradigms changed, affecting stakeholders in different ways. The HNB Group has responded with alacrity, carefully balancing the interests of key stakeholders and business sustainability, taking into consideration the elevated levels of risk in the operating environment for both the Group and the stakeholder.

OUR STAKEHOLDERS	 CUSTOMERS	 EMPLOYEES
How we engage them		
Dedicated mechanisms	<ul style="list-style-type: none"> <li>&gt; Branch network</li> <li>&gt; Customer Relationship Officers and Micro Finance Officers</li> <li>&gt; AI based digital assistant to assist with simple queries</li> <li>&gt; A dedicated customer care centre</li> <li>&gt; Community based activations</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Proactive engagement by HR</li> <li>&gt; Employee Experience Officer</li> <li>&gt; Grievance mechanism</li> <li>&gt; Performance appraisal</li> <li>&gt; Townhall meetings</li> <li>&gt; CEO Newsletters</li> <li>&gt; Engagement surveys</li> <li>&gt; Employee days</li> </ul>
Their concerns	<ul style="list-style-type: none"> <li>&gt; Assistance for business revival</li> <li>&gt; Flexibility in repayments of loans due to economic stress</li> <li>&gt; Access to markets and opportunities for growth</li> <li>&gt; Ease of access</li> <li>&gt; Innovative &amp; relevant products</li> <li>&gt; Sound financial advice</li> <li>&gt; Access to finance</li> <li>&gt; Privacy and security of information</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Support through successive years of turmoil</li> <li>&gt; Fair remuneration &amp; benefits</li> <li>&gt; Opportunities for growth</li> <li>&gt; Training &amp; Development</li> <li>&gt; A caring and nurturing workplace</li> <li>&gt; Health, safety and well-being</li> </ul>
Our Response	<ul style="list-style-type: none"> <li>&gt; Increased engagement with vulnerable customers</li> <li>&gt; Establishment of a Special Asset Management Unit to support customers in distress</li> <li>&gt; Flexibility in repayments where deemed appropriate</li> <li>&gt; Ease of access through improved digital channels</li> <li>&gt; Financial literacy and capacity building for MSMEs</li> <li>&gt; Investments in improving information / cyber security</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Adjustments to employee salaries to cushion inflation and increased taxation for vulnerable categories</li> <li>&gt; Adjustments to rewards schemes through market surveys.</li> <li>&gt; Increased awareness of emotional and mental well-being</li> <li>&gt; Creating pathways for growth through talent fitment and succession planning</li> <li>&gt; Dedicated management development programmes</li> <li>&gt; Actions on feedback received through engagement surveys</li> </ul>
More Information	Business line reviews on pages 36 to 44	Human Capital Report on page 56



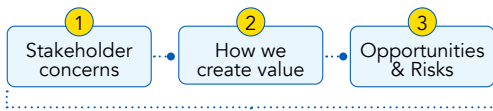
 <b>INVESTORS</b>	 <b>REGULATORS</b>	 <b>BUSINESS PARTNERS</b>	 <b>COMMUNITY</b>
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<ul style="list-style-type: none"> <li>&gt; Annual General Meeting</li> <li>&gt; Annual Report</li> <li>&gt; Quarterly Financial Statements and press release</li> <li>&gt; Announcements through the Colombo Stock Exchange</li> <li>&gt; Dedicated Investor relations webpage</li> <li>&gt; Investor relations meetings</li> <li>&gt; Quarterly webinars</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Compliance department headed by a corporate management member</li> <li>&gt; Continuous engagement with regulators at senior levels of the Group</li> <li>&gt; Timely regulatory reporting</li> <li>&gt; Access to information</li> <li>&gt; Responses to queries and reviews carried out</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Supplier registration process</li> <li>&gt; Request for proposals</li> <li>&gt; Feedback where relevant</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Community activities</li> <li>&gt; Islandwide presence to facilitate last mile delivery of financial services</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Sound corporate governance</li> <li>&gt; Liquidity, asset quality and capital management</li> <li>&gt; Financial performance and returns</li> <li>&gt; Share price and liquidity</li> <li>&gt; Impact on environment and society</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Contribution to resolution of multiple crises</li> <li>&gt; Stability of the financial sector</li> <li>&gt; Regulatory compliance</li> <li>&gt; Effective implementation of new directions and regulations</li> <li>&gt; Partnering sustainable development initiatives of the Government</li> <li>&gt; Timely statutory reporting</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Opportunities to grow</li> <li>&gt; Fair terms of trade</li> <li>&gt; Timely payments</li> <li>&gt; Constructive feedback to improve</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Inclusive banking</li> <li>&gt; Partnering sustainable development</li> <li>&gt; Strategic Philanthropy</li> <li>&gt; Responsible corporate citizen</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Timely reporting of performance</li> <li>&gt; Clear focus on risk, capital and liquidity management</li> <li>&gt; Increased rigour of performance oversight</li> <li>&gt; Aligning strategy to the sustainable development needs of the country</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Supporting government to raise dollars for imports of fuel, gas and other essentials</li> <li>&gt; Maintaining sound liquidity and capital buffers</li> <li>&gt; Aligning strategy to the sustainable development needs of the country</li> <li>&gt; Effective implementation of directions issued to curtail the crises</li> </ul>	<ul style="list-style-type: none"> <li>&gt; E-procurement system strengthening transparency in procurement process</li> <li>&gt; Increased number of collaborations, particularly on fintech</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Broad MSME development initiatives</li> <li>&gt; Financial literacy and capacity building activities</li> <li>&gt; Strategic philanthropy for Health, Entrepreneurship, Environment and Education</li> </ul>
<p>CEO's &amp; Chairperson's Messages on pages 14 to 22 and Financial Capital Report on page 45</p>	<p>CEO's &amp; Chairperson's Messages on pages 14 to 22 and Governance Report on page 86</p>	<p>Social &amp; Relationship Capital on page 63</p>	<p>Social &amp; Relationship Capital on page 63</p>

# DETERMINING MATERIALITY

Material matters set out here reflect the Board priorities within the context of the crises that developed in 2022, progress made in the second half and residual uncertainties.



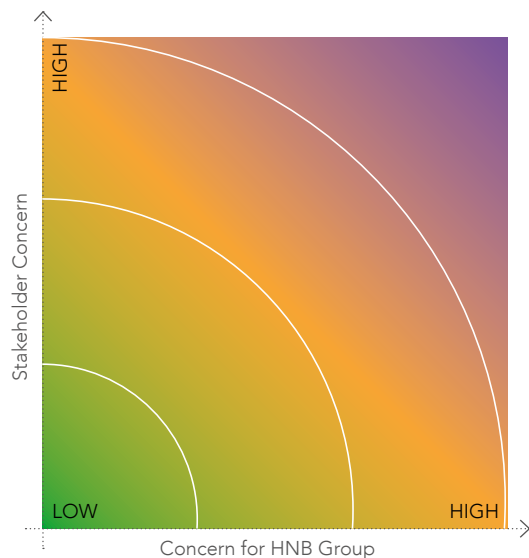
Long list of potential material matters



### Materiality Test

- Impact on strategic goals
- Common Interests
- Trade Offs

Managing accountability, oversight and reporting



2022 Rank

## Our Material Matters



### Economic Stress & Uncertainty

Sri Lanka's economy remains scarred by the events of the past 4 years and has defaulted on repayment of external debt. The coming months are critical to the financial stability of the country.



### Credit Risk

Credit risk due to the extreme economic vulnerability facing the country coupled with the fact that this is the highest exposure on the balance sheet of a bank, makes this a critical risk.



### Financial Stability & Integrated Risk Management

Heightened levels of volatility and uncertainty in both the outlook for the country's economy and the global economy together with rising geopolitical tensions makes disciplined risk management a priority to maintain stability of the financial sector



### Technology and Future Readiness

This is critical to service delivery, customer experience and the insights we need to navigate the uncertainty in the year ahead



### Customer Experience

Because making banking enjoyable is key to our strategy.



### Brand & Reputation

This impacts our ability to create value as banking business is highly dependent upon trust



### Employee wellbeing, Talent attraction, development and retention

As a service organisation, nurturing our value creators is key to success



### Ethics, Governance & Compliance

A strong foundation for creating value ensuring Transparency, Accountability, and Compliance



### Inclusive growth and responsible lending

It is necessary to balance our depositors and investors concerns with responsible lending practices for sustainable growth



### Business network relationships

Managing relationships with correspondent banks, franchise owners, merchants, agents and suppliers and other business partners is vital for growth



### Climate Action

Assessing environmental impacts of businesses we lend to, managing our own consumption and taking positive action.



### Innovation

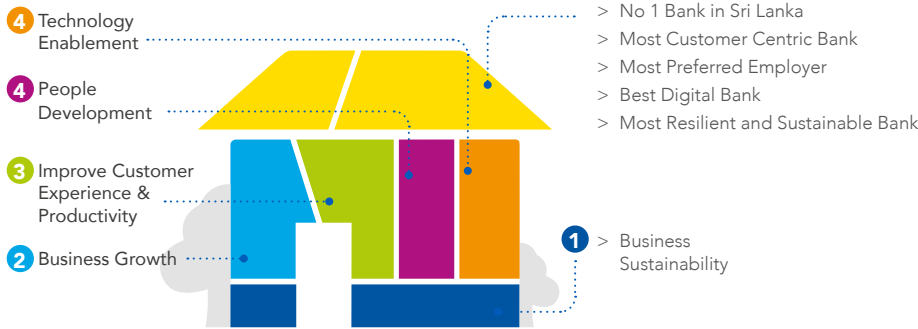
Innovation is key to honing our competitive edge and ensuring we remain relevant to changing customer requirements.

*Stakeholder health and safety which was considered as a separate material matter last year has been brought under employee well-being,*

GRI Topic	SDG Goals	SDG Targets	Sustainable Banking Principles
201-1,201-4,203- 1,203-2,207-1,207-2,207-3		8.3	
2-16		1.5	1
201-1	 	1.5,8.3	1
203-1,203-2		8.2	
2-26, 2-29, 418-1		10.2	4
2-26, 2-28	-	-	4
2-7, 2-30, 404-1,404-2,404- 3,405-1,405-2,412-2	 	4.4, 8.4, 8.5,8.6	2,3,8
2-9, 2-10, 2-11, 2-12, 2-13 2-14, 2-15, 2-16, 2-17, 2-18 2-19, 2-23,- 2-24, 2-25, 2-26, 2-27		16.5, 16.6,16.7	3,5,6
2-22, 2-25	       	3.5, 5.1,6.3, 8.3, 12.4, 14.4, 15.1, 15.2, 15.5, 16.2	1,3,4,5,6,7
2-6		17.16	9,11
201-2,302-1,302-1,302-3,302-4,302-5,304-3,305-1,305-2,305-4,305-5,306-2	   	1.5, 2.4, 13.1,15.3	1,2,7
201-2	  	8.2,9.4, 12.2, 17.8	

# AN INTEGRATED STRATEGY

This is the long-term strategy of the Bank which has been designed to deliver value to all stakeholders. We revisited and revalidated our model and the strategic plan in the face of the crisis. Our sights are focused on what Sri Lankan businesses need to drive, contributing to GDP growth that will support recovery for all Sri Lankans.



## RESOURCE ALLOCATION

Upon finalisation of the strategic plan, the actions are prioritised based on the impact on stakeholders, return on investment etc. Capital funds would be allocated accordingly and human resources would be allocated based on the nature of the initiative, the skill levels required etc.

**BUSINESS GROWTH**

**Objective:**  
To be the #1 Bank among private sector banks in Sri Lanka

**Medium Term Goals:**  
Most profitable Bank and Group among private sector banks

**Alignment to SDG Targets:**  
1.4, 2.3, 4.3, 6.1, 8.3, 9.1, 11.1

**Plan 2022:**

- > Drive foreign currency flows
- > Improve liquidity through deposits
- > Support key sectors of the economy

**Score 2022:**

- > Group Profits : Rs 15.7Bn
- > ROE : 9%
- > Deposit growth 30%

**Plans 2023:**

- > Support national growth
- > Optimising group returns

**Stakeholders Impacted:**

**Capitals Impacted:**

**IMPROVE CUSTOMER EXPERIENCE & PRODUCTIVITY**

**Objective:**  
To be the most customer centric bank in Sri Lanka

**Medium Term Goals:**  
NPS > 65%  
Cost to income < 30%

**Plan 2022:**

- > Continuous improvement of processes
- > Cost optimisation and automation
- > New brand rollout

**Score 2022:**

- > NPS : 62%
- > CSAT : 99.7%
- > Cost to income : 22%

**Plans 2023:**

- > Continuous improvement of processes
- > Automation
- > Customer relationship management

**Stakeholders Impacted:**

**Capitals Impacted:**

## BUSINESS SUSTAINABILITY

Business Sustainability encompasses Environment, Social and Governance (ESG) and Risk Management. These are the foundations which support our strategic growth pillars, anchoring our values, systems and processes and performance oversight. It aligns strategy with the following SDG's with each pillar clearly aligned to a specific target.

### Objective:

To be the most resilient and sustainable bank

### Alignment to SDG Targets:

16.5, 16.6, 3.5, 3.9, 6b, 7.2, 8.7, 8.10, 10.1, 12.4, 12.5, 13.3

### Score 2022:

- > Best Corporate Citizen in Sri Lanka
- > Stage III ratio : 3.4%
- > LAR : 30%; LCR > 500%

### Medium Term Goals:

Best Asset Quality among peers Stable capital and liquidity levels Zero GhG scope 1 and 2

### Plan 2022:

- > Strong governance
- > Robust risk management
- > Support business revival

### Plans 2023:

- > Enhance governance structures
- > Strong Risk Management
- > Liquidity, Asset Quality, Capital management
- > Manage impact on society and environment



### Stakeholders Impacted:



### Capitals Impacted:



## PEOPLE DEVELOPMENT

### Objective:

To be the most preferred employer

### Medium

Employee engagement score > 70%

### Alignment to SDG Targets:

5.1, 8.5

### Plan 2022:

- > Capability development
- > Strategic workforce planning
- > Succession planning

### Score 2022:

- > Retention : >90%
- > Training hours per employee : 24
- > Promotions : 676

### Plans 2023:

- > Retention and Rewards
- > Talent Development
- > Succession Planning
- > Employee engagement and wellness

### Stakeholders Impacted:



### Capitals Impacted:



## TECHNOLOGY ENABLEMENT

### Objective:

To be the best digital bank in Sri Lanka

### Medium

Active customers > 1.5 Mn

### Alignment to SDG Targets:

8.2, 17.8

### Plan 2022:

- > Stabilise core systems
- > Develop enabling systems
- > Improve analytic capabilities
- > Drive digital usage and enhance capabilities

### Score 2022:

- > Growth in digital transactions 105%
- > Customers onboarded 178k
- > Investment in technology Rs 682 Mn

### Plans 2023:

- > Drive digital adoption
- > Data and analytics
- > Stabilise core systems/develop enabling systems

### Stakeholders Impacted:



### Capitals Impacted:



# VALUE CREATION MODEL



**VISION** To be the acknowledged leader and chosen partner in providing financial solutions through inspired people.

## CAPITALS



### FINANCIAL CAPITAL

The funding sources from investors and customers

- > Equity Rs159 Bn
- > Customer Deposits Rs 1,408 Bn
- > Other Borrowings Rs 32 Bn



### SOCIAL & RELATIONSHIP CAPITAL

Relationships that are necessary to thrive

- > Over 2.6 Mn Customers
- > Correspondent Banks in 75 Countries
- > 7,400+ Card Merchants and 7,300+ SOLO Merchants



### HUMAN CAPITAL

The Board and Employees of the HNB Group

- > Skilled & Diverse Board
- > 5,156 Employees



### DIGITAL CAPITAL

Software, networks and platforms that drive our operations

- > Investment Rs 682 Mn (Capex)
- > Mobile and Internet banking platforms
- > Core business systems
- > Supporting applications



### INTELLECTUAL CAPITAL

Our brand and organisational capabilities

- > Systems and processes
- > Tacit knowledge of team



### NATURAL CAPITAL

Energy and water usage necessary for business continuity

- > Electricity Consumption
- > Fuel Consumption
- > Water Consumption



### MANUFACTURED CAPITAL

Property, plant and equipment necessary for conducting business

- > 255 Branches
- > 787 SSMs
- > Total Value of PP&E Rs 24.8 Bn

## OUR STRATEGY



Business Growth



Customer Experience & Productivity

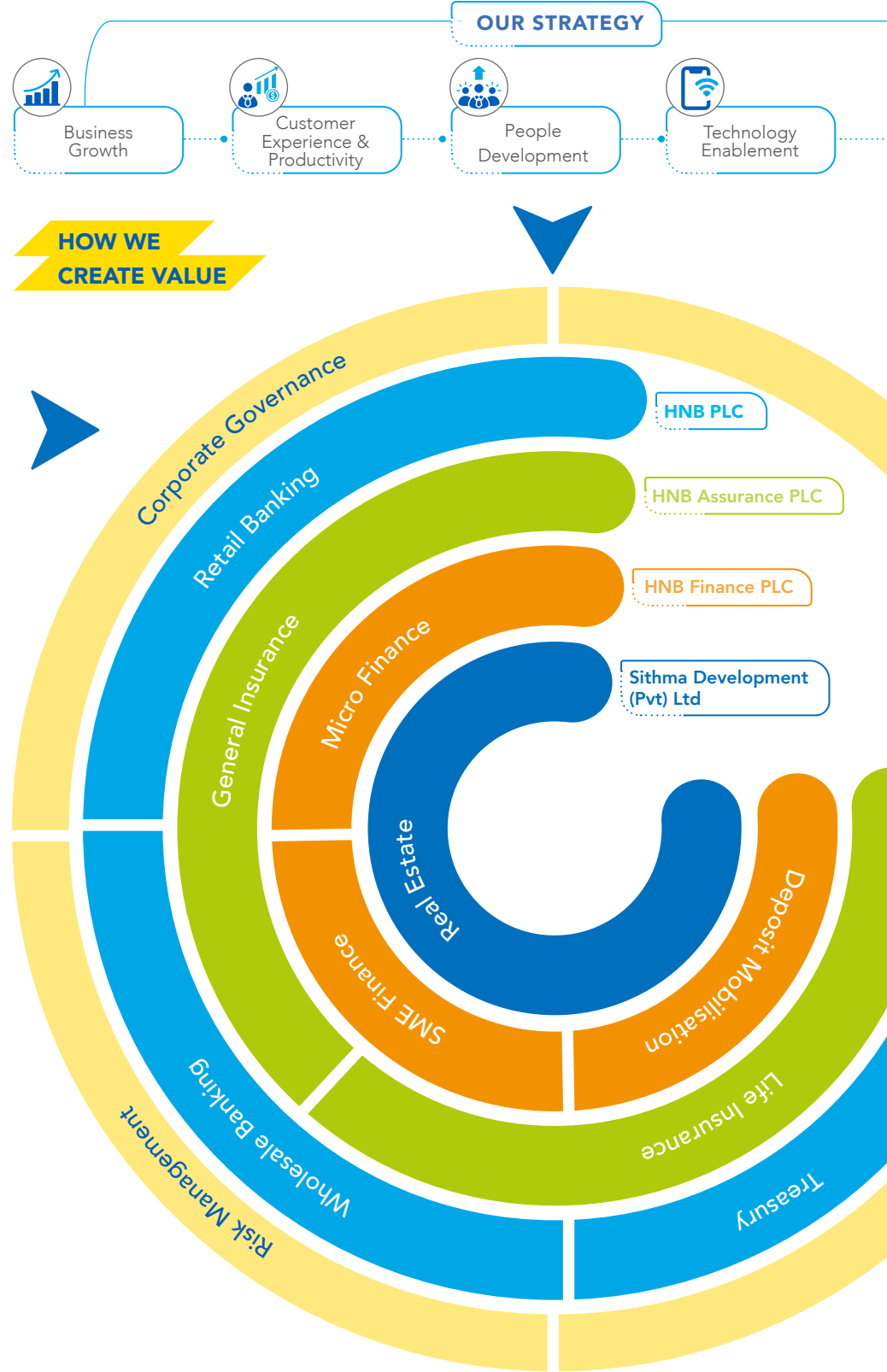


People Development



Technology Enablement

## HOW WE CREATE VALUE







## MISSION

Combining entrepreneurial spirit with empowered people and leading edge technology to constantly exceed stakeholder expectations.



Business Sustainability

Sustainability

Shared Values

### OUTPUT

> **Rs 191 Bn**  
LKR deposits mobilised

> **Rs 536 Bn**  
disbursed in loans

> **Rs 5.6 Bn**  
in insurance benefits and claims

> **19.9 Mn**  
digital transactions

> **Rs 9.4 Bn**  
renewable energy portfolio

### OUTCOMES

#### FINANCIAL CAPITAL

- > Profit After Tax Rs 14Bn
- > Earnings Per Share drop by 19%
- > Net Assets Per Share improve by 5%



#### SOCIAL & RELATIONSHIP CAPITAL

- > Improved NPS to 62%
- > Deeper relationships



#### HUMAN CAPITAL

- > 676 Promotions
- > 43% of value created distributed to employees
- > 9.5% attrition



#### DIGITAL CAPITAL

- > 92% of withdrawals and 75% deposits through Self Service Machines
- > 105% increase in digital banking transactions
- > Over 30% term deposits opened online



#### INTELLECTUAL CAPITAL

- > Brand value increased by Rs 1.1Bn
- > Improved systems and processes
- > Improved knowledge



#### NATURAL CAPITAL

- > Carbon footprint 11,357tCO<sub>2</sub>e
- > Solar energy generated 1,846 MWh



#### MANUFACTURED CAPITAL

- > Revaluation surplus
- > Depreciation



# RETAIL BANKING



Retail banking is a flagship segment for HNB, catering to the needs of over 2.5 Mn Sri Lankans island-wide. HNB Retail offers its customers the full gamut of financial products and services including savings and deposit products, loans and advances and a range of transactional products. Responding to the evolving needs of our customers we continued to enhance our digital value proposition through innovative products and services.

## CONTEXT

Inflationary pressures, the dollar crisis and sluggish economic conditions continued to affect the operating environment, impacting portfolio growth and margins of the retail segment.

## DELIVERING RESULTS IN 2022

Performance Highlights	2022	2021	% Change
NII	35,986	14,298	151.7%
Total operating income	41,969	18,814	123.1%
Impairment Charge	3,539	1,272	178.1%
Advances	274,656	238,502	15.2%
Deposits	834,729	687,137	21.5%

NII recorded a 151.7% growth supported by the sharp increase in interest rates and commendable portfolio growth in the cards and gold loan segments. As the rates increased significantly the Bank adopted a cautious approach towards retail lending in the second half of the year. Fee and Commission income meanwhile grew by almost 30.9% supported by growth in bancassurance, higher credit card volumes and increased use of digital platforms. Consequently, despite an 178.1% increase in impairment charges, net operating income for the period amounted to Rs 38,430 Mn, a 119.1% YoY growth compared to 2021. The Bank continued to grow its total deposit base through targeted deposit mobilisation efforts. Three new products including a Premier Current Account, Investment Plans for adults and children and a Teen + savings account with a linked debit card were added to our retail banking portfolio. As remittances into the country declined during the year, the Bank continued to focus on attracting remittances by leveraging our relationships with exchange houses, relaunching HNB Adhistana, a special savings package for migrant workers and offering innovative schemes such as the Remittance Draw scheme. We also continued to enhance our digital offering, with added features to our Digital Banking

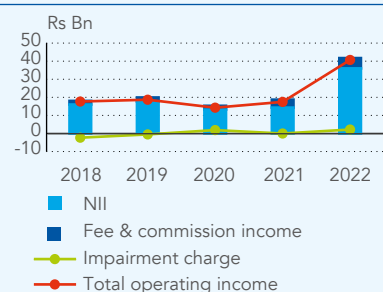
app and payment solutions. Several new features were added to SOLO during the year including Peer-to-Peer (P2P) transfers, wallet features, and card-less ATM withdrawals. Our internet banking solution also moved to a new platform with improved functionality and usability.

## BEYOND 2022

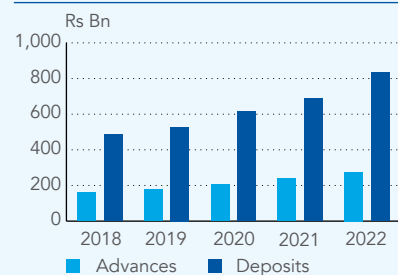
Customer relationships will remain a priority especially given the additional stress on disposable income levels with increased taxes. The Bank will work closely with the affected customers to ensure that their repayment plans are in line with the cashflows. Retail will continue to enhance its digital value proposition to cater to evolving customer requirements whilst driving differentiation through superior customer service and convenience. Meanwhile we remain focused on strengthening our presence in the payment space and will continue to explore new collaborations and partnerships that will transform the banking experience of our customers.

## 2022 HIGHLIGHTS

### Earnings



### Portfolio



- > Recognised as the Best Retail Bank in Sri Lanka for the 12th time by 'The Asian Banker Magazine'
- > Market leader in credit card acquiring
- > Leader among commercial banks in Leasing
- > Highest rated digital app and digital wallet among peers

# CORPORATE BANKING



Corporate Banking faced multiple challenges from the start of 2022. The foreign exchange crisis and the resultant moderation in imports, the end of the period of moratoria by Central Bank and macroeconomic stress including the sharp rise in interest rates affected a number of customers. Despite these challenges, this key business line played an important role in supporting growth in exports, energy and food security in the country.

## CONTEXT

The economic crisis that unfolded in 2022 posed significant challenges which were overcome to a large extent through proactive measures to rehabilitate businesses in sectors operating under stress. Simultaneously, we identified opportunities and aligned investments in to priority sectors. The foreign exchange liquidity crisis from the beginning of the year impacted the Bank's ability to support its import customers. The sharp increase in interest rates and persistently high inflation impacted the performance of customers, leading to increased Stage 3 loans. There was also a need to step up to align funding to sectors where growth was vital to the economic recovery of the country such as import substitution, food and agriculture and exports. Digitalisation continued to be a priority for customers who were embarking on their own journeys.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
NII	9,242	5,881	57.2%
Total operating income	9,820	9,572	2.6%
Impairment Charge	19,727	6,229	216.7%
Advances	551,729	445,909	23.7%
Deposits	254,528	169,176	50.5%

Corporate Banking realigned its growth, prioritising exports to drive trade finance activity and enhance dollar liquidity to support urgent needs of importers. Success of these measures is evinced by the increase in the Bank's share of the country's exports from 3.5% to 5.5%. Customers affected by the macroeconomic stress were advised and supported together with the expertise of the Special Assets Management unit to assist rehabilitation and recovery where necessary. Export growth was further supported by establishing desks in Chinese and Japanese markets. Import customers were supported by the establishment of special accounts required by the Reserve Bank of India to utilise the credit line given to Sri Lanka.

Impairments were a key challenge, weighing down profitability of the vertical. Liability growth was a highlight, supporting liquidity as a number of customers opted to move their main bank accounts to HNB. A new Payments and Cash Management solution which is among the most sophisticated systems in the country is currently being

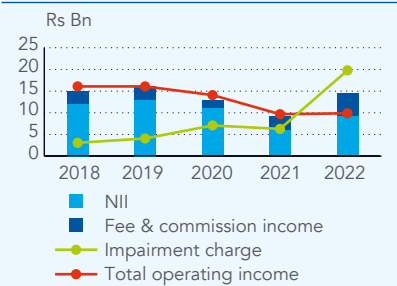
implemented. Retention of talent proved a challenge amidst the economic migration that took place in 2022. We continue to focus on cross fertilisation of knowledge, skill development and high levels of engagement to drive growth of this highly motivated team.

## BEYOND 2022

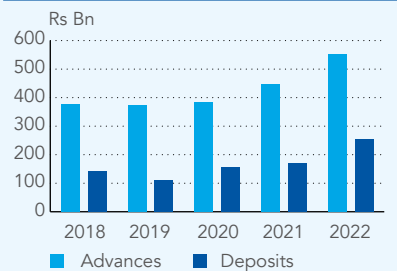
We have specified priority sectors to drive prudent growth given the high level of uncertainty prevailing over macroeconomic factors. The focus on customer convenience continues and we plan to launch the next phase of Trade Online to improve the functionality of the module while also increasing the onboarding activities. We will continue to create opportunities for market access with products such as Cord360, a B2B platform with authentic and verified buyers to support exporters with access to markets. We will also focus on new prospects such as the Port City. Our people development initiatives will continue with a multifaceted plan to support their career progress.

## 2022 HIGHLIGHTS

### Earnings



### Portfolio



- > Launch of Cord360, B2B platform to facilitate market opportunities for HNB export customers
- > State-of-the-art Payment and Cash Management solution is being implemented

# SME



The expertise we have built over decades of supporting SME's in the country, together with our comprehensive portfolio of relevant products enable us to continue to support this vital sector. During the year the Bank continued to strengthen partnerships to implement impactful initiatives aimed at reviving the industry.

## CONTEXT

Borrowing appetite and repayment capacities of SME's were significantly impacted by the subdued economic conditions and high interest rate environment that prevailed in 2022.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
NII	10,427	7,773	34.1%
Total operating income	14,411	10,384	38.8%
Impairment Charge	7,961	3,588	121.9%
Advances	228,894	228,282	0.3%
Deposits	258,491	190,505	35.7%

SME loans and advances growth slowed in 2022 amidst lower demand and a more cautious approach to lending during the year. A notable growth witnessed in our export trade and supplier financing businesses resulted in a 70.5% growth in fee and commission income which contributed to the SME segment recording a 38.8% growth in operating income despite challenging market conditions. Asset quality continued to be a challenge during the year, however proactive efforts were made to engage with customers through concessions and moratoriums to ensure smooth repayments. New initiative in equity financing was made available through partnering investors to infuse capital to SMEs. This enabled to reduce their debt exposures creating a sustainable business model. On the liabilities side, although CASA growth decelerated due to higher deposit rates, total deposits grew by almost 35.7% due to flight to quality.

We continued to support SME's revival efforts through impactful initiatives aimed at providing concessionary funding to key sectors, facilitating market linkages and by carrying out region wise capacity building programmes aimed at building financial literacy and digital capabilities of the sector. We partnered with Sri Lanka Agripreneurs' Forum (SLAF) in facilitating a technical

session with agri-SMEs on pre-harvest and post-harvest technologies.

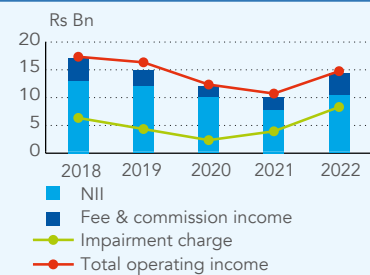
The partnership with USAID catalyst (PSD) enabled the Bank to provide subsidised services in ERP Solutions and certifications. We also continued to support SME's adopt digital methods of cashless transactions by customising our digital products to the needs of SMEs, expanding our partnerships with ERP service providers and leading internet payment gateways.

## BEYOND 2022

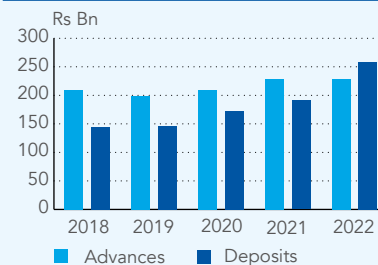
The SME sector will continue to be a key area of focus for the bank considering its integral role in reviving the country's economy. We see significant potential for SME growth in industries such as tourism, agriculture, export-based manufacture and services and will continue to support the Government in its efforts to strengthen the sector through our business revival efforts, concessionary funding, capacity building programmes and by facilitating greater digital adoption among SMEs.

## 2022 HIGHLIGHTS

### Earnings



### Portfolio



- > Launched an affordable Group Term Policy for SMEs to facilitate risk protection coverage for a minimum of 10 employees.
- > Facilitated local and overseas market linkage opportunities through partnerships with e-commerce platforms such as Daraz, SLT, Cord360 and initiatives such as SOLO podi podi Business
- > Launched affordable POS solutions to SME customers in partnership with WEBXPAY
- > Partnered with Bileeta (Pvt) Ltd to offer SME customers ERP solutions at discounted rates

# MICROFINANCE



HNB Microfinance continues to support micro-entrepreneurs and small scale businesses across the country by offering an all-encompassing value proposition that includes access to finance, ongoing capacity building programmes and market linkages.

## MARKET REVIEW

The subdued economic conditions that prevailed through much of 2022 negatively impacted the microfinance sector, dampening demand and placing a strain on repayment capabilities of customers.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
NII	862	857	0.5%
Total operating income	1,059	1,019	4.0%
Impairment Charge	410	697	-41.1%
Advances	26,116	29,077	-10.2%
Deposits	15,286	9,971	53.3%

A more cautious approach to lending and lower demand for loans amidst higher lending rates resulted in a moderation of advances to the sector. Deposits however grew by almost 53.3% buoyed by higher deposit rates and flight to quality witnessed in the industry. A greater focus on cross selling efforts particularly through value chain/ supply finance linkages, resulted in a 95.6% growth in SOLO users. Despite the increasing level of financial stress faced by customers, the Bank was able to manage the Stage III loan portfolio due to targeted efforts to closely monitoring asset quality and proactively addressing signs of stress.

## BEYOND 2022

Maintaining portfolio quality whilst driving growth in the sector will remain the key focus in 2023. We will continue to leverage our value chain/supply financing partnerships with large corporates to drive cross selling while enhancing our value proposition to our micro customers through innovative product offerings and greater digitisation.



### 2022 HIGHLIGHTS

#### Earnings

Rs Bn

Year	NII	Fee & commission income	Impairment charge	Total operating income
2018	1.2	0.2	0.2	1.2
2019	1.2	0.2	0.2	1.2
2020	1.1	0.2	0.2	1.1
2021	0.9	0.2	0.2	0.9
2022	0.862	0.2	0.2	1.059

#### Portfolio

Rs Bn

Year	Advances	Deposits
2018	26,000	10,000
2019	24,000	6,000
2020	25,000	6,000
2021	28,000	10,000
2022	26,116	15,286

- > 102 financial literacy and capacity building programmes held benefitting 5,841 customers
- > 39 Microfinance recovery camps held across the Country
- > Over 2,000 farmers benefited from value chain agreements with corporates
- > SOLO PODI PODI BUSINESS launched during the year to help small businesses grow and adopt to cashless transactions
- > Scaled-up and graduated 272 microfinance clients to SME from microfinance segment



# TREASURY



With the primary responsibility of managing liquidity, forex and cost of funds of the Bank, Treasury played a pivotal role in navigating the volatility and uncertainty in 2022. Treasury is also a market maker in the country's financial markets due to the high volumes of transactions handled. A skilled and experienced team is supported by a fully automated platform enabling delivery of innovative solutions to customers.

## CONTEXT

Extreme volatility in both foreign exchange rates and interest rates and CBSL suspending repayment of foreign currency denominated debt resulted in the downgrading of the sovereign rating, which made access to foreign markets more difficult during the year.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
NII	44,744	18,441	142.6%
Total operating income	48,990	21,292	130.1%
Impairment Charge	58,824	6,965	744.6%
Trading Gains	63	12	425.0%

The paucity of foreign exchange in the market reached critical levels and banks needed to prioritise allocation of dollars in line with national priorities. The Treasury ensured that the Bank honoured demands of its correspondent banks and depositors and supported essential imports to the country maintaining confidence with vital stakeholders throughout the year. In 2022, the Bank made a prudent provision of Rs 59 Bn increasing its impairment on investments in international sovereign bonds to 35%.

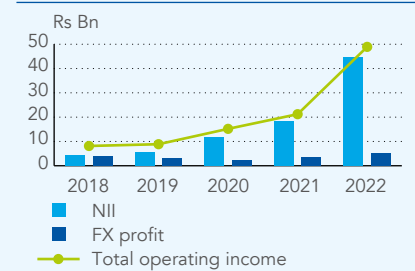
The increase in policy rates during the year, resulted in government security rates increasing exponentially to 30%, the highest witnessed by the country in recent times. As the treasury maintained its investments in short duration it was able to benefit from the interest rate surge, contributing significantly towards the Bank's NII, cushioning the impact of the impairment charges on investments in internal sovereign bonds.

## BEYOND 2022

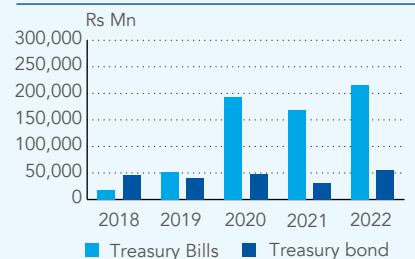
Foreign remittance growth in the 4th quarter of the year has been encouraging, signaling effectiveness of measures implemented to regain confidence. The contraction in demand has also supported increase in foreign exchange liquidity as controls were gradually eased towards the close of the year. We expect 2023 to be a challenging year as well with impending finalisation of debt restructuring and the impact stemming from it, in addition to the impact of the projected global economic downturn. Treasury is positioned to meet the challenges, focusing on maintaining liquidity and stakeholder confidence to support operations of our customers and the Bank.

## 2022 HIGHLIGHTS

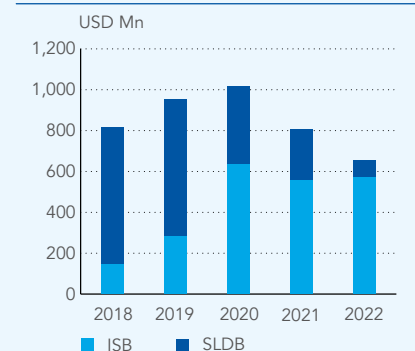
### Earnings



### GOSL Investments (LKR)



### GOSL Investments (FCY)



- > Digitalisation of operations using state of the art technology enables the team to function efficiently and even remotely
- > Plays a vital role in managing foreign transaction and investment needs of customers

# INSURANCE



HNB Assurance outperformed industry norms pursuing its aspiration of becoming a Tier I player with over 10% market share in the medium term. Commitment to executing a customer experience focused strategy, digitalisation and capacity building of a growing sales force were critical factors that supported delivery of 48.2% growth in profitability and 24% in gross written premium.

## CONTEXT

The Insurance industry in the Country recorded Gross Written Premium growth of 9% for Life and 13% for General Insurance despite the unfolding economic crisis. In this backdrop, HNBA posted 26% growth in Life and 21% growth in General Insurance GWP, recording the highest growth among medium and large players in the respective industries. Claims in Life trended upward reflecting the decrease in disposable income of customers while increased claims in General reflected the higher cost of repairs and normalisation of traffic. Investment income was supported by higher interest rates, boosting profitability of the sector. HNBA posted 48.2% growth in profitability.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
Gross Written Premiums	15,638	12,647	23.6%
PAT	1,810	1,222	48.2%
Total Comprehensive Income	2,218	1,172	89.2%
Total Assets	41,698	35,852	16.3%
Insurance Contract Liabilities			
- Life	24,583	20,343	20.8%
- General	4,182	3,736	11.9%
Equity	8,391	8,070	4.0%
ROE	22%	15%	

Focused sales growth through both the Agency channel and the Bancassurance channel were notable success factors for growth of new business. The agency channel now counts over 3,000 agents who are trained to deliver focused growth. HNBA was able to harness synergies with the Bank, maintaining its positioning as the leading Bancassurance partner in the country as recognised by the Global Banking and Finance Review. The Bancassurance channel accounts for around 40% of new business from Life and around 20% of GI. The Agency and Bancassurance channels produced 194 MDRT winners with the Bank producing 111 winners out of the total reflecting the effectiveness of this channel. Other alternative channels also demonstrated encouraging growth during the year, reflecting the effectiveness of non-traditional strategies. HNBA added 30

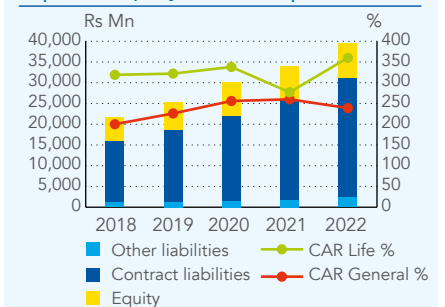
incubator branches to its network of 64 brick and mortar branches which serve to increase coverage, supporting growth in selected customer segments. HNBA launched SupremeHealth Unlimited, an all-inclusive medical rider covering an array of special benefits, widely hailed as the best in the market.

## BEYOND 2022

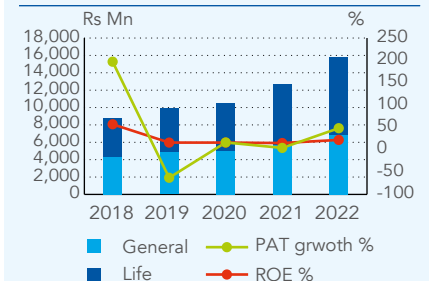
HNBA is committed to pursuit of its strategy that has delivered strong growth and shared stakeholder value. Driving synergies with the wider Group will be a key focus area in addition to maintaining other key partnerships that has proved a key differentiator. Sound governance, risk management, and ethics continue to be the bedrock on which we build our business as we level up in market share.

## 2022 HIGHLIGHTS

### Capital Adequacy Ratios & Capital Structure



### Gross Written Premium



- > 1,328 Employees
- > Female Representation: 40%
- > 98% of new business proposals generated digitally
- > Upgrading of core systems for Life and General Insurance Business

# FINANCE



HNB Finance caters to the financial needs of the self-employed, micro entrepreneurs and SMEs and offers a full portfolio of financial products and services including savings, fixed deposits, microfinance loans, gold loans, home mortgages, traditional personal and business loans and vehicle leases. Performance of the company remained subdued in 2022, amidst a challenging operating environment.

## CONTEXT

2022 was a challenging year amidst policy measures such as monetary policy tightening and import restrictions. Meanwhile sluggish economic conditions continued to impact repayment capacity of customers, also negatively impacting performance during the year.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
NII	3,485	3,803	-8.4%
Fee & Commission Income	347	424	-18.2%
PAT	(526)	514	-202.5%
ROE	-10.3%	10.7%	
Advances	41,134	34,747	18.4%
Deposits	39,975	33,799	18.3%
NPA	15.1%	14.8%	

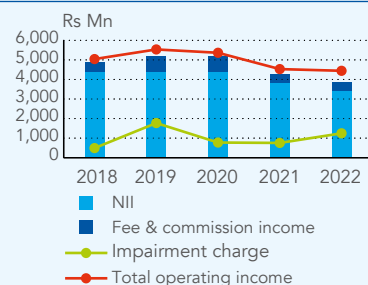
The sharp increase in policy rates resulted in deposits being repriced much faster than assets as most of the advances are on fixed terms. This resulted in a drop in NII YoY. Increase in impairment charges amidst rising NPLs also contributed to the loss of Rs 526 Mn in 2022. Total assets increased by 19% to Rs 53.0 Mn mainly due to the merger with Prime Finance PLC during the year. Similarly, deposits also witnessed an increase of almost 18%. Despite borrowers' repayment capacity being significantly challenged during the year, NPA was closely managed by proactively providing moratoria, closely monitoring the portfolio for signs of stress and through aggressive recoveries. As a result NPA at the end of the year was 15.1% compared to 14.8% as at the end of 2021.

## BEYOND 2022

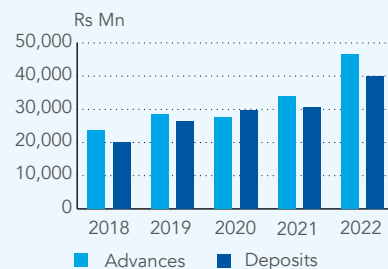
With interest rates expected to remain elevated through a major part of 2023, we are proactively re-pricing our loan portfolio to better reflect market rates. We will also continue to focus on growing our gold loans and micro loans portfolios as these product categories witness relatively higher demand during periods of economic downturn. Our recent amalgamation with Prime Finance PLC meanwhile strengthens our position particularly in the micro leasing space and we will continue to leverage our combined expertise and market presence to growth this segment.

## 2022 HIGHLIGHTS

### Earnings



### Portfolio



- > Certified as a Great Place To Work
- > Silver award at TAGS-CA Annual Report Awards 2022 in the NBF category
- > Amalgamated with Prime Finance PLC as part of CBSL's consolidation programme

# REAL ESTATE



Sithma Developers Ltd, the Group's Real estate arm owns and manages the iconic 'A' Grade Smart Building "HNB Towers" in Colombo 10 while also managing over 48 branch premises located at bank owned properties across the island. The company performed well during the year recording a 19.5% growth in PBT. The company's consistent focus on offering smart, safe and secure business spaces together with its expertise in project management and property management continues to attract and retain its premium rental clientele.

## MARKET REVIEW

The commercial space market continued to witness an excess supply of premium commercial space. Meanwhile enforced power cuts and the non-availability of fuel due to the energy crisis in the country also impacted day-today operations and maintenance costs.

## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
Rental Income	955	910	4.9%
Investment Income	303	92	230.2%
PBT	774	648	19.5%
PAT	510	464	9.9%
ROE	6.0%	5.6%	

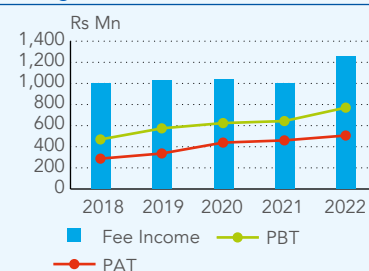
Sithma's rental income increased by almost 4.9%, while profits increased by 9.9% during the year. The improved performance was supported by a normalisation of occupancy levels due to the gradual easing of COVID-19 restrictions and an increase in rental rates during the year. Sithma's ability to increase rental rates despite excess supply of commercial space in the market is a true testament of the property's value proposition. During the year we commenced the refurbishment of the building's electrical panels as part of our ongoing maintenance efforts.

## BEYOND 2022

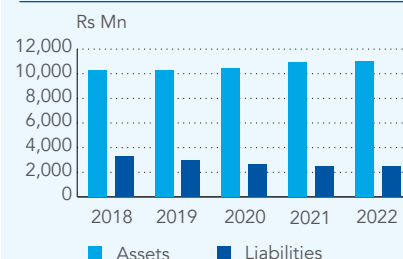
With businesses seeking to downsize post COVID-19 and explore hybrid arrangements such as remote working, the commercial real estate market is expected to continue to experience lower demand and rental pressure in 2023. Now more than ever, tenant experience in terms of technology-enabled facilities and safe and secure spaces will be key factors for tenants seeking premium office spaces. We will therefore continue to explore new technologies that support smart solutions in order to create future ready office spaces in the most cost-effective manner.

## 2022 HIGHLIGHTS

### Earnings



### Assets / Liabilities

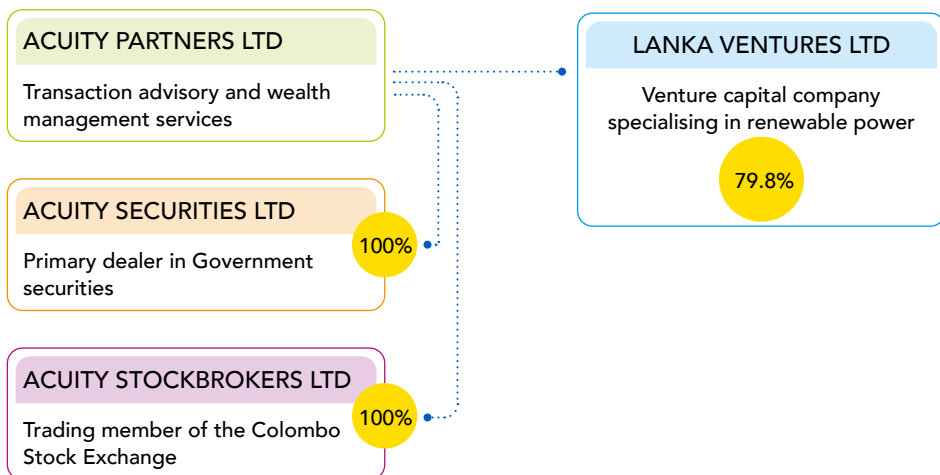


> 100% Occupancy

# INVESTMENT BANKING



Acuity Partners and its subsidiaries delivered a resilient performance contributing Rs 332 Mn to the Group's PBT despite the volatility in financial markets in the country. Moreover, they maintain market leadership in their highly specialised fields of expertise supporting a higher level of activity upon stabilisation of markets.



## DELIVERING RESULTS IN 2022

Rs Mn	2022	2021	% Change
Profit for the year	813	945	-13.9%
Total Comprehensive Income	2,774	1,215	128.3%
ROE	9.8%	10.4%	

Performance of this cluster of companies was driven by Acuity Securities despite the steep increase in interest rates, due to prudent investments. The surge in interest rates also gave rise to an increase in the customer base. Transaction advisory and stockbroking operations were impacted by the market volatility, dampening activity during the year. Nevertheless, the stockbroking arm was successful in maintaining market share during the year. Lanka Ventures' continued to focus on the renewable power sector in Sri Lanka and Bangladesh remains a relevant strategy as energy remains a critical concern globally with a growing urgency in the shift to a low carbon economy. With 71% of the portfolio invested in Bangladesh, devaluation of the Bangladeshi Taka in 2022 proved to be a

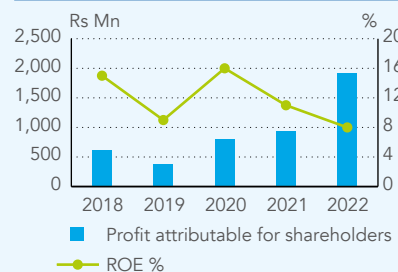
drag on performance which was otherwise supported by fair weather patterns and optimal power generation. The asset management business which was a joint venture with Guardian Fund Management Ltd. was divested in January 2023.

## BEYOND 2022

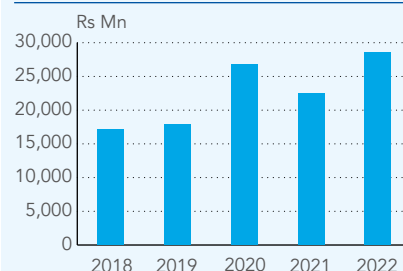
The outlook for the sector is expected to be positive as interest rates and financial markets are expected to stabilise in 2023 supporting a higher level of activity by market participants. The higher rate negotiated for future power projects by Independent Power Producers is also a welcome step in the right direction as we continue to diversify our portfolio.

## 2022 HIGHLIGHTS

### Earnings



### Assets Under Management



## Strategic Differentiators

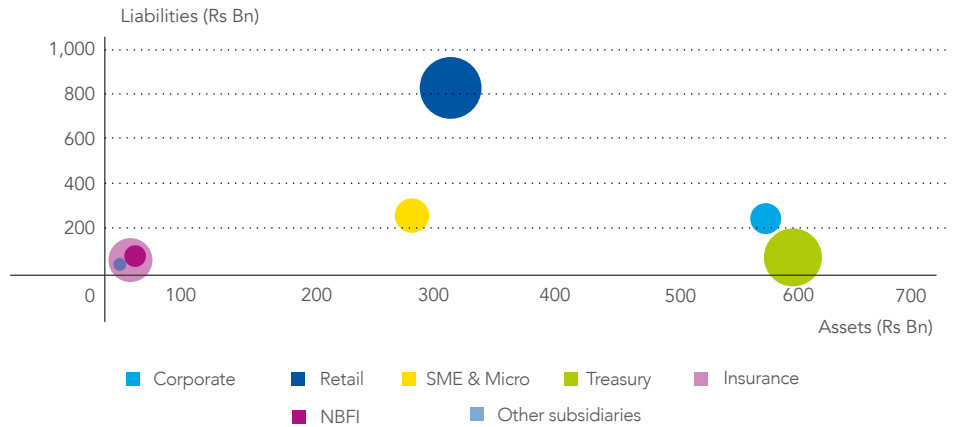
- > Market leadership
- > Skilled talent pool
- > Diversification across financial markets

# FINANCIAL CAPITAL



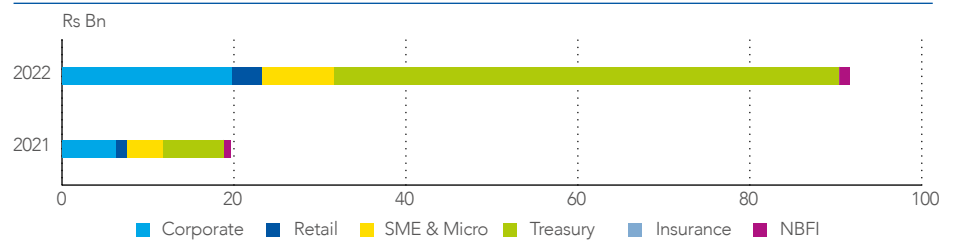
## BALANCING STRATEGIC PRIORITIES

HNB Group recalibrated its strategic priorities to withstand potential systemic shocks from the multiple crises that unfolded in 2022. Building resilience with adequate liquidity and capital buffers was prioritised over growth and profitability with related tradeoffs. Similarly, wellbeing of staff and keeping businesses afloat were also tradeoffs with short term profitability to secure the long term sustainability of the Group. The impacts of these and other tradeoffs needed close monitoring and recalibration as the year progressed as they impacted the bottom line. The leadership of the Bank was also vigilant about cushioning these impacts by seizing opportunities that come with every crisis. The Financial Capital Review seeks to provide insights into how the financial resources were managed while balancing key priorities.



This graph highlights the contribution made to Total Operating Income by each business segment in relation to the funds mobilised to finance the activities of the Group (liabilities) and allocation of funds among them.

## Impairment Charges for Loans and Other Losses



### Shareholder's Funds

**Rs 190.1 Bn**  
3.7% ↑

### Customer Deposits

**Rs 1,443.2 Bn**  
30.4% ↑

### Loans & Advances

**Rs 1,107.5 Bn**  
14.3% ↑

### Total Assets

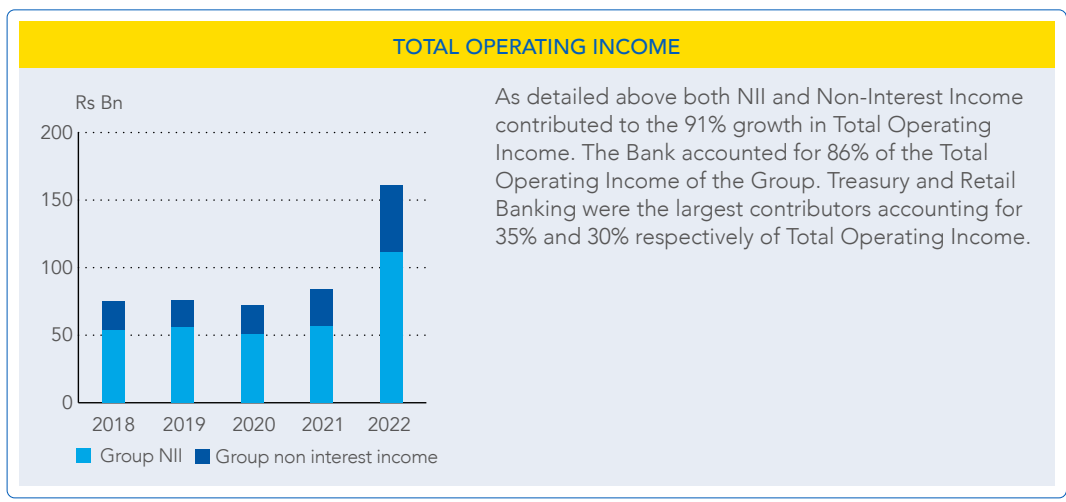
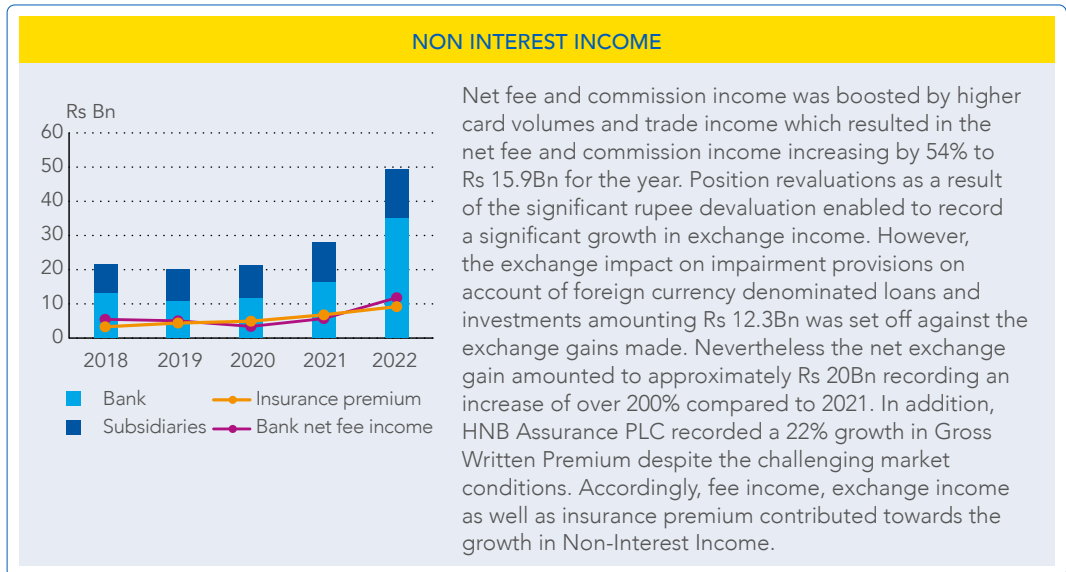
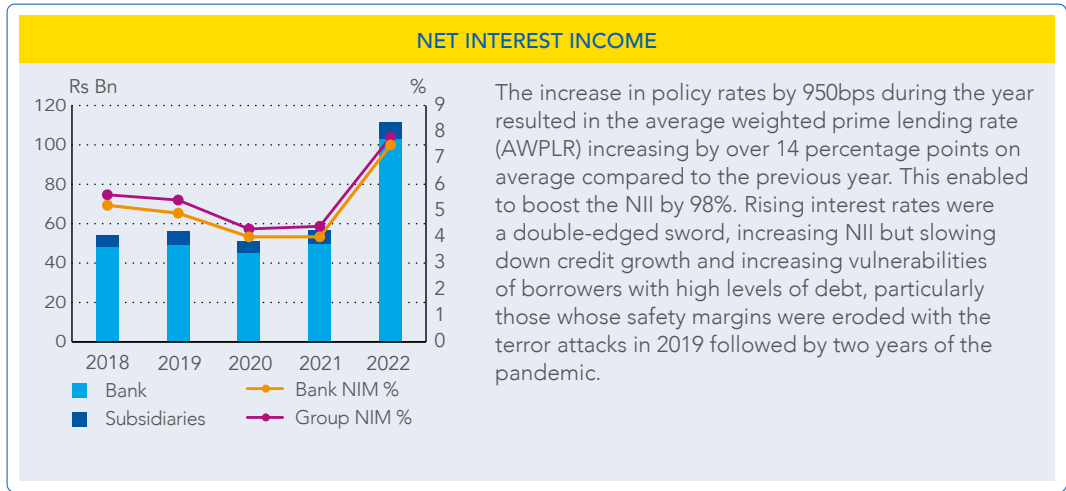
**Rs 1,798.3 Bn**  
23.7% ↑

### Total Liabilities

**Rs 1,608.2 Bn**  
26.6% ↑



# FINANCIAL CAPITAL



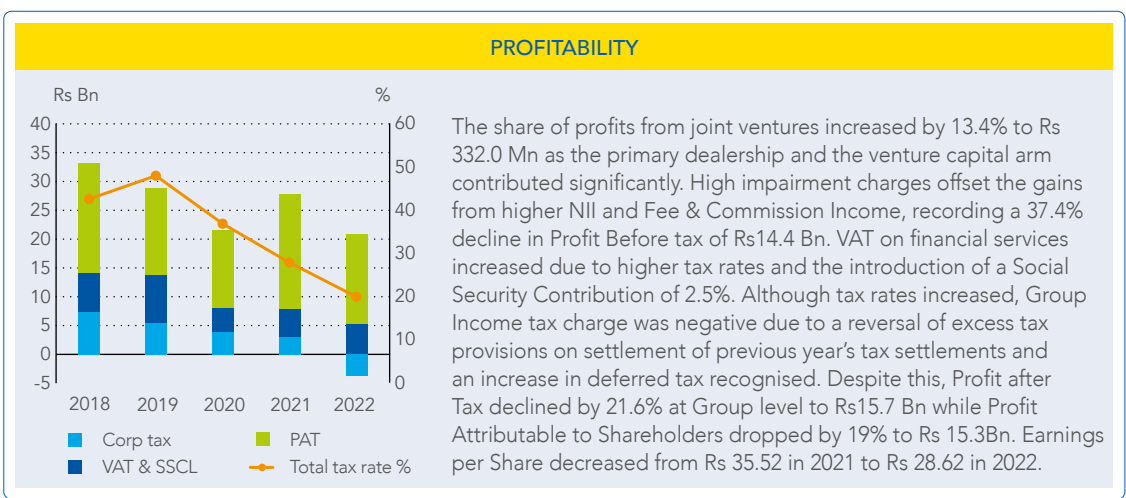
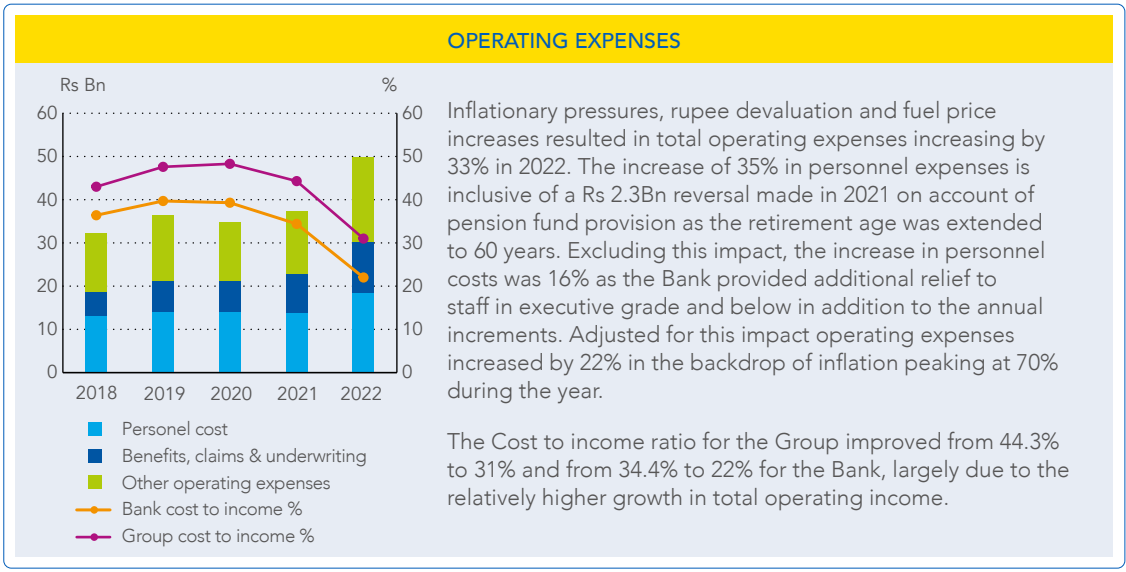
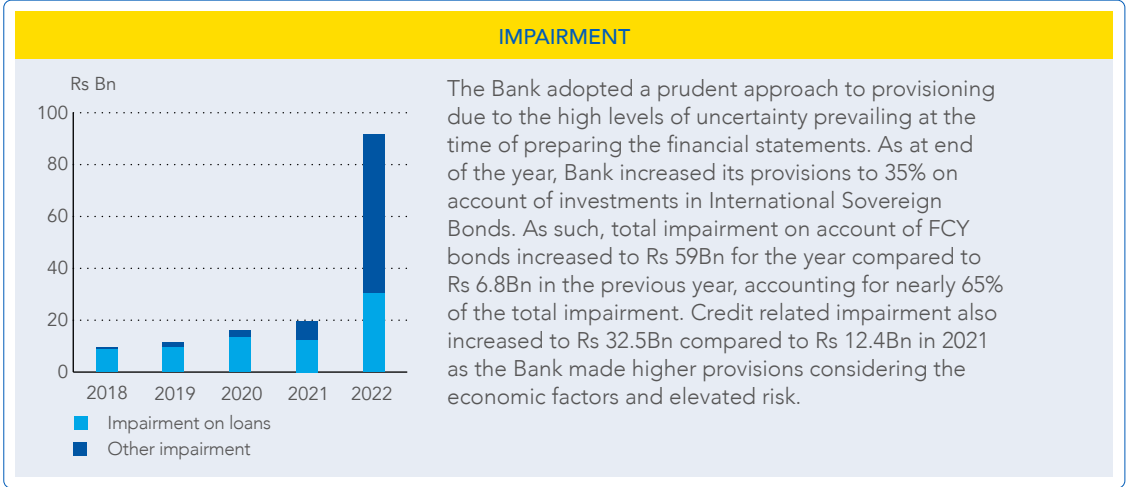
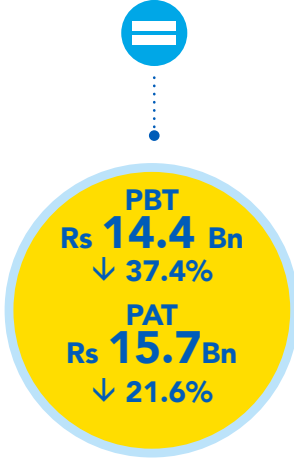
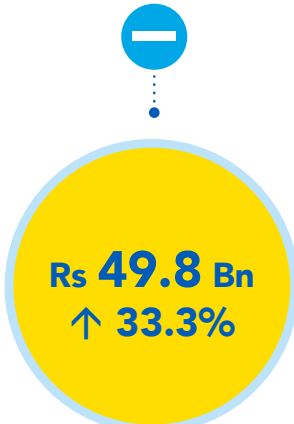
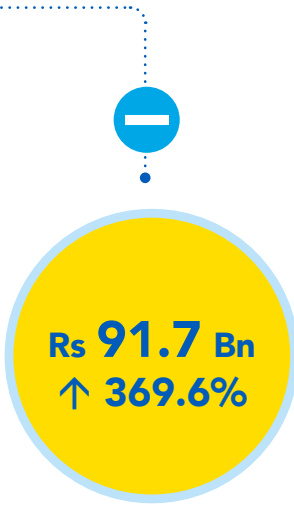
**Rs 111.6Bn**  
↑ 97.6%



**Rs 49.3 Bn**  
↑ 76.5%



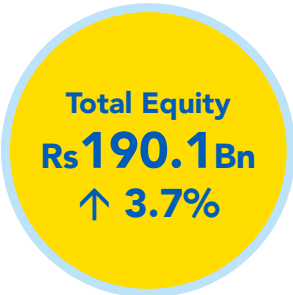
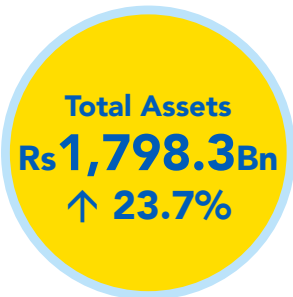
**Rs 160.9 Bn**  
↑ 90.6%



# FINANCIAL CAPITAL

## A SOUND FINANCIAL POSITION

This was the primary goal in 2022 as exposures and funding needed to be managed to maintain liquidity, capital adequacy and asset quality.



- > Group assets increased by 24.2%, as liquid assets saw a significant growth with investments in LKR government securities increasing by 37.5% amidst low appetite for credit growth. The investments in government securities remained mainly in the shorter end with treasury bills accounting for approximately 79.3% of total local currency government securities. The rupee devaluation also contributed to the increase in assets in terms of loans and advances and investments.
- > Growth of gross loans and advances moderated to 14.3% closing the year at Rs 1,107.54 Bn. Excluding the impact of the rupee devaluation, the loan book growth was only 6.3% as the Bank adopted a cautious approach during the second half of 2022. Loans and advances accounted for 56% of total assets in 2022 compared to 63% in 2021. The classification of loans is given below:

Stage	1	2	3
Gross	821.0	176.6	109.9
Accumulated Impairment	14.9	16.8	61.3
Net	806.1	159.8	48.6

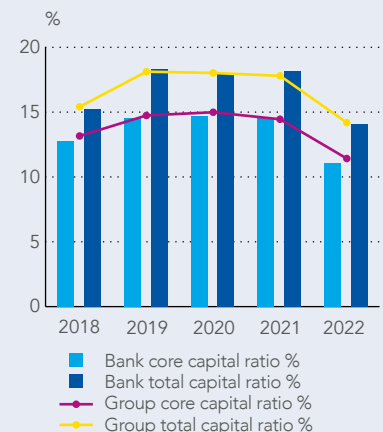
See note 31 to the Financial Statements for further information.

- > Despite the challenging environment the Stage III ratio remained at 3.4% compared to 2.55% as at end of 2021. The stage provision coverage was at 57% as at end of 2022.

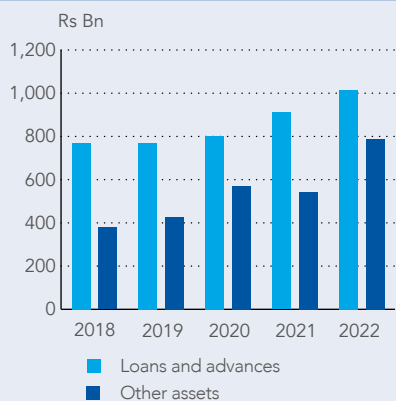
Total liabilities increased by 26.6% to Rs 1,608.2 Bn, with deposits accounting for 90% of total liabilities growing by 30.4%, to Rs1,443.2 Bn as at end 2022. High interest rates saw a shift from CASA to term deposits, resulting in CASA ratio declining to 31.1% for the Group. The Loans to Deposits ratio strengthened further to 75.4% for the Bank and 76.7% for the Group by over 10% percentage points demonstrating the focus on maintaining liquidity and the cautious approach towards lending.

Total Shareholder's equity increased by 3.7% during the year to Rs190.1 Bn due to retained earnings. Stated capital increased during the year due to the scrip dividend issued in 2022 amounting to Rs1,314.8 Mn. Bank Tier I Capital and total capital adequacy ratios were at 11.06% and 14% respectively against the regulatory requirement of 9.5% and 13.5% respectively. In addition, CBSL has allowed to draw down a further 250bps from the above levels which would require to maintain the ratios at 7% and 11%. It is noteworthy that the Bank did not raise capital during the year.

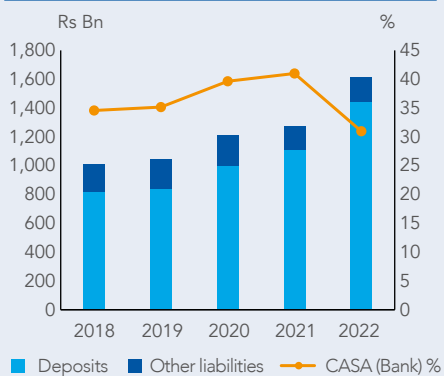
Capital Ratios



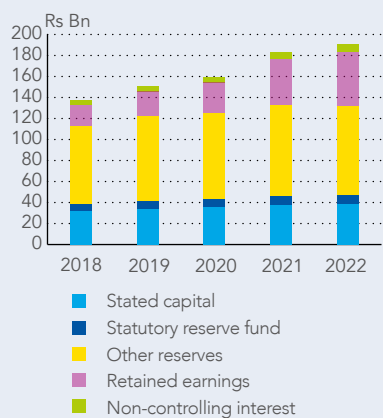
### Group Total Assets



### Group Liabilities



### Total Equity



### 2022 Highlights

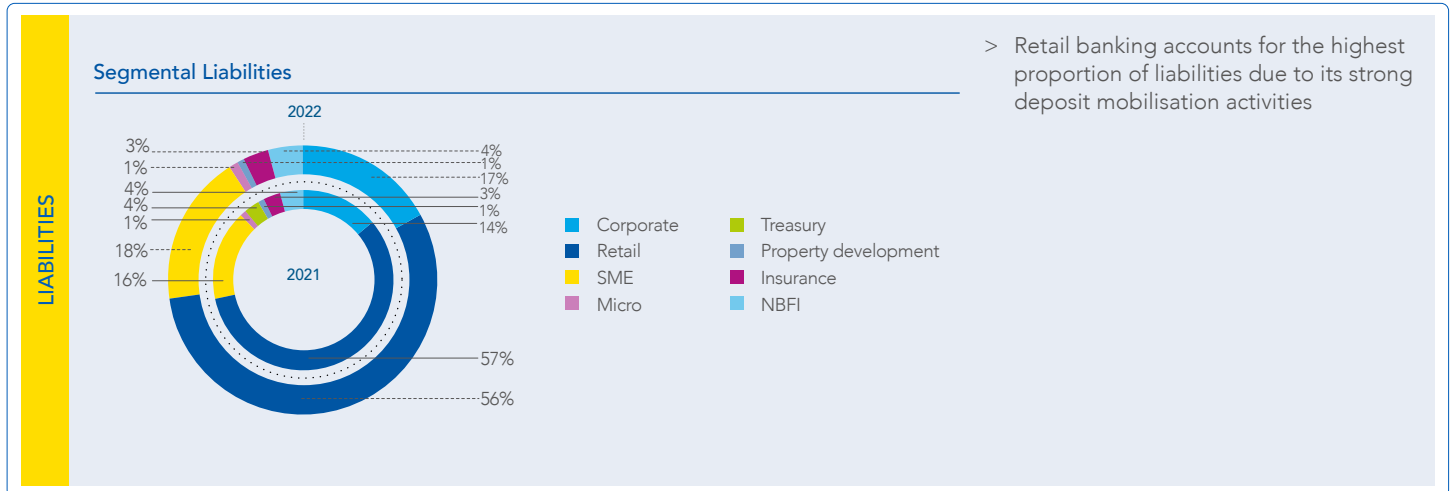
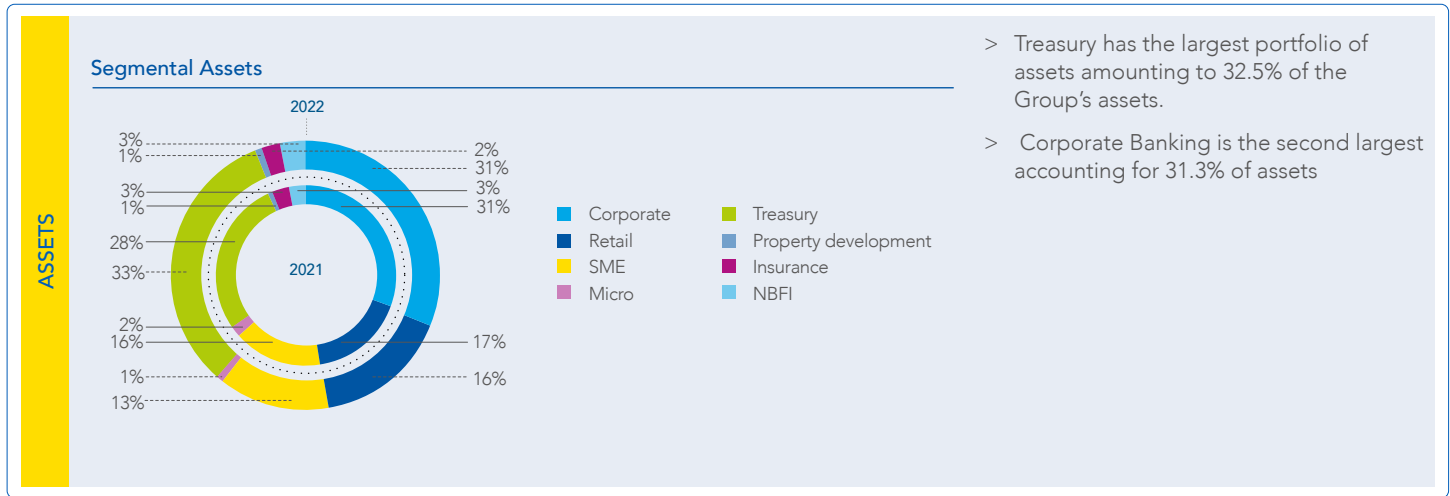
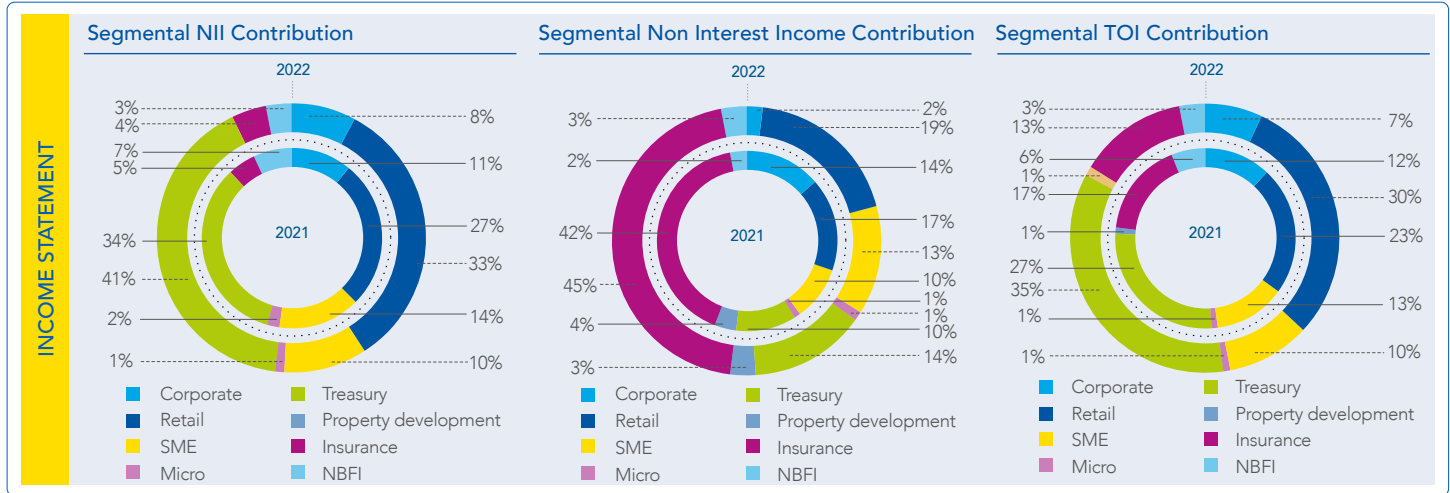
- > Strong deposit growth across all business segments reflecting the strength of the franchise as customers moved deposits to the HNB Group
- > NII increased sharply across almost all business verticals reflecting the spike in interest rates
- > Fee & Commission income was boosted by improved credit card volumes and trade income
- > Impairments increased by 370% from Rs19.5 Bn in 2021 to Rs 91.7 Bn in 2022 due to elevated credit risk and prudent provision on exposure to GOSL debt securities denominated in foreign currencies as the Sri Lankan Government temporarily suspended repayment of external debt in April 2022
- > Inflationary pressures and devaluation of the rupee gave rise to increases in personnel costs and administration costs
- > Taxation rate increases applicable to the HNB Group are as follows:

	2022	2021
VAT on financial services	18%	15%
Social Security Contribution	2.5%	-
Income Tax rate	30%	24%

- > Despite the increase in income tax rates, the taxation charge is negative due to deferred tax adjustments and reversals arising from settlement of prior year assessments.

# FINANCIAL CAPITAL

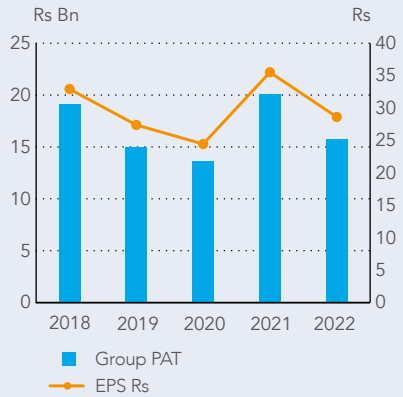
## A SEGMENTAL REVIEW



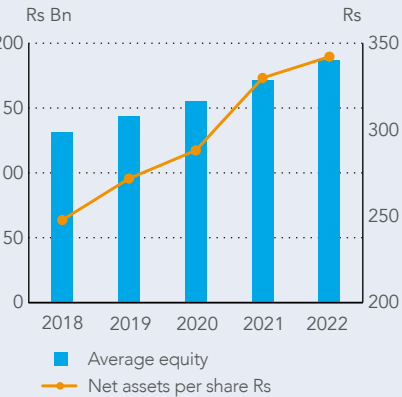
## A SEGMENTAL REVIEW

### RETURN ON EQUITY

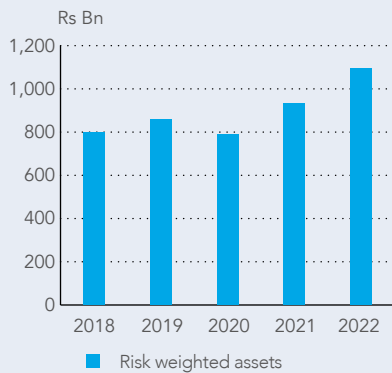
Group PAT



Average Equity

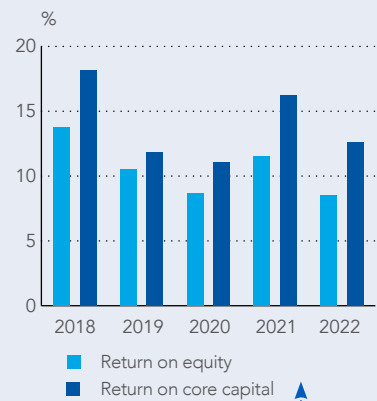


Risk Weighted Assets

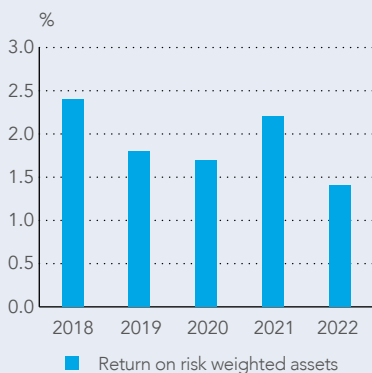


The breakdown of ROE enables identification of the reasons for its movement. Lower profits stemming from increased impairments as well as the growth in risk weighted assets are key contributory factors as affirmed by the analysis alongside

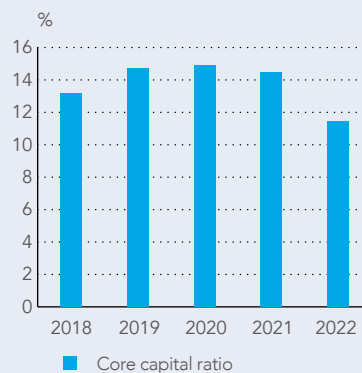
Return on Equity/ Return on Core Capital



Return on Risk Weighted Assets

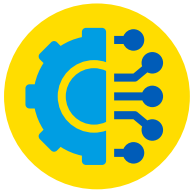


Core Capital Ratio













# AN INTERCONNECTED DIGITAL ECOSYSTEM




HNB Group has invested in its digital transformation consistently over the past five years with the aspiration of becoming the Best Digital Bank. We believe that it is an important part of integrating Sri Lanka to a rapidly evolving digital world, ensuring that we realise the benefits sooner than later. We have created digital ecosystems that meet and support the corporate, aspiring entrepreneurs and individuals. We are aligning our people, activities and physical infrastructure to realise our aspirations.

VALUE DRIVERS	OUR DIGITAL CAPITAL	VALUE CREATED
 <p>Digital Investment <b>Rs 682 Mn</b></p>	<p>Core Systems Self Service Machine</p>  <p><b>787</b></p>	 <p>No of digital users <b>&gt;718k</b></p>
 <p>Digital Assets <b>Rs 9.4 Bn</b></p>	<p>Digital App</p>  <p>AppStore <b>4.4</b> Google Play <b>4.6</b></p>	 <p>Increase in transactions through digital banking app <b>105%</b></p>
	<p>SOLO</p>  <p>AppStore <b>4.1</b> Google Play <b>4.1</b></p> <p>ISO 27001 ; 2013 certified IT operation</p>	 <p>SOLO transactions <b>Rs 2.4 Bn</b></p>


### IMPACT

**Growth in Digital App transactions**

Year	No. of transactions
2018	~3,000,000
2019	~3,000,000
2020	~4,000,000
2021	~9,000,000
2022	~19,000,000



Withdrawals through SSMs  
**92%**

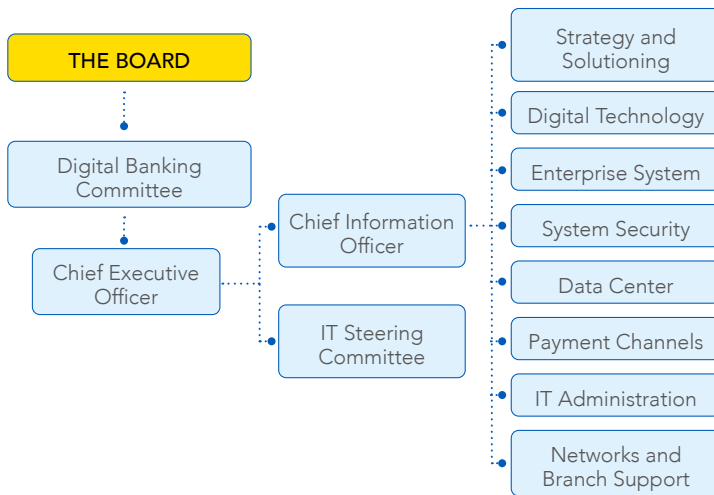


Deposits through SSMs  
**75%**

## IT GOVERNANCE

The Bank has set out a robust IT governance and policy framework which articulates 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.

The Board Digital Banking Committee provides oversight in the implementation of the digital strategy of the Bank. In 2022, two separate Sub Committees overlooking the Retail Banking and Wholesale Banking businesses were setup to accelerate the digital initiatives under these two key verticals. At a management level the IT Steering Committee overlooks and drives the IT Strategy of the Bank.



### 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

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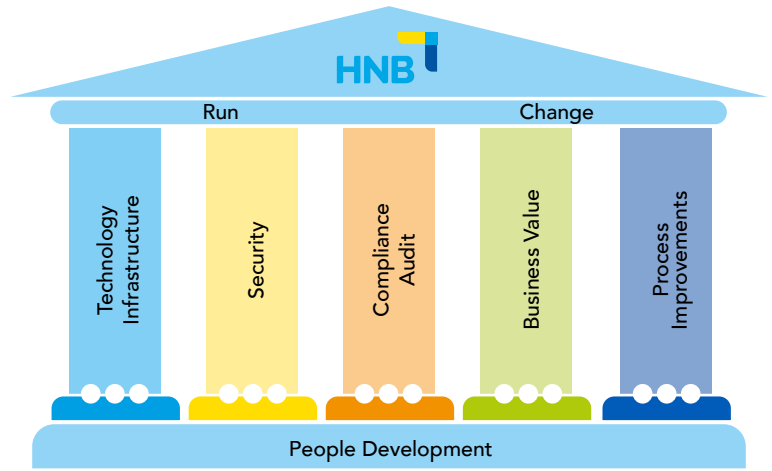
Hatton National Bank PLC is a Licensed Commercial Bank supervised by the Central Bank of Sri Lanka (Hatton National Bank PLC - FSI 6)



# AN INTERCONNECTED DIGITAL ECOSYSTEM

## IT VISION AND STRATEGY

With the vision of being the best in digital, HNB focusses on future proofing its digital eco system. Accordingly, optimising the Bank’s digital infrastructure, forging new partnerships and sharpening 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. In line with our digital strategy outlined in our 2021 report, we focused on factors that we need to drive to run the business and those that are needed to change the business. The key areas under this framework are graphically summarised.



## EXPANDING OUR DIGITAL PLATFORMS

Having launched two apps which are rated the highest among peers, we continued to enhance the capabilities of our digital banking app and SOLO app during the year. Adding the SOLO max wallet feature and converting SOLO into a fully-fledged digital wallet was one of the key milestones in 2022.

The app also facilitates peer-to-peer fund transfers and transfers to any mobile phone which enables even a non HNB customer to withdraw funds from any ATMs across the country. The Solo Wallet now has the full range of QR, in-app and direct to merchant payment options in addition to the digital wallet capability.

The digital banking app saw many new features being added and the Bank migrated its internet banking platform to the digital layer providing the same enhanced user experience as the high rated digital app. The Bank will continue to focus on adding new features which will enable customers to carryout their banking transactions more conveniently.

## SOLO ROAD MAP



In 2023, we will see a new payment and cash management system going live providing a far superior service to our corporate customers. The second phase of the project which has a trade platform will commence once phase I is completed. We have also embarked on upgrading our cards system which is one of the main items on the IT agenda for 2023 and 2024. Furthermore, HNB is in the final stages of implementing a Customer 360 platform which is integrated to the core banking system to provide a comprehensive view of the customer. This will enable cross selling and up selling opportunities in addition to providing superior customer service.

Ensuring the security and privacy of customer information is a priority in an environment where cyber risk has emerged as one of the highest risks globally and as we rapidly expand our digital and online services. Latest security protocols such as multi-level authentication, one-time passwords (OTP) SMS system, biometric authentication are in place to ensure complete security across every transaction. In addition to the data loss prevention system in place we implemented a digital rights management system during the year to improve data security. There were no incidents of customer privacy or security breaches during the year.

### WAY FORWARD

As we continue our journey of being future ready, we will continuously focus on enhancing the capacity and capability of digital system. While we will focus on ensuring stability and security of our systems on one side, we will develop solutions to meet the changing requirements of our customers. We will look at partnerships which can strengthen our proposition to our customers and continue to leverage on data and analytics for better insights.



**Our Digital Suite**

**For customers**

- > Digital Banking App
- > Internet Banking
- > Digital wallet

**Support to businesses**

- > Payment platforms – IPG, SOLO, MoMo
- > Connecting markets through Appigo, WebexPay, Cord360
- > ERP solutions

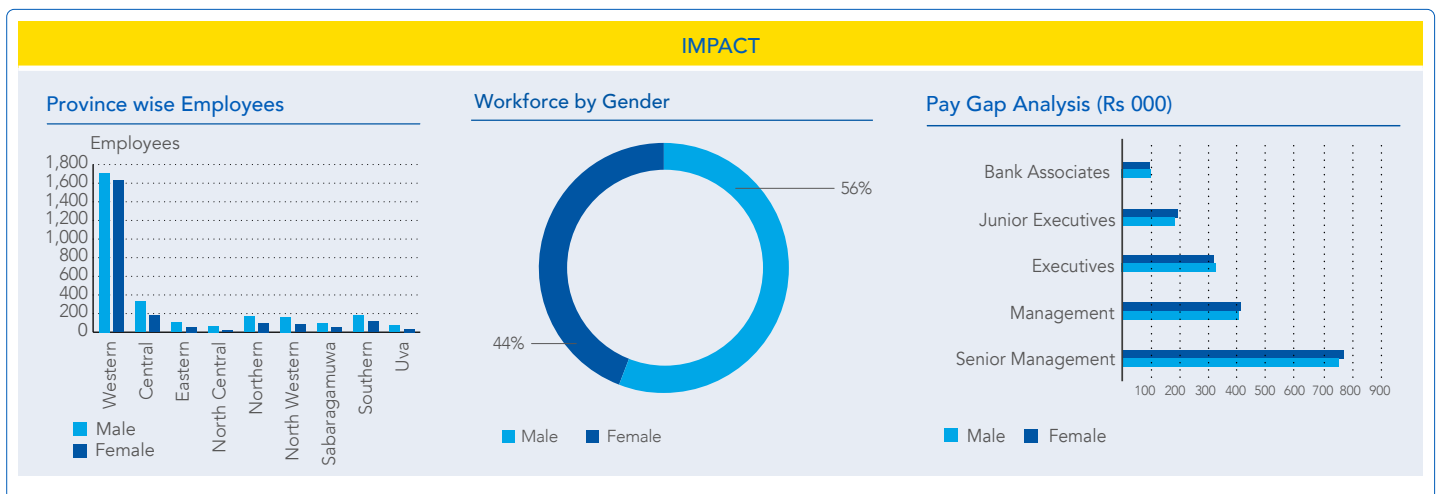
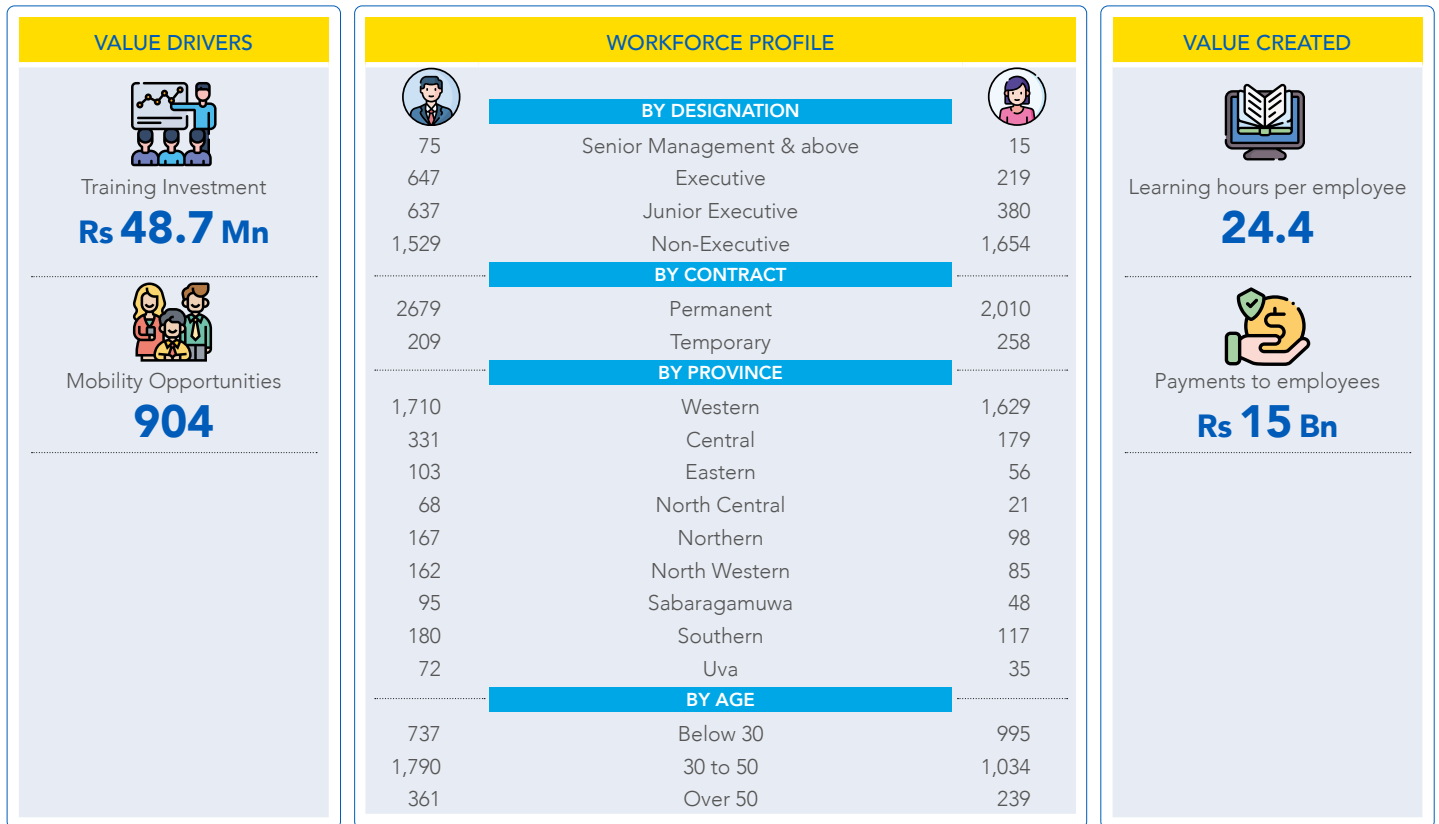
**For Employees**

- > E-learning platform – TalentSpace
- > Human resource management system – TalentEdge
- > Online portal on products and services - Knowledge Hub
- > Training through virtual channels
- > Connecting through HatnaNet – the intranet
- > Robotic Process Automation taking over mundane work

# HUMAN CAPITAL

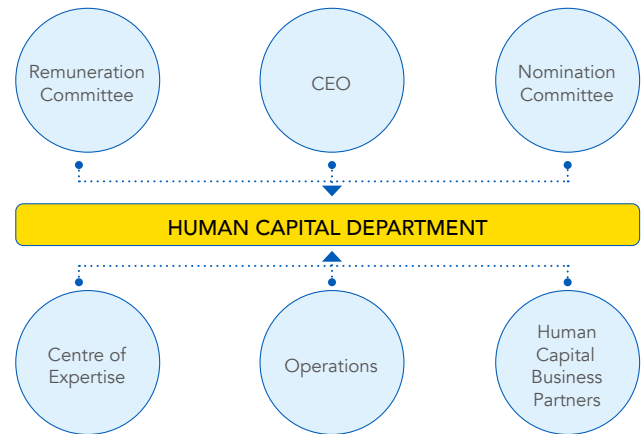


Our Human Capital Strategy is aimed at fostering a “Happy N’ Bright”, future-fit workforce that drives productivity and efficiency in a culture that is curious, inventive and spirited. We continued this Human Capital (HC) journey in 2022, achieving significant progress on our HC initiatives



## HC GOVERNANCE

A comprehensive Human Capital policy framework, supported by robust processes and procedures govern HNB's human capital practices ensuring a dynamic work environment for all our employees. HC strategies are designed at the highest level ensuring alignment to the overall objectives of the Bank. The Human Capital Department (HCD) is responsible for the Human Capital function of the Bank. The structure consists of the Centre of Expertise that designs human capital solutions, the Operations vertical which manages the human capital services, and Human Capital Business Partners that provide the high touch experiential element of human capital management and development.



## TALENT ACQUISITION AND TURNOVER IN 2022

The Bank was not immune to rising trend of migration in the country and witnessed a higher level of labour turnover compared to previous years. The rate of attrition for the year 2022 was 9.5% (Male 5.0% and Female 4.5 %). Whilst over half of attrition was attributed to migration, we are optimistic that this phenomenon is of a temporary nature and we are confident that the best and most resilient of our staff continue to remain in the Bank. We have

taken an agile approach to manage the situation by forming an agile workforce. Notwithstanding this challenge, proactive efforts to offer employees fulfilling roles that match their individual talents and continuously enhancing our employee value proposition in response to evolving needs enabled to successfully meet our workforce requirements continuously. The revamped Mobility and Acquisition policies too encouraged talent mobility across the organisation and supported the Bank's Strategic Workforce Planning efforts.

### Talent Acquisition and Turnover

		New Recruits No.	Exits No.
<b>By Gender</b>	Male	321	258
	Female	362	233
<b>By Age</b>	Under 30	654	322
	30-50	28	166
	Over 50	1	3
<b>By Grade</b>	Senior Management	-	1
	Middle Management	17	44
	Junior Management	1	47
	Clerical & Other	665	399
<b>By Provinces</b>	Western	417	362
	Central	69	45
	Eastern	30	16
	North Central	27	6
	Northern	29	12
	North Western	26	17
	Sabaragamuwa	24	13
	Southern	36	15
	Uva	25	5

### HNB Human Capital Policies

- > Anti-Bribery & Corruption Policy
- > Anti-Harassment Policy
- > Disciplinary Guideline Policy
- > Employee Recognition & Rewards Policy
- > Employee Share Trading Policy
- > Equality and Diversity Policy
- > Grievance Policy
- > Health & Safety Policy
- > Human Rights Policy
- > Industrial Relations Policy
- > Foreign Training Policy
- > Promotion Policy (Executive & Non-Executive)
- > Remuneration Policy
- > Social Media Policy
- > Succession Planning Policy
- > Talent Acquisition Policy
- > Talent Development Policy
- > Talent Mobility Policy
- > Whistle Blowing Policy
- > Work-Life Balance Policy




# HUMAN CAPITAL

## DIVERSITY AND INCLUSION

Diversity and Inclusion are essential components of HNB’s Human Capital Strategy. We therefore strive to ensure that our policies and processes cultivate a diverse, equitable and inclusive workplace for all. We continue to make significant strides towards our gender parity goals and are proud to note that we were recognised as offering one of the nation’s best working cultures for women at the second edition of the Women Friendly Workplace Awards 2022 (WFWA). This is a true testament of the progress we have achieved in reaching our gender parity goals.


**ENABLERS**

**POLICIES**



- > Recruitment Policy
- > Mobility Policy
- > Equality and Diversity Policy
- > Prevention of Harassment Policy
- > Human Rights Policy
- > Grievance Policy

**PRACTICES**








- > Flexi hours and work from home arrangements
- > Women and men working in the same pay-grades are evenly remunerated
- > Merit based promotions

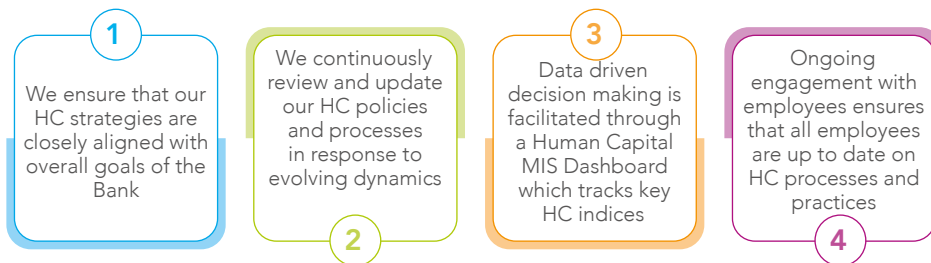
**KEY INITIATIVES**

Our branded female empowerment initiative **“Woman at Work”** continues to provide female employees with career development opportunities, training opportunities and invaluable support throughout their career at HNB

**IMPACT**

				
2888	2268	<b>100%</b>	<b>100%</b>	<b>Zero</b>
234	75	of women returned to work after parental leave	of women who returned to work after parental leave and were still employed 12 months after returning to work	Reported incidents of gender based discrimination
321	362			
445	237			
258	233			
Total Employees	Management			
New Recruits	Promotions			
Exits				





## PERFORMANCE MANAGEMENT

Executives are appraised bi-annually based on KPIs that have been communicated at the beginning of the year. All other employees are evaluated on an annual basis. 100% of employees received performance evaluation reviews during the year.

## Remuneration and Benefits

The Bank is able to attract and retain some of the best talent in the country by ensuring transparent, unbiased and consistent remuneration and reward schemes that are on par with industry standards. 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. In addition to remuneration, permanent employees are offered a wide range of benefits including life insurance, medical allowances, disability and invalidity coverage, maternity leave, pension benefits, holiday allowances, reimbursement of professional subscriptions and stock options among others. As an equal opportunity employer, HNB practices a strict policy of zero-gender base discrimination when determining remuneration.

## Talent Development

As a talent-led organisation, we are committed in providing our employees opportunities for continuous learning and development and continue to explore innovative ways and means to learn and grow professionally in their careers. While we gradually recommenced on-site physical training programmes, we are increasingly leveraging digitally smart mediums to provide blended learning opportunities in an agile and engaging manner.

Training provided is need based and designed taking into consideration organisational needs and individual needs. Identification of learning needs and development of programmes is an ongoing consultative process where the individual employee, line managers and HCD work collaboratively to identify and develop programme that best suit competency requirements and organisational needs.



### DIVERSE, EQUITABLE & INCLUSIVE WORKPLACE PROGRAMME

The rollout of the Diverse, Equitable & Inclusive Workplace for "Happy n Bright" at HNB will be spearheaded by 60 members of the HNB Top 100 who are participants of the Bank's "Acumen" Development Programme. The project is sponsored by the Chairman of the Bank and is overseen by the Chief Human Resource Officer (CHRO). The following areas are considered as part of the scope of this project

- > Family friendly workplace
- > Ergonomics in the workplace
- > Disability access and other facilities
- > Communication methods, language and tone
- > Learning / awareness solutions
- > Management information availability
- > Technology and system support

# HUMAN CAPITAL

In spite of the pandemic and economic constraints faced during the year, 28,607 participants received opportunities to learn, improve and grow, compared to a previous 3-year average of 18,430. This was largely due to the benefits of virtual learning which facilitated greater reach and coverage through every programme. 80% of participants engaged in training virtually, and more than 59% of the programmes, usually delivered through classroom training, were delivered virtually during 2022.

The total number of programmes delivered via classroom, virtual channels and coaching interventions grew to 817, higher than the previous 3-year average of 430. In addition to this, more than 50,000 engagements were recorded on the Bank's e-Learning system 'Talent Space' with 335 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.

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. 7% of the learning solutions during the year focused on technology enablement while a greater part of the Business Growth related training also focused on the delivery of our digital solutions, SOLO 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.

Leadership Development programmes were continued during the year with the 'Catalyst' programme focused on grooming for C suite and 'Acumen' for the senior management team. The Acumen programme was delivered in 2 parts with 29 participants for leadership succession and another 29 participants from the regional leadership team being coached on business acumen. The 'Impact' programme is aimed at long term succession within expert teams. During 2022 programmes were held for the retail banking and support services verticals following the success of the programme held for the wholesale banking group.

We continued to encourage the 'Role Based Training' focused on strengthening the knowledge of front-line staff. Basic level certifications were completed by over 90% of the frontline and the intermediate certifications would be rolled out during 2023.

The Bank's "**Committed to Serve**" campaign was supported by rigorous training opportunities and monitored for closure for completion.

### The HNB Learning Premier League (HNB LPL)

Modelled after the popular game of cricket, the HNB LPL is an industry-first learning experience that connects with staff on a virtual platform. The initiative aimed to

gamify learning, enhance knowledge and cross-functional collaboration, increase digital adoption, and encourage the senior leadership to create a progressive learning culture within the organisation. We believe in making learning enjoyable. When the pandemic challenged the implementation of traditional learning methods, we wanted to innovate ways to continue learning and the HNB LPL was one of those. The response was overwhelming and the knowledge enhancement was clearly visible during the tournament. 46 teams, 506 players and over 3300 participants were involved where we saw the role based certification completion move up significantly. Furthermore, the senior management involvement as sponsors have also set the foundation to creating the leadership inspired learning culture that we aim to create.

### Anti-Bribery & Corruption

We firmly believe that bribery & corruption are unethical, unacceptable and inconsistent with our Values and the Bank's Code of Conduct. Our Anti Bribery policy provides the guidance for employees and during the year special campaigns were carried out to reinforce the practices. HNB has partnered the Business Against Corruption (BAC) initiative, which is a collaboration between the Sri Lanka Institute of Directors (SLID) and Transparency International Sri Lanka (TISL) as an anchor partner.



## LEARNING AND DEVELOPMENT AT HNB

### LEARNING SOLUTIONS



Classroom and Virtual Training

**817 Programmes** delivered through classroom training

e-Learning (Talent Space Platform)

**55,853 online** engagements including courses and quizzes

Structured Leadership Training Programmes

**125 employees** participated in Catalyst (grooming for C Suite), Acumen for C1 and 'Impact' for long term succession

Role Based Training

Role based training modules for front line staff for certification

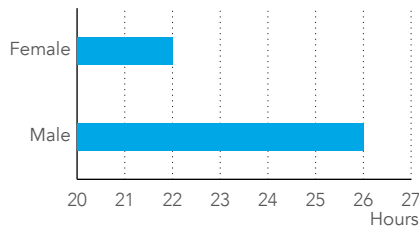
"Committed to Serve" Campaign

Service excellence related training opportunities

HNB Learning Premier League (HNB LPL)

Gamified learning

Learning Hours per Employee

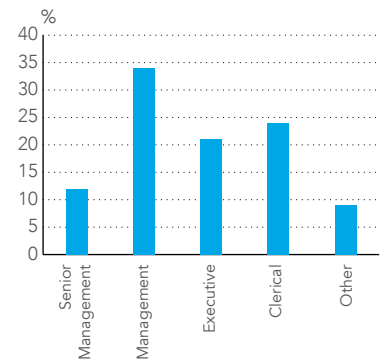


**Rs 48.7 Mn**  
Total Training Investment

**125,631 hours**  
Total Learning Hours

**24.4 hours**  
Average Learning Hours per Employee

Learning Hours by Employee Category



### TRAINING FOCUS

	Business Sustainability	People Development	Technology Enablement	Business Growth	Improve CX and Productivity
Programmes	<b>225</b>	<b>399</b>	<b>40</b>	<b>43</b>	<b>80</b>
No. of Participants	<b>10,722</b>	<b>7,158</b>	<b>1,686</b>	<b>3,207</b>	<b>5,834</b>



# HUMAN CAPITAL

## HEALTH AND SAFETY

We are committed to provide a safe, secure and healthy work environment for our employees and have in place a health and safety policy that goes well beyond the minimum health and safety regulations stipulated by law. Although the stringent health and safety measures put in place during the height of the pandemic were relaxed, with the lessening of the pandemic, the Bank continued to have in place basic health and safety protocols such as the mask mandate and social distancing guidelines. Meanwhile we continued with our mental wellness programmes aimed at supporting employees through the pandemic.

All full-time employees are entitled to life insurance and healthcare benefits such as reimbursement of surgical and hospitalisation expenses for self and family. We also continued to conduct periodic health and wellness programmes to promote better health among our employees and 1,098 participated in 2022.

Employee Wellness Initiative conducted during the year.

### Internal Programmes

- > Cycling for Health for Females
- > Ensuring personal well-being during a crisis
- > Living with COVID 19 - Current Status & Managing Change
- > Program on First-Aid
- > Staying Calm & Healthy
- > Staying Motivated in the New Normal
- > Wellness for Performance
- > Work-Life Balance & Mental Well-being

### External Programs

- > National Occupational, Safety & Health Conference 2022

## EMPLOYEE ENGAGEMENT INITIATIVES

Open lines of communication and innovative employee engagement initiatives ensure that employees at all levels have multiple channels of communication and easy access to information. While strengthening engagement via virtual platforms we also re-commenced many of our physical engagement activities during the year.

Multiple channels were also made available for employees to raise the views and grievances. At a ground level, the Human Capital Business Partners continued to have one-to-one conversations with staff and support the implementation of personal development plans. The CHRO also continues to have one-to-one discussions with staff on a regular basis. In addition to this, the Chief Employee Experience Officer (CEEO) continues to operate as an independent party taking up employee grievances and discusses same with the Human Capital function, for resolution. In addition to this, the Whistle-Blowing policy and process is also in place for staff to raise serious concerns directly to the designated Board Member/s.

Other employee engagement initiatives continued throughout the year with initiatives conducted at regional level. These included the Sports Fiesta, Annual Carols and other staff social events. Few new initiatives were;

- > "WBG Voice" is a programme designed to accentuate the talent of Wholesale Banking Group (WBG) staff. The event was a blend of interaction and competition

among its staff. The programme ran over a period of 6 weeks including auditions, the semi-final and the Grand Finale was held in early December 2022.

- > "Saru Gewatta" – HNB Ambalantota branch established a model farm, which is a great example of employee engagement. The project motivated and brought the staff closer together, while promoting home gardening and organic farming, impacting the community positively. The first harvest was distributed to the community, with the project providing the staff with satisfaction and motivation. Such initiatives showcase the importance of employee engagement and community impact.

## LABOUR RELATIONS

72% of our staff are members of the Ceylon Bank Employees Union (CBEU) and the HNB Officers' Union as at the end of 2022. We continue to engage closely with trade union representatives and maintain amicable relations with all unions. The notice period and provisions for consultation and negotiation are specified in the Collective Agreements with respective trade unions. There were no incidents of industrial action during the year.

## WAY FORWARD

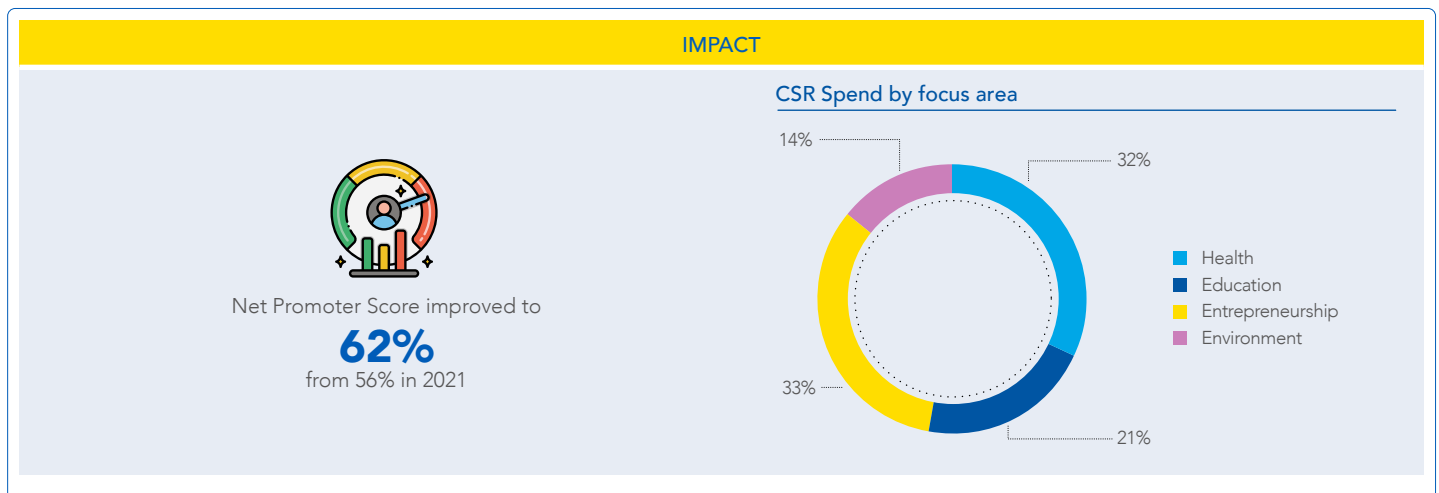
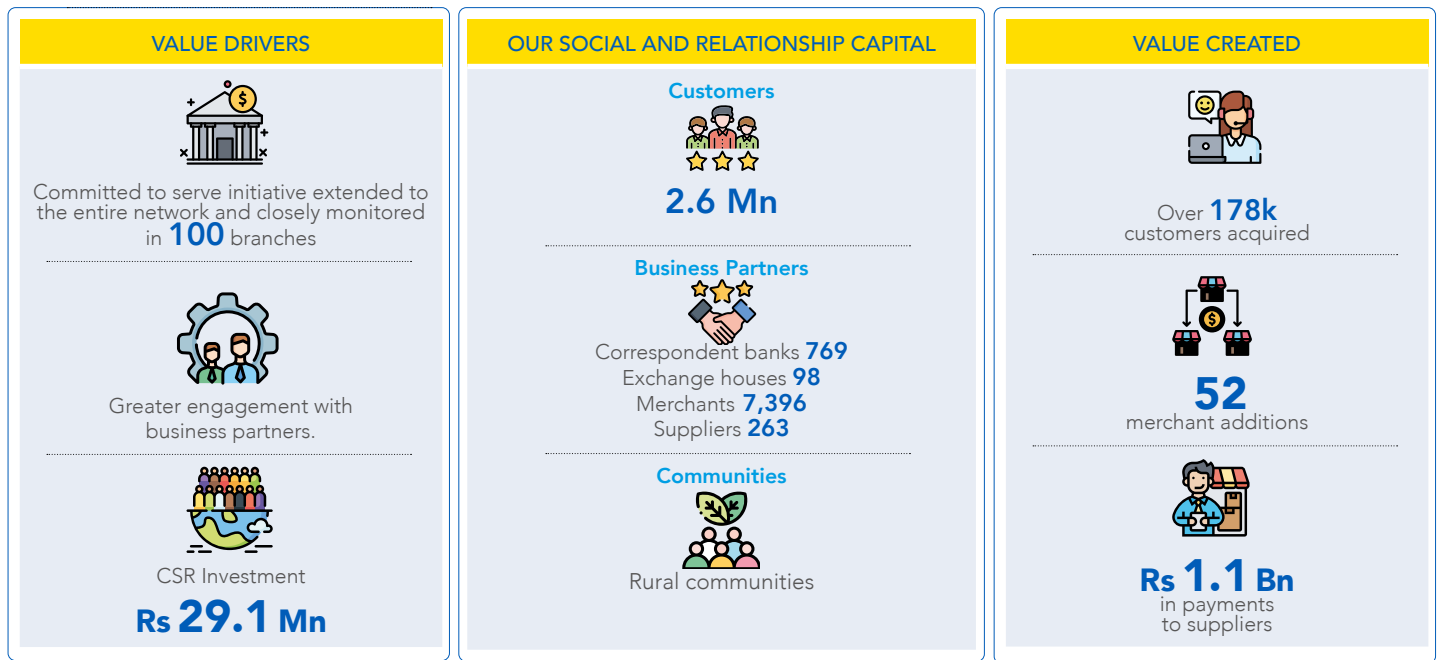
With rising migration levels expected to continue to challenge Sri Lanka's labour market, enhancing employee value proposition in terms of remuneration, rewards and job satisfaction will be a key focus area going forward. Meanwhile we will continue on our human capital roadmap as envisaged in "Project Everest" by driving initiatives to create a tech-enabled future ready happy and bright workforce.



# SOCIAL AND RELATIONSHIP CAPITAL



The success of our value proposition can be measured by the strength of our relationships with our customers, business partners and community. During the year we continued to engage with these stakeholders to understand their evolving needs, drive greater synergies and make a meaningful impact in our communities.





# SOCIAL AND RELATIONSHIP CAPITAL

## VALUE TO CONSUMERS

During the year we continued to focus on driving our new brand ethos of “Making Banking Enjoyable” by striving to deliver convenient, seamless and enjoyable banking solutions that meet the evolving needs of our diverse customer base.

### MAKING BANKING ENJOYABLE

#### DEAL EASY

*We continue to make our touchpoints efficient, simple and agile to make our customers more comfortable.*

##### Expanding our Smart Service Machines (SSM) network

Our network of 787 on- site and off- site SSM’s enable customers to carry out a range of banking functions without needing to come to a branch or counter. Seven new SSM’s were added to the network during the year. Meanwhile we continue to expand the range of services offered through SSMs.

##### Improving Branch Layouts

We are also in the process of redesigning our branches to better align the branch layout with customer requirements. The new layout which includes a transaction zone and sales zone was rolled out to three key branches and will gradually be rolled out across the network. The new layout is aimed at simplifying the customer experience.

#### WE KNOW YOU BETTER

*We are committed to making our customers feel seen by proactively delighting them.*

##### Digital Enablement

As customers increasingly seek to transition to digital mediums, we remain committed to supporting this transition by offering our customers a simple and efficient digital value proposition. We continued to refine our digital banking app, with added capabilities and enhanced useability. The most recent addition was a feature for opening and closing of fixed deposits through the app. Several new features were also added to our digital payment app SOLO during the year including Peer-to-Peer (P2P) transfers, wallet features, and card-less ATM withdrawals. Award winning digital products such as IoT enabled HNB FIT meanwhile continue to attract a new generation of digitally savvy customers. (For more information on our digital initiatives please refer page 52).

##### New Products

Data analytics and artificial intelligence (AI) continue to provide deeper insights into our customers’ needs, wants and aspirations which in turn enable us to offer more meaningful financial solutions. During the year we introduced three new products including a Premier Current Account, Investment Plans for adults and children and a Teen + savings account with the linked debit card. These tailor made products meet the specific requirements of our diverse customer base.

#### COUNT ON US

*We ensure that our customers can rely on us by being transparent and informative, whilst reassuring the best service.*

##### Product Responsibility

Information on fees and charges, product features, terms and conditions are clearly communicated to clients through our branch staff, through our contact center and through our corporate website. Meanwhile a clearly articulated customer charter is in place to ensure responsible behaviour towards our customers at all times. There were no reported instances privacy breaches or of non- compliance concerning product and service information or marketing communications during the year.

##### Customer Engagement

A 24x7, multilingual and Omni Channel Contact Centre is available for customers to reach us at any time. We continued to scale up our engagement capabilities with the implementation of Robotic Process Automation (RPA) to establish automated chat services that provide real time responses to client queries.



#### FEEL SPECIAL

*We strive to make our customers feel valued by being personal and respecting their needs.*

##### Superior Customer service

A dedicated Customer Experience Unit continues to drive service excellence programmes across the Bank. “The Committed to Serve Initiative” led by the Customer Experience Unit is a holistic approach to identifying customer pain points and driving meaningful change to achieve superior customer service. The initiative involves training, mindset change and process improvements that have resulted in significant value additions to customers.

## VALUE TO BUSINESS PARTNERS

Our network of business partners consisting of Correspondent Banks, Exchange Houses, merchants and suppliers continue to grow as we expand our operation locally and globally. We continue to develop these relationships deriving mutual value in terms of operational synergies, market access and new business opportunities.

### Stronger partnerships with Exchange Houses

HNB has relationships with 98 exchange houses in over 40 countries. During the year we commenced operations with four new exchange houses in Israel, Spain, UAE and United Kingdom and deployed HNB Representative Officers to destinations such as London and Male for the first time to boost remittance related business opportunities. The strong relationships we have formed with overseas counterparts proved invaluable in our remittance mobilisation efforts during the year.

### Foray into Agency Banking

The Bank marked its entry into the Agency Banking space with the launch of HNB Ithuru Ithuru, a Agency banking partnership with SLT Mobitel which enables HNB customers to make deposits to HNB General and Minor Savings Accounts through Mobitel mCash agents.

### Strategic Tie-ups

We continue to enter into partnerships that generate new business opportunities and widen our reach. During the year PFS entered into partnerships with 12 real estate developers while HNB leasing entered into partnerships with 14 vehicle traders.

### Merchant Network

We are committed to adding value to our ever-expanding merchant network. In addition to enabling digital payments through reputed digital payment gateways we continue to invest in introducing new technology to merchants. Services provided include Dynamic Currency Conversion on foreign cards, processing, in-app payments through tokenization, and mobile POS payments through HNB MOMO.

### Sustainable Supplier Relationships

Our supplier base consisting of utility service suppliers, material suppliers, transport providers and maintenance service providers play an integral role in carrying out a seamless operation. During the year total payments to suppliers amounted to Rs 1.1 Bn.

Our relationships with our suppliers are partnerships we invest in by ensuring transparent and sustainable procurement practices, regular engagement, and capacity building initiatives. We ensure strict adherence to procurement guidelines as per our Board Approved Procurement Policy and continuously monitor performance of suppliers to ensure compliance to service standards. All new suppliers are screened using environmental and social considerations including nonuse of child labour and/ or forced labour.

PAYMENT GATEWAYS AND E-COMMERCE PLATFORMS ACCESSIBLE TO OUR MERCHANTS	
Sector	No. of Credit Facilities
HNB SOLO	Helps merchants shift to contactless and cashless payment solutions
HNB Payfast	Secure internet based payment gateway
HNB MOMO	A low cost mobile card payment gateway for merchants
CyberSource	Helps merchants worldwide to grow their sales, protect their brands and operate with greater agility.
OnePay	Helps merchants grow their businesses by developing an online sales channel.
Daraz	Enables merchants on network establish an online presence.



# SOCIAL AND RELATIONSHIP CAPITAL

## VALUE TO COMMUNITY

We are committed to supporting the Government in its efforts to transition towards a green, inclusive and balanced economy and continue to focus our lending and CSR efforts towards driving sustainable growth from the grassroots. Our efforts to support a more inclusive and balanced economy is discussed in the following section while our efforts to create a greener economy are discussed fully in our natural capital section on page 74.

**DRIVING FINANCIAL INCLUSIVITY TO REDUCE INEQUALITIES**

As an active 'Participating Credit Institution' for almost all credit lines funded by the Asian Development Bank, World Bank, International Fund for Agricultural Development, as well as concessionary credit lines introduced by the Government of Sri Lanka, HNB has acted as a catalyst of change for Sri Lanka's rural communities and underbanked segments.

We drive growth in the SME sector by offering SME's a one stop solution that includes financial and technical support. A key focus in recent years has been to support the digital enablement of our SME clients. HNB's value chain financing drive too has brought significant benefits to SME's and Micro enterprisers by providing greater access to finance and markets.

*(for more information on support to the sector refer our SME sector review of page 38 )*

Over 28,000 micro entrepreneurs have been supported through HNB's micro financing programme "Gami Pubuduwa". In addition to financial support, micro enterprises are offered technical support including capacity building as well as market linkages through initiatives such as the HNB Avurudu pola and podi podi business initiatives.

*(for more information on support to the sector refer our micro finance sector review of page 39)*

While offering a range of women specific products to encourage financial independence of women, we also continue to encourage and support more women to become entrepreneurs.



## STRATEGIC CSR

The Bank's corporate citizenship agenda is driven by HNB's Sustainability Foundation, which was established in 2009. Key projects carried out during the year are described below.

### HNB ඔබ වෙනුවෙන් අපි

The Oba Venuwen Api Fund was established in 2020 to help Sri Lankans who were facing many difficulties brought on by the pandemic. Over the year, the fund and its goals have evolved to work with different segments of the public and offer support where possible

#### 'Oba Venuwen Api' Micro Finance Grant

Following the Rs 20 Mn allocated in 2021, the Bank allocated a further Rs 10 Mn to assist entrepreneurs affected by the ongoing economic crisis as a part of its flagship 'Oba Venuwen Api' initiative to rebuild and revive the economy.

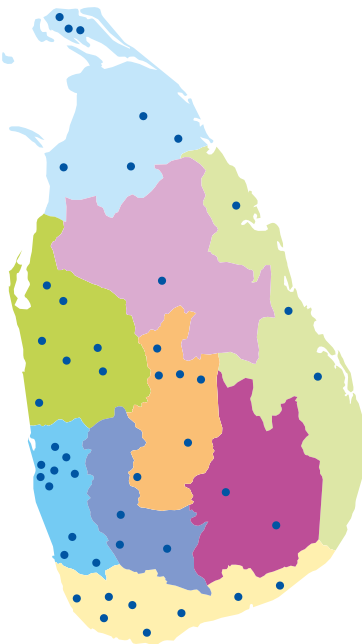
#### Oba Venuwen Api' Hospital Donations

Much needed medical equipment was provided to six hospitals across the country during the year. From 2020 to 2022, 39 hospitals received medical equipment and supplies as part of the hospital donations project.

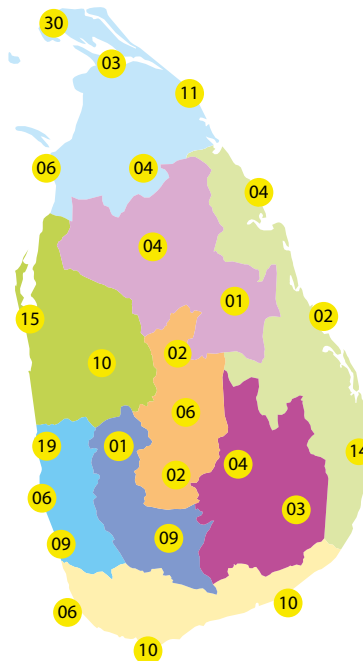


#### 'Oba Venuwen Api' Nutrition Drive for expectant mothers

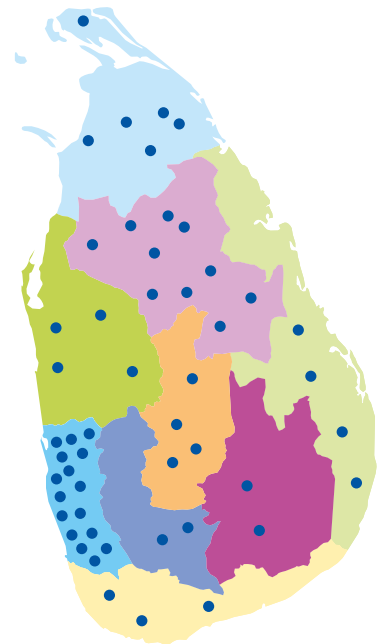
The Bank worked with MOH offices, Divisional Secretariats, and midwives to choose 1,000 expectant mothers who will be beneficiaries of the nutrition pack for three consecutive months



Hospital Support 2020 - 2022  
(Hospitals & MOH Offices)



Micro Finance Grant 2021 - 2022



Nutrition Drive for expectant mothers for 2022



# SOCIAL AND RELATIONSHIP CAPITAL

## Ride for Apeksha

Ride for Apeksha is a fundraising campaign to raise funds for urgent medical supplies to support cancer patients at the Apeksha Cancer Hospital in Sri Lanka. Employees of the Bank took part in "Ride for Apeksha" and donated milk packets to the hospital.



## "Donate a book for Change" CSR campaign

HNB partnered with M. D. Gunasena to launch the "Donate a Book for Change" CSR campaign. New and used books were collected from customers and staff members and donated to libraries of rural schools in partnership with M. D. Gunasena.



## 'Season of Giving' donation campaign

The 'Season of Giving' donation campaign was launched in collaboration with Caritas Sri Lanka with the aim of raising funds for disadvantaged families that do not have access to proper meals, sanitation, or shelter in Sri Lanka. All donations made via HNB SOLO were directly sent to the Caritas Sri Lanka accounts, with the bank making an additional donation for every transaction made by users.



## Infrastructure facilities for underserved communities

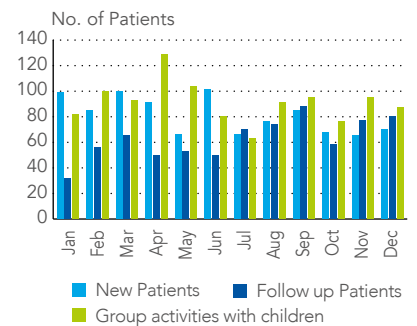
The Bank partnered with Capital Maharaja Group and Gammedda, Sri Lanka's largest rural development movement, to enhance infrastructure in Yaaya 6 Mahawilachchiya. The initial phase of the project concentrated on the installation of an RO plant to offer safe drinking water to the community of 650 families. The second phase included constructing sanitary facilities and a digital lab at Saliyamala Maha vidyalaya Pemaduwa. The third phase, which involves renovating a 2km roadway from Mannaram junction, is currently in progress. The Club HNB, the Bank's private banking proposition, powers this initiative by providing a platform for its members to participate in meaningful philanthropy.



## Financial support for cancer patients and families

An ongoing project by HNB's Sustainability Foundation, The HNB Sustainability Foundation has provided financial assistance to over 15,000 cancer patients and their families identified by the Apeksha Hospital Maharagama Counselling Center. The annual maintenance cost of the counselling centre is also funded through HNB's Sustainability Foundation.

### Cancer Counselling Progress Report 2022



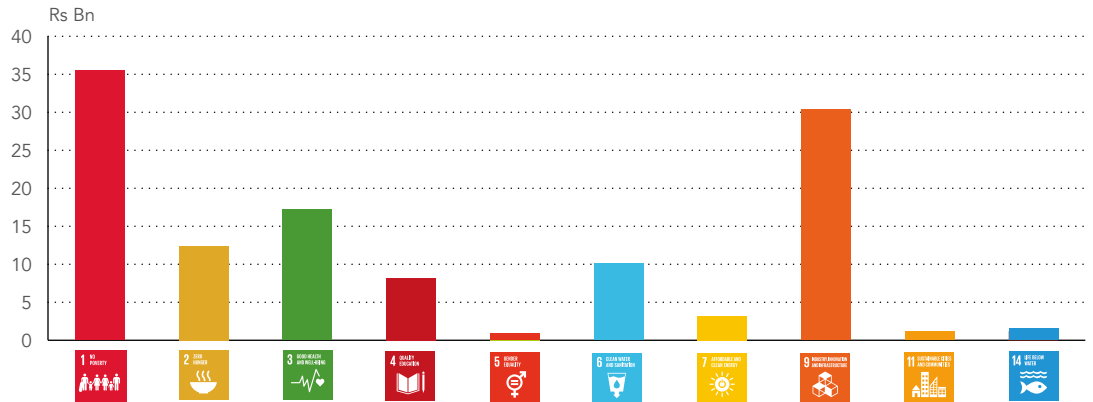
## Yarl Geek Challenge

The primary objective of the Yarl Geek Challenge is to encourage entrepreneurs and social entrepreneurs to launch their businesses by creating new technological products and services that address market gaps. Bank has provided venue sponsorship for the Yarl Geek Challenge for the past five years by providing the Jaffna auditorium and cash awards to the winners.



## OUR CONTRIBUTION TO SDG'S

We contribute to several of the United Nations Sustainable Development Goals (SDGs) through our banking operations and strategic CSR initiatives.



## ESG



environment

### ENVIRONMENT

- > HNB sponsored the World Habitat Day Art Competition by the Urban Settlement Development Authority to promote environmental awareness among children.
- > HNB implemented an intervention programme in the Colombo and Gampaha districts aimed at enhancing the economic well-being of underrepresented urban communities through the development of self-employment and entrepreneurship, benefiting 193 people.
- > HNB successfully completed its 5-year initiative of restoring and conserving a 2.5-acres portion of degraded rainforest within the Kanneliya Forest Reserve
- > The HNB ඔබ වෙනුවෙන් අපි initiative donated Personal Protective Equipment to Clean Ocean Force Lanka to support efforts to reduce the plastic pollution on beaches and waterways.

For more information on environmental CSR initiatives refer our Natural Capital Report on page 74-79



social

### Employees Cycling to work

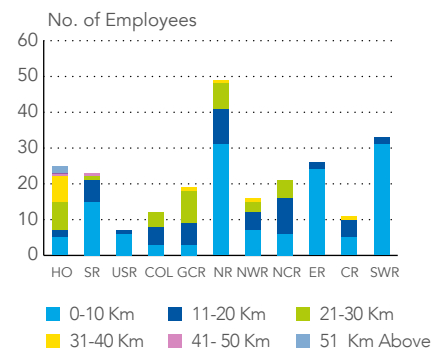
- > HNB Walk the Talk was launched to promote eco-friendly commuting among staff members, including cycling, walking, and ride sharing



governance



### Employees cycling to work





# SOCIAL AND RELATIONSHIP CAPITAL

## Conserve and sustainably use the oceans, seas and marine resources for sustainable development

- > As per the bank's environmental policy, we don't finance 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
- > From our total lending portfolio value of Rs 1,231Mn we identified lending for sustainable fisheries activities as per the CBSL Green Finance Taxonomy Guidelines. (Friend of Sea Certification)



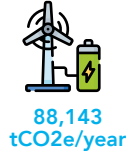
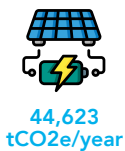
## Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

- > HNB does not finance to commercial logging operations for use in primary tropical moist forests, production or trade in wood or other forestry products other than those from sustainably managed forests, or trade in wildlife or wildlife products regulated under CITES.
- > Lending to Rain Forest Alliance certified tea plantations-Rs 484 Mn
- > HNB has taken a series of initiatives to reduce its environmental impact, including digitization and GHG emission assessment.
- > The Bank has focused on reducing paper usage and increasing energy efficiency, both of which have helped minimise its impact on the environment.
- > HNB has also invested in renewable energy sources and energy-efficient technology, reducing its GHG emissions and becoming more environmentally friendly. Additionally, the bank has introduced sustainable deposit products, such as the HNB FIT account, to encourage customers to adopt more sustainable practices.



## Ensure access to affordable, reliable sustainable and modern energy for all

- > Emission reduction from our renewable energy lending projects

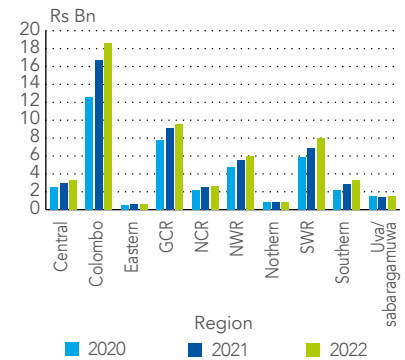


Sri Lanka- Energy Balance 2019 An Analysis of Energy Sector Performance Published by Sustainable Energy Authority

- > Housing loans totalling Rs 4,843 million and residential property development loans totalling Rs 1,020 million.
- > Improve passenger transport by Rs 374 Mn
- > Finance for waste management projects totaling Rs 932 million, excluding waste-to-energy projects.



Housing Loan Portfolio for 2022



## SOCIAL

- > Over Rs 14 Mn worth of medical equipment was donated to key hospitals and MOH offices across the country through The මධ්‍යම වෙනුවෙන් අපි initiative
- > "HNB මධ්‍යම වෙනුවෙන් අපි" nutritional drive for expectant mothers and micro-finance grant for micro-entrepreneurs.
- > The "Ride for Apeksha" fund-raising project was carried out to raise funds to purchase medical equipment for the Apeksha Cancer Hospital.
- > The HNB Sustainability Foundation has provided financial assistance to over 15,000 cancer patients and families identified by the Apeksha Hospital Counseling Center in Maharagama.
- > "Donate a Book for Change" was launched to increase literacy among rural children with M.D. Gunasena
- > Over 202 Nenapubuduwa school libraries have been established island wide through the Nanapubuduwa project.
- > As part of the Sustainable Banking Initiative, HNB enabled the SLBA Website's sustainable banking e-learning module.
- > The Saru Gewatte project was initiated during the year with the aim of revitalising Sri Lanka's agricultural sector at the grassroots. Launched in collaboration with provincial and district agricultural offices, the project leveraged the Bank's customer network to link rural farmers with urban consumers. The project also seeks to promote home gardening in urban areas by providing seeds and fertilizer at discounted prices and conducting knowledge and capacity building sessions on home gardening. The project was piloted in the Central Province and will be rolled out island wide.



## Grow beyond boundaries with smart solutions from HNB

- > Loan schemes at concessionary interest rates for capex and working capital requirements
- > Facilitating Exports (Expo Credit)
- > Export market places (Cord360, Eqwtay (HK) Ltd)
- > Local market place opportunities (Cochchi.lk, Daraz)
- > e-Commerce and payment gateway options (appigo, WEBXPAY)
- > Enterprise Resource Planning (ERP) solutions at a discounted rate (Bileeta, Thinkcube)
- > Technical and advisory consultation services for women-led SMEs
- > Equity investment options through partner investors (Eqwtay (HK) Ltd)



## Achieve gender equality and empower all women and girls

- > Value of Rs 151Mn portfolio for sustainable women empowerment
- > During the year 2022 SME division was able to disburse loans to the value of Rs 1.45Bn under ADB funded SMELoC schemes, for both SMEs & Tea smallholders. The bank also accommodated We-Fi grants for women Led enterprises to the value of Rs. 21.45Mn and provided grants for Tea smallholders to the value of Rs 12.3Mn.

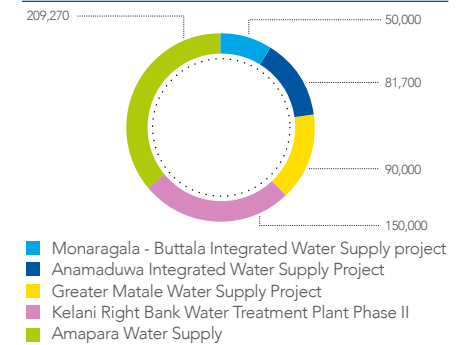


## Ensure availability and sustainable management of water and sanitation for all

- > In 2022, the bank funded water supply projects that benefited over 500,000 people across the country.



### No of Beneficiaries -Water Supply Project



## End hunger, achieve food security and improved nutrition and promote sustainable agriculture

- > Income generation to the farmers and employment generation in poverty province were carried out through our lending for paddy cultivation in 2022

	Gross Income (Rs Mn)	Employment Generation (man days) *
Northern	294	16,293
Eastern	406	22,505
Uva	9	525

\*Hired Labour

Total income and employment generation in Sri Lanka through paddy cultivation lending in 2021. 858Mn gross income generation to the farmers.

47,533(man days) employment generation

Assumptions were based to the above calculations

1.Paddy cultivate in Sri Lanka under different water management (irrigation and rain-fed) in two seasons (Yala and Maha).

(Total cost and other figures consider under irrigation water management (large amount of commercial paddy cultivation occur under the IR)

2.Total cost Including cost of farmer owned inputs

3.To find out employment generation only consider hired labour 4.

\*Used information for calculations

Cost per cultivation of one hectare of paddy

Average Yield per hectare

Employment Requirements per hectare

Gross return per hectare

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

## Food production from our lending

	Area cultivated (ha)	production (Mt)
Paddy	6,791	9,330
Minor foods*	235	1,175

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

- > From our cultivation loan portfolio (fruits, vegetables and minor food crops) value of 484Mn (around 40%) contributes to enhance sustainable agricultural practices in the country.
- > Lending for Fisheries and aquaculture sector in 2022 - Rs 2,108Mn
- > Total Milk Production - 50 Mn L
- > Total meat production from poultry farming-1,030 Mt
- > 6,524 Mt of Rice from paddy production. It could produce the equivalent of 182,916 meals in 2022, or enough food to provide approximately 60,972 people.

Used information for calculations

Cost per cultivation of one hectare of paddy

Average Yield per hectare

Cost of cultivations of minor food crops and average yield per hectare

Cost of production of 1L fresh milk

Cost of production of 1kg of meat from poultry farming

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

Key Statistics of Dairy Industry-The Department of Animal Production and Health- Annual report 2021

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

# SOCIAL AND RELATIONSHIP CAPITAL

## Total Lending for poverty provinces in 2022

Eastern	Rs 5,677 Mn
Northern	Rs 6,647 Mn
Uva	Rs 3,098 Mn

- > From our cultivation loan portfolio (fruits, vegetables, and minor food crops), the value of Rs 484Mn (around 40%) contributes to enhancing sustainable agricultural practises in the country.
- > Lending for Fisheries and aquaculture sector in 2022 Rs 2,108 Mn.

## Value addition to agriculture products in 2022

- > Lending for Food and Beverages manufacturing - Rs 4,675Mn

## Increase agricultural productivity and production

- > Lending for farm mechanisation Rs 181 Mn
- > Through HNB මඩ වෙනුවෙන් අපි, the microfinance and SME sectors have received grants totaling Rs 22 Mn to date.



## Ensure healthy lives and promote well-being for all at all ages

- > Lending for health care services development projects Rs 5,628 Mn
- > Pharmaceutical and healthcare product manufacturing Rs 1,395 Mn
- > Pharmaceutical imports - Rs 2,691 Mn
- > We do not finance the production or trade in alcoholic beverages (except beer and wine) or tobacco because of the social implications.



## Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

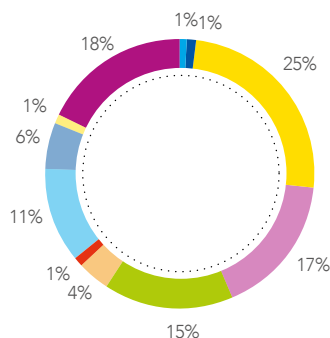
- Lending for,
- > Development of primary and secondary education Rs 9 Mn
  - > Tertiary education development Rs 78 Mn
  - > Other educational advancement activities Rs 2,563 Mn



- > Employee wages and benefits **Rs 15 Bn**
- > Interest on deposits **Rs 104 Bn**
- > Dividend payments **2.7 Bn**
- > Income Tax payments **Rs 25.6 Bn**

## Build resilient infrastructure promote inclusive and sustainable industrialisation and foster innovation

- > Projects for Road Development : Rs 22,920 Mn
- > Rs 1,551 Mn for the development of the telecommunications sector
- > Rs 5,898 Mn in loans for the development of the information technology and communication sectors



- Gems
- Diamonds/Ceramic/Leather
- Garments and Fabrics
- Food Items
- Tea
- Coconut
- Rubber
- Minor export crops
- Fish and marine products
- Unprocessed Agricultural Products
- Other

## Financing Export of Production

Financing to main export crops

Crop	Amount (Mn) of Lending for Production	Production from Lending
Tea	7,094	13,306 Mt
Coconut	1,728	81 Mn nuts
Rubber	1,796	8,126 Mt

- > Lending to minor export crops production Rs 385 Mn
- > HNB partnered with Cord360.com, the first ever digital marketplace, to enable local exporters and manufacturers to engage with global supply chains, extending the work undertaken to support growth.
- > Lending to tourism sector development Rs 5,771Mn

**Tea**  
Used information for calculations  
Total cost of production per one kg tea Sources: CBSL Annual Report 2021 Coconut

**Coconut**  
Used information for calculations  
Total cost of production per one nut Sources: CBSL Annual Report 2021

**Rubber**  
Used information for calculations  
Total cost of production per one kg rubber Sources: CBSL Annual Report 2021

Assumption: For perennial crops and long-term livestock development, the outstanding amount as of December 31, 2022, was taken per calculations. Amounts granted during the year were taken for other short term agricultural development activities.

## Lending for Sustainability Certified entities

Sector	Description	Certification or sub description	No. of Credit facilities	Value of the outstanding credit facilities as at 31/12/2022 (Mn)
Agriculture, Forestry and Logging	Sustainable certified agriculture business	GLOBAL G.A.P certification	22	Rs. 484
		Other sustainability certifications	3	Rs. 11
	Sustainable certified tea plantations	Rain forest alliance	17	Rs. 892
	Sustainable fisheries	Friend of Sea certification	23	Rs. 1,231
	Replacement of organic fertilizers	EU Organic certification, USDA (NOP) Organic certification	5	Rs. 37
Manufacturing	Other sustainable manufacturing	Organic certification for coconut oil	30	Rs. 698
		Sustainability certified Textiles	34	Rs. 3,142
		Sustainability certified rubber products	17	Rs. 2,437
Sustainable tourism and recreation		National sustainable tourism certification	12	Rs. 805
Total			163	Rs. 9,741



## GOVERNANCE

- > The Bank signed a Memorandum of Understanding with The Capital Maharaja Groups initiative Gammadda Sri Lanka, the country's largest rural development movement to develop infrastructure facilities of the Yaya 6 village Mahawilachchiya, in the Anuradhapura District.
- > The Bank has entered into an agreement with Private Sector Development (PSD) a grant project under Palladium International funded by USAID, to support microfinance and the SME sector.
- > The bank partnered with PPOD consultations to provide capacity-building programmes to potential SMEs. Regional capacity-building sessions covering financial management, invoicing, taxation, supplier management, and other HNB SME products were to be held.
- > An MOU was signed with Bileeta (Pvt) Ltd. to provide ERP solutions at a discounted rate to potential SMEs
- > 105 projects were evaluated for social and environmental criteria in line with the Bank's ESMS policy to ensure there were no adverse social or environmental impacts.
- > We do not provide financial support for the production of or activities involving harmful or exploitative forms of forced labour or harmful child labour.
- > We uphold transparent procurement practices in accordance with our board-approved procurement policy guidelines. Additionally, we prioritize responsible supplier partnerships, ensuring that they meet fundamental environmental and social performance standards. The principles and standards governing our bank operations are consistently applied throughout our supply chain.



# NATURAL CAPITAL



We recognise the important role we can play in driving CBSL's Road Map for Sustainable Finance in Sri Lanka and continue to take progressive action to manage our direct and indirect environmental impact.

VALUE DRIVERS	THE RESOURCES WE CONSUME	VALUE DRIVERS
<p><b>Investment in branch solarisation project and other energy efficiency initiatives</b></p> <p><b>Rs 82 Mn</b></p> <hr/> <p><b>Digitisation drive and paperless initiative</b></p> <hr/> <p><b>Investment in environment related CSR activities</b></p> <p><b>Rs 29.1 Mn</b></p>	<p><b>Energy Consumption within the Organisation</b></p> <p>Electricity from National Grid <b>11,681 MWh</b>                      Solar Power Generation <b>1,846 MWh</b>                      Fuel <b>301,375 L</b></p> <p><b>Energy Consumption outside the organisation</b></p> <p>Fuel <b>225,282 L</b></p> <hr/> <p><b>Material Consumption</b></p> <p>Paper Consumption <b>76,586 Kg</b></p>	<p><b>Investment in energy-efficient inverter air conditioning technology</b></p> <p><b>Rs 78.4 Mn</b></p> <hr/> <p><b>Reduction in paper consumption</b></p> <p><b>22%</b></p> <hr/> <p><b>Extent of reforested land</b></p> <p><b>2.5 acres</b></p>



### IMPACT

#### Carbon Foot Print

Year	Direct Scope 1 Emissions	Indirect Scope 2 Emissions	Total Carbon Footprint
2021	~1,500	~8,000	~9,500
2022	~2,500	~8,500	~11,000

#### Green finance portfolio

Sector	Percentage
Water supply, sewerage and waste management	45
Manufacturing	23
Electric power generation, transmission and distribution	11
Agriculture, Forestry and Logging	11
Other Sectors	7
Sustainable Tourism and recreation	3

As per CBSL green finance taxonomy : 2022

## MANAGEMENT APPROACH

Acknowledging the significant direct and indirect environmental and social impacts created through our operations, our environmental agenda is aimed at managing our carbon footprint and promoting sustainable environmental practices within and outside our organisation. HNB's environmental agenda is embedded in the Bank's overall environmental and social policy and is closely aligned to the principles of the Sri Lanka Sustainable Banking Initiatives (SLSBI) put forward by the Sri Lankan Bankers' Association (SLBA) where the overarching goal is to put in place responsible banking practices that avoid, minimise and mitigate the negative impact on the environment and promote sustainable economic development. The Bank has also aligned its sustainability initiatives with the Sri Lanka Sustainable Finance Roadmap of the Central Bank of Sri Lanka,

## ENVIRONMENTAL GOVERNANCE











### Policy Framework

Two key policies govern environmental and social practices across our operations. The Bank's Environmental and Social Management Policy is aimed at mitigating the environmental and social impacts of our lending activities while the Green Pledge policy is aimed at ensuring resource efficiency and responsible behaviour within the organisation.



### The HNB Sustainability Foundation

The HNB Sustainability Foundation functions as the decision making and monitoring body for sustainability at HNB. The sustainability foundation which also has board representation comprises of the following officers ;

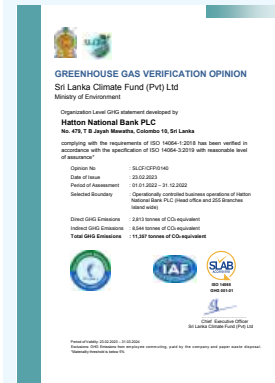
-  Chairman of the Foundation MD /CEO
-  NED/NID
-  ED/COO
-  DGM-CHRO
-  Head of Legal/ Board Secretary
-  AGM Risk
-  AGM Strategy
-  Head of Finance
-  Head of Marketing
-  Head of Services

### Monitoring performance and Reporting

Monitoring and reporting on sustainability performance is an important part of environmental and social governance. We have in place multiple mechanisms to reliably track and report on ESG performance.

- ✓ Key environmental and social indicators are tracked on a bi-monthly basis and reported to the sustainability foundation on a quarterly basis through the CEO Dash Board
- ✓ Annual sustainability assurance audit (external)
- ✓ Periodic internal sustainability audits for selected branches
- ✓ Smart Carbon Calculator system was introduced in 2021 to assess and monitor Bank's carbon footprint.
- ✓ ESMS performance is reported in the Annual Report

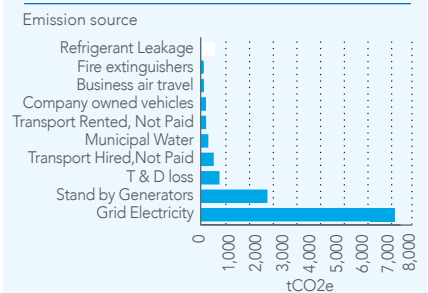
## ISO 14064 CERTIFICATION



Marking a key milestone in its sustainability journey, HNB PLC was awarded the ISO 14064-1:2018 certification by the Sri Lanka Climate Fund in recognition for its commitment to quantify, report and reduce its greenhouse gas (GHG) emissions.

(Since 2021, HNB has been systematically quantifying GHG emissions.)

### GHG emissions for the year 2022





# NATURAL CAPITAL

## CLIMATE ACTION

Climate change, caused by excessive greenhouse gas emissions, continues to be a growing challenge with wide ranging implications both globally and locally. Having understood the critical importance of a concerted effort by society to meaningfully address the issue, the Bank has formulated a 'carbon management plan' as part of its efforts to combat climate change by reducing the carbon footprints of the Bank, its employees, customers and wider economy.



### BRANCH SOLARISATION

We are gradually reducing our dependence on the national grid through our branch solarisation project.



#### ENERGY EFFICIENT TECHNOLOGY

We strive to achieve greater energy efficiency by investing in energy efficient technology such as LED lighting, energy efficient lifts and inverter air-conditioning.

#### PAPERLESS DRIVE

Our strong digitisation drive, has reduced and in some cases completely eliminated the need for paper-based processes.



#### PROMOTING SUSTAINABLE LIFESTYLES

Environmentally sustainable practices are built into the culture of HNB through the HNB Green Pledge - a pledge by every HNB employee to integrate environmentally friendly practices into their daily activities at work and at home.

#### GREEN FINANCING

We remain committed to combating climate change by promoting projects and activities that contribute to a greener, more sustainable economy in Sri Lanka.



#### BIODIVERSITY CONSERVATION THROUGH CSR ACTION

Over Rs 29.1 Mn was invested in CSR activities relating to biodiversity conservation.

#### INDUSTRY E&S RISK REVIEWS

Are carried out by the ESMS unit to identify climate change related risks and impacts.

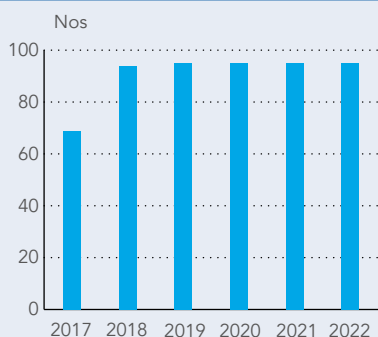


## OUR EFFORTS TO DRIVE CLIMATE ACTION



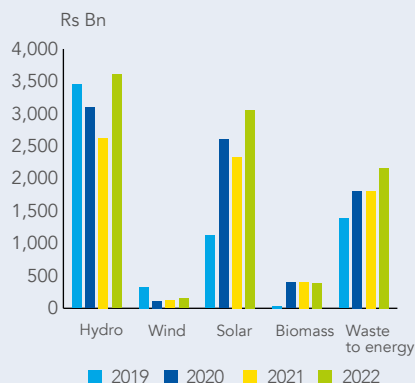
A total of **95** branches have been solarised as of 2022, resulting in **13%** of our total branch energy requirement being met through solar power

### Solar Roof Top Branches



The Bank's renewable energy portfolio, which includes investments in solar, mini-hydro, wind, and biomass energy, surpasses **Rs 98 Bn**.

### Renewable energy portfolio



HNB Rideshare initiative was introduced during the year to support employees in reducing their individual carbon footprint by opting for eco-friendly modes of transport such as carpooling. The initiative is an extension of the HNB's flagship 'Walk the Talk' campaign launched in 2018.



The Bank is committed to reducing paper consumption across its value chain as part of the paper-less drive initiated in 2009. Digitisation throughout the value chain has led to a significant reduction in paper consumption.

#### VENDORS AND SUPPLIERS

- > E-procurement
- > Promote a cashless society
- > Authorised recyclers are contracted to provide a total recycling solution
- > Operate responsibly and meet basic standards of environmental and social performance
- > Monitoring and reporting of our performance against sustainability KPIs

#### EMPLOYEES

- > Digitisation of internal processes
- > E-learning
- > Remote work
- > E-filing Systems
- > Octoplex for approval and emails for internal communications
- > Reusing stationery and fixed assets
- > Lean Six Sigma initiatives
- > Re-engineering of business processes

#### CUSTOMERS

- > Cashless/digital payments and transfers
- > E-statements
- > Digital Banking APPs
- > Switch to digital channels
- > Introducing the 'Green PIN'
- > Discontinuing the issuance of passbooks for teen accounts
- > E-commerce platform 'AppiGo' to support small and medium enterprises



One of our key long-term projects, the Kanneliya Conservation Project aims to develop a biodiversity credit accrual system for Sri Lanka through reforestation.



The Bank's ESMS unit carried out industry E&S risk reviews for agriculture, fisheries, and apparel sectors to assess the challenges and impacts of climate change. Based on the findings, recommendations were proposed to avoid, minimise, mitigate, or offset the negative impacts, while also recommending how to respond to the climate related challenges.

# NATURAL CAPITAL

## WASTE MANAGEMENT

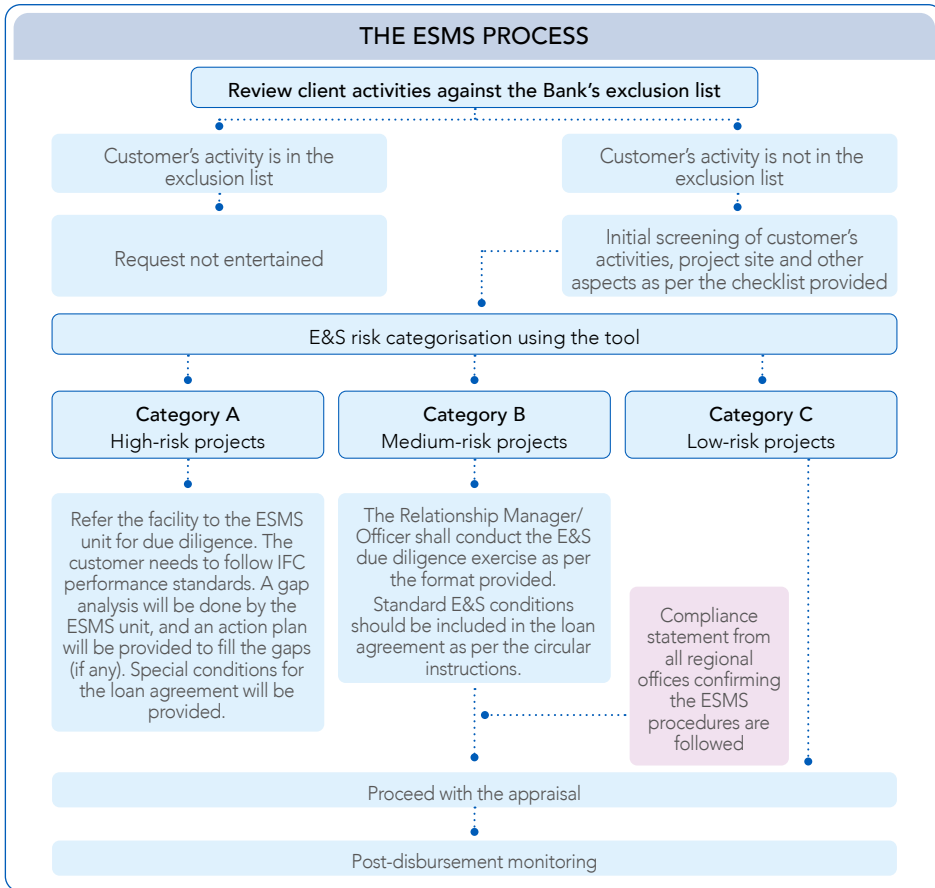
Waste generated from our operation consist mainly of paper waste and electronic waste. While driving efforts to reduce paper consumption through the Bank's paperless drive we also encourage recycling paper wherever possible. All locations practice waste segregation and contracted third parties ensure safe disposal of hazardous waste such as e-waste. Waste management practices are monitored on an ongoing basis and updated as necessary.

## RESPONSIBLE LENDING

We are committed to supporting the Government's efforts to transition towards a green, inclusive, and balanced economy in Sri Lanka as laid out in CBSL's 'Road Map for Sustainable Finance in Sri Lanka'. Accordingly, we ensure that our lending and investment activities are environmentally and socially responsible and compatible with the country's environmental and social regulations, as well as globally accepted best practices and standards.

## ENVIRONMENT AND SOCIAL RISK MANAGEMENT

Our Environmental and Social Risk Management process ensures that the environmental and social impacts of our customers and partners are accurately identified, assessed and addressed on an ongoing basis. The policy and procedures are compatible with locally applicable Sri Lanka Banks Association's Sustainable Banking Principles and the Central Bank of Sri Lanka (CBSL) Sustainable Finance Roadmap, as well as internationally accepted IFC Performance Standards and ADB safeguards. During the year, a total of 105 lending projects were evaluated by the ESMS unit, out of which 2 were rejected on the basis that they did not comply with our ESMS standards. We also build 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.



- Paper usage** 76,587 kg
- Recycled **100%**
- Increased online Transactions **105%**
- No of customers converted to E-statements **356,562**
- Our investment in paper recycling translate to the saving of **1,913 Trees**
- 197,508 Litres** of oil
- 450,160 kWh** of electricity
- 3,576,521 Litres** of water
- 338 Cubic Meter** of landfill
- 112,540 kg** of CO<sub>2</sub> of GHG Emission

## Sustainable Financing Activities

During the year, we granted over 1,173 facilities to sectors and subsectors identified as priority sectors in the Sri Lanka Green Finance Taxonomy introduced in May 2022. (See the table below). Meanwhile we continue to offer our customers a range of environmentally friendly loan schemes as part of our efforts to promote sustainable initiatives.

### PRIORITY SECTORS AS IDENTIFIED IN SRI LANKA'S GREEN FINANCING TAXONOMY

The Central Bank of Sri Lanka has introduced the Green Finance Taxonomy in 2022 and HNB has identified the bank's green finance portfolio as per the criteria specified in the taxonomy. The Bank is in the process of further identifying of facilities eligible to be classified as Green Finance.

Sector	No of credit facilities	Value of outstanding credit facilities as at 31.12.22 (Rs Mn)
Agriculture, forestry and logging	72	3,045
Manufacturing	88	6,321
Electric power generation, transmission and distribution	911	3,206
Water supply, sewerage and waste management	57	12,687
Sustainable tourism and recreation	12	805
Other sectors (Sustainable Women empowerment initiatives, Waste-to-Energy project and facilities granted to retrofit energy efficient machinery)	33	1,943
<b>Total</b>		<b>28,007</b>

## Environmental awareness programmes

Creating awareness and educating our customers and business partners on the benefits of environmental and social 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. In addition to regular engagement with suppliers and customers, targeted groups are subjected to awareness and capacity-building workshops on a regular basis.

We also continue to develop the internal capacity required to identify, assess and manage environmental and social risks and opportunities associated with our business operations. Our strategy for greening our business processes is documented in the Green Pledge policy and the Environmental and Social policy.



## BIODIVERSITY CONSERVATION

Throughout the year, the Bank implemented a number of innovative environmental initiatives.

### Project LIFE

The Bank completed its fourth year of restoring and managing a 2.5 acres block of degraded rainforest land at the Kanneliya Forest Reserve. The five-year restoration programme implemented by Biodiversity Sri Lanka (BSL) with the technical support of the International Union for Conservation of Nature (IUCN), functions under the guidance of the Forest Department. The Bank has been an active contributor to the restoration project which ensures the establishment of on-site nurseries, fertilising plants, soil conservation, improving plant protection methods and ensuring the plants are watered during the dry season.

### PPE donation for Ocean Force Lanka

The HNB මධ්‍ය මට්ටමේ අපේක්ෂා initiative donated Personal Protective Equipment to the 'Clean Ocean Force Lanka' as part of its efforts to reduce the plastic pollution on beaches and waterways.

This unique, collaborative effort involves partnering with local communities, drawing both volunteers and a task force to tackle the issue of plastic pollution on Sri Lankan beaches.





## WAY FORWARD

We remain committed to aligning our operations with CBSL's Roadmap for Sustainable Finance in Sri Lanka. In 2023, we will continue to strengthen our sustainability governance framework to bring in greater board oversight of sustainability practices. The "Green Pledge" which was launched in 2019 as an employee oath will be upgraded as the "Green Pledge Policy" and will serve as the umbrella sustainability policy of HNB. Meanwhile we will strengthen our reporting and monitoring mechanisms to better track our impact on the environment.

# INTELLECTUAL CAPITAL



Ongoing efforts to nurture our intellectual capital have enabled us to remain agile and dynamic while continuing to grow our brand value. During the year we launched our new brand identity and rolled out several initiatives to drive our new brand ethos.

VALUE DRIVERS	OUR INTELLECTUAL CAPITAL	VALUE CREATED
 <p>Investment in brand building initiatives</p> <hr/>  <p>Training investments <b>Rs 48.7 Mn</b></p>	<p><b>BRAND EQUITY</b> Brand Value (2022) <b>Rs 24.2 Bn</b></p> <p><b>EMPLOYEES BY TENURE</b> Over 15 year 2,422 Over 10 years 826 Over 5 years 369</p> <p><b>SYSTEMS AND PROCESSES</b> Fully fledged digital wallet RPAs Chatbots</p> 	<p><b>BRAND</b></p> <p><b>Rs 1.1 Bn</b> Increase in brand value</p> <hr/>  <p><b>3</b> New deposit products</p>
<p><b>IMPACT</b></p> <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;"> <p><b>9th</b> Most Valued Brand in the Country (Brand Finance)</p> </div> <div style="text-align: center;"> <p>Best Retail Bank for <b>12 years</b></p> </div> </div>		





## A NEW BRAND IDENTITY

With HNB's decade-long transformational journey, we unveiled our vibrant new brand identity earlier this year. This new look and heightened focus towards our brand-led strategy represents the culmination of an ambitious journey to realign HNB and its rich legacy of 135 years, to a simple and singular idea that we make banking enjoyable for all Sri Lankans.

To reinforce this idea, an attractive thematic marketing campaign was launched on mass media, under the campaign theme 'a joy to bank with', establishing the fact that HNB is an intrinsic part of bringing joy to the lives of our people, whilst highlighting our key product offering and establishing our four experience principles:


- > Deal Easy – making our touchpoints efficient, simple and agile to make our customers comfortable.
- > Count on Us – emphasizing that our customers can rely on us by being transparent and informative, whilst reassuring the best service.
- > Feel Special – making customers feel valued by being personal and respecting their needs.

- > We Know You Better – making our customers feel seen by proactively delighting them.

With this brand transformation and post the launch of HNB's new brand identity, one of the key initiatives in place is investing on our brand visibility at each customer touchpoint, which includes mass media, out-of-home media, digital and social media, ATM and Branch screens and most importantly, through our employees as brand ambassadors of HNB.

This resulted in a positive growth in brand value by Rs 1.1 Bn, according to the annual Brand Finance evaluation, making HNB the 9th Most Valued Brand in the country with a brand value of Rs 24.2 Bn, which supports the theory that "brands do not grow by default but by design". We are determined and confident that this ranking can be further enhanced by strongly positioning HNB as the bank which makes banking enjoyable. HNB's brand experience is the sum of all sensations, thoughts, feelings, and reactions that our customers will gather in response to what we do. Brand experience is not specified to a channel or media type. Rather, it is the result or the lasting impression we want to establish that remains after someone encounters or engages with HNB in any environment, which finally results in higher brand equity.

NEW LOGO



The logo icon referred to as the peak represents the zenith of growth we want to reach with our stakeholders. Whilst the colour yellow represents our customers/ stakeholders whom we enlighten with clarity through consistent optimism and promoting positivity, the dark blue signifies the HNB family; intelligent and trustworthy individuals who drive technology and the light blue, our journey together to achieve growth and prosperity, while making banking enjoyable and creating happiness.





# INTELLECTUAL CAPITAL

## PROCESS IMPROVEMENTS

We continue to transform how we do things; bringing about greater efficiencies and flexibility through ongoing process improvements.

A culture of continuous improvement drives these efforts and enables us to stand apart from the rest by achieving service and operational excellence.

<p><b>Business Processes</b></p>	<ul style="list-style-type: none"> <li>&gt; Process improvements and people development initiatives were carried out at the centers (Credit Admin Department and Centralised Credit Operations) with the aim of standardising processes and practices, increasing First Time Right (FTR), improving people fitment, upskilling and right sizing to enable improved productivity.</li> <li>&gt; Cross functional initiative led by the Customer Experience Department to further fine tune processes at the branch network</li> <li>&gt; Process studies were carried out with the aim of improving the Corporate RM productivity to enable more time for client engagement and relationship management thereby improving client experience.</li> </ul>
<p><b>Process Automation</b></p>	<ul style="list-style-type: none"> <li>&gt; Robotic Process Automation was implemented in the Trade Process to automatically upload SWIFT documents to the workflow system, resulting in productivity improvement of 266%</li> <li>&gt; Robotic Process Automation is in the process of being deployed for the Insurance Renewal Process which will eliminate manual processing from the branch network, resulting in an expected productivity improvement of 250%</li> </ul>
<p><b>HR Processes</b></p>	<p>Responding to the growing need for flexible work arrangements, we rolled out a pilot project across selected verticals to offer hot desking and flexi work options for employees. The project is expected to promote a family friendly workplace while also resulting in space optimisation.</p>

## LEVERAGING OUR TACIT KNOWLEDGE

The tacit knowledge and collective experience of our team of 5,156 employees is a vital component of our intellectual capital as it provides deep insights into a rapidly evolving banking industry. We continue to find ways of harnessing, enhancing and retaining this valuable resource through innovative learning opportunities, talent mobility programmes, leadership programmes and knowledge sharing initiatives. For more details on our learning and development initiatives please refer page 61 (Human Capital section) of this report.

banking industry enable us to continue to offer customers innovative new products. During the year we introduced three new deposit products namely HNB Teen Plus, HNB Investment Plans and Premier Current Account. We also launched the wallet feature on our payment app upgrading it to a fully-fledged digital wallet,

## AWARDS AND ACCOLADES

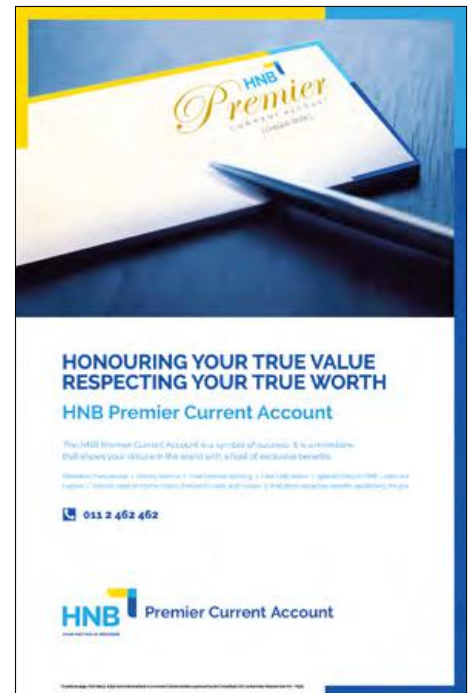
Our commitment to driving excellence in all aspects of our operation continues to be recognised both locally and internationally. This local and global recognition contributes in no small measure to our brand value.

## NEW PRODUCT DEVELOPMENT

Remaining attuned to evolving customer requirements is a key element of staying ahead of the competition. A culture of innovation combined with our deep understanding of our customers and the

### HARNESSING OUR INTELLECTUAL CAPITAL TO DRIVE EXCELLENCE - "Committed to Serve Initiative"

Led by the Customer Experience Unit the 'Committed to Serve' initiative brings together cross functional expertise from Operations, Human Capital, Talent Centre and Regional Leadership to identify focus areas and develop customised learning modules to address customer concerns highlighted through Customer Service Survey, the Knowledge Audits and the feedback from the Regional Leadership. The initiative includes over 100 branches island-wide



## KEY AWARDS AND ACCOLADES DURING 2022

- > Best Corporate Citizen Sustainability Awards 2022 (CCC BCCSA) organised by the prestigious Ceylon Chamber of Commerce
  - Overall Winner of the coveted 'Best Corporate Citizen Sustainability Award' for 2022
  - Ranked among the Top 10 Best Corporate Citizens
  - Governance category winner
  - Sustainability Champion for the Finance sector
  - Second runner-up for Demonstrated Resilient Practices for COVID-19 category
- > Ranked among the top 1,000 World Banks for the sixth consecutive year by Banker Magazine
- > Recognised among CIMA, ICCSL Most Admired Companies in Sri Lanka
- > Best Retail Bank in Sri Lanka - International Excellence in Retail Financial Services Awards 2022 hosted by the Asian Banker Magazine, awarded for the 12th occasion
- > 'Best Service Bank' and the 'Market Leader' in the Euromoney Trade Finance Survey 2023
- > No. 5 in the Business Today Top 40 companies rankings
- > LankaPay Technnovation Awards 2022
  - Gold Award for the Bank of the Year for Financial Inclusivity
  - Gold award for the Bank of the Year for Excellence in Customer Convenience
  - Silver award for 'Financial Institution of the Year for Best Digital Payment Strategy'
  - Bronze award for 'Overall Award - Excellence in Interbank Digital Payments' (Banking Institutions)
- > Best all-round growth at the annual Daraz Payment Partner Performance Awards 2022
- > Best IoT initiative for HNB FIT APP- Asian Digital Finance Forum and Awards
- > Silver Award for Best Use of Data at the SLIM DIGIs 2.1 for 'Leasing Guru' campaign to HNB together with ikman.lk
- > HNB Chairperson, Ms. Aruni Goonetilleke honored as 'trailblazer of the year' in the 11th edition of "Top 50 Professional and Career Women Awards" hosted by Women in Management (WIM)
- > Recognized as offering one of the nation's best working cultures for women at the second edition of the Women Friendly Work Awards 2022
- > Bronze award in the Private Sector Banks category at the TAGS Annual report awards by CA Sri Lanka
- > Large Scale Services sector Silver award at the National Productivity awards
- > Awarded the ISO 14064 certification by the Sri Lanka Climate Fund, recognizing the commitment to quantify, report and reduce its greenhouse gas (GHG) emissions



## WAY FORWARD

Enhancing our brand equity will be a main focus as we continue with our journey of transformation in an increasingly competitive and complex banking landscape. We will therefore continue to strengthen our systems and processes and leverage our extensive base of tacit knowledge to drive operational excellence and greater brand value.

# MANUFACTURED CAPITAL



Our manufactured capital enables us to communicate our brand ethos by creating customer and employee friendly spaces. During the year we invested Rs 157 Mn in revamping our branch network to reiterate the bank's new brand identity.

VALUE DRIVERS	OUR MANUFACTURED CAPITAL	VALUE CREATED												
 <p>Investment in branch revamping initiative</p> <p><b>Rs 157 Mn</b></p> <hr/>  <p>Investments in PPE</p> <p><b>Rs 721 Mn</b></p>	<p><b>OUR MANUFACTURED CAPITAL</b></p> <p>Property, Plant &amp; Equipment</p> <p>LKR Mn</p>  <table border="1"> <caption>Property, Plant &amp; Equipment (LKR Mn)</caption> <thead> <tr> <th>Year</th> <th>Land &amp; Building</th> <th>Other</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>~17,000</td> <td>~9,000</td> </tr> <tr> <td>2021</td> <td>~22,000</td> <td>~8,000</td> </tr> <tr> <td>2022</td> <td>~22,000</td> <td>~9,000</td> </tr> </tbody> </table> <p>■ Land &amp; Building ■ Other</p>	Year	Land & Building	Other	2020	~17,000	~9,000	2021	~22,000	~8,000	2022	~22,000	~9,000	 <p><b>95</b> Solarised branches</p> <hr/>  <p><b>2.4 Mwp</b> Solar power capacity</p>
Year	Land & Building	Other												
2020	~17,000	~9,000												
2021	~22,000	~8,000												
2022	~22,000	~9,000												



## REVAMPING OUR BRANCH LOOK

During the year we commenced upgrading the look and feel of our branch network to better reflect our new brand identity. Accordingly façades, signages, colour themes and branch layouts were redesigned with the overarching aim of “making banking more enjoyable”. The new look was rolled out in a total of 25 branches across the network while layout changes were implemented at our branches at Battaramulla, Katugastota and Padukka.

## CREATING WORKSPACES OF THE FUTURE

As we continue to transform into a workplace of the future we strive to create inspiring workspaces for our staff. Concepts such as hot desking and open plan offices are being explored while the overall look and feel of work spaces is aimed at creating “Happy and Bright” spaces for our employees.

## GREENING OUR PHYSICAL FOOTPRINT

We continue to invest in greening our physical footprint. 95 branches have been solarised as at the end of 2022 through our branch solarisation project. Meanwhile we continue to adopt sustainable building practices such as LED lighting, Inverter technology, space optimisation and natural lighting in all of our premises. We also have in place a robust building management system to ensure efficient use of resources within our premises. Three of our branches (Jaffna, Nittambuwa and Kalmunai) are Green Building Certified and we hope to gradually increase this number.

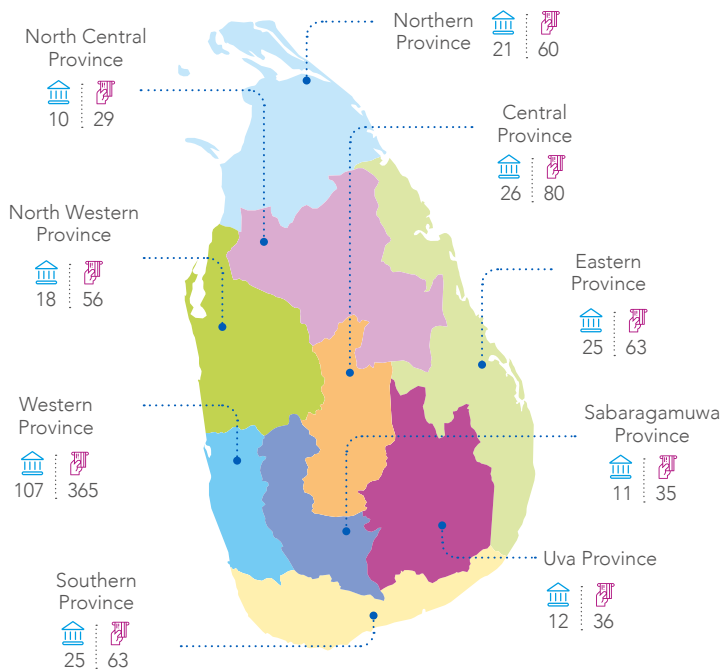
## WAY FORWARD

The branch revamping initiative will continue in 2023 as we strive to create future-fit spaces that espouse our evolved brand ethos. We will also continue to optimise our branch network through branch re-locations to high footfall areas.

## RETHINKING OUR SPACES

The new branch, referred to as ‘the Customer Centre’ is designed with the customer journey in mind. Customer Center spaces are being redesigned to simplify customer experiences while ensuring that customers are engaged and that their every need is met. The spaces include experimental zones, lounges and sitting areas, self-help kiosks and digital screens powered by speed and simple systems.

- > The first half of the space caters to quick transactions and includes a digital zone that is accessible to customers 24X7
- > The rear half of the space is designed to accommodate customers who require longer transactions.



 Branches  
 Self Service Machines



# BOARD OF DIRECTORS



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

**ARUNI GOONETILLEKE**  
Chairperson  
(Independent / Non-Executive)

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

**NIHAL JAYAWARDENE PC**  
Director  
(Non-Independent /  
Non-Executive Director)

**AMAL CABRAAL**  
Director  
(Independent / Non-Executive)

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



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

**OSMAN CHANDRAWANSA**  
 Director  
 (Independent /  
 Non-Executive Director)

**RASITHA GUNAWARDANA**  
 Director  
 (Independent Director /  
 Non-Executive)

**DR. PRASAD SAMARASINGHE**  
 Director  
 (Non-Independent Director /  
 Non-Executive)

**PRAWIRA RIMO E SALDIN**  
 Director  
 (Non Independent /  
 Non-Executive Director)

**MRS K A L THUSHARI RANAWEERA**  
 Company Secretary

**KITHSIRI GUNAWARDENA**  
 Director  
 (Non-Independent Director /  
 Non-Executive)



## BOARD OF DIRECTORS

**ARUNI GOONETILLEKE**

*Chairperson  
(Independent / Non-Executive)*

LLM (USA), LLB (SL)

*Appointed Director: April 2021*

*Chairperson: September 2021*

**Skills & Experience:**

Aruni Goonetilleke is a financial services expert with over twenty-five years of experience in regional financial markets. She has extensive experience in enterprise risk management, credit, audit and business origination and has held leadership positions in local and international Banks.

She has a Master of Laws from Harvard Law School, USA and a Bachelor of Laws (Honours) from the Faculty of Law, University of Colombo. She has been a visiting lecturer in law at the Faculty of Law and lectured in Gender Studies at the Department of Graduate Studies, University of Colombo. She has a special interest in issues relating to Women's Empowerment, Diversity and Inclusion in the workplace.

She was appointed as a Director of the Bank on 1st April 2021 and was appointed as the Chairperson on 29th September 2021. At the time of her appointment as the Chairperson of the Bank Mrs Goonetilleke held the Chair of the Board Integrated Risk Management Committee of HNB PLC.

**Other Current Appointments:**

She currently holds the positions of Non-Executive / Independent Director of Tea Small Holder Factories Plc, Softlogic Finance Plc, Goodhope Asia Holdings Ltd and Eswaran Brothers Exports Pvt Limited.

**Previous appointments**

Her last role was Head of Corporate Banking at People's Bank, where she was responsible for a large portfolio of public and private sector clients. Immediately prior to that, she was the Head of Credit for Commercial Banking, at Standard Chartered Bank, Singapore. She has also held the positions of Head of Credit for SME at Standard Chartered Bank, Singapore, Chief Risk Officer, Standard Chartered Bank, Sri Lanka and Global Audit roles in Wholesale and Retail Banking at Standard Chartered Bank.

**JONATHAN ALLES**

*Managing Director / Chief Executive Officer  
(Executive Director)*

M.B.A. Finance (Stirling), A.I.B. Sri Lanka

*Appointed: July 2013*

*Executive Director Appointed: May 2013*

**Skills & Experience:**

An experienced banker counting over 36 years of Banking experience, having served in several international Banks including the National Bank of Abu-Dhabi, Saudi British Bank-Riyadh, British Bank of the Middle-East and HSBC, Dubai and Colombo, before taking on the reins at HNB. 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:**

Mr. Alles is a Director of the Sri Lanka Banks' Association (SLBA). He is also a Director of the Asian Bankers Association (ABA) and serves as the Chairman of its Advisory Council. He is also a member of Sri Lanka Institute of Directors.

Mr Alles is a dynamic Banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 254 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.

**Previous appointments**

He served on many Boards within the HNB Group as well as in the Banking Industry. He was the Chairman of Sri Lanka Banks' Association (Guarantee) Ltd from 2014 to 2016 and in 2018, he was elected Chairman of Asian Bankers Association for the period 2018 to 2021. He also served as the Chairman of Financial Ombudsman Sri Lanka (Guarantee) Ltd, HNB Finance Plc, Acuity Partners (Pvt) Ltd, Lanka Ventures Plc, LVL Energy Fund and Lanka Financial Services Bureau Ltd. He served as the Vice Chairman of Banking, Financial & Insurance Services Group of the Employers' Federation of Ceylon.

Mr Alles was also a Director of Lanka Clear (Pvt) Ltd, HNB Assurance Plc, Sithma Development (Pvt) Ltd, HNB General Insurance Ltd, Acuity Stock Brokers (Pvt) Ltd and Prime Grameen Micro Finance Ltd. He served as a member of the Main Committee of the Ceylon Chamber of Commerce and was also a member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform.

**AMAL CABRAAL**

*Director  
(Independent / Non-Executive)*

Chartered Marketer - FCIM (U.K.), MBA - University of Colombo, Alumnus - INSEAD - France

*Appointed: April 2014*

**Skills & Experience:**

Counts over four decades of business experience predominantly in a multinational corporation with leadership roles in General Management, Marketing and Customer Management in Sri Lanka and overseas.

Is an 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:**

Mr. Cabraal is the Chairman of Ceylon Beverage Holdings PLC and Lion Brewery (Ceylon) PLC and also the Chairman of Sunshine Holdings PLC, Silvermill Investment Holdings and CIC Feeds Group of Companies. He is also a Non-Executive Director of John Keells Holdings PLC and serves as a business advisor to a number of companies. He is a member of the Board of the Ceylon Chamber of Commerce and serves on the Management committee of the Mercantile Services Provident Society.

**Previous appointments**

Chairman and CEO of Unilever Sri Lanka.

## **DR. PRASAD SAMARASINGHE**

*Director  
(Non-Independent Director / Non-Executive)*

*PhD (Australia), MEng (Sri Lanka), BSc. (Eng.)  
Hons (Sri Lanka)*

*Appointed: October 2022*

### **Skills & Experience:**

Appointed as a Director in October 2022. 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 Part I and Part II 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 Telecom Frontier (Pvt) Ltd, Bell Solutions (Pvt) Ltd from September 2008 and Bellvantage (Pvt) Ltd from April 2021.

Dr Samarasinghe is also a Director of Hayleys Fibre PLC, serving in its Board from September 2017, Director of DCSL Brewery (Pvt) Ltd and Maganeguma Road construction Equipment Company (Pvt) Ltd. Dr Samarasinghe represents Mr Damien Fernando on the Boards of HNB Assurance PLC and HNB General Insurance Ltd, as his alternate Director.

## **MADU RATNAYAKE**

*Director  
(Independent / Non-Executive Director)*

*B.Eng (Hons) (London), MBA (Sri Jayawardenapura),  
Dip.in Computer System Design (NIBM Sri Lanka)*

*Appointed: October 2018*

### **Skills & Experience:**

A Chartered Engineer, he holds a MBA from the Postgraduate Institute of Management (Sri Jayawardenapura), a First Class Honors

Degree in Software Engineering from City University in London and Dip.in Computer System Design (NIBM) Sri Lanka.

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 the Co-Founder and Chairman of Scybers (Pvt) Ltd, a global cybersecurity consulting and managed services company, and Director of HSenid Business Solutions (Pvt) Ltd, first listed software technology company in Sri Lanka.

He represents the IT industry on the boards of several leading universities / institutions.

### **Previous appointments**

Mr. Ratnayake was the Executive Vice President / Global CIO and the Center Head for Virtusa Sri Lanka. He has also served as a Director of Sanasa Development Bank from December 2014 to January 2016 and Sri Lanka Institute of Information Technology.

He is also the 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 Chairman of Sarvodaya Fusion, the ICT4D arm of Sarvodaya, the largest NGO in Sri Lanka and he was an Independent/Non-Executive Director of Sri Lanka CERT (Pvt) Ltd, national cybersecurity agency and Director of Information Communication Technology Agency (ICTA), the National Agency for Digital Government.

## **DEVAKA COORAY**

*Director  
(Independent / Non-Executive Director)*

*FCA (SL), FCMA (UK)*

*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 Chairman of United Motors PLC and its subsidiaries. He is also the Managing Director of Management Systems (Pvt) Ltd and its subsidiaries. He serves as Director of Life Insurance Corporation (Lanka) Ltd, HVA Foods PLC and JAT Holdings PLC.

### **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. He 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.

## BOARD OF DIRECTORS

**DILSHAN RODRIGO**

*Director  
(Executive Director / Chief Operating Officer)*

MBA (UK), FCCA (UK), FCMA (UK)

*Appointed: July 2020*

**Skills & Experience:**

Mr. Rodrigo possesses over two decades in banking experience and is the Executive Director / Chief Operating Officer of Hatton National Bank PLC. He provides administrative leadership to Finance, IT, Credit, Operations, Risk Management, Banking Services, Compliance and Internal Audit functions. He is overseeing the cross functional teams involved in improving governance and compliance by serving in several Board and Management committees in the Bank. Mr. Rodrigo holds a MBA from Cranfield University UK, FCMA UK and FCCA UK.

He has played a catalyst role in the bank's transformation and cultural change by being the driving force towards centralization, automation, outsourcing and process improvement initiatives and recognized for driving a performance culture through training, talent acquisition and introducing several break through cost optimization initiatives.

**Other Current Appointments:**

Mr Rodrigo has held many senior positions in multiple industries ranging from banking, insurance, investment banking and apparel. He presently functions as Chairman of HNB Finance PLC and holds Directorships in HNB Assurance PLC, Guardian Acquity Management, Lanka Financial Services Bureau and Credit Information Bureau. Mr Rodrigo serves on the councils of the Sri Lanka Institute of Directors (SLID) and was the Chairman Policy Advocacy Committee of Asian Bankers Association (Taiwan) during 2011/12 and 2019/20.

**Previous appointments**

He has served as a lecturer and examiner on various undergraduate and postgraduate programs (CIMA, ACCA, PIM and University of Wales MBA programs) and is a Guest Lecturer for SLID, Director Certification Program. He has presented various technical

papers in various forums locally and overseas on Strategy, Business Transformation and Risk Management. Mr. Rodrigo has also served on local governing councils of CIMA, APB, ACCA and Risk Professional Forum and in the latter two as President.

**OSMAN CHANDRAWANSA**

*Director  
(Independent / Non-Executive Director)*

MSc (UK), BTI (SL), Dip. In Money & Banking (UK)

*Appointed: April 2021*

**Skills & Experience:**

Mr Chandrawansa served as the Controller of Exchange in Central Bank of Sri Lanka from 2009 to 2014 till his retirement. He holds a Master of Science degree in Banking and Finance and a postgraduate Diploma in Money and Banking from the University of Birmingham UK.

Mr Chandrawansa has published papers on foreign exchange forward market in Sri Lanka and Measures for Development, Feasibility of Inflation Targeting in Sri Lanka and empirical studies of the exchange rate volatility after the floatation of the Rupee and its implications for the Economy. He has contributed his knowledge in the capacity of a member of the Central Banks' Financial Stability Committee, Study Team on Inflation Targeting for Sri Lanka and Annual Reports Perpetration Committee from time to time. He is a regular writer to the weekly papers published in the Island as well.

**Previous appointments**

Mr Chandrawansa had a long term service in the Central Bank starting from the year 1975. During his tenure he has held the positions in the Central Banks' EPF Department, Matara Regional Office, International Operations Department, Economic Research Department as a Senior Economist, Domestic Operations Department, Financial System Stability Department, Department of Supervision on non-Bank financial institutions and the Exchange Control Department. He had received extensive training in banking & finance both internationally and locally. Mr Chandrawansa also served in the Ex-officio office of the

National Gem & Jewellery Authority as a Director ex-officio from August 2009 to September 2014.

**PRAWIRA RIMO E SALDIN**

*Director  
(Non Independent / Non-Executive Director)*

FCA (Sri Lanka), FCMA (UK), CMA (Australia)

*Appointed: April 2021*

**Skills & Experience:**

Appointed as a Director in April 2021. 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.

Prior to being appointed to the Board of Directors of Hatton National Bank PLC, Mr. Saldin functioned as Alternate Director to Mr. R.S. Captain from 26th July 2018 to 2nd April 2021.

**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.

## **NIHAL JAYAWARDENE PC**

*Director*

*(Non-Independent / Non-Executive Director)*

*LL.M (Lond), President's Counsel*

*Appointed: August 2021*

### **Skills & Experience:**

Mr Jayawardene joined the Bar in 1983. He has his career experience as an officer of the Attorney General's Department of Sri Lanka in excess of 20 years, Senior Lecturer of Sri Lanka Law College and Legal Consultant and Board Member in numerous Institutions. He is an Attorney at Law of the Supreme Court of Sri Lanka and Solicitor of the Supreme Court of England & Wales.

Mr. Jayawardene has actively contributed for many law reforms initiatives taken place in Sri Lanka in the field of Civil Aviation, Company Law, and has extensive experience in Public Enterprises reforms programmes carried out in the areas of Insurance, Telecommunication, Aviation, Port & Shipping and Plantation sectors.

In recognition of immense contribution made to the Legal Profession as an eminent senior counsel in Corporate, Commercial, Aviation and Public Law he was appointed as a President's Counsel in the year 2012.

Mr. Jayawardene also played a leading role in the process of drafting the Colombo Port City Economic Commissions Act. Presently involved in drafting Electricity Sector Reform Laws.

### **Other Current Appointments:**

He is presently the Chairman of Company Law Advisory Commission and a Member of the Board of Civil Aviation Authority of Sri Lanka, a member of Board of Governors in Asian Institute of Business and Science (AIBS) and the in-house Counsel of Capital City Law. He is also a Member of the Intellectual Property Law Advisory Commission.

### **Previous appointments**

Mr. Jayawardena has served as the founder Chairman of Lanka Sathosa Limited and a Director of Hotel Developers Lanka Limited from 2004 to 2015, a Director of Milco (Pvt)

Ltd from 2005 -2008 and he also served as a Director of People's Leasing and Finance PLC.

## **RASITHA GUNAWARDANA**

*Director*

*(Independent Director / Non-Executive)*

*Chartered Management Accountant of United Kingdom Chartered Global Management Accountant ACI Certified in Treasury Operations*

*Appointed – January 2022*

### **Skills & Experience:**

Mr. Rasitha Gunawardana is a senior Banker with over 3 decades of experience covering major aspects of Banking.

### **Previous Appointments:**

He served as the CEO/ General Manager of the Peoples Bank during the period 2019-2020. Prior to that, He held a number of Corporate and executive level positions, namely,

- » Senior Deputy General Manager (Business Banking)
- » Deputy General Manager (Risk Management)
- » Deputy General Manager (Credit Control)
- » Assistant General Manager (Treasury Operations)

During this period, he played a major role in improving the Credit and Risk culture of the Bank, through introduction of risk-based credit and business policies/ procedures.

He held directorships in following establishments;

- » Peoples Leasing and Finance PLC
- » Peoples Insurance PLC
- » Peoples Merchant Finance PLC
- » Lanka Clear Ltd
- » Institute of Bankers of Sri Lanka
- » Credit Information Bureau of Sri Lanka (CRIB)
- » Peoples Travels Ltd
- » Peoples Micro Finance Ltd
- » Lankan Alliance Finance Ltd- Bangladesh

## **KITHSIRI GUNAWARDENA**

*Director*

*(Non-Independent Director / Non-Executive)*

*Attorney-at-Law, Postgraduate Diploma in Marketing Management (PIM, Sri Jayewardenepura)*

*Appointed - January 2022*

### **Skills & Experience:**

Has held a number of important positions in the State, including the office of State Counsel attached to the Attorney General's Department, the Office of Director – Legal & Enforcement of the Securities and Exchange Commission of Sri Lanka and the Insurance Board of Sri Lanka and was involved in setting up the Consumer Affairs Authority as its first Director General.

### **Other Current Appointments:**

Mr. Kithsiri Gunawardena is the Chief Operating Officer – LOLC & Chief Executive Officer - LOLC Insurance, he Joined LOLC in 2004 and counts over 30 years of experience as a Lawyer. He serves on the Boards of a number of local and overseas subsidiaries within the LOLC Group.

## **THUSHARI RANAWEERA (MRS)**

*Company /Board Secretary*

*(upto 1st January 2023)*

*Appointed: January 2012*

### **Skills & Experience:**

She is an Attorney-at-Law and counts over 30 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



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**1 JONATHAN ALLES**

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

**2 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

**3 THUSHARI RANAWEERA**

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

**4 RUWAN MANATUNGA**

F.C.M.A (UK), C.G.M.A, F.C.A (Sri Lanka)  
Deputy General Manager  
- Risk/Chief Risk Officer

**5 CHIRANTHI COORAY**

FCMA (UK), CGMA, M.B.A. (Wales),  
S.C.P. SHRM (USA), I.P.M.A. - CP (USA)  
Deputy General Manager / Chief Human  
Resource Officer

**6 NIROSHANA SENEVIRATNE**

Attorney at Law, F.C.A., F.I.B., C.P.A.,  
C.I.S.A. (USA), PhD (Aldersgate)  
Deputy General Manager  
- Internal Audit /Chief Internal Auditor

**7 DAMITH PALLEWATTE**

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



9

**8 SANJAY WIJEMANNE**

*B.Sc. Business & Finance  
(Mount Saint Mary's University, USA)*

Deputy General Manager - Retail Banking Group

**9 ARJUNA ABEYGUNASEKARA**

*M.B.A. (Colombo), B.Sc. (Colombo),  
A.C.M.A. (UK), C.G.M.A., A.C.I.*

Deputy General Manager - Treasury & Markets

10

**10 NIROSH PERERA**

*M.B.A. (Manipal), Dip. in Marketing - L.B.S. (Sri Lanka)*  
Deputy General Manager / Chief Credit Officer

11

**11 RAJIVE DISSANAYAKE**

*C.F.A. (USA), F.C.M.A.(UK), C.G.M.A.,  
B.B.A. (Colombo)*

Deputy General Manager  
/ Chief Financial Officer

13

**12 HISHAM ALLY**

*M.I.M. (Sri Lanka) ACSI (CISI)*

Deputy General Manager - Islamic Banking

12

**13 TYRONNE HANNAN**

*M.B.A (Australia)*

Head of Custody and Trustee Services

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# CORPORATE MANAGEMENT



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**14 MAJELLA RODRIGO**

*A.C.M.A (UK), C.G.M.A., M.B.A. (Colombo),  
B.Sc. (Colombo)*

Assistant General Manager - Corporate Banking

**15 INDRAJITH SENADHIRA**

*M.B.A. (Sri J.), M.A.L.S. (Colombo), LL.B (Sri Lanka),  
Attorney-at-Law, Dip in Marketing (S.L.I.D.A.),  
Dip in Credit Mgmt. (S.L.I.C.M.), A.M.C.I.P.M.*

Assistant General Manager - Services / Chief  
Employee Experience Officer

**16 DRUVINDA VAIDYAKULARATNE**

*F.B.C.S. (UK)*

Assistant General Manager – Information  
Technology / Chief Information Officer

**17 VINODH FERNANDO**

Head of Micro Finance

**18 SISIRA ATAPATTU**

Assistant General Manager - Recoveries

**19 KANCHANA KARUNAGAMA**

*M.B.A. (Sri J.), A.I.B. (SL), M.C.I.M. (UK), A.I.C.M. (SL)*

Assistant General Manager - Personal Financial  
Services

**20 SUPUN DIAS**

*M.C.I.M. (UK), M.S.L.I.M, Chartered Marketer,  
Dip in Marketing (UK)*

Assistant General Manager - Network  
Management



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**21 SIVARAJAH NANDAKUMAR**

*M.B.A. (Sri J), A.I.B. (Sri Lanka)*

Assistant General Manager - Operations

**22 KAILAVASAN INDRAVASAN**

*M.B.A. Finance (Australia), C.M.A. (Australia), A.I.B. (Sri Lanka)*

Assistant General Manager - SME

**23 VIJAYA VIDYASAGARA**

*M.B.A. Finance (Colombo), A.I.B (Sri Lanka), AICM (SL)*

Assistant General Manager  
- Emerging Corporates & Project Finance

**24 DILUNIKA JAYASINGHE**

*M.B.A. Finance (USQ, Australia), F.C.A (Sri Lanka), B.Sc. (Colombo), A.C.S.I. (UK)*

Assistant General Manager - Risk

**25 PRIYANKA WIJAYARATNE**

*M.B.A. (Sri J), A.C.M.A. (UK), C.G.M.A., B.Sc. (Colombo)*

Assistant General Manager – Strategy

**26 CHAMMIKA WEERASINGHE**

*M.B.A. (Sri J), M.C.I.M. (UK)*

Assistant General Manager - Digital Business

**27 NEIL RASIAH**

*M.B.A. Finance (USQ, Australia), M.A Financial Economics (Colombo), B.Sc. (Colombo), A.I.B. (Sri Lanka), Dip. in Int. Trade (IBSL)*

Assistant General Manager - Compliance

## SENIOR MANAGEMENT



**SAUMYA ARYASINHA**

Head of Employee Banking



**EOMAL MUNASINHA**

*M.B.A. - Edith Cowan University - Australia*  
Chief Learning Officer



**VIRAJ MENDIS**

*A.I.B. (Sri Lanka)*

Head of Credit Operations



**PRIYANTHA SENEVIRATNE**

*A.C.I.*

Chief Manager - Treasury (Corporate Sales)



**SHANKAR DHARMARATNE**

*B.Sc in Business Administration - University of Coventry (UK)*

Head of Digital Services



**ANURADHI DELAGE**

*A.C.A. (Sri Lanka), A.C.M.A (UK), C.G.M.A., B.Sc. Accountancy (Sri J)*

Head of Finance



**SHERAN PERERA**

*M.B.A. (UK), A.I.B. (Sri Lanka)*

Head of HR Operations



**SURESH EMMANUEL**

*M.B.A (Cardiff - UK), B.Sc. Computer Science (IIC Uni.), C.I.S.P (USA), C.I.S.M (USA), C.I.S.A (USA), C.D.P.S.E. (USA)*

Chief Information Security Officer



**TISSA NANAYAKKARA**

Head of Card Operations





**SOTHIRATNAM MATHANAN**  
*M.B.A. (Australia), F.A.B.E. (UK)*  
 Chief Manager - Credit Operations



**RAJEEV RAJARATNAM**  
*A.I.B. (Sri Lanka)*  
 Head of IT Project Delivery & Portfolio Management



**SOMASKANDASARMA NARENTHIRAN**  
*M.B.A. (UK)*  
 Regional Business Head - Colombo Region



**SAMPATH KUKULEVITHANA**  
*M.B.A. (Manipal), Dip. in Marketing (UK)*  
 Regional Credit Head - North Western Region



**THUSITHA EDIRIWEERA**  
*M.B.A. (UK), LLB (Sri Lanka), Attorney-at-Law, Notary Public & Commissioner for Oaths, M.C.I.C.M. (UK), F.I.C.M. (Sri Lanka), M.I.M.S.L.*  
 Chief Manager - Legal (Recoveries)



**VIRANGA GAMAGE**  
*LL.B (Sri Lanka), M.B.A (Colombo), Attorney-at-law*  
 Head of Deposits



**SHIROMI HALLOLUWA**  
*Attorney-at-Law & Notary Public, Company Secretary*  
 Head of Legal/Board Secretary



**MURTAZA NORMANBHOY**  
*F.C.A. (Sri Lanka), F.C.M.A. (Sri Lanka)*  
 Chief Manager - Internal Audit



**RAJEEV PERERA**  
*M.B.A. (UK)*  
 Chief Manager - Network Business Facilitation

## SENIOR MANAGEMENT



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



**DAMIAN RANJIT**  
PG. Dip. in Business & Financial Administration (ICASL),  
A.I.B. (Sri Lanka)  
Regional Credit Head - Greater Colombo Region



**THANGARAJAH THAYALAN**  
M.B.A. (Australia), A.I.B. (Sri Lanka), M.A.B.E.  
Chief Manager - Foreign Exchange  
& Money Markets



**DILANKA DE SILVA**  
A.C.I.M. (UK)  
Chief Manager - Head Office Branch



**SURANGA PEIRIS**  
M.B.A. - Finance (USQ, Australia), A.C.M.A. (UK),  
C.G.M.A., A.I.B. (Sri Lanka)  
Head of Emerging Corporates



**CHAMARA GUNAWARDENA**  
PG. Dip in Computer Science (Colombo), B.I.T. (Colombo)  
Head of Digital Deliveries and Enterprise Software



**ROSHAN FERNANDO**  
M.B.A. (Colombo), B.Sc. Eng. (Hons) (Moratuwa), M.I.E.T. (UK)  
Director/Chief Operating Officer - Sithma Development  
(Pvt) Ltd.  
Head of Services



**RUKSHAN SENARATNE**  
M.B.A. (Malaysia)  
Chief Manager - Centralized Credit Operations



**GAUTHAMI NIRANJANI**  
C.M.A. (Sri Lanka), M.B.A. (Edith Cowan University -  
Australia)  
Head of Cards



**ROZANNE DE ALMEIDA**

*A.I.B. (Sri Lanka)*

Head of Trade



**ROSHANTHA JAYATUNGE**

*A.I.B. (Sri Lanka), Professional Certified Coach (ICF)*

Head of Talent Development



**DEEPAL UDUKUMBURA**

*N. Dip. Technology (Hardy TTI),*

*P.G. Dip Management (Rajarata)*

Regional Credit Head - North Central Region



**VINDHYA WIJEGUNAWARDANE**

*M.B.A. (Cardiff Metropolitan University. UK)*

Senior Manager/Head of Customer Experience



**PASINDU DHARMASIRI**

*B.Sc. (Hons.) - IT (London Metropolitan Uni. - UK),*

*M.Sc. (IT) - (Charles Sturt Uni. - Australia)*

Head of Payment & Cash Management



**ANGELINA DHARMARAJ**

*M.B.A. (UK), A.C.S.I. (UK), A.I.B. (Sri Lanka)*

Head of Centralized Credit Administration



**ARUNA SUMANASINGHE**

*M.B.C.S. (UK)*

Senior Manager - Application Management



**DAPHNE GAMAGE**

*M.B.A. (UK)*

Senior Manager - Inward Remittances/SWIFT



**SUSITH PERERA**

*A.I.B. (Sri Lanka)*

Head of Leasing



**BANDULA MONNEKULAMA**

*N.D.T. - Agriculture (HTTI)*

Regional Business Head - North Central Region



**SIVASARAVANABAVAN SUNTHARESWARAN**

*M.B.A. (Manipal), BSc Hons. (Agriculture)*

Head of HR Business Partnering



## SENIOR MANAGEMENT



**UPUL ADIKARI**  
*M.B.A. (Sri J.), Chartered Marketer,  
FSLIM (SL) MCIM. (UK), PMkt (SL)*  
Head of Marketing



**NILUKA AMARASINGHE**  
*PhD. Management (MSU), M.B.A. (Peradeniya)  
A.I.B. (Sri Lanka)*  
Head of SME - Products & Partnerships



**SIDDIQUE FALEEL**  
*M.B.A. - Finance (USQ, Australia)*  
Senior Manager - Recoveries



**AMILA RANASINGHE**  
*A.C.M.A. (UK), C.G.M.A.*  
Senior Manager - MI & Analytics



**PRASANNA KUMARA**  
*A.C.A (Sri Lanka), M.B.A. (Colombo),  
B.Sc. Accountancy Special (Sri J.)*  
Senior Manager - Finance & Regulatory Reporting



**SHALINDRA KARUNARATNE**  
Regional Credit Head - Southern Region



**MANOJ PITADENIYA**  
*A.I.C.A (UK), A.I.C.M (UK), A.I.C.M (Sri Lanka),  
Diploma in Credit Management*  
Head of Centralized Credit Monitoring



**LALINDRA TISSERA**  
*M.B.A (Colombo), A.C.M.A. (UK), C.G.M.A.,  
M.C.I.M. (UK), A.I.B. (Sri Lanka)*  
Senior Manager – Rajagiriya Branch



**MICHELLE DE SILVA**  
Senior Manager / Head of Club



**ROHANA AMARASIRI**  
*B.Sc. in Physical Science (Sri J), M.B.C.S. (UK)*  
Senior Manager - Service Delivery



**VATHULAN GANESHAN**  
Regional Business Head - Greater Colombo Region



**RAJITHA WIJENAYAKE**  
*N.D.E.S (Mechanical Engineering)*  
 Regional Business Head - Southern Region



**PRASAD TENNAKOON**  
*M.B.A (Wales, UK), M.B.C.S. (UK), IT Diploma (Tech, SL)*  
 Head of IT Infrastructure Operations



**SOHAN FERNANDO**  
*M.B.A (Cardiff Metropolitan, UK), Diploma in Finance & Bank Management (IBSL), Diploma in Credit Management (IBSL)*  
 Regional Business Head - North Western Region



**MAHINDA SENEVIRATHNE**  
*M.B.A (Cardiff Metropolitan, UK), Diploma in Agri. (SLSA)*  
 Regional Business Head-South Western Region



**AJITH KANDARAMAGE**  
*B.Sc. in Computer Networks & Systems Security (North West, USA), M.B.C.S. (UK)*  
 Head of IT Infrastructure Support



**VAJIRA ABEYSUNDERA**  
*A.C.M.A. (UK), C.G.M.A., B.A. (Hons) (Northumbria, UK), Master of Financial Economics (Colombo), A.I.B. (Sri Lanka)*  
 Senior Manager - FX Trading & Customer Sales



**MEWAN GUNAWARDENA**  
*C.F.A. (USA), A.C.M.A (UK), A.C.I. Diploma*  
 Senior Manager - FI Trading & Customer Sales



**NATASHA HAY**  
*M.B.A. - Edith Cowan University - Australia, Certified Specialist in TRY & FX Operations*  
 Head of Institutional Banking



**PRASAD JAYATILLEKE**  
*M.B.A. (Manipal), A.I.B. (Sri Lanka), Diploma in Credit Management*  
 Regional Operations Head  
 - Greater Colombo Region



**SUJEEVA JAYASINGHE**  
*AIB (SL), MBA - Finance (Colombo)*  
 Regional Operations Head - Colombo Region



**HARSHA WICKRAMASINGHE**  
*M.B.A (Cardiff - UK)*  
 Regional Business Head - Central Region

## SENIOR MANAGEMENT



**CHAMINDA ABEYASINGHE**

*Dip. in Computer Programming, System Analysis & Design, Masters in Information Technology (University of Keele, UK), M.B.C.S. (UK), A.C.S (Australia)*

Head of Analytics & Artificial Intelligence



**SATHIYAMOORTHY AMALAN**

*Dip. in Business Management (ACHE), M.B.M- Finance (University of Southern Queensland, Australia), C.M.A. (Australia)*

Senior Manager – Wellawatte



**ESHAN JAYARATNA**

*LL.B (Buckinghamshire New University)*

Senior Manager – City Office



**NITHIYANTHAM KETHISWARAN**

*A.I.B. (Sri Lanka), C.M.A. (Aus), M.C.S.I (UK)*

Regional Business Head - Eastern Region



**NADUN GOMES**

*AIB (SL), DCM, MBA (Manipal), PMP (USA)*

Head of IT PMO



**NISHANTHAN KARUNAIRAJ**

Regional Business Head - Northern Region



**SITHY RUMAIZA FAAIZ**

*Attorney-at-Law*

Senior Manager - Legal Operations



**ROSHAN ANURADHA**

*M.B.A (UK)*

Senior Manager - Operations



**AZYAN HAMEED**

Senior Manager - Card Systems



**GAYATHRI GANESHAN**

*A.I.B. (Sri Lanka), A.C.M.A (UK), MAFE (Colombo)*

Senior Manager - Talent Development



**MANOJITH WEERASURIYA**

*ACCA (UK), B.Sc in Commerce in Accounting & Finance (Deakin University), Master of Applied Finance (Monash University)*

Senior Manager – Unit Head Corporate Banking



# CHAIRPERSON'S MESSAGE ON CORPORATE GOVERNANCE

 Principle D.5



**“Effective leadership, rigorous risk & performance management, strategic agility and enhanced accountability underpinned by responsible decision making”**

*Dear Shareholders,*

In times of uncertainty, we are cognizant of the importance of sound governance in driving resilience, nurturing growth and strengthening the trust and confidence of stakeholders. The HNB Board has set in place a robust Governance Framework that supports integrated thinking and informed decision-making, and reconciles the interests of the Bank, stakeholders and society in creating and protecting sustainable value.

## GOVERNANCE IN 2022

The challenges of 2022 continued to test the resilience of our Governance Framework, structures, and systems. Conscious of our fiduciary role, the Board set the tone from the top, living by HNB's values and upholding the highest standards of Corporate Governance.

Vigilance and oversight of the Board increased significantly, as the Board regularly reviews and monitors execution of the Bank's strategy, supporting management to navigate the increasingly challenging business landscape. Risk management, liquidity, regulatory compliance, recoveries, and internal control were key priorities. Effective leadership, rigorous risk and performance management, strategic agility and enhanced accountability underpinned responsible decision making, that ensured the Bank remained stable and secure.

## BOARD CHANGES & SUCCESSION

We have a strong Board, comprising a diverse mix of skills and experience. Individual Director's insights and wisdom supported collective decision making by the Board, to effectively drive the Bank's strategic direction. As Chairperson, I

am particularly proud of the level of engagement and the quality of deliberations made during the year. There has been robust debate on issues, underpinned by mutual respect and an appreciation of responsibilities, that we bear to all stakeholders, in the creation of sustainable value.

In line with the Bank's sound governance practices, we continue to make good progress with succession planning and the refreshment of skills of the Board and its Sub-Committees. I am pleased to welcome Mr Rasitha Gunawardana, Mr Kithsiri Gunawardana and Dr Prasad Samarasinghe to the Board. I take this opportunity to thank Mr Damien Fernando, for his invaluable contribution to the Bank, on behalf of the Board.

I also wish to thank Ms Thushari Ranaweera, who retired as Company Secretary, in January 2023 for her unstinting support and guidance, and welcome Ms Shiromi Halloluwa in her new role.

## CULTURE AND VALUES

Our corporate culture and values guide our conduct. We strive to entrench an ethical culture and value system throughout the Bank. The Whistle Blowing Policy was strengthened last year and the Bank's Employee Handbook encompassing the Code of Conduct and Ethics, was designed to assist employees in making ethical decisions.

## COMPLIANCE

HNB is committed to safeguarding its reputation, financial soundness and integrity through compliance with applicable laws & regulations and standards of conduct.

The regulatory and policy landscape became a challenge during the year, continuing to evolve at an accelerated rate, following GoSL's and CBSL's action to manage the nation's economy and impacts. Being a key stakeholder of the economy, the Bank understood its moral obligation and complied with all regulations and measures taken by the CBSL/GoSL, to support the management of the economy.

As required by the Code of Best Practice on Corporate Governance, I confirm that I am not aware of any material violations if any of the provisions embodied (i) in the Board Charter, by the Board of Directors of the Bank; or (ii) in the Bank's Codes of Conduct and Ethics, by any member of the Corporate Management team of Hatton National Bank PLC.

Aruni Goonetilleke  
Chairperson

Colombo, Sri Lanka  
17th February 2023

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE HIGHLIGHTS 2022

- > Increased rigour of oversight in managing the impact and risks to the Bank, arising from the Nation's economic crisis, including liquidity, recoveries and asset quality. Recalibrated strategy to meet stakeholder needs.
- > Complied with all heightened regulations and reporting requirements of CBSL and supporting GoSL to manage the economy.
- > Sharpened focus on ESG integration and strengthened ESG Governance Framework.
- > Continued to strengthen the oversight over the information technology and digital strategy. Accelerated the launch of digital solutions.
- > Enhanced system security and cyber safeguards.
- > Approved the merger of HNB Finance PLC with Prime Finance PLC, optimizing synergies.
- > Continued to review the succession planning for the Board, KMP including MD/CEO, ED/COO and Senior Management of the Bank.
- > Conducted annual appraisal of the Board, shared collated results with members regarding the performance & effectiveness and identified areas for improvement.

## THE BOARD OF DIRECTORS - 2022

 Principles A.1, A.10

### CHAIRPERSON



**ARUNI GOONETILLEKE (MRS)**

- > Chairperson (Independent Non-Executive)
- > Appointed Chairperson - September 2021
- > Appointed to Board - April 2021
- > Expertise - Legal and Banking & Finance



### EXECUTIVE DIRECTORS



**JONATHAN ALLES**

- > Managing Director / Chief Executive Officer
- > Appointed MD/CEO - July 2013
- > Appointed Director - May 2013
- > Expertise - Banking and Finance



### COMPANY SECRETARY



**THUSHARI RANAWEERA (MRS)**

- > Company Secretary (upto 1st January 2023)
- > Appointed - January 2012
- > Expertise - Legal

**DILSHAN RODRIGO**



- > Appointed Executive Director - July 2020
- > Appointed COO - July 2013
- > Expertise - Banking and Finance

### RETIREMENTS

**DAMIEN FERNANDO**

- > Non-Executive Director
- > Appointed - October 2018
- > Retired - October 2022

### INDEPENDENT NON-EXECUTIVE DIRECTOR



**AMAL CABRAAL**

- > Independent Non-Executive Director
- > Appointed - April 2014
- > Expertise - Management and Marketing



**MADU RATNAYAKE**

- > Independent Non-Executive Director
- > Appointed - October 2018
- > Expertise - Information Technology



**DEVAKA COORAY**

- > Independent Non-Executive Director
- > Appointed - July 2020
- > Expertise - Accounting and Finance



**OSMAN CHANDRAWANSA**

- > Independent Non-Executive Director
- > Appointed - April 2021
- > Expertise - Banking and Finance



**RASITHA GUNAWARDANA**

- > Independent Non-Executive Director
- > Appointed - January 2022
- > Expertise - Banking, Credit and Risk Management



### NON-EXECUTIVE DIRECTOR



**RIMOIE SALDIN**

- > Non-Executive Director
- > Appointed - April 2021
- > Expertise - Management and Finance



**NIHAL JAYAWARDENE PC**

- > Non-Executive Director
- > Appointed - August 2021
- > Expertise - Legal



**KITHSIRI GUNAWARDENA**

- > Non-Executive Director
- > Appointed - January 2022
- > Expertise - Legal and Business Administration



**DR PRASAD SAMARASINGHE**

- > Non-Executive Director
- > Appointed - October 2022
- > Expertise - Information Technology/ Telecommunication

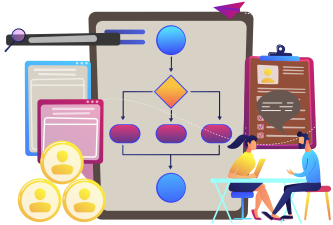


*(Alternate Director to Damien Fernando from July 2019 to October 2022)*

- BAC Board Audit Committee
- HRRC HR & Remuneration Committee
- NC Nomination Committee
- BIRMC Board Integrated Risk Management Committee
- RPTRC Related Party Transactions Review Committee
- SIRC Strategy & Investment Review Committee
- PADDC Procurement & Assets Disposal Committee
- BCC Board Credit Committee
- BRC Board Recoveries Committee
- BDBC Board Digital Banking Committee
- Chairman/Chairperson



# CORPORATE GOVERNANCE



## GOVERNANCE FRAMEWORK

The Board has overall responsibility for governance across the Bank and retains effective control through the Board approved Governance Framework.

The following steering instruments reference the Bank's Governance Framework.

### REGULATIONS

- > Companies Act No. 7 of 2007
- > Banking Act No. 30 of 1988 (as amended) and all Directions, Guidelines issued thereunder
- > Continuing Listing Requirements of Colombo Stock Exchange (CSE)
- > Securities and Exchange Commission of Sri Lanka Act. No 19 of 2021
- > All other relevant laws and regulations

### VOLUNTARY STANDARDS

- > Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017)
- > Gender Parity Reporting Framework (2019) of CA Sri Lanka
- > Integrated Reporting Framework published by the IIRC
- > Global Reporting Standards of the Global Reporting Initiative Standards issued by the Sustainability Accounting Standards Board

### INTERNAL FRAMEWORKS

- > Articles of Association of the Bank
- > Good Governance for Group Companies
- > Charters/TOR of Committees
- > Code of Conduct
- > Comprehensive suite of Internal Policies

### INTERNAL MECHANISMS

- > Strategic Planning
- > Budgeting and Finance
- > Risk Management
- > People Management
- > IT Governance
- > Stakeholder Engagement
- > Investor Relations

### STAKEHOLDERS

Customers | Employees | Shareholders | Regulators | Government | Suppliers

### GOVERNANCE FRAMEWORK

#### VISION, MISSION, STRATEGIES & VALUES

Board Governance	Risk Governance	Financial Governance	Sustainability Governance
<ul style="list-style-type: none"> <li>&gt; The Board</li> <li>&gt; Board Composition</li> <li>&gt; Independence</li> <li>&gt; Board Refreshment</li> <li>&gt; Board Meetings</li> <li>&gt; Sub-Committees</li> <li>&gt; Ethical Conduct</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Risk Management</li> <li>&gt; Internal Controls</li> <li>&gt; Information Technology Governance</li> <li>&gt; Compliance Governance</li> <li>&gt; Governance of Group Companies</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reporting and Disclosures</li> <li>&gt; Stakeholder Engagement</li> <li>&gt; Constructive Use of AGM</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Strategy and Integration of Economic, Environmental and Social impacts (EES)</li> </ul>
<i>Report reference pages 107 to 118</i>	<i>Report reference pages 119 to 120</i>	<i>Report reference pages 121 to 122</i>	<i>Report reference pages 123 to 124</i>

### GOVERNANCE OUTCOMES

RESPONSIVE DECISION MAKING		RESPONSIBLE BEHAVIOUR	
Sustainable Value Creation	Effective Controls	Ethical Leadership	Accountability



## BOARD GOVERNANCE

### THE BOARD

Principles A.5, A.5.1

The Board leads the Bank in formulating strategy, setting risk appetite, monitoring performance and the achievement of goals and objectives. In deliberating strategy, an integrated approach is adopted to value creation, embracing stakeholder inclusivity and considering the Environmental, Social and Governance (ESG) impacts across the Bank. Feedback obtained from our stakeholder engagement mechanisms forms a key input in strategy formulation.

The HNB Board brings independent, informed and effective judgement to bear on material decisions reserved for the Board. It sets the tone for ethical and effective leadership.

### BOARD'S KEY RESPONSIBILITIES

- > Provide strategic direction
- > Monitor implementation of strategies
- > Set corporate values and promote ethical behaviours
- > Establish systems of risk management, internal control and compliance
- > Be responsive to the needs of society with focus on environmental, social and ethical standards
- > Meet shareholders', employees' and other stakeholders' obligations, balancing their interests in a fair manner
- > Present a balanced and understandable assessment of the Bank's position and prospects
- > Safeguard assets and ensure legitimate use
- > Assess effectiveness of the Board and Sub-Committees through self-evaluation
- > Ensure succession planning and the continuous ability of the Bank to operate without any disruption

Principles A.1.2, D.1

### Board Focus Areas for 2022

#### STRATEGY & BUSINESS

- > Rigorous oversight of the Bank's strategic plan, and impact of risks & opportunities
- > Advanced ESG journey by developing sustainability framework and policy
- > Approval of significant investments
- > Improvement of IT system stability and security
- > Continuous support of product innovations and new product launches
- > Approved merger of HNB Finance PLC with Prime Finance PLC
- > Approval of budget 2023

#### RISK & OVERSIGHT

- > Performance review of the Bank
- > Indepth review of the Bank's Enterprise wide Risk Metrics, particularly operational risk, liquidity risk and asset quality/impairment
- > Optimization of internal control framework
- > Compliance oversight
- > Review of cyber security risks and oversight of the information security

#### GOVERNANCE

- > Appointments and rotations of Directors
- > Review of Sub-Committee compositions
- > Succession planning of Board and Senior Management Review of Bank's talent development plans
- > Board appraisal and action plan to implement recommendations
- > Review of policy frameworks

#### STAKEHOLDER ENGAGEMENT

- > Convening of digitally enabled / hybrid format Annual General Meeting (AGM)
- > Review of shareholder communication, AGM and investor forums
- > Review of regulatory reviews and engagement with CBSL
- > Monitoring of employee engagement surveys and people plans

#### FINANCIAL PERFORMANCE

- > Financial impact from volatility in macro environment, particularly on liquidity
- > Financial impact of asset quality and impairments
- > Optimizing capital structure
- > Proposed dividend payments including scrip dividend issues
- > Approval of Financial Statements and Annual Report

# CORPORATE GOVERNANCE

## BOARD COMPOSITION

 Principles A.4, A.5, A.5.1, A.5.2

The Board is diverse and well balanced.

The Bank uses a competency matrix to support recruitment of Directors.

Directors are chosen for their corporate leadership skills, experience and expertise. Non-Executive Directors are eminent professionals in their respective fields. The careful selection of individual Directors, which ensure the most appropriate combination of expertise and experience, has underpinned the effectiveness of the Board in fulfilling its role.

The Board of Directors and its Sub-Committees are entitled by regulation to seek independent professional advice concerning the Bank's affairs, at the Bank's expense.

**BOARD COMPOSITION**

### BOARD SIZE

Appropriate Board size promotes accountability and encourage healthy & constructive debate, and decision-making, while meeting regulatory requirements.

12

### INDEPENDENCE


83% of the Directors are Non-Executive Directors and majority of them are independent.

6
/
10

Non-Executive Directors are independent

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### DIVERSITY OF EXPERTISE

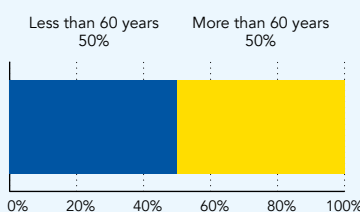


### AGE DIVERSITY

Well represented, balance in terms of experience and perspectives.

Average age 59.8 years

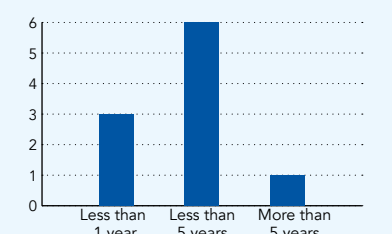
Less than 60 years	More than 60 years
50%	50%



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### DIVERSITY OF NON-EXECUTIVE TENURE

Sound balance between continuity, new expertise and insights.

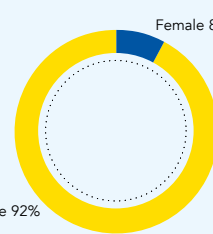


Average Tenure 2.3 years

### GENDER DIVERSITY



11 : 1



Male 92%      Female 8%

## INDEPENDENCE

 Principles A.1.5, A.5.3, A.5.4, A.5.5

Directors are deemed independent based on the criteria specified in the Banking Act Direction No.11 of 2007.

Directors should be independent in character and judgement. There should be no relationships or circumstances which are likely to affect, or appear to affect, this independence.

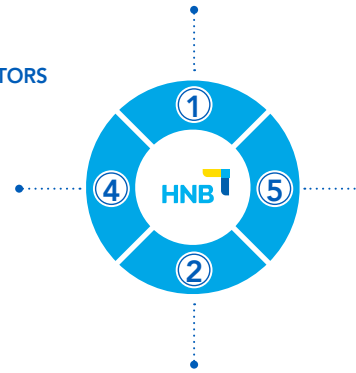
- > Assessment of Directors' independence is conducted annually.
- > All Directors submit annual declarations which are evaluated to ensure regulatory compliance.
- > Directors' independence in judgement is assessed through the Board appraisal.

The Board was satisfied that there were no relationships or circumstances likely to affect, or appear to affect, the Directors' judgements.

### NON-EXECUTIVE DIRECTORS

Rimoe Saldin  
Nihal Jayawardene  
Prasad Samarasinghe  
Kithsiri Gunawardena

**CHAIRPERSON**  
Independent, Non-Executive  
Aruni Goonetilleke



### INDEPENDENT NON-EXECUTIVE DIRECTORS

Amal Cabraal  
Madu Ratnayake  
Devaka Cooray  
Osman Chandrawansa  
Rasitha Gunawardana

### EXECUTIVE DIRECTORS

Jonathan Alles  
Dilshan Rodrigo

## Segregation of Roles & Responsibilities

 Principles A.2, A.3

The role of the Chairperson is distinct and separate from that of the MD/CEO. The delineation of roles and areas of responsibilities, as mandated in the Board Charter, recognises the independent roles and duties required to effectively govern the Bank. It ensures that no single person has unfettered decision-making powers.

KEY LEADERSHIP ROLES AND RESPONSIBILITIES	
CHAIRPERSON	MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER
<p>Leads the Board, preserving Good Corporate Governance, ensuring that it works effectively and acting in the best interest of the Bank.</p> <p><b>RESPONSIBILITIES</b></p> <ul style="list-style-type: none"> <li>&gt; Sets ethical tone for Board and Bank;</li> <li>&gt; Leading the Board in providing strategic oversight and leadership to the Board;</li> <li>&gt; Sets Board's annual work plan and agendas in consultation with Company Secretary and MD/CEO;</li> <li>&gt; Maintaining stakeholder trust and confidence;</li> <li>&gt; Ensuring effective, regular communication with shareholders and their views are communicated to the Board;</li> <li>&gt; Ensuring effective participation of all Board members;</li> <li>&gt; Ensuring balance of power between Executive and Non-Executive Directors;</li> <li>&gt; Monitoring the effectiveness and performance of the Board of Directors and, its Sub-Committees;</li> <li>&gt; Ensuring the provision of accurate, timely and clear information to Directors.</li> </ul>	<p>Accountable to the Board for exercise of authorities delegated and for the performance of the Bank.</p> <p><b>RESPONSIBILITIES</b></p> <ul style="list-style-type: none"> <li>&gt; Ensuring proper succession planning of executive team and assessing their performance;</li> <li>&gt; Developing the Bank's strategy for consideration and approval by the Board;</li> <li>&gt; Developing and recommending budgets to the Board, supporting Bank's strategy;</li> <li>&gt; Monitoring and reporting the performance and compliance with regulatory and policy framework to the Board;</li> <li>&gt; Establishing an appropriate organisation structure for the Bank;</li> <li>&gt; Setting the tone for ethical leadership and creating an ethical environment;</li> <li>&gt; Ensuring a culture that is based on the Bank's values;</li> <li>&gt; Ensuring that the Bank operates within the approved risk appetite.</li> </ul>

# CORPORATE GOVERNANCE

## BOARD REFRESHMENT

Principles A.7, A.8

Refreshment facilitates the introduction of members with new skills, insights and perspectives, while maintaining continuity and retaining valuable industry knowledge.

The Board is refreshed periodically through new appointments.

When nominating candidates, the Nomination Committee (NC) considers the Board's Skill Matrix, which combine knowledge, experience and diversity of the Board in relation to the Bank's strategic plans and any gaps thereof. Report of the Nomination Committee is given on page 155.

The Board as a whole is evaluated for effectiveness in discharging their duties and responsibilities annually. Directors are assessed for their active engagement, contribution and independence, prior to nomination for re-election.

Recent appointments over the past 5 years, have sought to broaden the Board's expertise in technical, finance,

legal and IT, in support of the Bank's strategic needs.

In the event of resignations or removal of Directors if any, and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE requirements, together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.

The Articles of Association of the Bank requires 1/3 of the Non-Executive Directors to retire from office and stand for re-election by shareholders at the subsequent Annual General Meeting, subject to completing three (3) years in office from his/her last date of re-election.

Director tenure is limited to a maximum term of nine (9) years and an age limit of up to seventy (70) years, whichever comes first in line with the provisions of the Banking Act Direction No.11 of 2007.

## New Appointments

Nomination of Directors has been delegated to the Nomination Committee (NC).



**APPOINTMENT**

- > Mr Rasitha Gunawardana (INED) in January 2022
- > Mr Kithsiri Gunawardena (NED) in January 2022
- > Dr Prasad Samarasinghe (NED) (Previously alternate Director to Mr Damien Fernando) in October 2022

**RETIREMENT**

- > Mr Damien Fernando (NED) in October 2022
- > Mr Amal Cabraal (INED) will retire on 01.04.2023 after completing 9 years as a Director

**RESIGNATION**

- > There were no resignations during the period

**RE-ELECTION**

- > Dr Prasad Samarasinghe (NED) will offer himself for re-election at the AGM to be held on 30th March 2023

## Training & Induction

Principle A.1.8

Newly appointed Directors are provided with an orientation pack with all relevant external and internal regulatory documents. Directors are apprised of the Bank's business, their duties and responsibilities as Directors and opportunities to meet with KMP and visit key branches.

Board members undertake relevant training, as appropriate to enhance their understanding on key matters and risks related to the business. Directors undertake Continuous Professional Development (CPD) programmes in their personal capacity to update their knowledge on relevant and emerging topics.

## Succession Planning

The Board and Nomination Committee continuously review succession planning efforts at the Board level of Key Management Personnel. Similarly, the HRRC reviews the succession planning for identified critical roles and executive management of the Bank. The succession plans identify emergency successors, while ensuring their development plans.



## BOARD MEETINGS

 Principles A.1.1, A.1.4, A.1.6

The Board and Sub-Committee meetings were held regularly. Directors ensure that they allocate sufficient time to discharge their duties effectively. Meetings were well chaired and agendas were set to serve the purpose of the Committees. The Company Secretarial function supports the Board effectively. All Directors have access to the services of the Company Secretary. Special Board meetings were convened to address urgent business requirements.



**98%**

**Average Attendance**  
Reflects active Board  
engagement by Directors

## Meeting Attendance

 Principle A.10

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	9	7	7	11	4	7	12	6	8	21
Mrs Aruni Goonetilleke	01st April 2021	14/14		7/7	7/7			7/7		6/6	8/8	
Mr Jonathan Alles	01st May 2013	12/14	*5	*6	*4	0/11	4/4	*7		*5		4/21
Mr Amal Cabraal	01st April 2014	14/14		7/7				7/7		6/6	8/8	
Mr Damien Fernando (Retired w.e.f. 25th October 2022)	25th October 2018	**11/11				**10/10		**5/6	**10/10			**16/18
Mr Madu Ratnayake	25th October 2018	14/14		7/7	6/7	9/11		5/7				20/21
Mr Dilshan Rodrigo	01st July 2020	14/14	*8			*11	*2	*6	*11	*5	*8	*18
Mr Devaka Cooray	03rd July 2020	14/14	9/9	7/7		*10	4/4			4/6		
Mr Osman Chandrawansa	01st April 2021	13/14	9/9				4/4			6/6		
Mr Rimoe Saldin	30th April 2021	13/14	*9			11/11		12/12				
Mr Nihal Jayawardene PC	17th August 2021	14/14					3/4		11/12	5/6	8/8	
Mr Rasitha Gunawardana	21st January 2022	13/13	9/9			10/10			11/11		8/8	
Mr Kithsiri Gunawardana	21st January 2022	13/13	9/9	6/7				7/7				
Dr Prasad Samarasinghe	26th October 2022	03/03				0/1		1/1	2/2			3/3

\* Meetings attended by invitation

\*\* Includes Meetings attended by an alternative Director

○ Chairperson/Chairman as at 31st December 2022

## Meeting with NED

 Principle A.5.9

The Chairperson met once with Non-Executive Directors without Executive Directors during 2022. NEDs were provided the opportunity to raise matters considered as sensitive for discussion in the presence of the Executive Directors. The Chairperson provides feedback to the MD/CEO.

## Board Appraisal

 Principles A.1.8, A.9

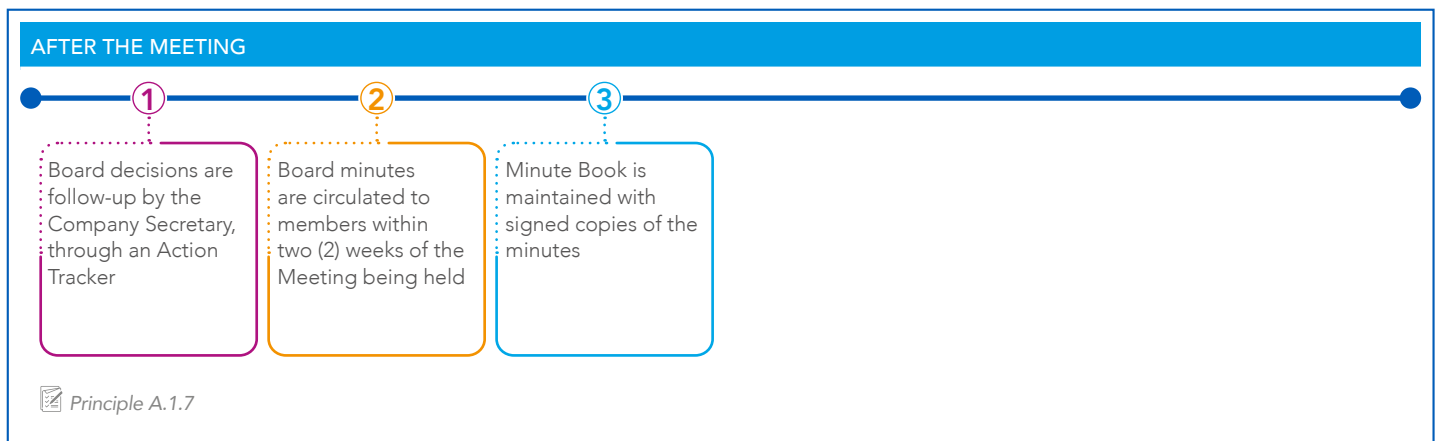
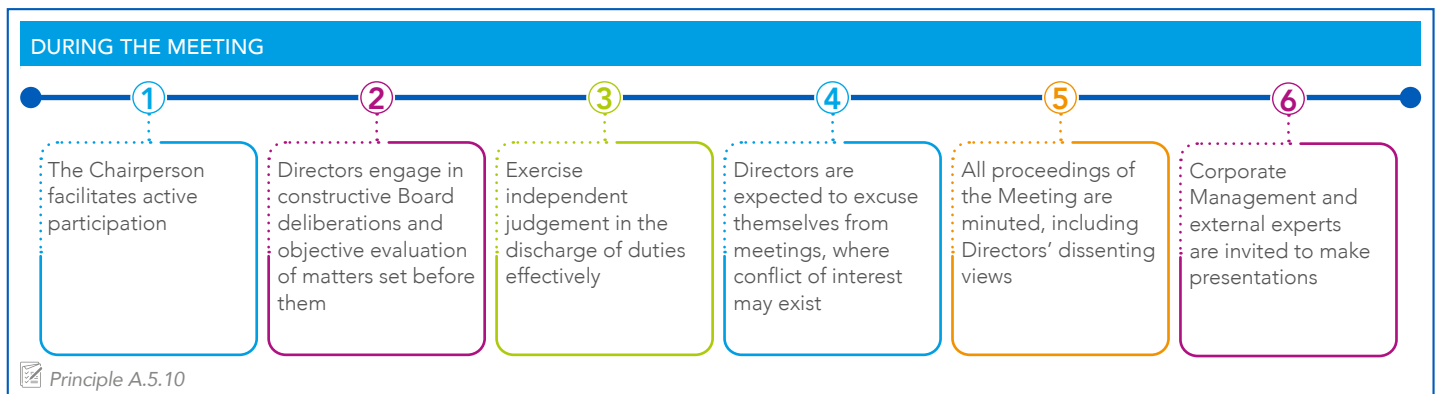
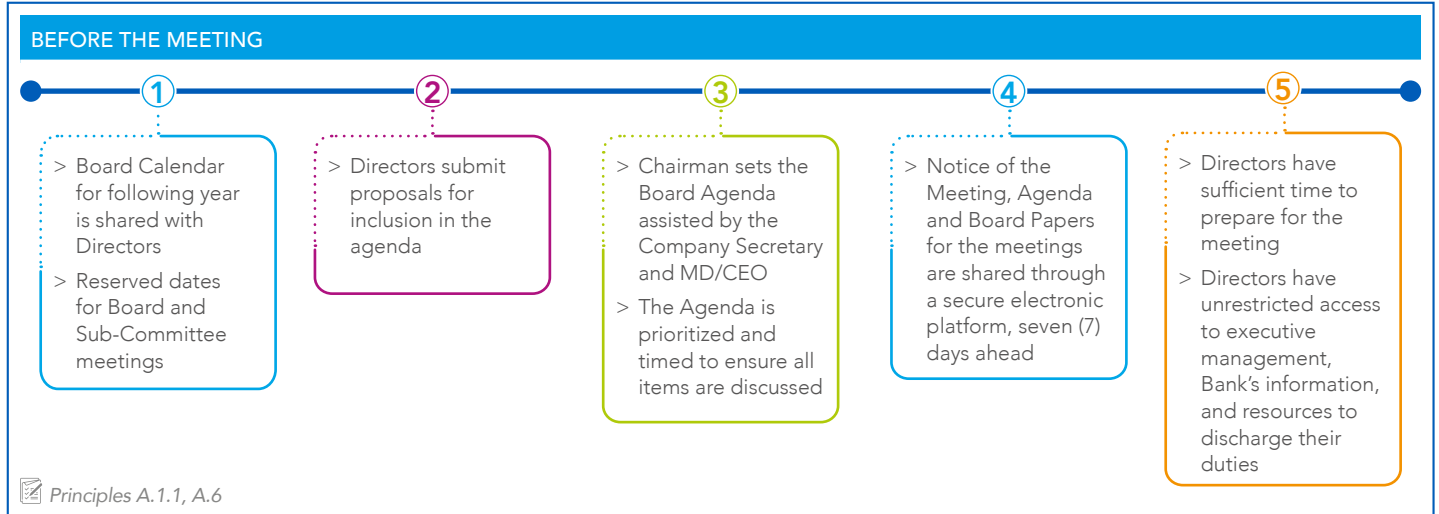
The Board and Sub- Committees, seek to continuously improve the performance and effectiveness by self-evaluations. The process is guided by the Bank's policy.

## Informed Decision Making

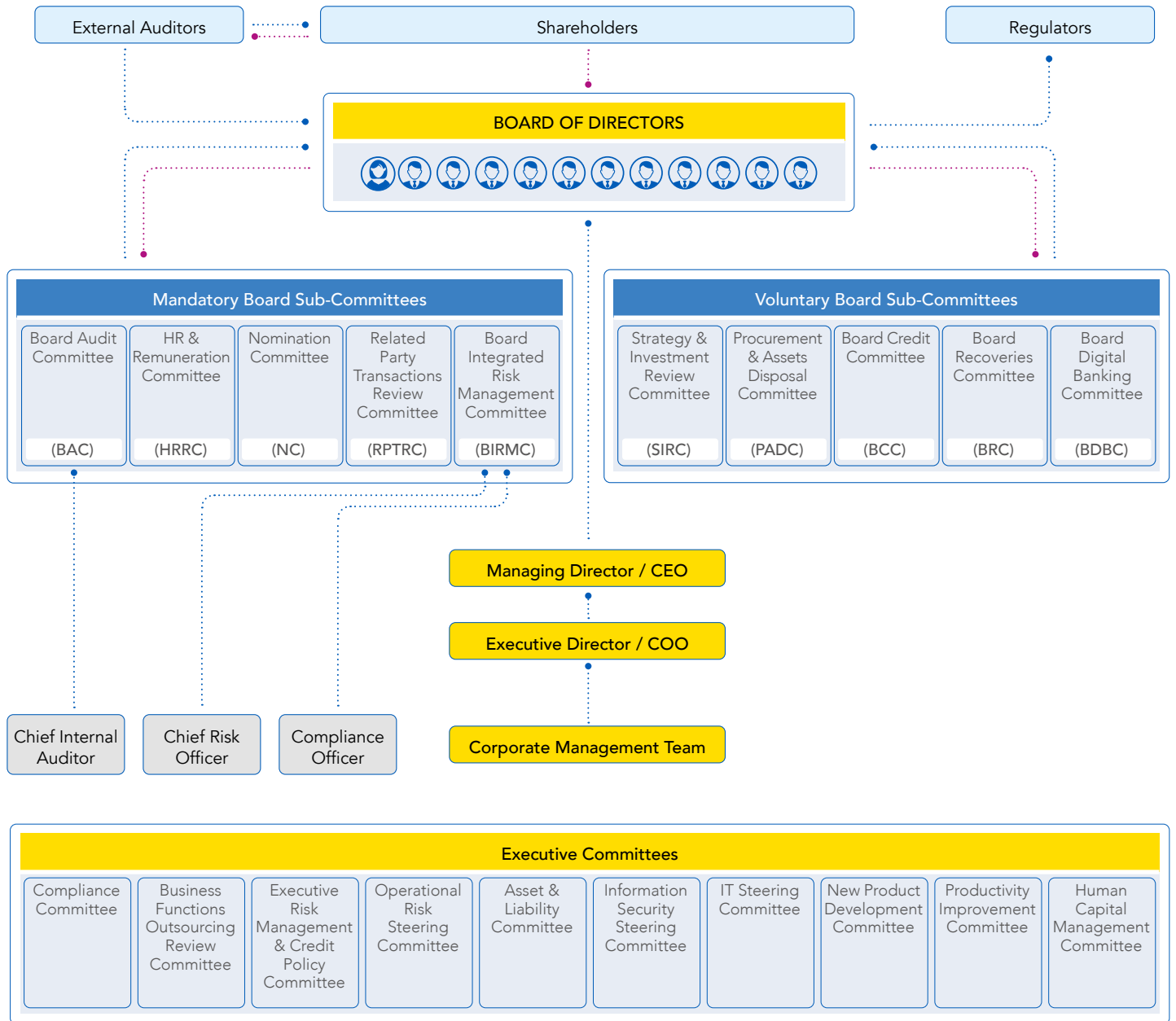
We believe "Better information means better decisions". The Bank's reporting and information systems ensure that the Board receives relevant and objective information in a timely manner.

# CORPORATE GOVERNANCE

## Governance of Meetings



## HNB GOVERNANCE STRUCTURE



..... Reporting Lines  
 ..... Appointed by

## CORPORATE GOVERNANCE

## BOARD SUB-COMMITTEES

 Principles A.10, B.1

The Board has delegated certain functions to 10 Sub-Committees, 5 of which are voluntary. This has allowed the Board to devote necessary time and attention to matters reserved for their decision making, while enabling critical matters to receive in-depth focus at committee level. Committees also benefit from the specific expertise of individual Board members.

Chairperson/Chairman of the Committees are accountable for the effective functioning of the Committees and report regularly to the Board on activities and highlight critical matters for Board attention. The mandates of the Committees are approved by the Board and reviewed regularly. Reports of the five (5) Committees which constituted under regulatory requirements are given on pages 153 to 166 of this Annual Report. The roles, responsibilities and composition of Board Sub-Committees are given below.

## Mandatory Committees

**Board Audit Committee (BAC)**

Composition of Directors	Areas of Oversight
Mr Devaka Cooray (Chairman)	<ul style="list-style-type: none"> <li>&gt; Monitor and review adequacy and effectiveness of Internal controls, governance process and financial reporting process</li> <li>&gt; Exercise independent oversight of the Bank's assurance functions including internal and external audit</li> <li>&gt; Review compliance with relevant legal, regulatory and accounting standards in the preparation of Financial Statements</li> </ul>
Mr Osman Chandrawansa	
Mr Kithsiri Gunawardena Mr Rasitha Gunawardana	

Report Reference – page 162

**Nomination Committee (NC)**

Composition of Directors	Areas of Oversight
Mr Devaka Cooray (Chairman)	<ul style="list-style-type: none"> <li>&gt; Identify skill gaps and recommending of new appointment of Directors and KMP to the Board</li> <li>&gt; Review Succession Plans of Directors, KMP and Bank's critical roles</li> <li>&gt; Review the Bank's adequacy of Corporate Governance Framework, policies and skills required to achieve strategic goals</li> </ul>
Mrs Aruni Goonetilleke	
Mr Madu Ratnayake	

Report Reference – page 155

**HR & Remuneration Committee (HRRC)**

Composition of Directors	Areas of Oversight
Mr Madu Ratnayake (Chairman)	<ul style="list-style-type: none"> <li>&gt; Review HR Policies including Remuneration Policy</li> <li>&gt; Promote Bank's values and Code of Conduct</li> <li>&gt; Review compliance with labour laws</li> <li>&gt; Review HR processes including performance evaluation, remunerations, talent management, and succession planning</li> </ul>
Mr Amal Cabraal	
Mrs Aruni Goonetilleke	
Mr Kithsiri Gunawardena	

Report Reference – page 153

**Board Integrated Risk Management Committee (BIRMC)**

Composition of Directors	Areas of Oversight
Mr Rimoe Saldin (Chairman)	<ul style="list-style-type: none"> <li>&gt; Establish a Comprehensive Risk Management Framework</li> <li>&gt; Monitor and assess effectiveness of Bank's risk management processes</li> <li>&gt; Review compliance with internal risk policy guidelines and relevant regulatory including Basel III and SLFRS 9 implementations</li> </ul>
Mr Jonathan Alles	
Mr Madu Ratnayake	
Mr Rasitha Gunawardana	
Dr Prasad Samarasinghe	

Report Reference – page 158

**Related Party Transactions Review Committee (RPTRC)**

Composition of Directors	Areas of Oversight
Mr Devaka Cooray (Chairman)	<ul style="list-style-type: none"> <li>&gt; Review Related Party Transaction Policy</li> <li>&gt; Scrutiny of Related Party Transactions</li> <li>&gt; Market disclosures on Related Party Transactions</li> <li>&gt; Avoidance of conflict of interest</li> </ul>
Mr Jonathan Alles	
Mr Osman Chandrawansa	
Mr Nihal Jayawardene PC	

Report Reference – page 165

## Voluntary Committees

### Strategy & Investment Review Committee (SIRC)

Composition of Directors	Areas of Oversight
Mr Amal Cabraal (Chairman)	> Review economic climate and capital market activities
Mr Madu Ratnayake	> Economic and monetary policy direction, emerging trends and their potential/impact
Mrs Aruni Goonetilleke	> Investment Policy
Mr Kithsiri Gunawardena	> Review Bank's investment portfolios and their performance
Dr Prasad Samarasinghe	

### Procurement & Asset Disposal Committee (PADC)

Composition of Directors	Areas of Oversight
Mr Rimoe Saldin (Chairman)	> Procurement and Disposal Policy
Mr Nihal Jayawardene PC	> Approve procurements and disposal in line with delegation
Mr Rasitha Gunawardana	
Dr Prasad Samarasinghe	

### Board Credit Committee (BCC)

Composition of Directors	Areas of Oversight
Mrs Aruni Goonetilleke (Chairperson)	> Credit Policy and Lending Guidelines
Mr Amal Cabraal	> Credit risk control measures including pricing of credit risk
Mr Devaka Cooray	> Performance of credit risk indicators
Mr Osman Chandrawansa	> Formulate and periodically review the Credit Policy
Mr Nihal Jayawardene PC	> Authorize credit facilities over and above the delegated limits of specified categories

### Board Recoveries Committee (BRC)

Composition of Directors	Areas of Oversight
Mr Amal Cabraal (Chairman)	> Provide strategic direction for speedy recovery of defaulted facilities
Mrs Aruni Goonetilleke	> Review the effectiveness of recovery initiatives deployed
Mr Nihal Jayawardene PC	> Ensure engagement of relevant stakeholders in the recovery process
Mr Rasitha Gunawardana	> Recommend credit and recovery capability requirements to ensure effective management of NPA and recoveries

### Board Digital Banking Committee (BDBC)

Composition of Directors	Areas of Oversight
Mr Madu Ratnayake (Chairman)	> Provide oversight to the timely and seamless implementation of Bank's Digital Banking Platform/Layer including oversight on related investment components and initiatives
Mr Jonathan Alles	> Creating a culture of prioritizing of customer engagement
Dr Prasad Samarasinghe	

## Delegation of Authority

 Principle A.6

Daily management of the Bank and implementation of the strategic plan has been delegated to the Executive Management led by the MD/CEO.

The MD/CEO is supported by the Corporate Management Team (CMT) and Executive Committees. The complementary skills and diverse experience of the CMT strengthens the Bank's ability to deliver on strategy.

### DELEGATION OF AUTHORITY (DOA) FRAMEWORK

#### Key Highlights

- > Regular reporting on key matters enables effective oversight by the Board.
- > Management is open and transparent with the Board and escalates concerns to its attention in the appropriate forums and in a timely manner.
- > The Board strives to create an effective balance between meeting the Board's oversight responsibilities and maintaining an entrepreneurial environment in which management can operate.
- > Roles are clearly defined by mandates & job descriptions and authority & responsibilities are effectively exercised.
- > Strategically aligned financial and non-financial Key Performance Indicators (KPI) drive performance and the achievement of objectives.
- > All functional departments are headed by competent individuals and are adequately resourced.
- > Necessary systems, policies and processes ensure all employees abide by the Bank's values and adhere to governance standards.
- > The Chief Internal Auditor reports directly to the BAC, while the Chief Risk Officer and the Chief Compliance Officer report directly to BIRMC ensuring independence of these key functions.
- > DOA of the Board is reviewed periodically to ensure limits are aligned to the Bank's evolving needs and business context.



# CORPORATE GOVERNANCE

## ETHICAL CONDUCT

The Board is committed to create an ethically conducive culture and set the tone from the top. The Board lead by demonstrating responsibility and commitment to HNB values. The management is accountable for the implementation of the ethical framework.

### Code of Conduct & Ethics

 Principle D.5

All employees are bound by the Code of Conduct & Ethics, encompassed in the Employee Handbook. The Code, which is accessible on the intranet, provides guidelines on the conduct of the Bank's businesses & operations and is aligned to HNB's values, standards, policies and procedures. Directors abide by a 'Standard of Conduct' embodied in the Board Charter.

All HNB employees receive training on compliance with the Code, as part of their induction process and during regular refresher courses.

### Whistle Blowing

- > All employees are responsible to ensure their behaviour reflecting the Bank's values, Code of Ethics & Conduct, and commitment to respect human rights. Any employee who believes there has been a contravention of this commitment, is encouraged to report under the provisions of the Bank's Whistle Blowing Policy.
- > All reports are treated as confidential and whistle blowers' identity is

protected. The policy allows for two-way communication, if required.

- > There are multiple channels for reporting and whilst blowing matters are handled by an Independent Non-Executive Director.
- > There were no significant incidents during the year, raised through the whistle blowing mechanism.

### Conflict of Interest

 Principles A.1.6, A.10

Directors are required to declare any personal financial interests that pose a conflict of interest at the appointment and quarterly thereafter. It is a standing agenda item at every Board meeting. Where conflicts of interest may exist, Directors are expected to excuse themselves from the meetings.

The Related Party Transactions Review Committee (RPTRC) reviews and provides oversight over related party transactions to ensure transactions are fair and in the best interests of HNB. The Committee is guided by the Bank's Related Party Transactions Policy and applicable regulations.

Key appointments of the Directors are included in their profiles on pages 86 to 91 and Related Party Transactions are disclosed in note 60 of the Financial Statements on pages 422 to 428. The total number of Board seats (excluding directorship in HNB) held by each Director as of 31st December 2022 in the following page.

## FOSTERING AND ETHICAL CULTURE

All the Bank employees are expected to uphold HNB's values and are entrenched across the Bank through following mechanisms.

- > Recruitment
- > Training
- > Performance Review
- > Consequence Management/ Disciplinary actions

## HNB CODE OF CONDUCT & ETHICS

- > Act ethically, responsibly, honestly and with integrity, in the best interests of the Bank
- > Safeguard the Bank from frauds, corruptions, collusions and coercions
- > Compliance with laws, rules and regulations
- > Avoidance of conflict of interest
- > Discrimination and harassment
- > Bribery and corruption
- > Confidentiality
- > Fair dealing
- > Entertainment and gifts
- > Accurate accounting and record keeping
- > Fair and transparent procurement practices
- > Protection and proper use of Bank's assets including information assets
- > Encourage whistle blowing
- > Corporate opportunities

**The Board is aware of other commitments of its Directors and is satisfied that all Directors allocate sufficient time and attention to enable them to discharge their responsibilities at HNB effectively.**

 Principle A.1.6

Name of Director	Directorship Status	No. of Board Seats held in Listed Companies		No. of Board seats held in Unlisted Companies	
		Executive Capacity	Non-Executive Capacity	Executive Capacity	Non-Executive Capacity
Mrs Aruni Goonetilleke	●	-	2	-	2
Mr Jonathan Alles	●	-	-	-	-
Mr Amal Cabraal	●	-	4	-	12
Mr Madu Ratnayake	●	-	-	1	2
Mr Dilshan Rodrigo	●	-	2	-	3
Mr Devaka Cooray	●	-	3	1	8
Mr Osman Chandrawansa	●	-	-	-	-
Mr Rimoe Saldin	●	-	2	3	10
Mr Nihal Jayawardene PC	●	-	-	-	-
Mr Rasitha Gunawardana	●	-	-	-	-
Mr Kithsiri Gunawardena	●	-	1	-	18
Dr Prasad Samarasinghe	●	-	2	4	5

● Independent Non-Executive Director ● Executive Director ● Non-Executive Director

### Anti-Bribery and Corruption (ABC)

'HNB's ABC Policy approved and endorsed by the Board declares that, corrupt practices are not acceptable in any business dealings of the Bank.

ABC management is embedded in our compliance monitoring programme and reviewed by the Bank's Compliance Officer and concerns are escalated to the BIRMC / Board, if any. The policy is further supported through internal control systems and procedures, which are vulnerable to bribery and corruption risks.

Employee awareness of the policy is reinforced through structured communication and training programs. The policy is reviewed regularly and updated.

### Respecting Human Rights, Diversity & Gender Equality

We are committed to implementing internationally agreed principles on human rights as described in our Human Rights Policy. The Bank promotes fair representation, equal opportunity and a safe workplace, amongst others.

### Diversity and equal opportunity

The Bank appreciates the positive impact on productivity and creativity that diverse perspectives lend. HNB is an equal opportunity employer, and is committed towards creating a healthy working environment that enables employees to work without fear of prejudice, gender bias or any form of harassment.

### Gender Representation

The Bank remains committed to promote gender representation across the Bank. Family friendly workplace practices support employees, who are also caregivers, in creating a balance between their professional and family priorities.

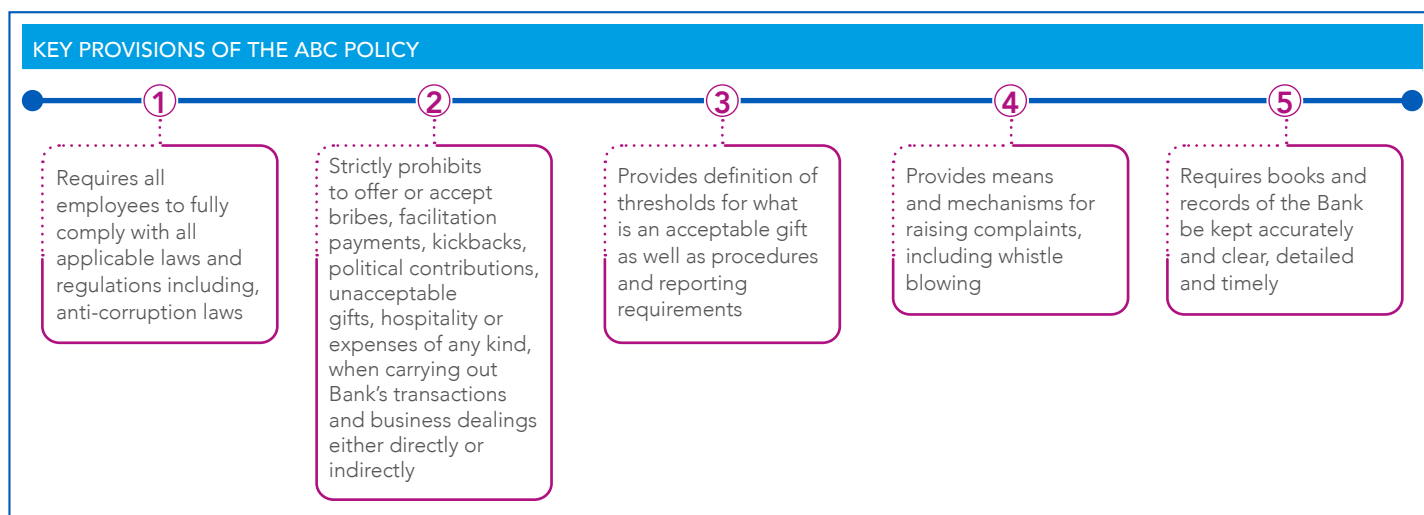
### Fair & Responsible Remuneration

Principles B.1, B.2

### Remuneration Policy and Procedure

HNB's Remuneration Policy seeks to offer internally equitable yet market competitive remuneration that attracts, retains and motivates high-performing employees. The policy seeks to promote desired behaviours and conduct from employees and the creation of stakeholder value, responsibly and sustainably.

As delegated by the Board, the HRRC, has been mandated to review and make decisions on the Remuneration Policy and its implementation. The Committee consists



# CORPORATE GOVERNANCE

majority of Independent Non-Executive Directors and meets on a quarterly basis. Where relevant and required, the HRRC will make recommendations to the Board for its consideration and final approval.

### Remuneration Level and Makeup

Employees are incentivised through a variable pay component tied to the achievement of financial and non-financial performance targets aligned to HNB's strategic objectives. The HRRC evaluates the performance of the Executive Directors and KMP periodically and makes recommendations regarding remuneration. Fixed and variable components of the remunerations are regularly reviewed to ensure adequacy and market competitiveness.

MD/CEO participates when deciding the remuneration of the Corporate Management team.

The Board, as a whole, determines the remuneration of the Non-Executive Directors who receive a fixed fee for being the Chairperson or a Director of the Board and an additional fee for being a member of a Sub-Committee. Independent professional advice is sought when required to determine market positioning and salary levels.

### Remuneration Disclosures

Refer page 317 for details of the remunerations paid to Directors of the Bank.

### Taxation

HNB is committed to being a responsible taxpayer that pays its fair share of tax within industry norms. The Board determines the Bank's tax philosophy and approach along with the BAC and provides oversight of the Bank's tax practices and affairs.

### APPRAISAL OF THE MD/CEO

 Principle A.11

The performance of the MD/CEO is assessed annually using criteria aligned to the short, medium and long-term objectives of the Bank which are agreed with the MD/CEO at the beginning of the year. The appraisal is discussed by the Chairperson with MD/CEO and responses are documented prior to the approval by the Board.

**“The Directors of HNB shall at all times discharge their duties professionally with due diligence, efficiency and to the best of their abilities. All Directors shall have a sound understanding of the Bank.”**

*Board Charter*

Our policies seek to harness the full potential of all our employees by providing equal opportunity and a safe environment, in the workplace.

- > Equality and Diversity Policy
- > Employee Recognition and Rewards Policy
- > Anti-Harassment Policy
- > Grievance Handling Policy
- > Management and Resolution of Complaints Policy
- > Human Rights Policy
- > Health & Safety Policy
- > Code of Conduct & Ethics

The desired outcomes of the Bank's Remuneration Policy include;

- > Attracting, motivating, rewarding and retaining talent
- > Promoting the achievement of strategic objectives within the Bank's risk appetite
- > Promoting core values and an ethical culture
- > Enhancing internal fairness through consistent remuneration decision-making
- > Appropriate and responsible remuneration decisions



## RISK GOVERNANCE

 Principle D.2

### RISK MANAGEMENT

The Board has ultimate responsibility for risk management, agreeing on the nature and extent of opportunities and associated risks that the Bank is willing to take in pursuit of strategic objectives.

Responsibility to provide independent oversight of the adequacy and effectiveness of the Bank's Risk Management Framework (RMF) has been delegated to the BIRMC. Our robust framework enables the Bank to identify, measure, manage and monitor risks and risk appetite to assist in ensuring capital adequacy and sustainability.

The RMF covers the three lines of defence, ensuring significant matters are timeously and effectively escalated to the appropriate levels of authority for action. The Risk Department and several executive level committees support the BIRMC in the implementation of the RMF.

During the year, the Board and BIRMC increased the rigour of their oversight functions to effectively manage risk.

Refer the BIRMC report on page 158 and the Risk & Capital Review on page 176 for more information.

### INTERNAL CONTROLS

Combined with Risk management, the Board formulates and implements effective internal control systems to safeguard shareholder interests and assets of the Bank. These systems cover all controls, including financial, operational and compliance, and are monitored and regularly reviewed for effectiveness by the Board. The Board Audit

Committee assists in the discharge of duties with regards to internal controls, supported by the Internal Audit Department. Details of the internal audit function and systems of internal control are explained in the Board Audit Committee Report, given on page 162. The Board is satisfied with the integrity of financial information and the robustness of the internal controls and systems of the Bank.

## INFORMATION TECHNOLOGY GOVERNANCE

 Principle G.1, G.2, G.3, G.4, G.5

The Board appreciates the benefits of efficiency, scalability, and innovation that digital platforms provide and ensures implementation of an effective and properly resourced digital technology strategy. The Board monitors and evaluates significant IT investment and expenditure.

The Board Digital Banking Committee provides oversight in the implementation of the digital strategy, and delivery of solutions that enhance client and employee experiences. The appointment of Dr Prasad Samarasinghe as a NED to the Board this year, has served to enhance the Board's skills base and knowledge of technology and information governance.

During the year, two Sub-Committees were created within the Digital Banking Committee, to review and expedite the delivery of digital banking solutions for the Retail and Wholesale markets respectively. The accelerated launch of the products enabled the Bank to secure a competitive edge in the digital market space.

### Information and Cybersecurity

The challenging economic environment and the complexity of increasing digital activities have led to a significant escalation in financial crimes. HNB is committed to protect the confidentiality, integrity, and availability of the Bank's information assets and customer data, by continuously investing in advanced security controls to detect and respond to the latest threats effectively.

Information technology & security governance and cyber risk are recurring

## INFORMATION SECURITY POLICY STATEMENT

It is the policy of Hatton National Bank PLC that;

- > its information assets shall be protected from all threats identified, whether internal or external, advertent, or inadvertent, such that the brand is protected
- > confidentiality of information is maintained
- > integrity of information can be relied upon
- > availability of information is ensured
- > and all legal, regulatory, statutory, and contractual obligations are met.

**Our holistic security programme is aligned to international best practice and standards.**

**We will ensure our information systems are secured by complying with;**

- > **The National Institute of Standards and Technology (NIST) Cybersecurity framework;**
- > **ISO/IEC 27001 Information Security Management System Standard; and**
- > **Baseline security guidelines issued by Central Bank of Sri Lanka.**

items on the monthly Board and BIRMC meetings.

Refer Risk & Capital Review on page 176 for more information on management of Information Security & Cyber-risk.

# CORPORATE GOVERNANCE

## GOVERNANCE OF TECHNOLOGY AND INFORMATION RISK

Specific responsibilities have been assigned to committees at Board and Executive level. Key concerns are escalated to the Board.

**The Board** – Ensures the alignment of technology and information management to the strategic objectives of the Bank.

**BIRMC** – Provides governance and oversight on all matters relating to information risk, including data privacy and information systems.

**BAC** – Reviews the adequacy, efficiency and effectiveness of the Bank's information technology systems. Monitors the implementation of the recommendations in internal audit reports.

**Chief Information Security Officer (CISO)** – Creates and executes the information and cyber security strategy and programmes.

**The Information Security Committee (ISC)** – Established under Central Bank of Sri Lanka (CBSL) guidelines, is charged with oversight responsibilities for information security and cyber risk management. The ISC meets monthly, and minutes are submitted for the review of the Board, through the BIRMC.

**Security Operating Centre (SOC)** – Strengthens the cyber security surveillance and incident response process.

## COMPLIANCE GOVERNANCE

 Principle A.1.3

The Board is conscious of its duty to comply with laws & regulations, internal procedures and policies of the Bank. Internal controls have been placed to provide reasonable assurance of compliance, including establishment of a compliance function, headed by a dedicated Compliance Officer who directly reports to the BIRMC.

A culture of compliance is encouraged across the organisation through Bank's communications and internal audit reviews.

The regulatory and policy landscape became a challenge and continue to evolve at an accelerated rate, following GoSL and CBSL actions to manage the nation's economy.

### Assurance

The Board ensures that assurance services and functions enable an effective control environment, that support the integrity of information for decision making and reporting requirements. The Board Audit Committee (BAC), on behalf of the Board, reviews the plans and reports of both external and internal auditors and coordinate activities to adopt a combined assurance model.

Refer the Directors' Statement on Internal Control on page 167 and External Auditor's Assurance Report on page 169 for more information.

## ANTI-MONEY-LAUNDERING, COMBATING THE FINANCING OF TERRORISM AND SANCTIONS (AML/CFT)

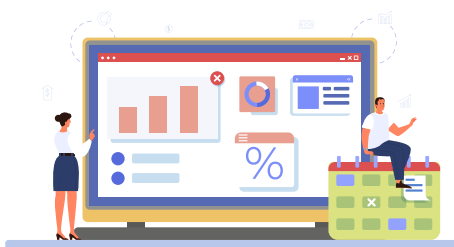
The Central Bank of Sri Lanka (CBSL) continued its intensive surveillance on financial crime focused on AML/CFT activities. The Bank remained extra vigilant, expanding the scope and rigour of processes to enhance adequacy, effectiveness, and oversight of the control environment and to comply with regulations.

## GOVERNANCE OF GROUP COMPANIES

The Board seeks to establish a common standard of Corporate Governance across subsidiaries and is guided by the Board approved Charter for Management on Good Governance for Group Companies.

Alignment of governance practices and processes is reinforced by the appointment of Bank Directors and/or Corporate Management members to the Boards of subsidiaries.





## FINANCIAL GOVERNANCE

 Principles C.1, C.2, D.1, E,F

As a trusted corporate leader committed to high standards of business integrity and ethics, being accountable and responsible, to all stakeholders is a priority. The Board ensures accountability through robust disclosure practices, striving for open, transparent and reliable communication with both internal and external stakeholders. The Annual Report and the AGM are key forums for external communication of the Bank's performance during the year.

## REPORTING AND DISCLOSURE

HNB is committed to fair and transparent reporting with emphasis on integrity, timeliness and relevance of information disclosed. Information is presented in such a manner as to avoid the creation of a false market. Such disclosure and reporting enable stakeholders to effectively assess performance and take informed decisions.

The Bank's Corporate Communication Policy provides guidelines to ensure all communications to key stakeholders are coherent and cohesive. Covering internal and external communication, the policy has been communicated to all staff members and sets out formal areas of responsibility. The Corporate Communication Policy was revised in 2021.

All reporting and disclosures are in compliance with applicable laws and regulations.

## Annual Report and Interim Financials

The Annual Report is the key medium through which the Board presents a fair and balanced review of the of the Bank's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. External audit/ third-party assurance has been obtained where relevant, to enhance credibility. The Board of Directors review and approve the Annual Report, prior to publication while the Interim Financials are reviewed and recommended by the Board Audit Committee and approved by the Board of Directors, prior to publication. The high standard of reporting maintained by the Bank is evidenced by the awards received over an extended period.

## STAKEHOLDER ENGAGEMENT

The Board continuously monitors the Bank's relationship with its stakeholders and also engages directly with employees, clients, regulators and shareholders from time to time.

In 2022, the focus on the needs and expectations of stakeholders remained elevated, given the impact of the on-going economic crisis. Close engagement with all stakeholder groups was key to address their concerns and building trust and confidence in the Bank.

Shareholders and investors are engaged through multiple channels of communication, including the following;

- > Annual General Meeting (AGM)
- > Quarterly Investor Forums
- > Annual Integrated Report
- > Interim Financial Statements
- > A dedicated investor relations page on the Bank's website
- > Notification of key events through announcements in the CSE
- > Structured meetings held by Chairperson, MD/CEO and other senior management, with key institutional investors, on a needs basis. Views of the shareholders are communicated to the Board as a whole by the Chairman
- > Shareholders can also query the Board Management of the Bank, through representations made to the Company Secretary

Refer page 107 for further information on stakeholder engagement processes and outcomes, during the year.

## ENGAGING WITH OUR KEY STAKEHOLDERS

<b>Employees</b>	<ul style="list-style-type: none"> <li>&gt; Open Door Policy</li> <li>&gt; Chief Employee Experience Officer</li> <li>&gt; CEO Newsletter</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Engagement Surveys</li> <li>&gt; Grievance mechanism</li> <li>&gt; Managers conference</li> </ul>
<b>Clients</b>	<ul style="list-style-type: none"> <li>&gt; Centralized dedicated unit headed by Customer Experience Officer</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Call Centre</li> <li>&gt; Relationship managers</li> <li>&gt; Complaints</li> <li>&gt; Social media</li> </ul>
<b>Regulators</b>	<ul style="list-style-type: none"> <li>&gt; Periodic CEO meetings</li> <li>&gt; Formal reporting</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Meetings / discussions</li> <li>&gt; Feedback on draft papers and regulations</li> </ul>
<b>Shareholders/ investors</b>	<ul style="list-style-type: none"> <li>&gt; AGM</li> <li>&gt; Quarterly Investor forums</li> <li>&gt; Webinars</li> <li>&gt; CSE announcements</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Mechanism to raise queries through the Company Secretary</li> </ul>

# CORPORATE GOVERNANCE

## CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM)

The AGM is the main mechanism for the Board to interact with and account to shareholders and provides an opportunity for shareholders' views to be heard. The Chairperson, Board members particularly Chairperson/Chairman of Board Sub-Committees, MD/CEO, key management personnel and External Auditors, are present and available to answer questions.



**73%**  
of shareholders  
representation  
at 53rd AGM

### PRIOR TO THE AGM

- > Notice of the AGM and other related documents including the Annual Report, proposed resolutions, voting procedures, are circulated to shareholders within minimum 15 days prior to the AGM.
- > It allows sufficient time for all the shareholders to attend the AGM.

### AT THE AGM

- > The Board provides an update on the Bank's performance.
- > Shareholders have the opportunity to ask questions and clarify matters.
- > A separate resolution is proposed for each item of business.
- > All shareholders are encouraged to exercise their voting rights.
- > The Bank has a mechanism to record and count all proxy votes lodged for each resolution.

### AFTER THE AGM

- > Details of key resolutions passed are informed to the CSE and posted on the Bank website, within 24 hours of the AGM.
- > Minutes of the meeting are available to shareholders on request from the Company Secretary's office.

### AGM 2022

- > In response to the COVID 19 pandemic restrictions prevalent in March 2022, the AGM 2022 was conducted in a hybrid format for the third time, at a physical location as well as via an extended teleconference facility.
- > All shareholders, including those connected electronically, were given the opportunity to submit any question to the Board / Management in real time.
- > Voting was concluded on a show of hand by those physically present, while shareholders participating via electronic platform were able to vote by means of MS Teams.

Mode of Participation	No. of Shareholders	No. of Shares Presented	% of Shareholding
In Person	60	285,770	0.07%
By Proxy	52	306,789,043	72.90%
Total Represented		307,074,813	72.97%



## SUSTAINABILITY GOVERNANCE

 Principle H.1

### STRATEGY AND INTEGRATION OF EES

Our strategy is shaped by stakeholder expectations. The Board adopts a structured and systematic approach to strategy formulation, identifying and managing the Bank's Economic, Environmental and Social (EES) impacts and addressing the material interests of our priority stakeholders. The Sustainability strategy is integrated with HNB's Corporate Strategy and is aligned to the Sustainable Development Goals.

- > Environmental and socioeconomic concerns have heightened due to the pandemic.
- > Banks in particular, have been called upon globally, to adopt a greater role in promoting the transition to sustainable development.
- > The CBSL Direction No 05 of 2022 on Sustainable Finance Activities of Licensed Banks seeks to facilitate a sustainable economy and promote the sustainable finance practices of Licensed Banks in Sri Lanka, which is in line with 2019 Sustainable Finance Road Map of CBSL.

### Embedding EES considerations

We are conscious of our role as a Bank in addressing climate change and driving sustainable socioeconomic development. HNB has a proven track record in leading change, providing capital where it is needed most. The numerous awards received by the Bank, in recognition of our role as a responsible corporate citizen, is an endorsement of our efforts.

Integration of EES impacts into strategy, risks and opportunities in creating value across the various capitals, is reported in the Capital Reports given below.

ESC Consideration	Subject of the Report	Report References
Economic Sustainability	Financial Capital	Pages 45 to 51
Environment Sustainability	Natural Capital	Pages 74 to 79
Labour Practices	Human Capital	Pages 56 to 62
Social Sustainability	Social and Relationship Capital	Pages 63 to 73
Sustainability Development Goals	An Integrated Strategy	Pages 32 to 33

### Board

The Board has ultimate responsibility for managing risks and opportunities arising from EES impacts including climate changes and socio- economic development.

### BIRMC

The Board has delegated the authority to assesses EES related risks & opportunities and to take appropriate strategic action. BIRMC makes recommendations to the Board and other Board Sub Committees on managing EES related risks and opportunities, including climate risk and credit risk.

The annual strategy review for the year 2023, was conducted by the Board in 2022, in consultation with the Board Strategy & Investment Review Committee (SIRC) and Corporate Management Team. The Board considered the Bank's operating environment, risks and opportunities in approving the Bank's business plan and setting revised short, medium and long term targets.

## CORPORATE GOVERNANCE

### Sustainability Foundation

The Sustainability Foundation functions as the monitoring body for corporate sustainability of HNB.

- > Trustees to the Foundation include one (1) Non-Executive Director, two (2) Executive Directors, CHRO and other Senior Officials of the Bank. MD/CEO acts as the Chairman of the Foundation.
- > The Foundation meets every two months and monitors the CSR and ESMS activities. The Sustainability dashboard, which reflect key EES performance indicators, is reviewed at the meeting.
- > The Monthly Dashboard is presented to the Board and critical concerns are escalated by the foundation's Chairman, if any.

CHRO who overlooks the sustainability function is supported by Executive Sustainability. This pillar is responsible for implementing social sustainability including customers, employees, suppliers and communities etc, while green lending is driven by the business lines.

Strengthening Sustainability Governance in 2022

- > Revised Board Charter to include oversight of Sustainability Management.
- > Drafted the Terms of Reference (TOR) to formulate the Board Sustainability Committee, to be finalised in early 2023.
- > Drafted and finalised the Bank's Sustainability Policy by expanding the Green Pledge, which has been in place since 2009. The policy is to be adopted in conjunction with the existing Environmental and Social policy and will be approved by the Board in early 2023.
- > Continued to integrate EES metrics into HNB's Key Performance Indicators in 2022.

## COMPLIANCE WITH BANKING ACT DIRECTION NO.11 OF 2007 ON CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
<b>3 (1)</b>	<b>Responsibilities of the Board</b>
3 (1) (i)	<p><b>Strengthening the Safety and Soundness of the Bank</b></p> <p>The Board's responsibilities are set out in the Board Charter. The Board is accountable for the management of the affairs of the Bank and the safety and soundness of the Bank.</p> <p><b>a. Setting Strategic Objectives and Corporate Values - Complied ✓</b></p> <p>The Bank's strategic objectives derived from the Vision and Mission Statements and its corporate values, have been determined and approved by the Board of Directors and communicated to all levels of staff through multiple channels. The corporate values are included in the Code of Conduct &amp; Ethics which is provided in hard copy to all new employees is available on the intranet, explained at orientation programmes.</p> <p><b>b. Approving Overall Business Strategy including Risk Policy and Management - Complied ✓</b></p> <p>The business strategy (Corporate Strategic Plan) together with the projections covering 2023 - 2025 was approved by the Board in 2022. The strategy and execution thereof, is regularly reviewed by the Board. The Annual budget, derived from the business strategy is approved after discussing in detail with the corporate management and monitored periodically, by the Board.</p> <p>The Board also approved the overall risk strategy of the Bank, determining the Risk Appetite, Policies and Risk Management Framework &amp; Mechanisms. The Corporate Strategic Plan is aligned to the overall risk strategy of the Bank, where Risk Appetite is considered in areas such as capital allocation and in the adoption of risk matrix to measure the risk levels. Governance and Compliance which are embedded in the Risk Management Policy Framework have also been included in the strategic plan. Further, the risk management procedures and mechanisms with time bound implementation milestones were approved and monitored by the Board Integrated Risk Management Committee (BIRMC) on a regular basis.</p> <p><b>c. Risk Management - Complied ✓</b></p> <p>The Board takes overall responsibility for risk management of the Bank. The BIRMC, is tasked with assisting the Board in structuring the Bank's Risk Policy, defining the risk appetite, identifying risks, setting governance structures and implementing process to measure, monitor and manage the risks.</p> <p>The following reports provide further insights in this regard:</p> <ul style="list-style-type: none"> <li>&gt; Risk &amp; Capital Review on page 176.</li> <li>&gt; Board Integrated Risk Management Committee Report on page 158.</li> </ul> <p><b>d. Communication with all Stakeholders - Complied ✓</b></p> <p>The Board has approved a Corporate Communication Policy to ensure effective and timely communication with all stakeholders including depositors, creditors, shareholders and borrowers. The Corporate Communication Policy, which was reformulated in 2016 (revised in 2021), is guided by the principles of efficiency, transparency, proactivity, clarity and feedback. Investor forums and AGMs are used to communicate with stakeholders in addition to responding to specific investor queries. Shareholder engagement is described on page 121.</p> <p>The Bank has substantially implemented the provisions of Banking Act Direction No. 8 of 2011 "Customer Charter of Licensed Banks", which became effective in 2012. The Charter seeks to improve the quality and content in dispensing of customer service by enhancing customer protection, instilling trust and confidence in the Bank, while incorporating a set of customer obligations generated in the interests of Bank's stability.</p> <p><b>e. Internal Control System and Management Information Systems - Complied ✓</b></p> <p>The Board reviews the adequacy and the integrity of the Bank's Internal Control Systems and Management Information Systems and is satisfied with same. It is assisted by the Board Audit Committee (BAC). The BAC has reviewed reports from the Internal Audit Department in carrying out this function, together with the Management responses on the same. The minutes of the BAC meetings are tabled for the information of the Board on a Periodic basis.</p>



## CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
	<p><b>f. Key Management Personnel (KMP) - Complied ✓</b></p> <p>KMP are defined in the Sri Lanka Accounting Standard – LKAS 24 on “Related Party Disclosures”, as the persons who significantly influence policy, direct activities and exercise control over business activities, operations, and risk management. All appointments of designated KMP are recommended by the Nomination Committee and approved by the Board.</p> <p>For the financial reporting purposes, The Board of Directors is considered as KMP of the Bank.</p> <p>For Corporate Governance reporting and monitoring purposes, Key Management Personnel comprise the Corporate Management (MD/ CEO, ED/COO, DGMs and AGMs), Chief Technology &amp; Digital Officer and Head of Custody &amp; Trustee Services as per the guideline of “Key Management Personnel in Banking Act Direction for Corporate Governance” issued by the Banking Supervision Department of CBSL. All appointments of Key Management Personnel are recommended by the Nomination Committee and approved by the Board.</p>
	<p><b>g. Define areas of authority and key responsibilities for Directors and Key Management Personnel - Complied ✓</b></p> <p>Areas of authority and key responsibilities for the Board of Directors are set out in the Board Charter. Areas of authority and key responsibilities for Key Management Personnel are stated in their job descriptions as recommended by the Nomination Committee and approved by the Board. The delegated authority limits for Key Management Personnel have been approved by the Board.</p>
	<p><b>h. Oversight of affairs of the Bank by Key Management Personnel - Complied ✓</b></p> <p>The MD/CEO and other Key Management Personnel are accountable to the Board for the Bank’s operational and financial performance, in accordance with the policies set by the Board. The Board reviews the performance of the Bank against the strategic plan and receives reports from its Sub-Committees on matters delegated to them. Further, Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in to explain matters relating to their areas.</p>
	<p><b>i. Assess effectiveness of own Governance Practices - Complied ✓</b></p> <p>The effectiveness of the Board’s own governance practices, including the process for selection, nomination and election of Directors (which is explained in detail under Rule 3 (2) (ix)) and the process for management of conflict of interest (which is explained in detail under Rule 3 (1) (xii)) are reviewed by Board on a periodic basis. Implementation of changes required is discussed and determined by the Board at year-end, following the submission of the summary of annual self-evaluations of the Board and Board Sub Committees.</p>
	<p><b>j. Succession plan for Key Management Personnel - Complied ✓</b></p> <p>The Bank has an appropriate succession plan for Key Management Personnel aligned to the Bank’s strategic objectives and Talent Management Programme. The plan is guided by the policy on Succession Planning for Key Management Personnel and Directors, last reviewed in 2020. The Nomination Committee is responsible for the formulation, review and rollout of the plan.</p>
	<p><b>k. Regular Meetings with Key Management Personnel - Complied ✓</b></p> <p>The Board maintains a sound relationship with the Corporate/Senior Management led by MD/CEO, who in turn assists the Board to formulate policies, strategies, processes and practices that fit the Bank and its business needs in achieving corporate objectives. The Management is open and transparent with the Board, bringing all significant matters to its attention. Key Management Personnel are regularly invited to attend Board and Sub-Committee meetings for discussion on matters concerning their areas of responsibility or make presentations on key agenda items.</p>
	<p><b>l. Regulatory environment and maintaining an effective relationship with regulator - Complied ✓</b></p> <p>On appointment, Directors are provided with a folder containing all relevant governance information, including regulatory laws, directions and guidelines. Directors are briefed about regulatory developments at Board and Sub-Committee meetings by Key Management Personnel including the Heads of Internal Audit, Risk and Compliance and by attending Director Forums arranged by the Central Bank of Sri Lanka (CBSL). Further, Board members regularly meet with CBSL officials to discuss strategic matters specific to the Bank, maintaining an effective relationship with the regulator.</p>

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
	<p><b>m. Hiring and Oversight of External Auditors - Complied ✓</b></p> <p>The External Auditor is appointed by following the procedures set out in Article 53 (iv) of the Articles of Association. The Board Audit Committee makes recommendations to the Board for the appointment, re-appointment or removal of the External Auditor in-line with professional &amp; ethical standards and regulatory requirements. In addition, the Board has adopted a policy of rotation of auditors, once in five years, in keeping with the principal of Good Corporate Governance. A policy for Engagement of the External Auditor to provide Non-Audit Services is in place, as reviewed and recommended by the Board Audit Committee.</p> <p>On the recommendation of the Board, the shareholders approved the reappointment of Messrs. KPMG as the External Auditor of the Bank, at the last AGM. In compliance with Section 163 (3) of the Companies Act No. 07 of 2007, the External Auditors submit a statement annually, confirming their independence in relation to the External Audit.</p>
3 (1) (ii)	<p><b>Appointment of Chairman and CEO and defining and approving their functions and responsibilities - Complied ✓</b></p> <p>The Board has appointed the Chairman and the MD/CEO. Their roles and responsibilities are set out clearly and separately in the Board Charter, ensuring a balance of power and authority and preventing unfettered power being vested with an individual. These functions and responsibilities are in line with the section 3(5) of said Direction.</p>
3 (1) (iii)	<p><b>Regular Board Meetings - Complied ✓</b></p> <p>Monthly Board meetings are held regularly, and special meetings are scheduled based on need. Fourteen (14) Board meetings were held in 2022, out of which twelve (12) meetings were conducted with extended teleconferencing. Directors actively participate in the meetings deliberating on matters set before the Board. Attendance at Board meetings is given on page 111. Urgent Board Papers are approved via circular resolution only on an exceptional basis, where such resolutions are ratified by the Board at the next meeting. 02 Resolutions and 297 credit papers were approved in 2022, via circulation.</p>
3 (1) (iv)	<p><b>Arrangements for Directors to include proposals in the agenda - Complied ✓</b></p> <p>The Board Calendar with tentative dates for Board and Sub-Committee meetings for the following year is sent to all members approximately one month before the end of the current year. The Chairperson sets the Board Agenda assisted by the Company Secretary. Directors submit proposals for inclusion in the agenda up on discussion with the Chairperson.</p>
3 (1) (v)	<p><b>Notice of Meetings - Complied ✓</b></p> <p>Notice of meetings, Agenda and Board Papers for the meetings are sent generally seven (7) days before the meeting, giving members sufficient time to attend the meeting and study the documents. Urgent Board Papers are included on an exceptional basis, with the consent of the Chairperson.</p>
3 (1) (vi)	<p><b>Director's Attendance - Complied ✓</b></p> <p>At appointment, all Directors are apprised of the regulations on attendance in accordance with the Banking Act Direction No.11 of 2007. Attendance at Board meetings is given on page 111. All Directors have attended at least two thirds (2/3) of Board meetings held during 2022, the lowest attendance being nine (9) Directors at a Meeting (including attendance of an Alternate Director). No Director has been absent from three (3) consecutive meetings during 2022.</p>
3 (1) (vii)	<p><b>Appointment and setting responsibilities of the Company Secretary - Complied ✓</b></p> <p>The Board has appointed a Company Secretary, an Attorney at Law, who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988. The Company Secretary guides the Board on discharging its duties and responsibilities, facilitates adherence to best practices in Corporate Governance and apprises the Board of relevant legislative and regulatory changes.</p>
3 (1) (viii)	<p><b>Directors access to advice and services of Company Secretary - Complied ✓</b></p> <p>All Board members have full access, to advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p>
3 (1) (ix)	<p><b>Maintenance of Board Minutes - Complied ✓</b></p> <p>Company Secretary maintains the minutes of the Board meetings. The Minutes are reviewed by the Chairperson and are circulated to all Board members and approved at the next Board Meeting upon incorporating any amendments proposed by other Directors. The minute book is maintained by the Company Secretary and open for inspection by any Director.</p>

## CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
3 (1) (x)	<p><b>Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities - Complied ✓</b></p> <p>Minutes of Board meetings are recorded in sufficient detail to reflect that the Board acted with due care and prudence in performing its duties and to serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at Board meetings.</p>
3 (1) (xi)	<p><b>Directors ability to seek independent professional advice - Complied ✓</b></p> <p>Procedures are in place to allow Directors to seek independent professional advice, as and when necessary and at the Bank's expense, in discharging their duties and responsibilities. This facility is coordinated through the Company Secretary.</p>
3 (1) (xii)	<p><b>Dealing with Conflicts of Interest - Complied ✓</b></p> <p>Article 40 of Articles of Association addresses the provision with regard to this requirement. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both fact and apparent) between their duty to HNB and their other interests.</p> <p>The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interests in a matter being considered by the Board, declares his/her interests unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. The Directors declare their interests at appointment and thereafter on a quarterly basis.</p>
3 (1) (xiii)	<p><b>Formal schedule of matters for decision making - Complied ✓</b></p> <p>The Board reserves for itself a formal schedule of matters on which it takes the ultimate decision.</p>
3 (1) (xiv)	<p><b>Inform Central Bank, if there are solvency issues - Complied ✓</b></p> <p>The Bank is solvent and no situations have arisen to challenge its solvency.</p> <p>In the unlikely event, the Bank is about to become insolvent, a procedure is however in place to inform the Director of Banking Supervision of same, prior to taking any decision or action to suspend payments due to depositors and other creditors.</p>
3 (1) (xv)	<p><b>Capital Adequacy - Complied ✓</b></p> <p>The Board monitors capital adequacy and other prudential measures to manage risk and to ensure compliance with regulatory requirements. The Bank is in compliance with the minimum capital requirements of the Monetary Board.</p>
3 (1) (xvi)	<p><b>Publish Corporate Governance Report in Annual Report - Complied ✓</b></p> <p>This report forms part of the Corporate Governance Report of the Bank which is set out on pages 103 to 141.</p>
3 (1) (xvii)	<p><b>Self-Assessment of Directors - Complied ✓</b></p> <p>Each Director undertakes a self-assessment of the Board annually, to ensure responsibilities are satisfactorily discharged. The outcome of the appraisal for the financial year 2021 was tabled at the Board Meeting held in March 2022. The 2022 annual appraisal is currently in progress. Further, each Director carries out an assessment of "fitness and propriety" to serve as a Director.</p>
<b>3 (2)</b>	<b>The Board's Composition</b>
3 (2) (i)	<p><b>Number of Directors - Complied ✓</b></p> <p>The Board consists of twelve (12) Directors, compliant with CBSL direction which requires the number of Directors to be not less than seven (7) and not more than thirteen (13).</p>
3 (2) (ii)	<p><b>Period of service of a Director - Complied ✓</b></p> <p>The total period of service of all Non-Executive Directors does not exceed nine (9) years as required by the CBSL Direction. Tenures of service of Directors are given on page 108.</p>
3 (2) (iii)	<p><b>Director Appointment of an Employee as a Director - Complied ✓</b></p> <p>There are two (2) Directors who serve in an Executive Capacity in the Board. The Board balance is compliant with the CBSL Direction which limits the number of Executive Directors to 1/3 of the Board.</p>

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
3 (2) (iv)	<p><b>Independent Non-Executive Directors - Complied</b> ✓</p> <p>The Board comprises six (6) Independent Non-Executive Directors, in compliance with regulatory requirement. Directors satisfy the criteria for determining independence, which is reviewed annually by the Board, based on self-declaration forms submitted by the Directors.</p>
3 (2) (v)	<p><b>Alternate Independent Directors - Complied</b> ✓</p> <p>No Alternate Directors were appointed to represent Independent Non-Executive Directors. The Alternate Director appointed to represent the Non-Executive Director, is not an Executive of the Bank.</p>
3 (2) (vi)	<p><b>Criteria for Non-Executive Directors - Complied</b> ✓</p> <p>All Non-Executive Directors are eminent professionals in their respective fields, with credible track records and necessary skills and experience. They contribute diverse perspective to matters set before the Board Meeting, bringing independent judgment to bear on issues of strategy, performance and resources.</p>
3 (2) (vii)	<p><b>More than half the quorum to comprise Non-Executive Directors - Complied</b> ✓</p> <p>Majority of the Board comprises Non-Executive Directors.</p>
3 (2) (viii)	<p><b>Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report - Complied</b> ✓</p> <p>Independent Non-Executive Directors are expressly identified in all corporate communications, that disclose the names of Directors of the Bank. Composition and details of the Board are given on page 109.</p>
3 (2) (ix)	<p><b>Formal and transparent procedure for appointments to the Board - Complied</b> ✓</p> <p>The Board has a formal and transparent process in place for the succession and appointment of Directors. The Nomination Committee processes and short-lists candidates and makes recommendations to the Board for approval. The attributes and experience required from potential appointees are identified and agreed prior to the search process, considering the combined knowledge, experience and diversity of the Board, in relation to the Bank's strategic plans and any gaps thereof. The candidate's other directorships and commitments are also considered to ensure sufficient time to discharge their role at HNB, effectively. Upon completion of this process, names are referred to the Director of the Bank Supervision Department of the Central Bank of Sri Lanka for approval as a "fit and proper" person, prior to the appointment.</p> <p>Mr Rasitha Gunawardana, Mr Kithsiri Gunawardana and Dr. Prasad Samarasinghe were appointed to the Board in 2022.</p>
3 (2) (x)	<p><b>Re-election of Directors filling casual vacancies - Complied</b> ✓</p> <p>All Directors appointed to the Board are subjected to re-election by shareholders at the first Annual General Meeting after their appointment.</p> <p>Mr Rasitha Gunawardana, Mr Kithsiri Gunawardana and Dr Prasad Samarasinghe were appointed to the Board in 2022 to fill casual vacancies. Mr Rasitha Gunawardana and Mr Kithsiri Gunawardana were re-elected at the AGM held in March 2022. Dr Prasad Samarasinghe will offer himself for re-election at the AGM to be held in March 2023.</p>
3 (2) (xi)	<p><b>Communication of reasons for removal or resignation of Director - Complied</b> ✓</p> <p>Resignations of Directors and the reasons thereof are promptly informed to the regulatory authorities and shareholders, in compliance with the CSE regulations together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>
3 (2) (xii)	<p><b>Prohibition of Directors or employees of an appointment of Bank becoming a Director at another Bank - Complied</b> ✓</p> <p>None of the Directors are Directors or employees at any other Bank. This is a requirement when seeking appointment of Directors.</p>
<b>3 (3)</b>	<b>Criteria to assess fitness and propriety of Directors</b>
3 (3) (i)	<p><b>Age of Director should not exceed 70 years - Complied</b> ✓</p> <p>There are no Directors who are over seventy (70) years of age.</p>

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SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
3 (3) (ii)	<p>Directors should not be Directors of more than 20 companies and not more than 10 companies classified as Specified Business Entities - Complied ✓</p> <p>The Directors do not hold Directorships of more than twenty (20) companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank. Directorships in other companies are given on page 117.</p>
3 (3) (iii)	<p>Cooling-off period when appointing Directors or CEO - Complied ✓</p> <p>The Bank has complied with the directions when appointing Directors during the year.</p>
<b>3 (4)</b>	<b>Management functions delegated by the Board</b>
3 (4) (i)	Understand and study delegation arrangements - Complied ✓
3 (4) (ii)	Extent of delegation should not hinder Board ability to discharge its functions - Complied ✓
3 (4) (iii)	<p>Review delegation arrangements periodically to ensure relevance to operations of the Bank - Complied ✓</p> <p>The Board has a clear understanding of the delegation arrangements, studying, reviewing and approving the extent of delegation annually to ensure it meets the business needs of the Bank whilst enabling the Board to effectively discharge their duties.</p>
<b>3 (5)</b>	<b>The Chairman and Chief Executive Officer</b>
3 (5) (i)	<p>Separation of roles - Complied ✓</p> <p>There is a clear separation between roles of the Chairperson and the CEO, ensuring a balance of power for decision-making.</p>
3 (5) (ii)	<p>Non-Executive Chairman and appointment of a Senior Independent Directors - Complied ✓</p> <p>The Chairperson, Mrs Aruni Goonetilleke is an Independent Non-Executive Director, as such there is no requirement to appoint a Senior Independent Director.</p>
3 (5) (iii)	<p>Disclosure of identity of Chairman and CEO and any relationships with the Board members - Complied ✓</p> <p>The profiles of the Chairperson and CEO are disclosed on page 88.</p> <p>As declared by the Directors, no relationships including financial, business, family, or any other, prevailed between the Chairperson, MD/ CEO or among other Board members.</p>
3 (5) (iv)	<p>Chairman to provide leadership to the Board - Complied ✓</p> <p>The Chairperson led the Board ensuring that it works effectively, and acts in the best interests of the Bank in a timely basis. The effectiveness of the Chairperson in discharging Board functions is assessed annually by Board and in her self-assessment.</p>
3 (5) (v)	<p>Responsibility for agenda lies with Chairman but may be delegated to Company Secretary - Complied ✓</p> <p>The Chairperson sets the Board agenda, assisted by the Company Secretary and MD/CEO.</p>
3 (5) (vi)	<p>Ensure that Directors are properly briefed and provided adequate information - Complied ✓</p> <p>The Chairperson ensured that the Board is sufficiently briefed and informed regarding the matters arising at Board Meeting.</p> <p>Board papers are circulated generally seven (7) days prior to the meeting, giving members adequate time to study the documents. Directors have access to KMP to clarify matters and to external specialists for independent advice, when required.</p>
3 (5) (vii)	<p>Encourage active participation by all Directors and lead in acting in the interests of the Bank - Complied ✓</p> <p>The Chairperson has encouraged all Directors to actively contribute towards the best interests of the Bank and it is addressed in the list of functions and responsibilities of the Chairman/Chairperson was approved by the Board.</p>
3 (5) (viii)	<p>Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors - Complied ✓</p> <p>The Chairperson has encouraged effective participation of all Directors and constructive relations between Executives and Non-Executive Directors. This function is assessed annually by the Board and by the Chairperson in the self-assessment. Additionally, Non-Executive Directors chair the Board Sub-Committees providing further opportunity for active participation.</p>



SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
3 (5) (ix)	<p><b>Refrain from direct supervision of Key Management Personnel and executive duties - Complied ✓</b></p> <p>The Chairperson was not get involved in the supervision of Key Management Personnel or any other executive duties.</p>
3 (5) (x)	<p><b>Ensure effective communication with Shareholders - Complied ✓</b></p> <p>The Annual General Meeting (AGM) is the main mechanism for shareholders' views to be heard and where the Board interacts with and clarifies matter for the shareholders. The Board has formulated a formal policy to handle shareholders' complaints. The shareholder engagement is given on page 121.</p>
3 (5) (xi)	<p><b>CEO functions as the apex executive in charge of the day to day operations and business - Complied ✓</b></p> <p>As set out in the Board Charter, the responsibility for the day to day operations and business of the Bank has been delegated to the MD/CEO in his capacity, as the apex executive-in-charge of the Board.</p>
<b>3 (6)</b>	<b>Board appointed Committees</b>
3 (6) (i)	<p><b>Establishing Board Committees, their functions and reporting - Complied ✓</b></p> <p>The Board has appointed ten (10) Sub-Committees to ensure its oversight and control over the affairs of the Bank.</p> <p>The details of Board Sub-Committees are disclosed on pages 114 to 115.</p> <p>Each Sub-Committee is governed by its own Terms of Reference and has a Secretary who arranges the meetings and maintains minutes and records under the supervision of the Chairman/Chairperson of the Sub-Committee. The Sub-Committee Chairman/Chairperson are accountable for the effective functioning of Committees and reports on a periodic basis to the Board on the activities of their respective Sub-Committees, highlighting matters for Board attention. Committee mandates are reviewed regularly.</p>
<b>3 (6) (ii)</b>	<b>Board Audit Committee</b>
	<p><b>a. Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit - Complied ✓</b></p> <p>The Chairman of BAC, Mr Devaka Cooray is an Independent Non-Executive Director, a fellow member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants United Kingdom. He has worked with Messrs. Ernst &amp; 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 until his retirement in 2019. Mr Devaka Cooray has spearheaded many initiatives during his tenure at Messrs. Ernst &amp; Young. Details are provided on page 89.</p>
	<p><b>b. Committee to comprise solely of Non-Executive Directors - Complied ✓</b></p> <p>All members are Non-Executive Directors of which three (03) are Independent Non-Executive Directors as at 31.12.2022.</p>
	<p><b>c. Board Audit Committee functions - Complied ✓</b></p> <p>In terms of its mandate, the Board Audit Committee is responsible for the following key recommendations:</p> <ol style="list-style-type: none"> <li>I. The appointment of the External Auditor for audit services in line with professional and ethical standards and in compliance with regulatory requirements. On the recommendation of the Board Audit Committee/Board, the shareholders have approved Messrs. KPMG as the External Auditor of the Bank for the year 2022,</li> <li>II. The service period, audit fee and any resignation or dismissal of the auditor. The Board Audit Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term,</li> <li>III. The implementation of the Central Bank guidelines issued to auditors from time to time and</li> <li>IV. Monitoring and review of the adequacy and effectiveness of accounting policies and the application of relevant accounting.</li> </ol>
	<p><b>d. Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes - Complied ✓</b></p> <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements. In addition, the Bank has adopted the policy of rotation of audits once in every five years.</p>

## CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
	<p><b>e. Provision of Non-Audit services by External Auditor - Complied ✓</b></p> <p>The BAC is guided by the Board approved policy for Engagement of the External Auditor to provide Non-Audit Services. The Policy was reviewed in 2021.</p> <p>In assignment of non-audit services to External Auditors by the Bank, the Board/Board Audit Committee ensures that the External Auditor has the necessary skills and experience for the assignment and ascertains the independency and/or objectivity of the External Auditor in carrying out his duties and responsibilities will not be impaired. Assigning such Non-Audit Services to External Auditors is discussed at BAC meetings and prior Board approval is obtained. Please refer Board Audit Committee Report on page 162 for further details.</p>
	<p><b>f. Determines scope of Audit - Complied ✓</b></p> <p>The External Auditor Messrs. KPMG attended eight (8) meetings during the year. The External Auditor presented the audit approach and procedures, including nature &amp; scope of the audit and auditor's independence to the Committee.</p>
	<p><b>g. Review financial information of the Bank - Complied ✓</b></p> <p>The Committee reviews the financial information of the Bank, which are reviewed and presented by the CFO in order to monitor the integrity of the Bank's Financial Statements, Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses particularly on the following:</p> <p>Major judgemental areas,</p> <ol style="list-style-type: none"> <li>I. Any changes in accounting policies and practices,</li> <li>II. Significant adjustments arising from the audit,</li> <li>III. The going concern assumption,</li> <li>IV. Compliance with relevant accounting standards and other legal requirements.</li> </ol>
	<p><b>h. Discussions with External Auditor on interim and final audits - Complied ✓</b></p> <p>The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the External Auditor.</p>
	<p><b>i. Review of Management Letter and Bank's response - Complied ✓</b></p> <p>The Board Audit Committee reviewed the External Auditor's management letter for 2021, and the Management's response and follow up on addressing the same thereto during 2022.</p>
	<p><b>j. Review of Internal Audit Function - Complied ✓</b></p> <p>During the year, the Board Audit Committee reviewed the independence, objectivity and performance of the Internal Audit Function, ensuring the function acts with impartiality, proficiency and due professional care.</p> <p>BAC reviewed the adequacy of coverage of the internal audit plan and approved the same. The Committee also assessed the Internal Audit Department's resource requirements including succession planning and is satisfied that the Internal Audit Department has the necessary authority to carry out its work.</p> <p>The Committee reviewed internal audit findings, management responses thereto and results of the follow up action taken on the recommendations of the Internal Audit Department.</p> <p>The Internal Audit Department's evaluation of the Bank's internal controls were reviewed by the Board Audit Committee.</p> <p>The Committee reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of the Internal Audit Department. The Committee is kept apprised of resignations of senior staff of the Internal Audit Department together with the reasons for resigning.</p> <p>The Chief Internal Auditor directly reports to the Board Audit Committee, ensuring the independence of the Internal Audit Function.</p>
	<p><b>k. Internal Investigations - Complied ✓</b></p> <p>Major findings of internal investigations and management's responses thereto are reviewed by the Board Audit Committee and implementation of the recommendations.</p>

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
	<p><b>l. Attendees at Board Audit Committee Meetings - Complied ✓</b></p> <p>The Chairman of BIRMC, MD/CEO, ED/COO, Chief Risk Officer, Chief Financial Officer, Chief Internal Auditor, Head of Compliance, Chief Technology &amp; Digital Officer, AGM of Operations and a representative of the External Auditor are typically invited to attend meetings. Other Board members may also attend meetings upon invitation. The Committee met the External Auditor on two (2) occasions in 2022, in the absence of the Executive Directors and KMP.</p>
	<p><b>m. Explicit authority, resources and access to information - Complied ✓</b></p> <p>The Board Audit Committee is guided by the Committee Charter which sets out authority and responsibilities of the said Committee. The Charter was last reviewed in 2019. The Board Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend as and when necessary. The Committee also has full access to information in order to investigate matters relating its Terms of Reference. Terms of Reference of the Committee is described in the Committee Report given on page 162.</p>
	<p><b>n. Regular Meetings - Complied ✓</b></p> <p>The Board Audit Committee met nine (9) times during the year. Conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the secretary to BAC.</p>
	<p><b>o. Disclosure in Annual Report - Complied ✓</b></p> <p>Details of activities of the BAC are included in the report of the Board Audit Committee given on page 162.</p> <p>The number of meetings held and attendance at Board Audit Committee meetings held in 2022 are set out on page 111.</p>
	<p><b>p. Maintain Minutes of Meetings - Complied ✓</b></p> <p>Minutes of Board Audit Committee meetings are recorded and maintained by the Secretary to the Committee. The Chief Internal Auditor serves as the Secretary to the Committee.</p>
	<p><b>q. Whistle blowing policy and relationship with External Auditor - Complied ✓</b></p> <p>A Board approved Whistle blowing policy is in place. The Whistle blowing policy and the mechanism had been communicated to all staff members.</p> <p>The Board Audit Committee reviews issues relating to breach of ethics if any and the arrangements by which the staff of the Bank may in confidence to raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place. The Independent Non-Executive Director handling whistle blowing complaints provides regular updates to the BAC.</p> <p>The Board Charter addresses the Board's responsibility to encourage any communication regarding non-compliances and unethical behaviour within the Bank.</p>
<b>3 (6) (iii)</b>	<b>Human Resources &amp; Remuneration Committee</b>
	<p><b>a. Remuneration Policy - Complied ✓</b></p> <p>The Committee reviews all significant human resource policies and initiatives, salary structures, promotions and terms and conditions relating to staff at Senior Management Level with information and recommendations from the MD/CEO and the Chief Human Resource Officer. Terms of Reference of the Committee is described in the Committee Report on page 153.</p> <p>Separate Remuneration Policies for the Board of Directors, MD/CEO, and all employees of the Bank including KMP are in place.</p>
	<p><b>b. Goals and Targets - Complied ✓</b></p> <p>The goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year. The goals and targets for the MD/CEO and the senior leadership team are documented under the Balance Score Card system. Further, the goals and targets for 2022 for the MD/CEO and the senior leadership team was approved at the Board Meeting.</p>

## CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
	<p>c. Performance Evaluation- Complied ✓</p> <p>The Directors are evaluated at the end of the year based on the goals and targets set out.</p> <p>The Committee deliberates upon and recommends to the Board of Directors regarding the remuneration packages, annual increments and bonuses of the MD/CEO,ED/COO, members of the Corporate Management and Senior Management staff, having evaluated their performance against the set goals and targets.</p>
	<p>d. Meetings - Complied ✓</p> <p>The HRRC Committee met seven (7) times during the year.</p> <p>The MD/CEO attends Human Resources &amp; Remuneration Committee by invitation. The MD/CEO is not present at the time when matters relating to him are being discussed.</p>
<b>3 (6) (iv)</b>	<b>Nomination Committee</b>
	<p>a. Appointment of Directors, CEO and Key Management Personnel - Complied ✓</p> <p>A formal procedure is in place to appoint new Directors, MD/CEO and Key Management Personnel.</p>
	<p>b. Re-election of Directors - Complied ✓</p> <p>The Committee considers and recommends the re-election of the Directors to the Board. The Committee also set criteria of the succession of the MD/CEO.</p>
	<p>c. Eligibility criteria for appointments to key managerial positions including CEO - Complied ✓</p> <p>The Committee sets the eligibility criteria, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the MD/CEO.</p> <p>A Board approved procedure to appoint Directors, MD/CEO and KMP is in place.</p>
	<p>d. Fit &amp; proper persons - Complied ✓</p> <p>Each Director including the MD/CEO carries out an assessment of "fitness and propriety" to serve as a Director of the Bank. These declarations are reviewed by the Nomination Committee prior to submission to the Director of Bank Supervision of the Central Bank of Sri Lanka.</p>
	<p>e. Succession plan and new expertise - Complied ✓</p> <p>A Succession Planning Policy is in place for KMP and Directors. Each year, the Nomination Committee reviews the additional/ new expertise requirements and succession arrangements for Directors and KMP of the Bank, in line with the strategic plan.</p>
	<p>f. Composition of Nomination Committee - Complied ✓</p> <p>The following Non-Executive Directors served on the Nomination Committee during 2022.</p> <p><i>Chairman</i></p> <p>Mr Devaka Cooray - Independent Non-Executive Director</p> <p><i>Other Committee Members</i></p> <p>Mr Madu Ratnayake - Independent Non-Executive Director</p> <p>Mrs Aruni Goonetilleke - Independent Non-Executive Director</p> <p>Terms of Reference of the Committee is described in the Committee Report on page 155.</p>

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
<b>3 (6) (v)</b>	<b>Board Integrated Risk Management Committee</b>
	<p><b>a. Composition of Risk Management Committee - Complied ✓</b></p> <p>The following personnel served on the Board Integrated Risk Management Committee during 2022.</p> <p><i>Chairman</i></p> <p>Mr Rimoe Saldin - Non-Executive Director</p> <p><i>Other Committee Members</i></p> <p>Mr Damien Fernando - Non-Executive Director (Retired w.e.f. 28th October 2022)</p> <p>Mr Jonathan Alles - Managing Director/CEO</p> <p>Mr Madu Ratnayake - Independent Non-Executive Director</p> <p>Mr Rasitha Gunawardana - Independent Non-Executive Director (Appointed w.e.f. 21st January 2022)</p> <p>Dr. Prasad Samarasinghe - Non-Executive Director (Appointed w.e.f. 28th October 2022)</p> <p>The Chairman of BAC, ED/COO, Chief Financial Officer, Chief Technology &amp; Digital Officer and Chief Internal Auditor attend meetings on invitation. The Committee makes decisions on behalf of the Board within the framework of the authority and responsibilities assigned.</p> <p>Terms of Reference of the Committee is described in the Committee Report on page 158.</p>
	<p><b>b. Risk Assessment - Complied ✓</b></p> <p>Policies on Credit Risk Management, Market Risk Management and Operational Risk Management have been approved by the Committee, providing a framework for management and assessment of risks. In discharging its responsibilities further as per the mandate, periodic reports on pre-established risk indicators prepared by the Risk Department is submitted to the Committee for review.</p> <p>The risk management process followed by the subsidiary companies has also been reviewed by the BIRMC during 2022.</p>
	<p><b>c. Review of management level committees on risk - Complied ✓</b></p> <p>The Committee reviews the reports of the Management Committees including the Asset and Liability Committee (ALCO) and the Executive Risk Management &amp; Credit Policy Committee to assess their adequacy and effectiveness in addressing specific risks and managing the same within the quantitative and qualitative risk limits set in the Risk Appetite Statement approved by the Board.</p>
	<p><b>d. Corrective action to mitigate risks exceeding prudential levels - Complied ✓</b></p> <p>The Risk Dashboards, prepared on a periodic basis, reflects the actual exposure levels under each risk category against the tolerance levels, decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements. The Committee has taken prompt corrective actions to mitigate the effects of risk indicators which have gone beyond the tolerance levels.</p>
	<p><b>e. Frequency of meetings - Complied ✓</b></p> <p>The Committee has met eleven (11) times during the year. The agenda covers matters assessing all aspects of risk management including the updated business continuity plans.</p>
	<p><b>f. Actions against officers responsible for failure to identify specific risks or implement corrective action - Complied ✓</b></p> <p>Such matters, if any, are referred to the Human Resources Division for necessary action.</p>
	<p><b>g. Risk assessment report to Board - Complied ✓</b></p> <p>Detailed reports of the BIRMC meetings are submitted to the Board at the subsequent Board Meeting.</p>
	<p><b>h. Compliance Function - Complied ✓</b></p> <p>The Bank has established a compliance function to assess and ensure the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations, headed by a dedicated Compliance Officer who reports to the BIRMC.</p>

## CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION
<b>3 (7)</b>	<b>Related Party Transactions</b>
3 (7) (i)	<p><b>Avoid conflict of interest - Complied ✓</b></p> <p>A Board approved policy to enhance the transparency of Related Party Transactions is in place. The RPTRC oversees the process relating to the said subject and the Committee report is provided on page 165.</p> <p>Steps have been taken by the Board to avoid any conflicts of interest, that may arise, in transacting with related parties as per the definition of this Direction. Directors provide declarations to the Board about their outside business interests at appointment and quarterly thereafter. Directors do not participate in, and excuse themselves from the Meeting, when the Board considers any matters in which lending to related entities are discussed and where a conflict in interest may arise.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in note 60 to the Financial Statements on 'Related Party Disclosures' on pages 422 to 428. Directors' interests in contracts which do not fall into the definition of Related Party Transactions as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements. The net accommodation granted to each category of related parties as a percentage of the Bank's regulatory capital is given under Rule 3 (8) (ii) (e).</p>
3 (7) (ii)	<p><b>Related Party Transactions covered by direction - Complied ✓</b></p> <p>The Related Party Transactions Policy approved by the Board covers the following transactions:</p> <ol style="list-style-type: none"> <li>The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</li> <li>The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</li> <li>The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank and</li> <li>The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ol>
3 (7) (iii)	<p><b>Prohibited transactions - Complied ✓</b></p> <p>The Bank's Related Party Transactions Policy prohibits transactions which would grant related parties more favourable treatment than that accorded to other customers. These include the following:</p> <ol style="list-style-type: none"> <li>Granting of "Total Net Accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital. Refer Rule 3 (8) (ii) (e) page 137.</li> <li>Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.</li> <li>Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.</li> <li>Providing services to or receiving services from a related-party without an evaluation procedure</li> <li>Maintaining reporting lines and information flows that may lead to share potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</li> </ol>
3 (7) (iv)	<p><b>Granting accommodation Director or close relation to a Director - Complied ✓</b></p> <p>A formal procedure is in place for granting accommodation to Directors or to close relatives of Directors. Such accommodation must be sanctioned at Board meetings, by not less than 2/3 of the number of Directors excluding Director concerned, voting in favour of such accommodation or through circulation of papers which requires approval by all. The terms and conditions of the facility include a provision that it will be secured by such security as may from time to time be determined by the Monetary Board.</p>
3 (7) (v)	<p><b>Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank - Complied ✓</b></p> <p>Accommodation granted to the newly appointed Directors were in line with the prescribed regulations.</p> <p>For any deviations, the Bank always seeks necessary approval from the Monetary Board as per the statutory provisions.</p>



SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION																					
3 (7) (vi)	Favourable treatment or accommodation to Bank employees or their close relations - Complied ✓ No favourable treatment or accommodation is provided to Bank employees or their relatives, other than staff benefits.																					
3 (7) (vii)	Remittance of accommodations subject to Monetary Board approval - Complied ✓ No such situation has arisen during the year.																					
<b>3 (8)</b>	<b>Disclosures</b>																					
3 (8) (i)	Publish annual and quarterly Financial Statements - Complied ✓ Annual Audited Financial Statements and Quarterly Financial Statements of the Bank were prepared in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards and have been published in the newspapers in all three (3) languages.																					
<b>3 (8) (ii)</b>	<b>Disclosures in Annual Report</b>																					
	a. A Statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures - Complied ✓ Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the Statement of Directors' Responsibility for Financial Reporting on page 230, Chief Executive Officer's and Chief Financial Officer's Statement of Responsibility on page 229 and note 2.1.1 Statement of Compliance to the Financial Statements on page 249.																					
	b. Report by the Board on the Bank's internal control mechanism - Complied ✓ A confirmation by the Directors on the effectiveness of the internal control system over financial reporting is given under the Directors' Statement on Internal Control over Financial Reporting on page 167.																					
	c. External Auditor's certification on the effectiveness of the internal control mechanism - Complied ✓ The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is given on page 169. The recommendations made by the Auditors where relevant, will be dealt with in 2023.																					
	d. Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank - Complied ✓ Profiles of Directors are given on pages 86 to 99. Directors' transactions with the Bank are disclosed in note 60 to the Financial Statements on pages 422 to 428. Remuneration paid by the Bank to the Board of Directors (which includes the remuneration of the Executive Directors) is disclosed in note 18 to the Financial Statements on page 317.																					
	e. Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital - Complied ✓ The net accommodation granted to each category of related parties is given below as a percentage of the Bank's regulatory capital.																					
	<table border="1"> <thead> <tr> <th>Category of Related Party Transactions</th> <th>Rs Mn</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Non-Executive Directors and their close family members</td> <td>0.66</td> <td>0.00</td> </tr> <tr> <td>Key Management Personnel* and their close family members</td> <td>354.33</td> <td>0.25</td> </tr> <tr> <td>Subsidiaries</td> <td>2,052.50</td> <td>1.47</td> </tr> <tr> <td>Joint Venture</td> <td>4,224.85</td> <td>3.03</td> </tr> <tr> <td>Entities which Directors and their close family members have a substantial interest</td> <td>181.14</td> <td>0.13</td> </tr> <tr> <td>Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka</td> <td>64,213.21</td> <td>45.99</td> </tr> </tbody> </table>	Category of Related Party Transactions	Rs Mn	%	Non-Executive Directors and their close family members	0.66	0.00	Key Management Personnel* and their close family members	354.33	0.25	Subsidiaries	2,052.50	1.47	Joint Venture	4,224.85	3.03	Entities which Directors and their close family members have a substantial interest	181.14	0.13	Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	64,213.21	45.99
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	* includes the Executive Directors																					

## CORPORATE GOVERNANCE

SECTION	PRINCIPLE, COMPLIANCE & IMPLEMENTATION										
	<p>f. Aggregate values of remuneration to, and transactions with Key Management Personnel - Complied ✓</p> <p>The aggregate amount of remuneration paid during 2022 to KMP and the transactions with KMP are given below;</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #0056b3; color: white;">Remuneration and transactions with the Key Management Personnel</th> <th style="background-color: #0056b3; color: white;">Rs Mn</th> </tr> </thead> <tbody> <tr> <td>Remuneration paid</td> <td style="text-align: right;">607.13</td> </tr> <tr> <td>Loans and Advances</td> <td style="text-align: right;">904.23</td> </tr> <tr> <td>Deposits</td> <td style="text-align: right;">900.87</td> </tr> <tr> <td>Investments</td> <td style="text-align: right;">33.76</td> </tr> </tbody> </table>	Remuneration and transactions with the Key Management Personnel	Rs Mn	Remuneration paid	607.13	Loans and Advances	904.23	Deposits	900.87	Investments	33.76
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	<p>g. External Auditor's certification of compliance - Complied ✓</p> <p>The External Auditors have 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 Corporate Governance Directive. The findings presented in their report, addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board. The recommendations made by the Auditors where relevant will be dealt with in 2023.</p>										
	<p>h. Report confirming compliance with prudential requirements, regulations, laws and internal controls - Complied ✓</p> <p>There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.</p>										
	<p>i. Non-compliance Report - Complied ✓</p> <p>There were no supervisory concern lapses in the Bank's Risk Management Systems or non-compliance with the said Direction that have been pointed out by the Director of the Banks Supervision Department of the CBSL, which has been directed to be disclosed to the public. Hence, there are no disclosures in this regard.</p>										
<b>3 (9)</b>	<b>Transitional and Other General Provisions</b>										
	<p>Transitional and other general provisions - Complied ✓</p> <p>Transitional provisions have been complied with.</p>										

**COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA IN 2017**

CODE REF	REQUIREMENT	REFERENCE	COMPLIED	PAGE REF
<b>A</b>	<b>Directors</b>			
A.1	The Board	The Board of Directors - 2022	✓	104
A.1.1	Board Meetings	Board Meetings Governance of Meetings - Before the Meeting	✓	111 112
A.1.2	Roles & Responsibilities of the Board	The Board - Board's Key Responsibilities	✓	107
A.1.3	Compliance Independent Professional Advice	Compliance Governance	✓	120
A.1.4	Access to advice and services of Company Secretary  Insurance Cover	Board Meetings The Bank has obtained adequate insurance cover for the Board of Directors and KMP in accordance with the recommendations of the Nominations Committee. The Directors and Officers Liability Policy is renewed annually.	✓	111
A.1.5	Independent Judgement	Independence	✓	109
A.1.6	Dedicate Adequate Time and Effort Board Pack	Conflict of Interest Board Meetings	✓	116 111
A.1.7	Calls for Resolutions	Governance of Meetings - After the Meeting However, if a single Director deem it necessary that such resolution must be decided at a Board meeting not by circulation, the Chairman shall put the resolution to be decided in a meeting. This is in compliance with the Code, which requires at least 1/3rd of Directors to call for a resolution to be presented to the Board.	✓	112
A.1.8	Board Induction and Training Annual Assessment of Training Needs	Training & Induction Board Appraisal	✓	110
A.2	Chairman & Chief Executive Officer	Segregation of Roles & Responsibilities	✓	109
A.3	Chairman's Role in Preserving Good Corporate Governance	Segregation of Roles & Responsibilities	✓	109
A.4	Availability of Financial Acumen	Board Composition	✓	108
A.5	Board Balance	The Board Board Composition	✓	107 108
A.5.1	Independent Non-Executive Directors	The Board	✓	107
A.5.2		Board Composition	✓	108
A.5.3	Director's Independency	Independence	✓	109
A.5.4	Annual Declaration	Independence	✓	109
A.5.5	Evaluation of Independency	Independence	✓	109

## CORPORATE GOVERNANCE

CODE REF	REQUIREMENT	REFERENCE	COMPLIED	PAGE REF
A.5.6	Alternate Directors	The Alternate Director appointed to represent the Non-Executive Director is not an executive of the Bank.	✓	
A.5.7	Senior Independent Director (SID)	The Chairperson is an Independent Non-Executive Director, as such there is no requirement of a SID.	✓	
A.5.8				
A.5.9	Meetings with Non-Executive Directors	Meeting with NED	✓	111
A.5.10	Resolutions	Governance of Meetings - During the Meeting	✓	112
A.6	Provision of Appropriate and Timely Information	Governance of Meetings - Before the Meeting Delegation of Authority	✓	112 115
A.7	Appointments to the Board	Board Refreshment Nomination Committee Report	✓	110 155
A.8	Re-election of Directors	Board Refreshment	✓	110
A.9	Appraisal of Board & Sub-Committees	Board Appraisal	✓	111
A.10	Annual Report to Disclose Specified Information Regarding Directors	The Board of Directors - 2022 Conflict of Interest Meeting Attendance Board Sub-Committees	✓	104 116 111 114
A.11	Annual appraisal of the CEO	Appraisal of the MD/CEO	✓	118
<b>B.</b>	<b>Directors' Remuneration</b>			
B.1	Directors' & Executive Remuneration – HRRC	Fair and Responsible Remuneration Board Sub-Committees	✓	117 114
B.2	Level & Make up of Remuneration	Fair and Responsible Remuneration There were no Employee Share Option Plans (ESOP) available in 2022	✓	117
B.3	Disclosures related to Remuneration in Annual Report	Financial Statements of the Bank HRRC report	✓	237-434 153
<b>C.</b>	<b>Relations with Shareholders</b>			
C.1	Constructive use of the AGM & conduct of General Meetings	Financial Governance	✓	121
C.2	Communication with shareholders	Financial Governance	✓	121
C.3	Disclosure of Major and Material Transactions	There were no major or material transactions during the year.	✓	

CODE REF	REQUIREMENT	REFERENCE	COMPLIED	PAGE REF
<b>D.</b>	<b>Accountability &amp; Audit</b>			
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects	Board's Key Responsibilities Financial Governance Chief Executive Officer's and Chief Financial Officer's Responsibility Statement Annual report of the Board of Directors on the affairs of the Bank Directors' Responsibility for Financial Reporting Directors' Statement on Internal Control over Financial Reporting Management Discussion and Analysis Statement of going concern of the Bank on note 2.1.5, to the Financial Statements Related Party Transactions (i) Note 60 in the Financial Statements (ii) Report of the RPTRC  In the unlikely event of the net assets of the Bank falling below 50% of Shareholders Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.	✓	107 121 229 148 230 167 23-85 250 422-428 165
D.2	Process of Risk Management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	Risk Governance Risk & Capital Review Directors' Statement on Internal Control over Financial Reporting	✓	119 176 167
D.3	Audit Committee	Board Audit Committee Report	✓	162
D.4	Related Party Transactions Review Committee	Board Related Party Transactions Review Committee report	✓	165
D.5	Code of Conduct and Ethics	Code of Conduct & Ethics Chairperson's Message	✓	116 103
D.6	Corporate Governance Disclosures	Corporate Governance Report	✓	103-141
<b>E/F</b>	<b>Institutional and other Investors</b>			
	Encourage voting at AGM – institutional and other investors	Financial Governance	✓	121
<b>G.</b>	<b>Internet of Things &amp; Cyber security</b>			
G.1	Identify connectivity and related cyber risks	Information Technology Governance	✓	119
G.2	Appoint a CISO and allocate budget to implement a cyber - security policy	Information Technology Governance	✓	119
G.3	Include cyber security on Board agenda	Information Technology Governance	✓	119
G.4	Assurance	Information Technology Governance	✓	119
G.5	Disclosures in Annual Report	Information Technology Governance	✓	119
<b>H.</b>	<b>Environment, Society &amp; Governance</b>			
H.1	ESG Reporting	Sustainability Governance	✓	123

# 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 2022 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 in this 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 A(Ika)/RWN by Fitch Ratings Lanka Ltd.

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

The financial statements were reviewed and approved by the Board of Directors on 17th February 2023.

## OUR APPROACH TO CORPORATE GOVERNANCE

The Bank aspires to the highest standards of governance, integrity and professionalism. Our Governance Framework is benchmarked to global best practice and references the principles of the Banking Act Direction No.11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017. Details of compliance are set out on pages 125 to 141 of this report.

## A ROBUST GOVERNANCE FRAMEWORK

Our Governance Framework promotes integrated thinking and decision-making that balances strategic outcomes over time, reconciling the interests of the Bank, stakeholders and society in creating and protecting sustainable shared value. Strong leadership, checks and balances at all levels, a clear organisational structure with well-defined lines of responsibility, effective risk management and controls and a value driven ethical culture, support robust governance structures that provide clear direction for quick and responsive decision-making and promotes responsible behaviour.

As the overall custodian of good corporate governance, the Board is fully committed to realising the four Governance Framework outcomes of Sustainable Value Creation, Effective Control, Ethical Leadership and Accountability, as explained on pages 107 to 124 of this report.

## LEADERSHIP

The Board of Directors holds ultimate responsibility for the performance and affairs of the Bank. They collectively set the risk appetite of the Bank, lead in formulating the Bank's strategy, monitor the achievement of objective set and oversee the Bank's governance frameworks and control environment. 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 regulations.

Daily management of the Bank and implementation of the Bank's strategic plan has been delegated to the Executive Management lead by the Managing Director / Chief Executive Officer (MD/CEO). Our Executive Management are empowered to take decisions within the defined framework. Their complementary skills and diverse experience strengthen the Bank's ability to deliver on strategy.

Roles and responsibilities are clearly clarified by mandates and job descriptions, through which authority and responsibility are effectively delegated. The segregation of roles and responsibilities of the Chairperson and MD/CEO supports balance of power. The MD/CEO reports directly to the Board.

Management is open and transparent with the Board and brings to attention any matters of concern in a timely manner. Executive Directors and the Bank's Key Management Personnel (KMP) attend Board meetings, increasing contact between the Board and Management. Regular reporting on key matters enables effective oversight by the Board.

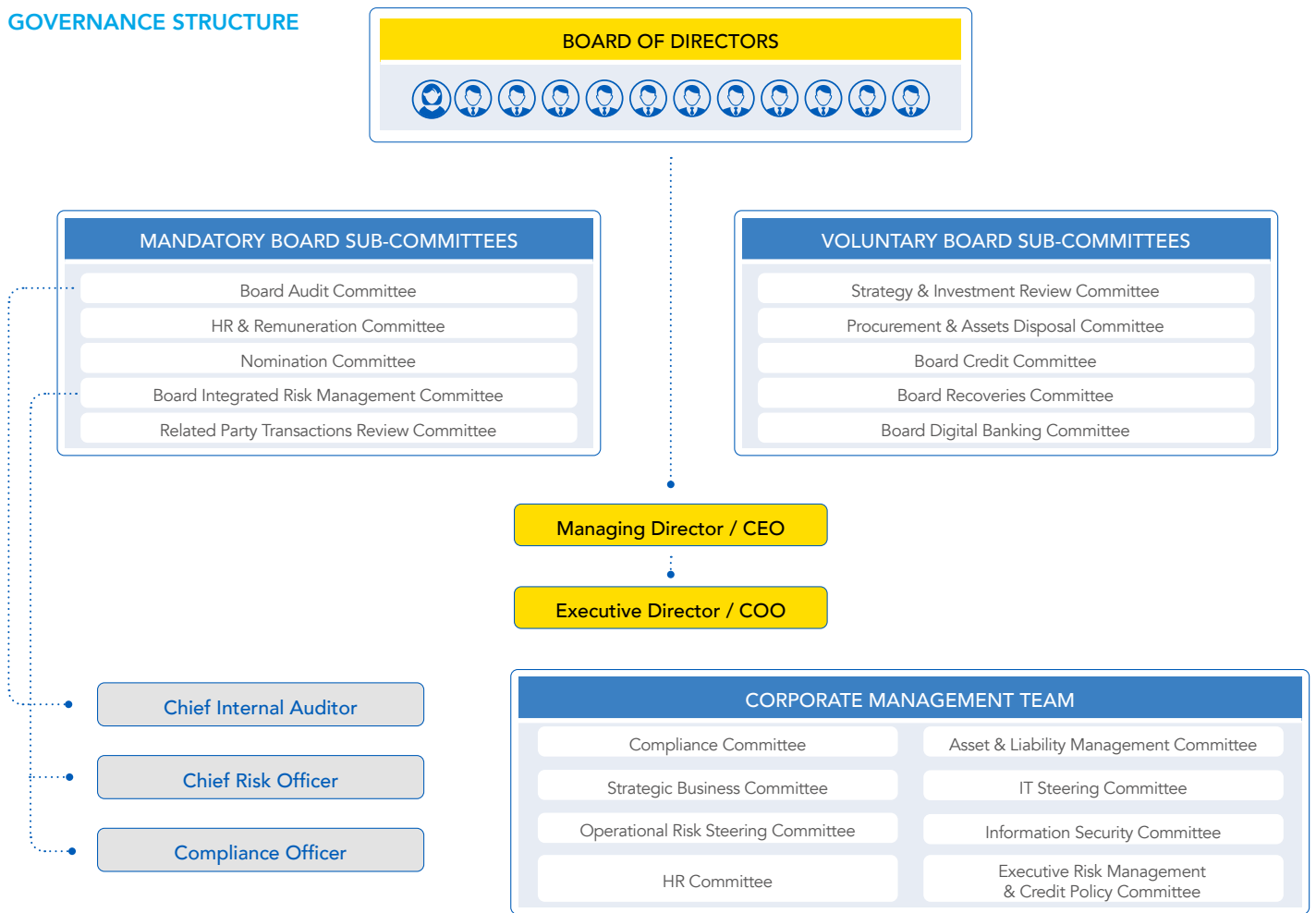
## GOVERNANCE IN 2022

2022 continued to test the rigour, resilience, and agility of our governance structures as we sought to drive sustainable growth for the Bank in alignment with our Vision and Values, carefully balancing interests of our stakeholders. Clearly defined governance structures enabled the Board to maintain ongoing and effective oversight and leadership as the medium to long-term impacts of the current economic conditions unfold. The Board received regular updates supported by increased analysis and reporting on key issues affecting the Bank and its stakeholders. Compliance, Risk Management, Recoveries, and Internal Control remained key priorities. The Board, directly and through its sub-committees, considered actions to successfully face challenges, manage crisis and harness opportunities while recalibrating strategy, to protect and create value for the Bank and its stakeholders.

In deliberating strategy, the Board adopted an integrated approach to value creation, embracing stakeholder inclusivity while considering the Environmental, Social



## GOVERNANCE STRUCTURE



and Governance (ESG) impacts on the organisation. The Board considered Management updates on stakeholder engagement initiatives undertaken and through reports from Board sub-committees, as fully described in Stakeholder Expectations – pages 28 to 29 in this report.

The annual review of strategy for the year 2023, was conducted by the Board in November 2022, in consultation with the Corporate Management Team, and considered impacts of the current economic conditions, risk and opportunities in approving the Bank's business plan and setting revised short, medium and long-term targets.

## THE BOARD

As at 31st December 2022

Non-Executive Independent Directors	<ul style="list-style-type: none"> <li>&gt; Mrs. Aruni Goonetilleke</li> <li>&gt; Mr. Amal Cabraal</li> <li>&gt; Mr. Devaka Cooray</li> <li>&gt; Mr. Madu Ratnayake</li> <li>&gt; Mr. Osman Chandrawansa</li> <li>&gt; Mr. Rasitha Gunawardana</li> </ul>	Chairperson
Non- Executive Non-Independent Directors	<ul style="list-style-type: none"> <li>&gt; Mr. Rimoe Saldin</li> <li>&gt; Mr. Nihal Jayawardene PC</li> <li>&gt; Mr. Kithsiri Gunawardena</li> <li>&gt; Dr. Prasad Samarasinghe</li> </ul>	
Executive Directors	<ul style="list-style-type: none"> <li>&gt; Mr. Jonathan Alles</li> <li>&gt; Mr. Dilshan Rodrigo</li> </ul>	Managing Director /Chief Executive Officer Chief Operating Officer

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board is considered to be of appropriate balance and mix of skills and experience. The Boards' diversity contributes to varied perspectives and objective evaluation of matters set before them. Non-Executive Directors are eminent professionals in their respective fields. Gender diversity improved with the appointment of Mrs. Aruni Goonetilleke to the Board in April 2021. Careful succession planning and deliberate processes ensure that the skills and experience of the Board remain relevant to the Bank's needs. The Board adopts a Skills Matrix to support director recruitment and succession planning.

Directors are appointed through a formal and transparent process, assessed for their independence and approved by the Central Bank of Sri Lanka. The nomination of Directors has been delegated to the

Nomination Committee (NC), which recommends the appointment of new Directors for approval by the Board having reviewed the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans and any gaps thereof. During the year, one new Director was appointed to the Board to fill vacancies that arose in 2022. The NC spent a considerable amount of time in identifying the most suitable candidates, to build the right team to steer the Bank into the future.

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 Chairperson sets the Board agenda, assisted by the Company Secretary. Care is taken to ensure that the Board spends sufficient time considering matters critical to the Bank's success, as well as compliance, risk and administrative matters.

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	9	7	7	11	4	7	12	6	8	21
Mrs Aruni Goonetilleke	01st April 2021	14/14		7/7	7/7			7/7		6/6	8/8	
Mr Jonathan Alles	01st May 2013	12/14	*5	*6	*4	0/11	4/4	*7		*5		4/21
Mr Amal Cabraal	01st April 2014	14/14		7/7				7/7		6/6	8/8	
Mr Damien Fernando <i>(Retired w.e.f. 25th October 2022)</i>	25th October 2018	**11/11				**10/10		**5/6	**10/10			**16/18
Mr Madu Ratnayake	25th October 2018	14/14		7/7	6/7	9/11		5/7				20/21
Mr Dilshan Rodrigo	01st July 2020	14/14	*8			*11	*2	*6	*11	*5	*8	*18
Mr Devaka Cooray	03rd July 2020	14/14	9/9		7/7	*10	4/4			4/6		
Mr Osman Chandrawansa	01st April 2021	13/14	9/9				4/4			6/6		
Mr Rimoe Saldin	30th April 2021	13/14	*9			11/11			12/12			
Mr Nihal Jayawardene PC	17th August 2021	14/14					3/4		11/12	5/6	8/8	
Mr Rasitha Gunawardana	21st January 2022	13/13	9/9			10/10			11/11		8/8	
Mr Kithsiri Gunawardana	21st January 2022	13/13	9/9	6/7				7/7				
Dr Prasad Samarasinghe	26th October 2022	03/03				0/1		1/1	2/2			3/3

\* Meetings attended by invitation

\*\* Includes Meetings attended by an alternative Director

Chairperson/Chairman as at 31st December 2022

## Remuneration

The Bank's 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 other benefits paid in respect of the Group and the Bank during the financial year ended 31st December 2022 are given in Note 18 to the financial statements in page 317.

## Board Evaluation

In line with our commitment to good corporate governance practices, performance evaluations designed to improve the Board's effectiveness and that of its Committees, are conducted annually. 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 whole. The 2022 appraisal was held in January 2023. The outcome of the appraisal indicated that the performance of the Board met expectations. Areas identified for improvement were communicated to the Board.

## 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 170 to 175 in this report.

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 the Bank. Related party transactions are disclosed in Note 60 to the financial statements in page 422.

## 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

During the year, the Bank met urgent and rapidly evolving regulatory requirements as the operating environment continued to be increasingly volatile. The Bank remained extra vigilant, expanding the scope and rigour of processes to mitigate emerging threats and ensure compliance. Continued investments in new systems, platforms and processes including the use of advanced analytics and Artificial Intelligence solutions and establishment of a Compliance Audit team, strengthened the compliance function and improved efficacy in prevention, detection, and reporting. The Bank is compliant with all relevant statutory and regulatory requirements, 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.

The Board comprises six (6) Independent Non-Executive Directors, in compliance with regulatory requirements.

## Risk Governance & Internal Control

The Board is responsible for formulating and implementing effective risk management and internal control systems to safeguard shareholder interests and the assets of the Bank, in meeting strategic objectives. These systems cover all controls, including financial, operational and compliance and are monitored and regularly reviewed for effectiveness by the Board. The systems are governed by mandated board and

management committees with appropriate expertise and resources and are compliant with statutory and regulatory requirements.

The overall risk profile of the Bank increased in the period under review, as the economic conditions prevailed and the pandemic continued to weigh heavily on the economy and society. In response, the Bank enhanced its risk management capabilities to mitigate exposure as described in the Risk Review on pages 176 to 226.

## Innovation and Technology Governance

The Board is cognizant of the benefits of agility, scalability, and innovation that digital platforms provide. Directors ensure implementation of an effective and properly resourced digital technology strategy that delivers exceptional client and employee experiences and is aligned to the Bank's overall business strategy.

The Board is equally committed to safeguarding the Bank's information assets and operational systems. Information and Cyber Security risk remains inherently high as a result of the increase in volumes of digital transactions and remote working vulnerabilities amid the current economic conditions and the pandemic. During the year, governance structures were strengthened, and surveillance and monitoring tools enhanced to meet the Bank's information and cyber security requirements.

## Group Corporate Governance

The Board seeks to establish a common standard of corporate governance across group subsidiaries. Policies and procedures are aligned to that of the Bank and yet shaped to meet the intrinsic business structure and risks of each entity.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## 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 HNB Group	6-7
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, 2022	238 -247 Signed on page 241
3	Auditor's report on the financial statements of the Bank and the Group	Section 168 (1) (c)	Independent Auditors' Report	232-236
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	260
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 - Conflict of Interest, provides details of management of Directors' Interests	170-175
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	317
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	317
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	86-91
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	317

No.	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
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)	<p>The Bank's auditors during the period under review were Messrs. KPMG, Chartered Accountants.</p> <p>Independence and Objectivity of the External Auditor, provides details of the Policy for the Engagement of the External Auditor for Audit and Non-Audit services.</p> <p>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.</p> <p>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.</p>	120
11	Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied with	152

# 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 requirements	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.	6
2	Principal Activities	About HNB Group	6
3	Changes to the Group Structure	There were no changes to Group structure during the year, except for the below noted transactions, 1. HNB Finance PLC, completed the amalgamation with Prime Finance PLC on 12th May 2022 2. Acuity Partners Limited disposed its joint venture, Guardian Acuity Asset Management Limited to CT CLSA Holdings Limited on 13th January 2023.	-
4	List of Directors of Subsidiaries and Joint Ventures of the Bank as at 31st December 2022	<p><b>Subsidiaries</b></p> <p><b>HNB Assurance PLC</b> Mrs. M A R C Cooray Mr. D P N Rodrigo Dr. S Selliah Mr. D R Abeysuriya Mr. L U D Fernando Mr. S A Chapman Mr. Ashoka Goonesekere Dr. T K D A Prasad Samarasinghe (Alternate Director to Mr. L U D Fernando)</p> <p><b>Sithma Development (Pvt) Ltd</b> Mr. P R Saldin Ms. Anuradhi U Delage Mr. U A Roshan Fernando Dr. Rohan Karunaratne</p> <p><b>HNB Finance PLC</b> Mr. Dilshan Rodrigo Mr. B M D C Prabath Mr. P A H D Wijesundara Mr. A S Wijesinha Dr. S U H Fernando Mr. A G R Dissanayake Mr. M Perera Mr. R D Manatunga Mr. P L P Withana Mr. M S Polamarasetty Mr B Premalal</p>	



No.	Disclosure requirements	Note reference	Page
		<p><b>Joint Ventures</b></p> <p><b>Acuity Partners (Pvt) Ltd</b>  Mr. N H T I Perera  Mr. R Abeywardena  Mr. A G R Dissanayake  Mr. M S Wijemanne  Mr. P G D B Pallewatte  Mr. P L P Vithana  Mr. D F S N Perera  Mr. S I Wijesinghe  Mr. K S Jayasuriya</p>	
		<p><b>Other Group Companies</b></p> <p><b>HNB General Insurance Ltd</b>  <i>(Subsidiary of HNB Assurance PLC)</i>  Mrs. M A R C Cooray  Mr. M O F Salieh  Ms. M A Tharmaratnam  Mr. L U D Fernando  Mr. M S Wijemanne  Mr. A V Abeygunasekara  Mrs. L C Cooray  Dr. T K D A P Samarasinghe  <i>(Alternate Director to Mr. L U D Fernando)</i></p>	<p><b>Lanka Ventures PLC</b>  Mr. P G D B Pallewatte  Mr. N H T I Perera  Mr. M R Abeywardena  Mr. J D N Kekulawala  Mr. R A Dassanayaka  Mr. A G R Dissanayake</p>
		<p><b>Acuity Securities Ltd</b>  Mr. M R Abeywardena  Mr. R A Dassanayake  Mr. P G D B Pallewatte  Mr. A V Abeygunasekara  Mr. K. S. Jayasuriya</p>	<p><b>Acuity Stockbrokers Ltd</b>  Mr. M R Abeywardena  Mr. Prashan Fernando  Mrs. K A L T Ranaweera  Mr. M S Wijemanne  Mr. A Iddamalgoda  Mr. Prince Perera</p>
		<p><b>LVL Energy Fund PLC</b>  <i>(Subsidiary of Lanka Ventures PLC)</i>  Mr. P G D B Pallewatte  Mr. N H T I Perera  Mr. M A Wijetunge  Mr. M R Abeywardena  Mr. J D N Kekulawala  Mr. M M Wijetunge  Mr. C Dharmawardena  Mr. R A Dassanayaka  Mr. A G R Dissanayake</p>	
5	Review of Operations	<p>Chairperson's Message</p> <p>Managing Director/CEO's Message</p> <p>Stakeholder Reports</p> <p>Business Line Reviews</p>	<p>15-17</p> <p>19-22</p> <p>45-85</p> <p>36-44</p>

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No.	Disclosure requirements	Note reference	Page
6	Future Developments	Chairperson's Message	15-17
		Managing Director/CEO's Message	19-22
		Stakeholder Reports	45-85
		Business Line Reviews	36-44
7	Financial Statements	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 (as amended). The financial statements of the Group and the Bank for the year ended December 31, 2022	237-247
8	Directors' Responsibility for Financial Reporting	Directors' Responsibility for Financial Reporting	230-231
9	Auditors' Report	Independent Auditor's Report	232-236
10	Significant Accounting Policies	Note 2.1 and 3 to the financial statements - Basis of Preparation and Significant Accounting Policies, respectively	249-260
11	Going Concern	Note 2.1.5 to the financial statements – Going Concern	251
12	Income	Note 7 to the financial statements – Gross Income	303
13	Financial Results and Appropriations	Statement of Profit or Loss and Other Comprehensive Income	239
		Statement of Changes in Equity	242-245
14	Reserves	Statement of Changes in Equity	242-245
15	Corporate Donations	Note 18 to the financial statements - Other Expenses	317
		The Bank did not make any donations to Government approved charities	
16	Taxation	Note 21 to the financial statements - Income Tax Expense	319
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	325
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 Rs 1,403,342,000/- and Rs 1,757,011,000/- respectively. (2021 Bank: Rs 1,211,320,000/- and Group: Rs 1,724,390,000/-) Details are given in Note 36, 37 and 39 to the financial statements.	370-392
	(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.	421
20	Property, Plant and Equipment	Note 37 to the financial statements - Property, Plant and Equipment	374-385
21	Net Book Value of Freehold Properties	Note 37 to the financial statements - Property, Plant and Equipment.	374-385
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	421

No.	Disclosure requirements	Note reference	Page																																							
23	Events after the Reporting Date	Note 64 to the financial statements - Events Occurring After the Reporting Period	434																																							
24	Stated Capital and Debentures	Notes 54 and 52 to the financial statements – Stated Capital and Subordinated Term Debts, respectively	415 & 406																																							
25	Share Information	Investor Relations	467-477																																							
26	Shareholdings	Investor Relations	467-477																																							
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.	-																																							
29	Directors' Interests in the Ordinary Shares (Voting and Non-Voting)	<table border="1"> <thead> <tr> <th>Name</th> <th>As at 31st December 2022</th> <th>As at 31st December 2021</th> </tr> </thead> <tbody> <tr> <td>Mrs. Aruni Goonetilleke</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr. Antonio Jonathan Alles</td> <td>143,614</td> <td>131,855</td> </tr> <tr> <td>Mr. Amal Cabraal</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr. Madu Ratnayake</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr. Devaka Cooray</td> <td>8,776</td> <td>8,607</td> </tr> <tr> <td>Mr. Dilshan Rodrigo</td> <td>26,164</td> <td>25,702</td> </tr> <tr> <td>Mr. Osman Chandrawansa</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr. Prawira Rimoe Saldin</td> <td>3,242</td> <td>3,180</td> </tr> <tr> <td>Mr. Nihal Jayawardena</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr. Kithsiri Gunawardene *</td> <td>-</td> <td>N/A</td> </tr> <tr> <td>Mr. Rasitha Gunawardana *</td> <td>24,362</td> <td>N/A</td> </tr> <tr> <td>Dr. Prasad Samarasinghe **</td> <td>-</td> <td>-</td> </tr> </tbody> </table> <p>* Appointed w.e.f 21st January 2022  ** Appointed w.e.f. 26th October 2022. Alternate Director to Mr. L.U.D. Fernando w.e.f.5th July 2019</p>	Name	As at 31st December 2022	As at 31st December 2021	Mrs. Aruni Goonetilleke	-	-	Mr. Antonio Jonathan Alles	143,614	131,855	Mr. Amal Cabraal	-	-	Mr. Madu Ratnayake	-	-	Mr. Devaka Cooray	8,776	8,607	Mr. Dilshan Rodrigo	26,164	25,702	Mr. Osman Chandrawansa	-	-	Mr. Prawira Rimoe Saldin	3,242	3,180	Mr. Nihal Jayawardena	-	-	Mr. Kithsiri Gunawardene *	-	N/A	Mr. Rasitha Gunawardana *	24,362	N/A	Dr. Prasad Samarasinghe **	-	-	
Name	As at 31st December 2022	As at 31st December 2021																																								
Mrs. Aruni Goonetilleke	-	-																																								
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Mr. Rasitha Gunawardana *	24,362	N/A																																								
Dr. Prasad Samarasinghe **	-	-																																								
30	Directors' Interest in Debentures	Directors did not have any interest in debentures as at 31st December 2022	-																																							
31	Directors' Remuneration	Note 18 to the financial statements - Other Expenses	317																																							
32	Human Resources	Value Delivered To Employees	56-62																																							
33	Employee Share Option Plan	Note 54 to the financial statements - Stated Capital	415																																							
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 Stakeholder Reports.	45-85																																							
35	Risk Management and Internal Control	Risk & Capital Reviews	218-226																																							
36	Directors' Statement on Internal Control	Directors' Statement on Internal Control Over Financial Reporting	167-168																																							
37	Corporate Governance	Corporate Governance Report	104-141																																							

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No.	Disclosure requirements	Note reference	Page
38	Insurance and Indemnity	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability.	-
39	Material Foreseeable Risk Factors (As per Rule No 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk & Capital Reviews	218-226
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	12-13

## NOTICE OF ANNUAL GENERAL MEETING

The 54th Annual General Meeting of the Bank is convened on 30th March 2023, at 10.00 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 54th 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.

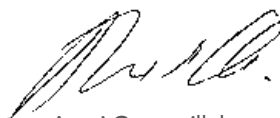
For and on behalf of the Board of Directors,



Shiromi Halloluwa  
Head of Legal/Board Secretary



Jonathan Alles  
Managing Director/Chief Executive Officer



Aruni Goonetilleke  
Chairperson

Colombo, Sri Lanka  
17th February 2023

# HR AND REMUNERATION COMMITTEE REPORT



Mr Madu Ratnayake  
Chairman  
Human Resources & Remuneration  
Committee

## Composition & Meetings

The HR & Remuneration Committee of the Board comprises three Non-Executive Independent Directors whose details are given below:

### Chairman

Mr Madu Ratnayake (IND/NED)

### Other Members

- > Mr Amal Cabraal (IND/NED)
- > Mrs Aruni Goonetilleke (IND/NED)
- > Mr Kithsiri Gunawardena (NIND/NED) (appointed w.e.f 21st January 2022)

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

Brief profiles of the Directors are given on page 86 to 91 in this report.

### Invitees of the Board

Mr. Jonathan Alles (MD/CEO) except when his remuneration or performance is discussed.

### Management Participants

Mrs. Chiranthi Cooray – CHRO / Deputy General Manager – Human Resources

### Secretary to the Committee

The Board Secretary functions as the Secretary to the committee.

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 are regularly reported to the Board and minutes are circulated to all 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 Key Management Personnel (KMP) 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
- > 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 Talent Acquisition & Retention

## To achieve these goals, the Committee

- > Sets targets and goals for the MD/CEO and the KMPs annually.
- > Reviews the Human Resource policies and interventions, salary structures and incentive schemes benefiting Senior Management. In this process, necessary information and recommendations are obtained from the MD/CEO and the Chief Human Resource Officer (CHRO)/ DGM. The Committee evaluates their performance, deliberates and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the MD/CEO, Executive Director/Chief Operating Officer (COO), members of the Corporate Management and Senior Management staff.
- > The organisation structure is reviewed annually and changes are made in line with the Bank’s strategic direction.
- > An on-going priority is to ensure proper succession for critical positions in the Bank.
- > 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.
- > Provide strategic oversight for skill and capability building, taking into consideration market dynamics and emerging requirements in regulatory, technology and market developments.
- > In respect of diversity, to review and recommend to the Board in relation to:
  - Bank’s diversity policy;
  - Establishment of measurable objectives for achieving diversity

# HR AND REMUNERATION COMMITTEE REPORT

## Meetings

The Committee met Seven (7) times during 2022.

Attendance details of meetings held during 2022 are as follows.

	Eligible to attend /Attended
Mr Madu Ratnayake	7/7
Mr Amal Cabraal	7/7
Mrs Aruni Goonetilleke	7/7
Mr Kithsiri Gunawardena	7/6
Mr Jonathan Alles	6

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.

## KEY ACTIVITIES CARRIED OUT IN 2022

- > Creation of the People Roadmap & HR dashboard
- > Putting in place the Training plan for 2022 aligned to strategy and the new normal especially taking into account the current economic and environmental tensions
- > Reviewing Executive Compensation & and recommended Benefits Correction/ Consolidation
- > Reviewing Revised Succession Plan for the Senior Management with a success rate assessment
- > Recommending amendments to Whistle Blowing Policy to create more windows for staff to access
- > Reviewing the Rewards Cycle – Talent Rewards & Benefits and appointed a consultant to study and advice on the way forward
- > Establishing a Date Plan for Performance Management Program and recommending the introduction of a Performance Based Total Rewards Program for Key Leadership Team
- > Setting up strategic talent goals for the Bank

## EMPLOYMENT REPORT

In order to achieve the 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 2022.

Levels	Total
Top Management	25
Senior Management	65
Mid Management	64
Junior Management, Supervisors and Clerical Staff	4236
Secretaries	167
Workers (Electricians, Drivers, Labourers, Peons, Lift Operators)	131
Total Permanent	4688
Employees on Contract	466
Total	5154

## 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 2023, the Bank will continue to focus on introducing and strengthening HR policies, practices and systems in the area of performance management, employee recognition, strategic workforce planning & 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.



**Madu Ratnayake**

Chairman  
Human Resources & Remuneration  
Committee

Colombo, Sri Lanka  
17th February 2023



# NOMINATION COMMITTEE REPORT



Mr Devaka Cooray  
Chairman  
Nomination Committee

## Composition & Meetings

The following Directors serve/served on the Nomination Committee:

### Chairman

Mr Devaka Cooray (IND/NED)

### Other Members

- > Mr Madu Ratnayake (IND/NED) -
- > Mrs Aruni Goonetilleke (IND/NED) .

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

Brief profiles of the Directors are given on page 86 to 91 in this report.

### Invitees of the Board

Mr. Jonathan Alles - 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.

### Meetings

Attendance details of meetings held during 2022 are as follows.

	Eligible to attend	/Attended
Mr. Devaka Cooray(IND/NED)	7/7	
Mr. Madu Ratnayake(IND/NED)	7/6	
Mrs. Aruni Goonetilleke(IND/NED)	7/7	
Mr. Jonathan Alles - MD/CEO	4	

## ACTIVITIES IN 2022

During the year, the Committee reviewed the Bank's adequacy of Corporate Governance Framework, policies, guidelines, principles and skills required to enable achievement of strategic goals at Board and Key Management levels. In doing so, it considered the balance of skills, experience, attributes, independence and diversity of the Board and Key Management Personnel (KMPs) to ensure that each leadership tier collectively has the requisite skills to implement the strategic plans and the Board has the ability to provide informed and constructive challenges to the Management.

The Committee reviewed succession planning extensively for the Board and the Key Management Personnel (KMPs) to ensure continuity of operations and build strong talent pipelines.

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 of corporate values, policies, processes and cultures.

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. In addition to the above, the revised selection matrix containing qualifications, experience, and the key attributes applicable for promotions to and within the Key Management Personnel were also reviewed by the Committee.

## 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 line with the required 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, taking into account the performance and contribution made by such Directors towards the overall discharge of responsibilities by 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;
- > 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;
- > Overseeing 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 4th April 2020.

# NOMINATION COMMITTEE REPORT

## DUTIES DISCHARGED BY THE COMMITTEE

### Board Composition

The Committee:

- > Reviewed the structure, skills, the composition of the Board and its committees on an ongoing basis, making recommendation to the Board as appropriate;
- > Identified the required skill gaps at Board level and recommended candidates to fill vacancies on the Board;
- > 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 Dr T K D A Prasad Samarasinghe as a Director to fill a casual vacancy created by the retirement of Mr Damien Fernando after completing 9 years in the office of Director and further recommended that the Directors so appointed be formally appointed by the shareholders at the 54th Annual General Meeting to be held on 30th March 2023 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:

- > Screened the AML/KYC of top 50 voting shareholders of the Bank;

- > Evaluated the ultimate beneficial ownership details of the top 50 voting shareholders of the Bank;
- > Reviewed and recommended all new appointments to the Boards of subsidiaries and associate companies of the Bank.

## HIGHLIGHTS 2022

During the year, the Committee's activities included:

- > Reviewing and updating the Corporate Charter of the Board of Directors;
- > Reviewing the Terms of Reference (TOR) of the Nomination Committee;
- > Reviewing succession plans for Board and KMPs;
- > Overseeing the Board evaluations undertaken during the year and further refining the Board Evaluation framework;
- > 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;
- > Ensuring compliance with the Corporate Governance Code in the conduct of all affairs in the Committee;
- > Analysing the Organisation chart and skill gaps;
- > Overseeing succession planning for the incumbent MD/CEO and the Board Secretary;
- > Revised the selection matrix containing qualifications, experience, and the key attributes applicable for promotions to and within the Key Management Personnel;

- > Overseeing the appointment of a successor to the Compliance Officer post of the Bank.

## Group Governance/Management Principles

- > Based on the established Group Governance Code of 2016, the Committee, on 19th January 2023 assessed the level of compliance by the Bank's Group Companies for the year 2022, and further recommended that the Compliance Department provide 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.

## Training

The Committee ensured that the Bank carried out the induction programme for the newly appointed Directors during the year 2022 with sessions covering Board engagement.

7 training opportunities were made available to the Directors apart from conducting special presentations by imminent professionals on matters of importance such as economic situation, International Debt Restructure etc during the year 2022. Director training and developments were further supported through Board deep dives, risk deep dives and functions reviews.

## Re-election/Re-appointment of Directors at the 54th Annual General Meeting

As per the provisions in the Articles of Association a director is eligible for re-election pursuant retirement, after having served three years since his/her last re-election to the office. For the year 2023, no director is required to retire by rotation as none of them have completed the 3-year requirement.

Director - Dr T K D A Prasad Samarasinghe who was appointed on 26th October 2022

to fill a casual vacancy has offered himself for formal appointment under Article 36 of the Articles of Association. The appointment of Dr T K D A Prasad Samarasinghe was recommended by the Committee and the Board on 05th August 2022 and 29th September 2022 respectively.

### COMMITTEE EFFECTIVENESS

The performance of the Committee is reviewed each year as part of the Board effectiveness assessment. The Committee completed its self-assessment for the year 2022, conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively.

This year review highlights that the Committee continues to be well constituted and that the role and the responsibilities are clear and well understood. The Committee's interaction with the Board, Board Sub Committees and the Management is considered effective and was pursuing matters to ensure safe and sound operation of the Bank in line with the applicable laws and regulations.

The Committee 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.



Devaka Cooray  
*Chairman*  
*Nomination Committee*

Colombo, Sri Lanka  
17th February 2023

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Mr Rimoe Saldin  
Chairman  
Board Integrated Risk Management  
Committee

## Composition & Meetings

The Board Integrated Risk Management Committee (BIRMC) comprised Five (05) members throughout 2022, of which Four (04) members were Non-Executive Directors as given below:

### Chairman

Mr. Rimoe Saldin (NIND/NED)

### Other Members

- > Mr Madu Ratnayake (IND/NED)
- > Mr Damien Fernando (NIND/NED)  
Resigned from effect with 25/10/2022
- > Mr Jonathan Alles (MD/CEO)
- > Dr Prasad Samarasinghe (Appointed with effect from 26/10/2022 (NIND/NED)
- > Mr Rasitha Gunawardena (IND/NED)

### Invitees of the Board

Mr Devaka Cooray (IND/NED)  
– Chairman, Audit Committee

Brief profiles of the Directors are given in pages 86 to 91.

### Management Participants

- > Mr Ruwan Manatunga - DGM-Risk / Chief Risk Officer
- > Mr Neil Rasiah – Acting Head of Compliance Appointed w.e.f. 28th October 2022
- > Mr Janath Illangantileke – AGM (Compliance) – Resigned from Bank's service w.e.f. 21st October 2022

## MAJOR INITIATIVES IMPLEMENTED IN 2022

The unstable economic conditions that prevailed during the year had an impact across the full spectrum of banking activities in 2022 and the Committee oversaw the implementation of the following initiatives supporting management of related risks:

### INTEGRATED RISK MANAGEMENT

- > Bank's ICAAP was reviewed during the year to ensure capital adequacy was maintained above minimum regulatory requirements. Stress testing was conducted for a number of variables including asset quality, asset concentrations, market risk factors etc. Risk appetite statement of the Bank was also reviewed in order to align with changes within the macro and micro economic factors of the country.
- > A series of industry reviews across various sectors were carried out in order to understand risk levels of these industries and recommendations were extended to business units
- > Conducted series of training sessions across business divisions to enhance knowledge of Risk Adjusted Return on Capital (RAROC) model, market outlook, good credit governance practices etc.

### CREDIT RISK

- > Bank's Baseline Credit and Collateral Framework policies including the product Lending policies across Corporate Banking, SME, Microfinance, Retail Banking were reviewed and updated to ensure they are in line with the current market environment.
- > Post COVID-19 Revival Policy was established which provides a framework for identifying and assisting borrowers of HNB who were affected by the COVID-19 pandemic and had faced financial difficulties.
- > Credit Approval Structure was reviewed against new NPAs, LRMs findings, moratorium changes, regulatory changes and other emerging credit risks to the loan book

- > Enhanced post loan disbursement reviews were carried out on the Advances Portfolio in order to ensure compliance to Credit Policies and Guidelines. Observations and learnings were shared with Business Units and Credit Teams in order to ensure qualitative improvements in Credit underwriting and Credit Administration process.
- > Training sessions were conducted for business and credit approvers on the Bank's credit policies and guidelines, best practises and common lapses in credit underwriting of facilities as well as rescheduling / restructuring of facilities.
- > Directions issued by CBSL on Environment were formalised and communicated on Social Risk Management/Sustainable Finance/SLFRS 9 Classification Recognition to the business teams.

### MARKET RISK

- > Treasury limits were reviewed more frequently in order to assess micro and macro-economic- factors on counterparty limits. Bank's liquidity and funding needs were periodically reviewed.
- > Stress Testing was carried out regularly to understand the impact to the Bank liquidity position due to non-settlement of USD denominated bonds.
- > Impact analysis on Bank's capital base was carried out on the possible hair cut on Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC borrowings by overseas lenders including identifying strategies to minimize the impact of these events.

### OPERATIONAL RISK

- > Fraud Risk Policy and Customer Blacklisting Policy were reviewed to enhance the coverage to mitigate emerging risks from changes in socio-economic conditions.
- > Consolidated Recovery Plan for the Bank was developed to identify credible options to survive a range of severe and plausible stress scenarios.

### Regular Attendees by Invitation

- > Mr Dilshan Rodrigo  
- Executive Director/ Chief Operating Officer
- > Mr Niroshana Seneviratne  
- DGM - Internal Audit/ Chief Internal Auditor
- > Mr Rohan Buultjens  
- Chief Technology and Digital Officer
- > Ms Dilunika Jayasinghe  
- Chief Manager - Credit Risk  
(Promoted to the grade of AGM since March 2022)
- > Mr Sampath Weerasinghe  
- Senior Manager - Integrated Risk

### Secretary to the Committee

- Mr Ruwan Manatunga  
- DGM – Risk/Chief Risk Officer

	Eligible to attend
	/Attended
Dr Prasad Samarasinghe	1/ 0*
Mr Rashitha Gunawardena	10/10
Mr Jonathan Alles	11/ 0
Mr Damian Fernando	10/10
Mr Madu Ratnayake	11/9
Mr Dilshan Rodrigo	11/11**
Mr Devaka Cooray	11/10**
Mr Rimoe Saldin	11/11

\* (Alternate Director to Mr. Damien Fernando upto 25.10.2022 and Director w.e.f. 26.10.2022)

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

- > Valuation Policy was reviewed to address the changes in risk appetite of the Bank and to incorporate industries best practices

- > Outsourced services were reviewed to identify possible threats and continuation of business activities.

- > Guideline on provisioning and reporting of operational losses were reviewed to maintain the consistency and timely reporting of operational losses.

- > Business Continuity Management process was evaluated to monitor the resilience of DR drills covering mission critical units and systems to ensure their resilience.

- > Bank's Operational Risk Management Framework was strengthened in line with the current operating model and best practices.

- > Business Continuity Policy was reviewed to incorporate risks related to continuation of business due to emerging developments in macro and micro economic fronts such as shortages in various supplies, social unrest etc.

### IT & CYBER RISKS

- > Risk Assessment Methodology & Risk Acceptance Criteria was introduced for the area of IT/cyber risk which is in line with the ISO 27001 standard.

- > Process for the cyber risk unit to conduct regular security vulnerability assessments & application security testing was established to support Bank wide L2 technical reviews, security projects testing and technology implementations.

- > Business units and branch network were engaged to assess the technology & processes in order to identify security vulnerabilities and to enhance security awareness among the staff members.

- > Policies on information and cybersecurity was reviewed to deal with emerging risks and assessed risks with regard to the Bank's information and cybersecurity metrics against embedded and emerging risks.

- > Risk covering Privilege Access Activities on databases, operating systems and applications was reviewed and assessed of critical systems.

### COMPLIANCE RISK

- > Data analytics/AI tools were introduced to improve monitoring of alerts generated by the AML system.

- > Review mechanisms were strengthened on compliance audits carried out covering critical areas in branches and departments of the Bank.

- > Quarterly group reviews on risk, compliance, finance and audit, were implemented to ensure regular monitoring of compliance risk of Group subsidiaries.

### LOOKING AHEAD

The following key initiatives have been identified for implementation in 2023

### Credit risk

- > The Bank closely works with the impacted customers to understand their business challenges and cash flow constraints in order to support these businesses in their revival by way of facilitating to expand their customer base through linking them with supply chains of large corporates, offering digital solutions to expand their sales and collection points, advisory services etc. Where required the Bank also restructures customer facilities at an early stage to enable customers to service their bank liabilities based on their forecast cashflows.

- > Develop predictive models to carry out analytics on the Bank's loan portfolios across businesses and products to identify early warning signals of building up of portfolio stress.

- > Support the Rollout of the second phase of the Loan Origination System for Corporate and SME businesses.

- > Upgrade and integrate enhanced IRR assessment models across all businesses to their respective loan origination modules.

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- > Formalise evaluation standards by introducing guidelines for project finance, overseas lending and value chain financing.

## Market risk

- > Review caps, loss limits, measurement of volatility of forex and securities.
- > Review and structure Treasury limits for 2023 considering the possible risks, current market and economic challenges / impact on debt restructuring etc.
- > The Committee comprising the MD, COO, CRO, CFO, DGM-Treasury and business heads hold fortnightly meetings to review the liquidity position of the Bank and to take necessary strategies to ensure liquidity positions of the Bank are healthy.
- > Carrying out aggressive deposit campaigns in order to mobilize LKR and USD deposits.
- > Encourage worker remittances by offering attractive exchange rates and arranging deposit campaigns overseas.
- > Secure new to bank export customers by offering competitive lending rates and advisory services to explore new markets.
- > Engaging with overseas counterparts for fresh USD funding lines.

## Liquidity risk

- > Increase scope and rigour of stress testing to be better aligned with the regulatory Liquid Coverage Ratio.

## Operational risk

- > Implement a Governance, Risk and, Compliance (GRC) system to strengthen operational risk monitoring.
- > Implement the Computation method of Risk Weighted values for operational risk from the current Basic Indicator Approach (BIA), to the Alternative Standardized Approach (ASA).

## IT & cyber risk

- > Implement an End Point Detection & Response (EDR) solution to enhance security of data and to detect anomalous digital traffic and anomalous behavioural activity in the Bank's IT systems.
- > Strengthen L2 cyber risk assessment function by increasing engagements with business units.
- > Implementation of a new data classification tool in order to provide classification of digital documents and emails via various communication channels.
- > Alignment of Bank's security processes and controls against NIST Cyber Security Framework
- > Implementation of cyber security strategy with mid & long-term plans to strengthen security control environment.
- > Conduct Bank wide security risk assessments in order to cover various technology aspects and business processes.
- > Enhancing the scope of security monitoring via 24x7 Security Operations Centre (SOC) functions to include more granular level analysis on cyber threats.

## Group risk

- > Further Strengthen periodic assessment of Group risk and compliance monitoring covering Liquidity, Capital, Compliance, Cyber and Operational Risks.

## Compliance risk

- > Enhance monitoring of Trade Based Money Laundering by monitoring dual usage of goods and vessel tracking, by linking the Dow Jones data base to the trade core banking system through API connections.
- > Implement ITRS project (International Transaction Reporting System) initiated by the CBSL to automate various international, trade and treasury related reports.

## SUMMARY OF BIRMC CHARTER

Establishing a risk management framework that proactively supports the assessment, evaluation, monitoring and management of risks, 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 BIRMC

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

- > Ensure that the Bank and its subsidiaries have an enterprise wide comprehensive risk management framework, appropriate compliance policies and risk management systems in place.
- > Assess all risk types, including but not limited to, credit, market, liquidity, operational and strategic, reputational risks, information and cybersecurity risks to the Bank and that they are managed through appropriate risk indicators and management information and established mitigants.
- > Ensure risk assessment and mitigating actions are taken in accordance with established delegated authority 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.
- > 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.
- > Assess Periodically 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 implementation.
- > 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 the 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 conform with the provisions of this 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, the BIRMC has adopted Basel III guidelines issued under the Banking Act No 01 of 2016 as well and continues to improve the Bank's adherence to these guidelines.

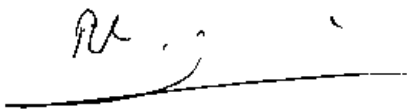
As per Section 3(6)(v)(g) of the Banking Act No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, the BIRMC submits a Risk Assessment Report within a week of each meeting to the Board of Directors in order to seek the Board's views, concurrence and/or specific directions on material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

### 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 self-assessment of the BIRMC by its Committee members was carried out in January 2023 and the Committee agreed on a "satisfactory" rating score. Areas identified for improvement are addressed.



**Rimoe Saldin**

*Chairman  
Board Integrated Risk Management  
Committee*

Colombo, Sri Lanka  
17th February 2023

# BOARD AUDIT COMMITTEE REPORT



Mr Devaka Cooray  
Chairman  
Board Audit Committee

## Composition & Meetings

The Board Audit Committee comprises of four (04), Non-Executive Directors, of whom three including the Chairman are Independent Directors.

### Chairman

Mr Devaka Cooray (IND/NED)

### Other Members

- > Mr Osman Chandrawansa (IND/NED)
- > Mr Rasitha Gunawardana (IND/NED)  
Appointed w.e.f. 21st January 2022
- > Mr Kithsiri Gunawardana (NIND/NED)  
Appointed w.e.f. 21st January 2022
- > Mr Rimoe Saldin (NIND/NED)  
Resigned w.e.f. 21st January 2022

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

Brief profiles of the Directors representing the committee are given on pages 86 to 91.

## SIGNIFICANT ACCOUNTING JUDGEMENTS CONSIDERED DURING 2022

During the year, the Committee reviewed key assumptions and judgements including following areas;

- > Loan Impairment Allowances and related Management Overlay, taking in to consideration the high degree of uncertainty that characterizes the internal economic environment and its potential impact on significant increase in credit risk
- > Impairment Allowances for Government Bonds
- > Recognition of Deferred Tax on Impairment Charges
- > Actuarial Valuation of Pension Liability
- > Tax Provisions
- > Going Concern, taking in to consideration the high degree of uncertainty relating to the current economic conditions prevailing in the country
- > Carrying Value of Investments in Group Companies
- > Valuation of Financial Instruments

## 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 Board approved BAC Charter clearly defines the Terms of Reference (TOR) of the Committee and regulates the purpose, composition, duties, responsibilities and investigative authority of the BAC.

## KEY RESPONSIBILITIES OF THE COMMITTEE

Key responsibilities include;

- > Monitor and review adequacy and effectiveness of Bank's policies with respect to risk assessments and risk management of financial reporting processes and internal control systems in order to provide accurate, appropriate and timely information to the Board, regulatory authorities, management and other stakeholders.

- > Review Bank's compliance with relevant legal, regulatory and accounting standards and discuss the significant financial reporting issues and judgements in the preparation and presentation of Financial Statements, external reports, and periodical evaluation of the effectiveness of such compliance processes.
- > Exercise independent oversight of the Bank's assurance functions, including external & internal audit and ensure the independence and effectiveness of both external & internal audit functions.
- > Evaluate the adequacy, efficiency and effectiveness of the governance process.
- > Engagement of independent advisors for specialized functions where deemed necessary.
- > Approve and review the Annual Internal Audit Plan and review 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 COMMITTEE

The BAC is empowered to investigate any matter as deemed necessary with unrestricted access to records, data, 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.

## ACTIVITIES IN 2022

The Board Audit Committee (BAC) met nine (09) times during the year, where all Meetings were held virtually through MS Teams. The Engagement Partner of the Bank's external audit attended Committee meetings. Apart from the regular attendees from the management, the Committee invited Members of the Bank's Senior Management team to participate in meetings on needs basis. Minutes of the proceedings of the BAC meetings are periodically reported to the Board.

Activities of the Audit Committee during 2022 are summarised under the focus areas below.

### Regular Attendees by Invitation

Mr Jonathan Alles - Managing Director/  
Chief Executive Officer

Mr Dilshan Rodrigo - Executive  
Director/Chief Operating Officer

Dr Niroshana Seneviratne - Chief  
Internal Auditor/DGM (Internal Audit)

Mr Ruwan Manatunga - Chief Risk  
Officer/DGM (Risk)

Mr Rajive Dissanayake - Chief Financial  
Officer

Mr Rohan Bultjens - Chief Technology  
and Digital Officer

Mr Sivarajah Nandakumar - AGM  
(Operations)

Mr Neil Rasiyah - Acting Head of  
Compliance - Appointed w.e.f. 28th  
October 2022

Mr Janath Ilangantileke - AGM  
(Compliance) - Resigned from Bank's  
service w.e.f. 21st October 2022

The Engagement Partner of Messrs.  
KPMG (External Auditor) attended  
eight (8) meetings and the Chairman of  
the BIRMC also attended meetings by  
invitation.

### Secretary to the Committee

The Chief Internal Auditor, Dr Niroshana  
Seneviratne functions as the Secretary  
to the Board Audit Committee.

### Meetings

Membership attendance details of  
Meetings held during 2022 are as  
follows;

	Eligible to attend /Attended
Mr Devaka Cooray (IND/NED)	9/9
Mr Osman Chandrawansa (IND/NED)	9/9
Mr Rasitha Gunawardana (IND/NED)	9/9
Mr Kithsiri Gunawardana (NIND/NED)	9/9

## FINANCIAL REPORTING

The BAC 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.

The 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.

The BAC reviewed the impact of the accounting treatment on significant risks & uncertainties and key estimates & 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, BAC 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 which were refined during the year with updated underlying assumptions, management overlays computed outside the model based on the stress testing relating to the exposures to risk elevated sectors, and adjustments made to economic factors to incorporate the adverse macro-economic conditions such as significant volatility in exchange rates, interest rates, inflation and GDP growth rates.

The BAC discussed and monitored the steps taken by the management to align the internal processes and systems to comply with Direction No 13 and 14 of 2021 issued by the Central Bank of Sri Lanka on 14th September 2021 which become effective from 1st January 2022 and will continue to focus on the internal control framework relating to the new processes during the year 2023.

The BAC reviewed and recommended annual and quarterly Financial Statements to the Board for approval, along with management discussion and analysis, prior to publishing the same.

The Committee assessed and monitored the adequacy, effectiveness and progress of Bank's reconciliation processes through periodic updates provided by the finance team.

The Committee met with the Chief Financial Officer twice (02) during the year, in the absence of Key Management Personnel to ensure the transparency and independence of the financial reporting function of the Bank.

## 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 the External Auditor. The Committee carried out the following activities in discharge of its duties in this regard;

- > Assisted the Board in engaging the External Auditor for audit services, in compliance with regulatory provisions.
- > Monitored and assessed the independence, objectivity and effectiveness of the External Auditor during the year 2022.
- > Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the External Auditor 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 engagement partner of the External Auditor twice (2) during the year, in the absence of Key Management Personnel to ensure that there were no limitations of the 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.

# BOARD AUDIT COMMITTEE REPORT

- > The Committee reviewed the Non-Audit Services provided by the auditor against the Policy on non-audit services, to ensure 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 2022, as required by the section 3(8) (ii) (b) of the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka and 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.
- > The BAC is satisfied as to the reliability of the system as disclosed on pages 167 and 168, Directors' Statement on Internal Control over Financial Reporting. BAC confirms that the report given in page 169 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. The 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.

- > The BAC periodically reviewed and discussed the key financial issues of group companies during the year, with a view of identifying and managing associated risks in order to maintain the smooth flow of operations.

## INTERNAL AUDIT

- > The Committee continuously reviewed and satisfied itself with the independence, objectivity and effectiveness of the internal audit function as the third line of defence.
- > The Committee reviewed the internal audit reports, investigation outcomes, status of significant findings along with recommendations, management responses and status of implementations on a regular basis, in order to satisfy itself on the adequacy and effectiveness of the Bank's internal controls system.
- > Ensured the adequacy and coverage of the annual audit plan for the year, which was prepared on risk-based planning methodology along with the frequency of pre-planned reviews.
- > Assessed and addressed the Internal Audit Department's resource requirements including succession planning.
- > Reviewed and satisfied itself with the performance of the Chief Internal Auditor and other senior staff members of the Internal Audit Department.
- > Reviewed and approved the revisions made to the Internal Audit Charter during the year.
- > Continuously monitored and guided the Internal Audit Department on the execution of the annual Internal Audit Plan amidst challenging conditions faced during the year.
- > Two (02) independent discussions were held with the Chief Internal Auditor, in the absence of Key Management Personnel to ensure independence of the Internal Audit Department's operations.

## WHISTLE-BLOWING

The Committee reviewed concerns raised with regard to actual or suspected frauds, violations or any other serious infringement of rules / policies of the Bank. The Committee ensured independent investigations on such matters, while maintaining the confidentiality of the identity of the person raising the concern.

## TRAINING AND DEVELOPMENT OF COMMITTEE MEMBERS

Members of the Committee attended presentations made by consultants and Key Management Personnel. Members also attended seminars, conferences and workshops as part of their continuous professional development.

## COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the Independent Non-Executive Chairman, with contributions from individual assessments by the Members of the Audit Committee, Managing Director/CEO, Executive Director/COO, Chief Financial Officer, Chief Internal Auditor and other regular invitees in accordance with international best practices and was deemed to be satisfactory.



Devaka Cooray

Chairman

Board Audit Committee

Colombo, Sri Lanka

17th February 2023

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT



Mr Devaka Cooray  
Chairman  
Related Party Transactions Review  
Committee

## Composition & Meetings

The Related Party Transactions Review Committee (RPTRC) comprised four members, of whom three including the Chairman are Independent Directors:

### Chairman

Mr Devaka Cooray (IND/NED)

### Other Members

- > Mr Jonathan Alles (MD/CEO)
- > Mr Osman Chandrawansa (IND/NED)
- > Mr. Nihal Jayawardene (NIND/NED)

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

### Other Directors

- > Mr Dilshan Rodrigo – Executive Director/Chief Operating Officer

Brief profiles of the Directors are given on pages 86 to 91 in this report.

## KEY INITIATIVES IMPLEMENTED DURING 2022

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.

## 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 Sri Lanka Accounting Standard 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 2022, the TOR was amended to accommodate desired changes.

## 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 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 periodic 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 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 and 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



# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

## Management Participants

- > Ms K A L Thushari Ranaweera – DGM - (Legal)/Board Secretary
- > Ms Anuradhi Delage – Head of Finance/Secretary to the Committee
- > Mr Neil Rasiyah – Acting Head of Compliance Appointed w.e.f. 28th October 2022
- > Mr Janath Illangantileke – AGM (Compliance) – Resigned from Bank’s service w.e.f. 21st October 2022
- > Ms Angelina Dharmaraj – Head of Centralized Credit Administration

In addition, the Committee summons other relevant officials of the Bank to participate in Committee proceedings on a ‘need basis’

## Secretary to the Committee

The Bank’s Head of Finance functions as the secretary to the Related Party Transactions Review Committee.

## Meetings

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 2022, four (4) such meetings were held and the minutes were circulated to the Board of Directors for their information and review.

Membership attendance details of meetings held during 2022 are as follows:

	Eligible to attend /Attended
Mr Devaka Cooray	4/4
Mr Osman Chandrawansa	4/4
Mr Nihal Jayawardena	4/3
Mr Jonathan Alles	4/4

ability to call for clarifications from the management and auditors (External and 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 2022 concluded that the Committee continues to operate effectively and competently.

Note 60 to the financial statements on pages 428 to 430 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.



Devaka Cooray  
 Chairman  
 Related Party Transactions Review Committee

Colombo, Sri Lanka  
 17th February 2023



# 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, processes affecting significant accounts of the Bank were assessed along with the key risk areas.

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 the 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 the 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 the 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 162 to 164 in this report.

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 the adoption of this standard, progressive improvements on processes to comply with new requirements of classification, estimation of expected credit losses and disclosures were made whilst, further strengthening of processes continued to support the estimation of expected credit loss and financial statement disclosures.

The existing models were further refined this year to validate the appropriateness of

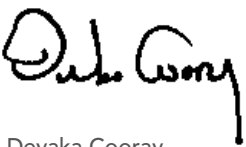
## DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

the underlying assumptions, incorporate the potential implications of the macroeconomic conditions prevailing in the country through post model adjustments, based on stress testing the exposures to risk elevated sectors and adjustments made to economic factors.

Considering the complexity involved in the computation of ECL from Loans and Advances, the Bank will continue to strengthen the process with system - supported procedures 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.

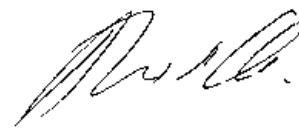
By order of the Board



Devaka Cooray  
Chairman  
Board Audit Committee



Jonathan Alles  
Managing Director  
/Chief Executive Officer



Aruni Goonetilleke  
Chairperson

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.

The Management has made many changes to the internal processes and systems to comply with Direction No 14 of 2021 issued by the Central Bank of Sri Lanka on 14th September 2021 which became effective from 1st January 2022 and will continue to strengthen the internal control framework relating the new processes during the year 2023.

### 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 auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31st December 2022 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 this report page 169.

Colombo, Sri Lanka  
17th February 2023

# INDEPENDENT ASSURANCE REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
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## 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 Over Financial Reporting ("Statement") included in the Annual Report for the year ended 31 December 2022.

### 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:

- 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.
  - Reviewed the documentation prepared by the Directors to support their statement made.
  - Related the statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.
  - Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
  - 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.
  - 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 167 to 168 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  
17 February 2023

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

P.Y.S Perera FCA  
W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapaksa FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasakara FCA  
C.P. Jayatilaka FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA  
T.J.S. Rajakaner FCA  
Ms. S.M.B. Jayasekara FCA  
G.A.U. Karunaratne FCA  
R.H. Rajaratne FCA  
A.M.R.P. Athakoon ACA  
Principals - S.R.I. Perera FCA(UK), LL.B., Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekera CFA, ACMA, MRICS

## 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 2022		As at 31st December 2021		
			Limit	Outstanding	Limit	Outstanding	
			Rs Mn	Rs Mn	Rs Mn	Rs Mn	
<b>(A) Mr Amal Cabraal</b>							
John Keells Holdings PLC	Director	Overdraft/STL - I	200.00	200.00	200.00	200.00	Clean Commercial paper agreement, Cash Back
		Commercial paper	*(200.00)	-	*(200.00)	-	
		Short Term Loan	*(200.00)	-	*(200.00)	-	
		Overdraft/STL - II	4,800.00	4,711.19	3,000.00	3,000.00	
		Short Term Loan	*(4,800.00)	-	*(3,000.00)	-	
		Forex Forward Booking	*(204.00)	-	-	-	
		Term Loan - I	5,100.00	2,700.00	6,000.00	6,000.00	
		Term Loan - II	2,700.00	2,700.00	-	-	
		LG	-	-	2,991.09	2,991.09	
<b>Total</b>		<b>12,800.00</b>	<b>10,311.19</b>	<b>12,191.09</b>	<b>12,191.09</b>		
Ceylon Beverage Holding PLC	Chairman	Term Loan	2.50	2.50	2.50	2.50	Board Resolution
		<b>Total</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>	
Lion Brewery (Ceylon) PLC	Chairman	Overdraft	100.00	-	100.00	-	DPN LG Indemnity Loan Agreement OD Agreement Loan Agreement Docs of Title Docs of Title Import Loan Agreement
		Letter of Guarantee	20.00	**26.82	20.00	18.66	
		Money Market Loan	3,000.00	2,000.00	3,000.00	-	
		Overdraft -Kaduwela	*(400.00)	-	*(400.00)	-	
		Term Loan - I	-	-	*(110.00)	110.00	
		Letter of Credit - I	50.00	50.00	50.00	-	
		Import Loan - I	*(50.00)	-	*(50.00)	-	
		Letter of Credit - II	*(2,000.00)	199.09	*(2,000.00)	-	
		Import Loan - II	*(2,000.00)	-	*(2,000.00)	-	
<b>Total</b>		<b>3,170.00</b>	<b>2,275.91</b>	<b>3,170.00</b>	<b>128.66</b>		
Sunshine Holdings PLC	Chairman	Overdraft	50.00	0.04	50.00	-	Clean
		STL Revolving	500.00	-	-	-	
		<b>Total</b>	<b>550.00</b>	<b>0.04</b>	<b>50.00</b>	<b>-</b>	
Sunshine Healthcare Lanka Ltd.	Chairman	Letter of Credit	1,400.00	678.23	1,200.00	130.49	Absolute ownership over leased Asset, Duly Accepted usance Draft / Documents of Title, Import Loan Agreement, Forward Exchange Agreement, Clean, Overdraft Agreement, Letter of Indemnity, LG Indemnity
		Overdraft	150.00	19.61	200.00	57.08	
		Letter of Guarantee	50.00	10.29	-	-	
		Import Loan	*(700.00)	-	*(500.00)	-	
		Forex Forward Booking	*(270.00)	-	*(270.00)	-	
		Shipping Guarantee	*(400.00)	505.05	*(400.00)	66.20	
		Block Lease Facility - II	*(40.00)	-	*(40.00)	-	
		Block Lease Facility - I	32.28	-	32.20	-	
		Money Market Loans - I	1,250.00	1,250.00	-	-	
		Money Market Loans - II	*(100.00)	-	-	-	
		Letter of Guarantee - II	*(100.00)	-	*(100.00)	111.61	
		Export Bill Discounting	*(100.00)	-	-	-	
		Standby Overdraft	100.00	8.88	-	-	
		Corporate CC	-	-	2.00	-	
		<b>Total</b>		<b>2,982.28</b>	<b>2,472.06</b>	<b>1,434.20</b>	

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2022		As at 31st December 2021		
			Limit	Outstanding	Limit	Outstanding	
			Rs Mn	Rs Mn	Rs Mn	Rs Mn	
Sunshine Consumer Lanka Ltd	Director	Overdraft	300.00	282.32	300.00	-	Overdraft Agreement, LG Indemnity, Loan Agreement, Documents of Title, Usance Draft
		Letter of Guarantee	15.00	-	15.00	1.19	
		Short Term Loans	600.00	-	-	-	
		Letter of Credit	*(200.00)	-	-	-	
		Import Loans	*(200.00)	-	-	-	
		<b>Total</b>	<b>915.00</b>	<b>282.32</b>	<b>315.00</b>	<b>1.19</b>	
Healthguard Pharmacy Ltd.	Chairman	Short Term Loan - I	20.00	-	20.00	-	Loan Agreement, Mortgage over stocks LG Indemnity, Docs of title. duly accepted usance drafts, Overdraft Agreement
		Letter of Guarantee	10.00	7.00	10.00	7.00	
		Overdraft - I	*(5.00)	-	*(5.00)	-	
		Overdraft - II	50.00	6.30	50.00	-	
		Letter of Credit	100.00	-	100.00	15.94	
		Import Loan	*(100.00)	-	*(100.00)	-	
		Short Term Loan-II	5.00	-	5.00	-	
		Letter of Credit (Domestic)	(50.00)	-	-	-	
<b>Total</b>	<b>185.00</b>	<b>13.30</b>	<b>185.00</b>	<b>22.94</b>			
Lina Manufacturing (Pvt) Ltd	Chairman	Letter of Credit	200.00	25.91	200.00	-	Document of Title / Duly Accepted Usance Draft, Corporate Guarantee
		Import Loan	*(200.00)	130.85	*(200.00)	-	
		Money Market Loans	*(50.00)	-	*(50.00)	-	
		Overdraft	125.00	108.61	125.00	-	
		Letter of Guarantee	25.00	-	25.00	-	
		<b>Total</b>	<b>350.00</b>	<b>265.37</b>	<b>350.00</b>	<b>-</b>	
<b>(B) Mr W M M D Ratnayake</b>							
Sri Lanka Institute of Information Technology (SLIIT)	Council Member	Term Loan	-	-	2,000.00	509.80	Clean
		<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,000.00</b>	<b>509.80</b>	
Hsenid Business Solutions (Pvt) Ltd	Director	Bank Guarantee	-	-	6.00	6.00	Lien over Savings Account
		<b>Total</b>	<b>-</b>	<b>-</b>	<b>6.00</b>	<b>6.00</b>	
<b>(C) Mrs Aruni Goonetilleke</b>							
Tea Small Holder Factories PLC	Non-Executive Director	Overdraft	*(50.00)	-	50.00	-	Clean
		Money Market Loan	50.00	-	*(50.00)	-	
		<b>Total</b>	<b>50.00</b>	<b>-</b>	<b>50.00</b>	<b>-</b>	
Celcius Solutions (Pvt) Ltd	Spouse of Mrs Aruni Goonetilleke is a Director/Share Holder	Letter of Credit	138.00	-	100.00	41.86	Documents of Title, Mortgage over stock, Personal Guarantee, Demand Promissory Note, 70% of post-dated cheques, Absolute ownership of Vehicles/ Machinery, 90% of cash deposits, Shipping Guarantee Indemnity
		Import Loan	*(138.00)	137.76	*(100.00)	57.09	
		Term Loan I	5.64	5.64	11.88	11.88	
		Term Loan II	7.50	7.50	22.50	22.50	
		Term Loan III	-	-	7.93	7.93	
		Short Term Loan	*(138.00)	-	-	-	
		Shipping Guarantee	*(138.00)	-	-	-	
		Overdraft - I	*(38.00)	-	-	-	
		Overdraft - II	10.00	-	-	-	
		Block Lease Facility	10.00	-	-	-	
		Letter of Credit -II	50.00	-	-	-	
		Import Loan - II	*(50.00)	-	-	-	
		Shipping Guarantee - II	*(50.00)	-	-	-	
		Overdraft - III	*(50.00)	-	-	-	
<b>Total</b>	<b>221.14</b>	<b>150.90</b>	<b>142.31</b>	<b>141.26</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 2022		As at 31st December 2021		
			Limit	Outstanding	Limit	Outstanding	
			Rs Mn	Rs Mn	Rs Mn	Rs Mn	
Eswaran Brothers Exports Pvt Ltd	Non-Executive Director	Packing Credit Loan \$	367.50	121.27			Confirmed Export orders, Export letters of Credit, Documents of title, Joint & Several personal guarantees, Duly accepted usance drafts, Mortgage over Equipment/Machinery, Absolute ownership of Vehicles.
		Packing Credit Ln -LKR	*(140.00)	97.55			
		LC I - LKR	*(20.00)	-			
		LC II- LKR	*(20.00)	-			
		Import Loan - LKR	*(40.00)	-			
		Short Term Loan -LKR	*(20.00)	-			
		Export Bill Discount \$	*(91.87)	-	N/A	N/A	
		Term Loan LKR	20.34	20.34			
		Term Loan \$ - I	44.10	44.10			
		Term Loan \$ - II	216.82	216.82			
Term Loan \$ - III	18.37	18.37					
Lease Facility - LKR	1.75	1.75					
<b>Total</b>		<b>668.88</b>	<b>520.20</b>				
Softlogic Finance PLC	Non-Executive Director	Overdraft	25.00	4.48	141.93	101.39	Clean, Mortgage over higher purchase receivables.
		Term Loan	24.94	24.94	124.96	124.96	
		<b>Total</b>	<b>49.94</b>	<b>29.42</b>	<b>266.89</b>	<b>226.35</b>	
<b>(D) Mr Prawira Rimoe Saldin</b>							
Sithma Development (Pvt) Ltd.	Chairman	Overdraft	50.00	-	50.00	-	Commercial Property
		Term Loan	-	-	-	-	
		<b>Total</b>	<b>50.00</b>	<b>-</b>	<b>50.00</b>	<b>-</b>	
<b>(E) Dr T K D P Samarasinghe</b>							
HNB General Insurance	Alternate Director to Mr L.U.D. Fernando	Corp CC	1.00	-	2.00	2.00	Corporate Guarantee
		<b>Total</b>	<b>1.00</b>	<b>-</b>	<b>2.00</b>	<b>2.00</b>	
HNB Assurance PLC	Alternate Director to Mr L.U.D. Fernando	Bank Guarantee	227.41	227.41	26.69	26.69	100% cash margin Corporate Guarantee
		Corp CC	1.00	-	1.00	1.00	
		<b>Total</b>	<b>228.41</b>	<b>227.41</b>	<b>27.69</b>	<b>27.69</b>	
Hayleys Fibre PLC	Director	Packing Credit Loan	75.00	-			Clean, Loan Agreement, Documents of Title, Duly accepted usance drafts, LG Indemnity, Overdraft Agreement, Forward exchange agreement
		Export Bill Discounting	*(50.00)	-			
		Short Term Loan	*(75.00)	37.00			
		Letter of Credit	*(3.00)	-			
		Letter of Guarantee	*(5.00)	1.79	N/A	N/A	
		Overdraft	6.00	4.38			
		Saubhagya Term Loan	11.11	11.11			
		Term Loan \$ 0.08	*(29.40)	-			
		Forward Ex Contract	200.00	200.00			
<b>Total</b>	<b>292.11</b>	<b>254.28</b>					
<b>(F) Mr Devaka Cooray</b>							
United Motors Lanka PLC	Chairman	TOD	-	0.01	-	0.01	Clean
		<b>Total</b>	<b>-</b>	<b>0.01</b>	<b>-</b>	<b>0.01</b>	
Unimo Enterprises Ltd	Chairman	LC	1,500.00	-	1,500.00	159.09	Documents of Title, Duly Accepted Usance Drafts, CG of United Motors Lanka PLC
		Import Loan	*(1,500.00)	657.00	*(1,500.00)	-	
		LG	*(1,500.00)	514.30	*(1,500.00)	320.25	
		<b>Total</b>	<b>1,500.00</b>	<b>1,171.30</b>	<b>1,500.00</b>	<b>479.34</b>	



Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2022		As at 31st December 2021		
			Limit	Outstanding	Limit	Outstanding	
			Rs Mn	Rs Mn	Rs Mn	Rs Mn	
JAT Holdings PLC	Director	Overdraft	50.00	45.67			Clean Counter Indemnity Title of Documents, Duly Accepted Usance Drafts Import Loan Agreement
		Letter of Guarantee	75.00	51.63			
		Corp CC	1.00	-			
		Letter of Credit	150.00	-	N/A	N/A	
		Import Loans	*(150.00)	101.24			
<b>Total</b>		<b>276.00</b>	<b>198.54</b>				
HVA Foods PLC	Director	Packing Credit (\$)	365.00	73.00			Clean
		Export Bill Discounting	*(365.00)	-			
		OD	100.00	**100.46	N/A	N/A	
		One off STL	100.00	100.00			
		<b>Total</b>		<b>565.00</b>	<b>273.46</b>		
<b>(G) Mr D P N Rodrigo</b>							
HNB Assurance PLC	Director	Bank Guarantee	227.41	227.41	26.69	26.69	100% Cash back Margin, Corporate Guarantee
		Corp CC	1.00	-	1.00	1.00	
		<b>Total</b>	<b>228.41</b>	<b>227.41</b>	<b>27.69</b>	<b>27.69</b>	
HNB Finance	Chairman	Overdraft	1,000.00	234.26	1,000.00	-	Negative Pledge, Corp Guarantee/STO for the Recovery of 100% of CC o/s on due date
		MM Loan	1,000.00	1,000.00	1,000.00	300.00	
		Corp CC	0.50	0.06	0.15	-	
		<b>Total</b>	<b>2,000.50</b>	<b>1,234.32</b>	<b>2,000.15</b>	<b>300.00</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 (Rs Mn)	
			2022	2021
<b>(A) Mr Jonathan Alles</b>				
Sri Lanka Bank's Association	Director	Subscription Charges	0.55	N/A
<b>(B) Mr Amal Cabraal</b>				
John Keels Holdings PLC	Director	Merchant Commission	-	595.31
Healthguard Pharmacy Ltd.	Chairman	Merchant Commission	17.71	16.35
Sunshine Healthcare Lanka Ltd	Chairman	Merchant Commission	-	0.19
<b>(C) Mr Prawira Rimoe Saldin</b>				
Sithma Development (Pvt) Ltd.	Chairman	Repo (outstanding as at year end)	-	600.00
		Interest on REPO	8.00	1.60
		Rental paid	748.10	783.92
		Rental income	23.00	4.15
<b>(D) Dr T K D A P Samarasinghe</b>				
HNB Assurance PLC	Alternate Director to Mr. L.U.D. Fernando	Interest on REPO	80.22	3.16
HNB General Insurance	Alternate Director to Mr. L.U.D. Fernando	Interest on REPO	18.30	0.72
Lanka Bell Limited	MD	Merchant Commission	4.59	5.88
		Data Line Expenses	12.06	15.93
<b>(E) Mr D P N Rodrigo</b>				
HNB Assurance PLC	Director	Premium paid	158.39	84.12
		Interest on REPO	98.52	3.16
		Merchant Commission	20.94	16.72
		Rental income	9.68	9.15
		Dividend income	287.93	251.94
		Fee and Commission income	521.19	384.23
		Claims paid	35.26	16.53
Credit Information Bureau of Sri Lanka	Director	CRIB Charges	50.68	46.08
Sri Lanka Institute of Directors	Council Member	Subscription Charges	0.03	N/A
Lanka Financial Services Bureau Ltd	Director	Investment Shares	-	5.00
		Swift Charges	13.56	5.65
Guardian Acuity Asset Management	Director	Management Fee	1.79	-
		REPO	-	12.50
		Interest on REPO	-	0.30
<b>(F) Mr Devaka Cooray</b>				
Management Systems Ltd	MD	Administration Expenses	6.40	6.37
JAT Holdings (Pvt) Ltd	Director	Merchant Commission	1.73	N/A
<b>(G) Mr W M M D Ratnayake</b>				
Hsenid Business Solution Ltd	Director	Interest on REPO	10.55	-
		Merchant Commission	0.36	0.80

Company/Director	Name of the Director / Relationship	Nature of Transaction	Amount (Rs Mn)	
			2022	2021
<b>(H) Mrs Aruni Goonetilleke</b>				
Tea Small Holder Factories PLC	Director	REPO Outstanding	45.27	-
		Interest on REPO	6.25	-
Celcius Solution Pvt Ltd	Spouse of Mrs Aruni Goonetilleke is a Director/ Share Holder	Merchant Commission	3.99	2.76
Softlogic Finance PLC	Director	Merchant Commission	0.18	0.26

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 31/12/2022.

The above entities also held customer deposits with the Bank totalling to 15,957.48 Mn. and interest paid was 2,170.40 Mn. Interest income earned from loans and advances amounted to 1,596.15 Mn. & Net Fee Income totalling to 551.58 Mn. for the year ended 31/12/2022.

# RISK & CAPITAL REVIEW

The country experienced continuous economic disruptions throughout the year 2022, which resulted in a major socio-economic crisis impacting all industries, services and agricultural operations. Rising inflation and severe shortages of essential food, fuel, gas, medicines and other necessities culminated in mass nationwide demonstrations against the government, leading to political unrest and changes within the government. Sri Lanka being the first country in the Asia Pacific region to default on its national debt in the 21st century, caused the country's sovereign rating to be downgraded to D (Default) by S&P in August 2022 and to RD (Long Term Issuer Default) by Fitch Ratings in December 2022, and this resulted in Sri Lanka facing a severe shortage of US dollars. During the year, the population, particularly the masses in the lower income categories, faced significant hardships as the country struggled to supply foreign exchange to import essentials such as food, fuel, gas etc. High demand and the low supply of US dollars, caused a steep depreciation of the Sri Lankan rupee against the US dollar and also against other international currencies, which in turn, had an adverse impact on domestic interest rates. Consequently, due to the rising interest rates, lending declined across all economic sectors and a large group of households fell below the poverty line.

Focusing on operations of the Bank within the challenging economic conditions that prevailed during 2022, the Bank maintained stringent risk management practices and oversight to ensure prudent management of assets and operational efficiency for optimum returns for all stakeholders. Responding to the evolving risk landscape, the Bank continued to review and strengthen its risk management systems and processes to mitigate impacts of business disruptions as both local and global turbulence continued to disrupt markets and operations. This report seeks to provide a succinct overview of the Bank's risk management initiatives during the year under review within the context of the wider macroeconomic environment and dynamic risk landscape.



### Risk Management Achievements in 2022

- > Bank was not exposed to any cyber breaches during the year.
- > Managing risks for sustainable growth and profitability.
- > Bank's operational losses were at an all-time low due to strengthened operational risk practises.

### KEY RISKS 2022

The key risk events of 2022 included rapidly evolving political, market and operational risks as well as an array of financial risk elements that required foresight and prudence. The interconnected nature of these risk factors contributed towards exposing the Bank to a heightened overall risk environment. The major risk elements included:

#### Sovereign Default

- > This risk relates to the non-settlement of US dollar denominated Government securities in the form of International Sovereign Bonds & Sri Lanka Development Bonds, that greatly impacted the Bank's US dollar liquidity and foreign currency cash flows and capital.

#### Exponential Increase in Market Interest Rates

- > The sharp increase in market interest rates during the 12 months under review resulted in frequent MTM losses on account of the rupee denominated Govt Securities portfolio and slowed down the growth in the advances portfolio of the Bank.

#### Foreign Exchange Risk

- > The element of foreign exchange risk was augmented within the prevailing environment of rapid rupee depreciation against all international currencies.

#### Country Risk

- > The assignment of Default Country Ratings by rating agencies had several direct and indirect repercussions on the Bank and constrained treasury operations, such as curtailment of overseas counterparty limits, non-availability of swap funding lines, foreign borrowings, international trade operations and placements etc...

#### Foreign Currency Liquidity Crisis

- > Sovereign default coupled with low exports and inward remittances have resulted in constrained foreign currency liquidity. Furthermore, increased customer demand for foreign exchange due to economic instabilities and migrations also added to the pressure.

#### Health & Safety

- > Health and safety remained a priority as the country gradually opened up and resumed economic activities as it was necessary to maintain health and safety guidelines in the early part of 2022 due to the emerging variants of COVID-19 and other viral deceases spreading around the globe. Hence the social distancing, tele-working and work from home arrangements continued to a certain level even after the country fully opened up after pandemic.

### Macroeconomic Environment

- > The overall macroeconomic environment presented a high threat level due to the combination of unfavourable developments that occurred during the year, destabilising the country's COVID recovery trajectory and retarding economic gains that could otherwise have accrued to the overall GDP. The unfavourable economic conditions including the indirect impacts of political instability, contraction in GDP due to the disruptions to all economic activities, depreciation of the currency, high inflation and rapid increase in interest rates, augmented the existing risk factors during the year while paving the way for new risk elements.

### People and Behaviour

- > The behaviour of customers and staff continue to evolve in response to the unprecedented pressures brought about by the full-blown socio-economic crisis experienced during 2022. The repeated strikes by essential services including the health care sector and the rising costs of essential medicinal drugs and the fuel and power crisis experienced during the year created a huge impact on life styles of the civilians of the country causing severe physical and mental stress. The fuel shortages curtailed freedom of movement due to difficulties in transportation and the extensive power cuts directly affected the behaviour of customers and the staff of the Bank. The power shortages during work hours and at night, the transport difficulties due to lack of fuel, work from home models, performance pressures, customer behaviour, pandemic related fears and financial stress have all combined to bring about increased and complex challenges for our customers and staff.

### Technology & Cybersecurity

- > Technology continued to play a vital role during the year with the Bank promoting digital platforms to customers and tele-working and work from home arrangements for staff due to the disruption to transport services during 2022. Cyber threats escalated due to increased volumes of digital transactions and remained a concern as financial stress increased globally. However, the expansion and enrichment of HNB's digital payment platforms have paved the way for contactless banking with a high level of security. The Bank has also invested in increasing the rigor of safeguards against any cyber security threats and also in upgrading the business continuity infrastructure to ensure readiness to any given eventuality.

### Policy Uncertainty

- > Policy uncertainty remains a key risk with the Government having to take extraordinary policy decisions to support systemic financial stability. Policies aimed at curtailing imports, inflation and interest rates have a direct impact on the banking sector with implications on profitability and liquidity.

### Government Moratorium Programmes and assisting customers for business revival

- > HNB continued to support the Government in these programs and have provided Rs. 85.7 Bn in moratoria across all customer groups.

### Geopolitical Stress

- > The world faced renewed uncertainty, as war broke out on top of an ever-changing and persistent pandemic with the Russian invasion of the Ukraine in March 2022. Sharp increases in energy and food prices have added to these pressures for the poorest and most vulnerable. Consequently, the geopolitical landscape represented heightened threat levels during the year with escalating global tensions and repeated bouts of COVID-19 in China and other countries, which increased supply side restrictions and contributed towards dramatic increases in energy prices. Stock market valuations around the world have fallen drastically and real estate prices may follow, which also poses risks to the stability of financial institutions worldwide. The worst affected by the turnaround in interest rates are highly indebted countries in the global South, which will have to spend even larger shares of their tax revenues on debt servicing, or face insolvency altogether.

### Foreign Currency Restrictions

- > The Central Bank of Sri Lanka with a view to easing pressure on the exchange rate, introduced several regulations for Banks including the restrictions on purchasing of Sri Lanka International Sovereign Bonds, restrictions on entering into forward contracts of foreign exchange, revoking of short-term foreign currency borrowing limits, import restrictions on certain classes of commodities, and the imposition of maximum interest rates on foreign currency deposits. These capital controls together with import restrictions and additional exchange controls have had a significant impact on the Banks foreign currency operations.

## RISK &amp; CAPITAL REVIEW

The Bank assisted customers who were in difficulties to revive their businesses by formulating new business visions, facilitating supply chain linkages, offering digital solutions etc... Further, the Bank extended support to vulnerable industries and shifted focus towards developing the production economy, MSMEs, health, education and exports. Customers that were dealing with moratoria were supported by way of advisory services with regards to cash flow management, capturing new markets and reviving their business strategies.

Response	Total
Total value of moratoria at the beginning of the year	Rs 85.7Bn
Total value of moratoria paid-off during the year	Rs 53.1Bn
Total value of outstanding moratoria as at the end of the year	Rs 32.6Bn*

\*Customers in this category have assured the Bank that repayments would commence from January 2023. The Bank has continued to support these customers in diverse ways to facilitate business revival.

## OUR SIGNIFICANT RISKS

## Liquidity Risk

While investments in USD development bonds and International Sovereign Bonds (ISBs) continued to decline in the latter part of 2022, impairment provisioning on these instruments increased substantially as at end 2022 negatively impacting profitability for the year. However, the Bank took all precautions to safeguard the capital and liquidity position to ensure financial stability, while accommodating all customer needs. Meanwhile, the Bank has strengthened its investment portfolio by increasing its investments into treasury bills that did not require impairment provisioning.

	Investments		Impairment	
	As at Dec 2021 Rs. (Bn)	As at Dec 2022 Rs. (Bn)	As at Dec 2021 Rs. (Bn)	As at Dec 2022 Rs. (Bn)
Bank's investment in USD development bonds	51.5*	32.1*	3.4	2.5
Bank's investments in ISBs	114.1*	209.6*	7.6	73.4
Bank's investments in TBills	168.1	216.5	Nil	Nil
Bank's investments in TBonds	30.5	56.4	Nil	Nil

\*Based on prevailing exchange rate during the corresponding dates.



### **Measures implemented to manage the liquidity risk**

- > Daily trackers and meetings.
- > Formation of a separate Committee comprising the MD, COO, CRO, CFO, DGM-Treasury and business heads, to review the liquidity position on a weekly basis and to take necessary remedial action.
- > Treasury limits were reviewed more frequently in order to assess micro and macro-economic factors on counterparty limits. The Bank's liquidity and funding needs were periodically reviewed.
- > Stress testing was conducted regularly to understand the impact on the Bank's liquidity position due to non-settlement of USD denominated bonds.
- > Engaging with foreign legal consultants on sovereign exposure management.
- > Impact analysis on Bank's capital base was carried out on the possible hair cut on Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC borrowings by overseas lenders including identifying strategies to minimize the impact of these events.

### **Looking ahead**

The Bank has deployed a range of measures to continually monitor and manage liquidity risk in the new financial year. These include:

- > Reviewing caps, loss limits and measurement of volatility of foreign exchange and securities.
- > Reviewing and structuring Treasury limits for 2023, considering the possible risks, current market and economic challenges and impacts on debt restructuring etc...
- > Continuous focus on reducing the Bank's investments in TBonds and increasing the investments in TBills.
- > Maintaining stringent quality systems and standards.
- > NOP management.
- > Carrying out aggressive deposit campaigns in order to mobilize LKR and USD deposits.
- > Encourage worker remittances by offering attractive exchange rates and arranging deposit campaigns overseas.
- > Secure new to bank export customers by offering competitive lending rates and advisory services to explore new markets.
- > Engaging with overseas counterparts for fresh USD funding lines

### **Strategic Risk – Digital transformation initiatives**

A number of digital transformation initiatives were introduced during the year to mitigate strategic risks, while assisting decision making. These include:




- > Developing predictive models to conduct analytics on the Bank's loan portfolios across businesses and products, to identify early warning signals with regards to the build-up of portfolio stress.
- > Implementing contingency planning initiatives.
- > Obtaining quality certifications.

# RISK & CAPITAL REVIEW

## Material Risks

Material risks and the risk drivers were identified, measured and monitored continually during the year through the Bank's risk management processes as described below.

Figure 1: Material Risks

	 Credit Risk	 Operational Risk	 Information & Cyber Risk
Definition of Risk	This risk refers to losses due to one or more counterparties failing to meet all or part of their contractual obligations towards the Bank in accordance with agreed terms.	The risk of loss due to inadequate or failed internal processes, people, or systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.	Risk of financial loss, or disruption or damage to the reputation of the Bank from any sort of compromising of information by unintended parties and unauthorized access to our systems or data/information. This risk also arises from the failure of the Bank's information technology systems services due to unauthorized modifications.
Risk Drivers	Drivers of this risk includes the current economic situation, concentration of portfolio by product, business sector, geography etc.; rigour of credit evaluation and monitoring processes, Bank's credit risk appetite, internal risk goals and tolerance level, Expectation on government concessions to postpone repayment.	This risk arises from day-to-day operations and external events.	Arises from the integration of Information technology into all aspects of banking operations which facilitate convenience, scalability and capability but also makes the Bank vulnerable to unauthorised access to systems and information assets
How the Risk is Measured	The risk is measured based on credit exposure, Probability of Default (PD), expected losses, Loss Given Default (LGD) and recovery rates. NPA ratios, stress testing on concentration, large borrower default, increase in provision etc. Additional capital under Pillar 2 risk is assessed by ICAAP as per Basel III	Measured using operational losses, loss events/near misses, key risk indicators, overall risk grid matrix, risk ranking and prioritizing, risk heat map. Capital is allocated under CAR as per Basel III.	Cyber risk loss limits and cyber risk matrix, hacking, phishing, malware attack attempts for a month are measured to track this risk factor continuously.
How the Risk is Monitored	Continuous monitoring is conducted via Credit Risk Vertical using the Credit Risk Dashboard which provides metrics on several parameters including analysis of arrears, collateral, concentration etc. submitted to BIRMC, BCC and executive committees.	Monitored through the Bank's Operational risk management vertical under the guidance of ORSC with input from business units through Risk and Control Self-Assessments. Operational risk monthly Dashboards are submitted to ERMCP, BIRMC and Board	The Bank conducts security risk reviews/ assessments on regular basis against technology infrastructure and critical system & business process. IT & cyber-risk dashboard presented to BIRMC and ERMCP monthly by Information and cyber security risk vertical , Monitoring of Privileged User Activities and changes carried out on a periodic basis and report to BIRMC.
How the Risk is Managed	A Credit Risk management policy and monitoring mechanism is available to manage this risk CBSL guidelines were used in extending the moratorium.	Managed through a sound Operational Risk Management Framework by the ORSC with the participation of all business/support units. A comprehensive Business Continuity Plan (BCP) is also available.	The Bank has in place an action plan for digital resilience and awareness and also has business continuity plans. In addition, physical controls, technical and logical access and administrative controls, independent L2 & L3 verifications by Risk and Audit are used to manage the risk.
Key Information	Assessment: High Trend: <span style="color: red;">↑</span> Page 194	Assessment: High Trend: <span style="color: red;">↑</span> Page 200	Assessment: Moderate Trend: <span style="color: red;">↑</span> Page 205



### Liquidity Risk

This refers to the risk that the Bank is unable to meet its debt obligations or having to meet these obligations at excessive cost.

Arises from the risk of debt restructure, as well as mismatches in cash flow from potential short-term cash demand, the Bank's own borrowing activity, trading activities and counterparty interactions.

A range of metrics are being used by the Bank including regulatory limits such as the LCR, internal models and balance sheet based measures and stress testing on interest rate sensitivity, probabilistic analysis and NII analysis to measure this risk.

Regular monitoring of the situation by the ALCO Board subcommittee and Treasury Middle Office (TMO) using a matrix of regulatory and prudential limits and gaps using both stock and flow approaches, dashboards submitted to ALCO and BIRMC and the Board.

A strong liquidity risk management Framework is in place which includes contingency plans.

Assessment: High

Trend: ↑

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### Market Risk

This is the risk that movements in market factors could reduce bank's income or value of portfolios and include interest rate risk, exchange risk and settlement risk.

The increasing interest rates and depreciation of LKR against USD resulted in a huge negative impact on lending activity of the Bank, whereas the interest paid to depositors was at a high level.

Due to this market condition, the Bank's Net Interest Income deteriorated and more focus had to be placed on fee-based income.

Measured using Value at Risk, Sensitivity analysis and stress testing on open positions, mark to market on daily basis to identify the trading book position. Capital is allocated under CAR as per Basel III.

The risk is monitored by the ALCO using Market Risk Dashboards supported by an independent Treasury Middle Office (TMO) which reports to CRO. Internal and regulatory limits and exceptions are immediately reported to ALCO.

The Treasury Department overlooks this risk using diversification and hedging strategies.

Assessment: High

Trend: ↑

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### Strategic Risk

The strategic risk is the uncertainties inherent in executing strategic objectives.

Arises from external developments in technology, products, business models.

Measured using a scorecard approach to quantify strategic risk under the Basel III Pillar 2 calculation.

An Integrated risk management unit is in place to monitor this risk through a scorecard and is evaluated for any additional capital requirement through the ICAAP submission to Board annually.

The corporate management and Board are involved in managing this risk.

Assessment: High

Trend: →

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### Reputation Risk

Refers to potential losses from damages to reputation.

Arises from events that could adversely impact public perception of the Bank as a responsible corporate citizen.

Measured using a scorecard approach by assessing underlying risk drivers of reputational risk due to qualitative nature of the risk.

The Integrated risk management unit monitors this risk through a scorecard and evaluated for any additional capital requirement through the ICAAP submission to Board annually.

The Bank sets the tone at the top and reinforces its core values and purpose. A Reputation Risk Task Force was established as a sub-committee of ORSC to manage risk in case of trigger events.

Assessment: Moderate

Trend: →

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# RISK & CAPITAL REVIEW

## ENTERPRISE RISK GOVERNANCE

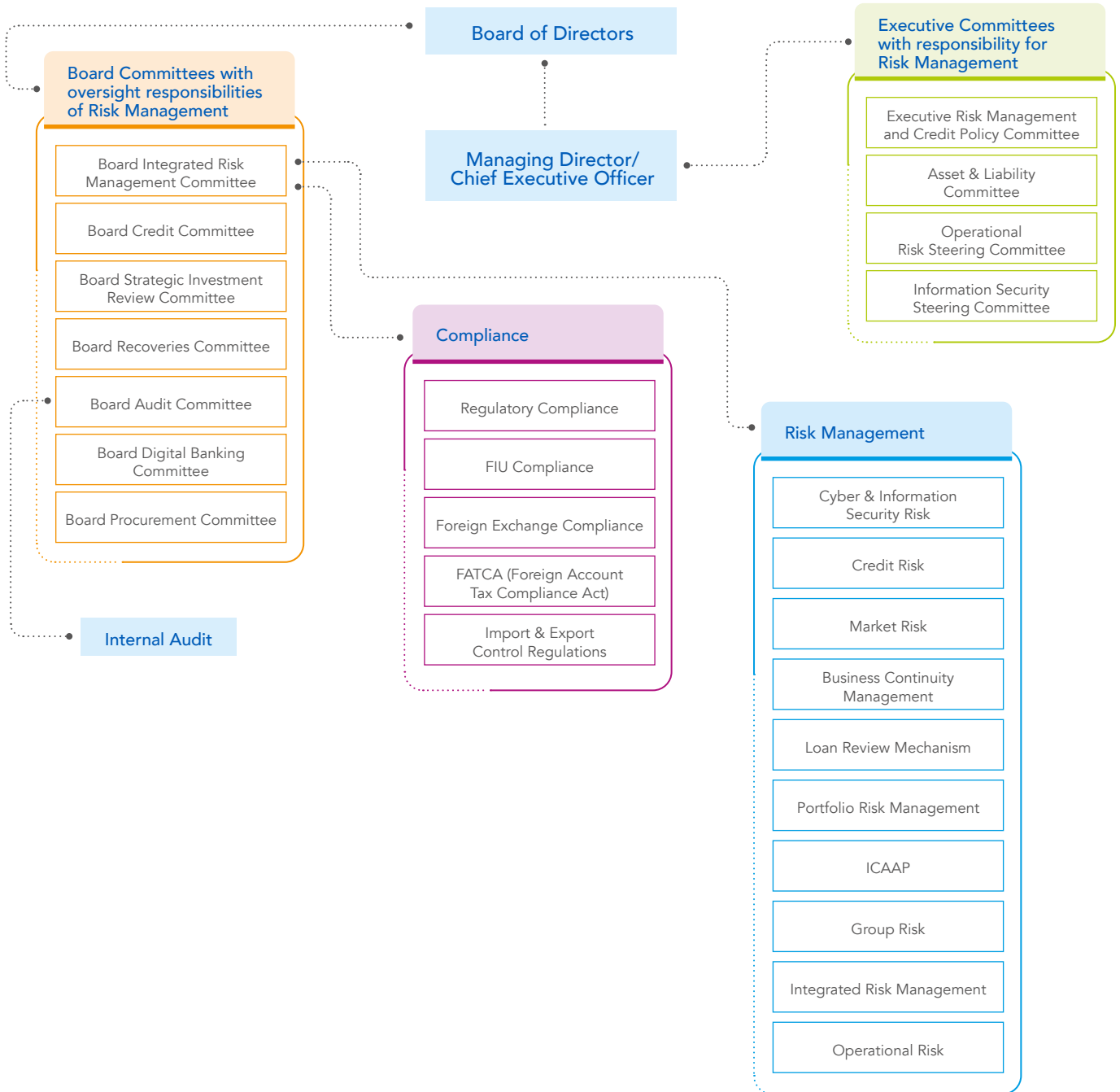
Industry best practices have been introduced in establishing a dynamic and flexible framework to effectively identify, monitor and govern the Bank's risk elements, incorporating specialised and technical expertise to ensure optimum responses while also guaranteeing stringent compliance with all relevant regulatory requirements pertaining towards risk management within the current highly volatile macro environment in which the Bank conducts its daily operations. The Bank's governance structure clearly defines the responsibilities at all levels of the organisation with regards to managing the internal and external risks faced by the Bank, with the Board holding ultimate responsibility for managing the Bank's risks. The Board is assisted in this onerous task by the Board Integrated Risk Management Committee (BIRMC). In addition, the executive functional units of the Bank are also held responsible for the effective implementation of the risk management strategies that have been approved by the Board. As a further measure, the risk management structure of the Bank incorporates expertise from executive committees consisting of corporate and senior management teams that draw upon years of work experience in managing a plethora of risks.

The Bank has adopted the Three Lines of Defence model in its risk management at the three levels comprising business units, group and group internal audit and is continually reviewing and improving the efficiency and effectiveness of these defences. In order to strengthen the risk management framework, in 2020 the Bank appointed a separate Chief Information Security Officer and followed this up in 2021 by rationalising the Risk Management Department functions to increase the focus on the monitoring and advisory functions. The Branch Operating Model (BOM) has been further reinforced, with clear segregation of relationship management and operational processing at branches have been streamlined with higher levels of specialization throughout the Branch workflow processes.

### Three Lines of Defence



Figure 2: Risk Governance Structure of the Bank



## RISK &amp; CAPITAL REVIEW

Figure 3: Roles &amp; Responsibilities of Committees in Relation to Risk Management

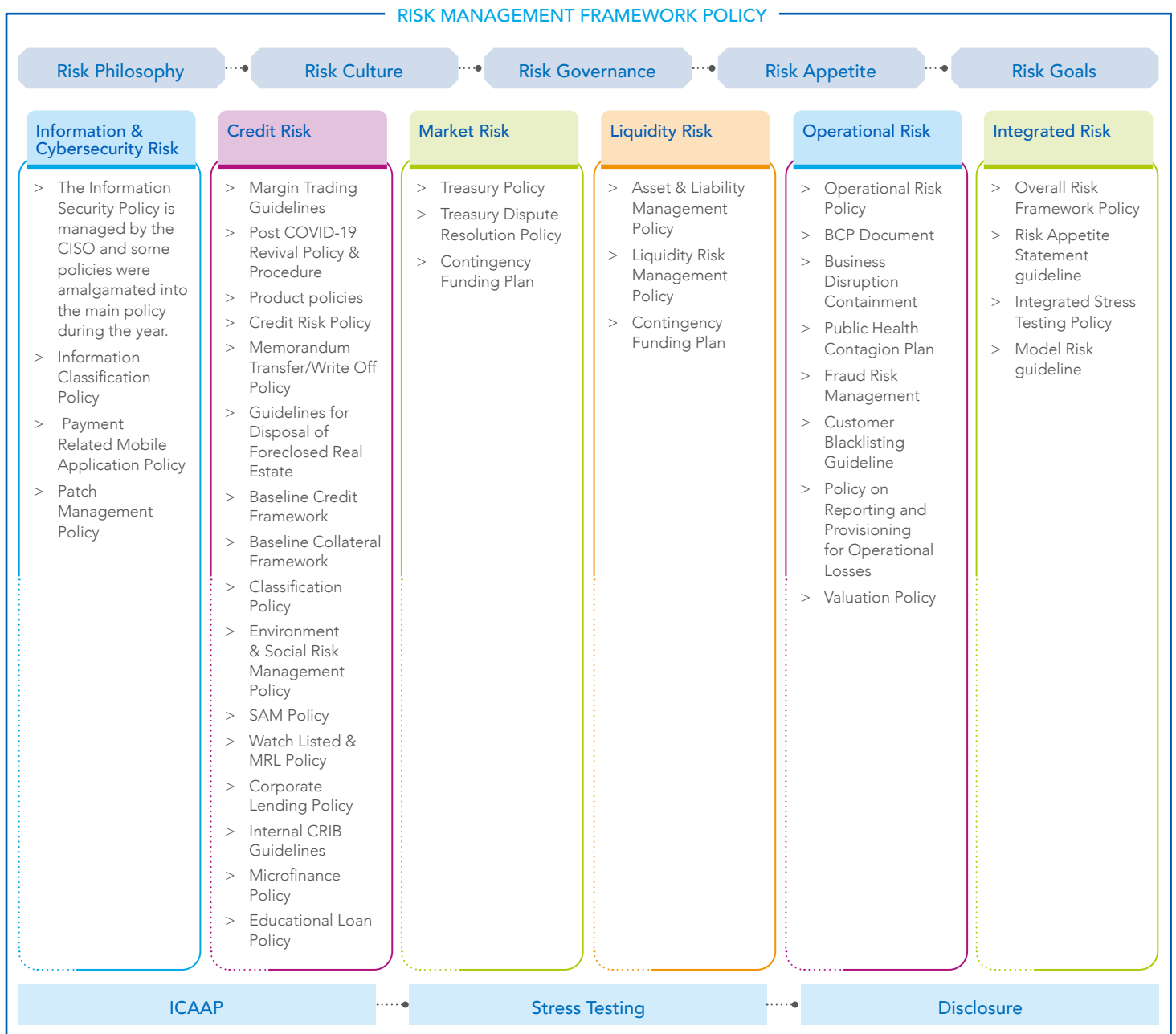
Board Committees	Role of Committee in Relation to Risk Management
Board Integrated Risk Management Committee (BIRMC)	Maintains oversight of Risk Management and makes recommendations to the Board on developing and implementing Risk Management Policies, setting the Bank's Risk Appetite and monitoring material risks of the Bank through risk dashboards. The Chief Risk Officer and Chief Compliance Officer have a direct technical reporting line to the BIRMC.
Board Credit Committee (BCC)	Management of Credit oversight and approves credit granted above a specified exposure threshold. Reviews the Credit Risk dashboards and makes recommendations on areas including credit limits, sector-wise exposure, sector risks, or any other related areas concerning Credit Risk Management policies and processes.
Board Recoveries Committee (BRC)	Is responsible for recoveries of advances and to strengthen the delinquent loan recovery function of the Bank.
Board Audit Committee (BAC)	Responsible for financial reporting risk and internal controls. The Bank's Chief Internal Auditor reports directly to the BAC. This Committee plays a key role in the implementation of the Bank's risk management and compliance policy by monitoring key controls.
Board Strategic Planning & Investment Committee (BSPIC)	Responsible for setting the overall business strategy of the Bank and ensures there is a congruence in the Bank's strategic direction, goals and KPI's and the Board's Risk Appetite.
Board Digital Banking Committee (BDBC)	Responsible for implementing the Bank's proposed Digital Banking Platform and Products and reviews key technology risks and associated strategies. It is responsible for identifying and monitoring of key risks arising from the Digital area and refers such risks to the Risk Department and Compliance Department for advice and action.
Board Procurement & Asset Disposal Committee	Responsible for assessing proposals for procurement or disposal of assets/ properties of the Bank and ensures transparency in procurement/disposal processes and good practices.
Executive Committees	Role of Committee in Relation to Risk Management
Executive Risk Management and Credit Policy Committee (ERMCPCC)	Chaired by MD/CEO and comprising heads of key business lines and operating units of the Bank, the ERMCPCC is the apex executive committee for risk management and supports BIRMC and BCC in effective implementation of the risk policy.
Asset & Liability Committee (ALCO)	The ALCO plays a key role in managing liquidity risk and financial stability of the Bank. It reviews liquidity forecasts to manage gaps, adequacy of contingency funding plans and stress testing results in achieving its objectives. The Committee also determines the ideal structure of the Bank's balance sheet to provide the optimal profitability while minimizing potential risks.
Operational Risk Steering Committee (ORSC)	Chaired by COO and comprising the DGM-Risk/CRO, Heads of Operations, Audit, Compliance, IT, HR and Network Management, the committee is responsible for assessing operational processes and internal controls to minimise operational losses and to instil a compliance culture amongst staff.
Information Security Committee (ISC)	Responsible for reviewing and making recommendations on Bank wide information security and Cyber Security, the ISC is chaired by MD/CEO and comprises of representatives from corporate business, IT, Audit, Compliance and Support Functions.



## RISK MANAGEMENT POLICY FRAMEWORK

The Bank's risk management policy stems from the Bank's risk philosophy of prudent management of assets for the maximum value creation for all stakeholders through the establishment of an overarching risk culture across the organisation. The Board approved risk management policy provides guidance to the management on implementing processes within the Bank. Recognised as a "Systemically Important Bank" (SIB) in Sri Lanka, the Bank's stability has socio-economic relevance above and beyond organisational limits and ensuring effective and strong risk management systems is essential for overall financial stability and economic welfare of the country. Hence, the primary objective of the Bank's risk management framework is to effectively identify, measure, manage, monitor and control risks faced by the Bank and to determine its Risk Appetite in line with the overall business strategy of the Bank.

Figure 4: Risk Management Policy Framework



# RISK & CAPITAL REVIEW

## RISK CULTURE

The Bank has instilled an organisation wide risk culture extending across all functions, operations and branches to ensure risk ownership among all staff. The culture of risk ownership is supported by mandatory training and capacity building, a strong code of conduct applicable to all employees and a remuneration framework that rewards a balanced approach to risk. This participatory mechanism aims to ingrain the Bank's risk policy into the attitudes, norms and behaviours of all personnel to create an environment for sustainable growth.

Figure 5: Key Determinants of Risk Culture

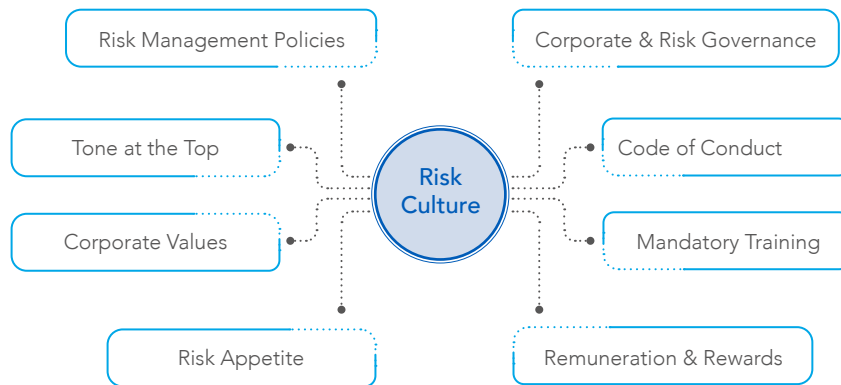
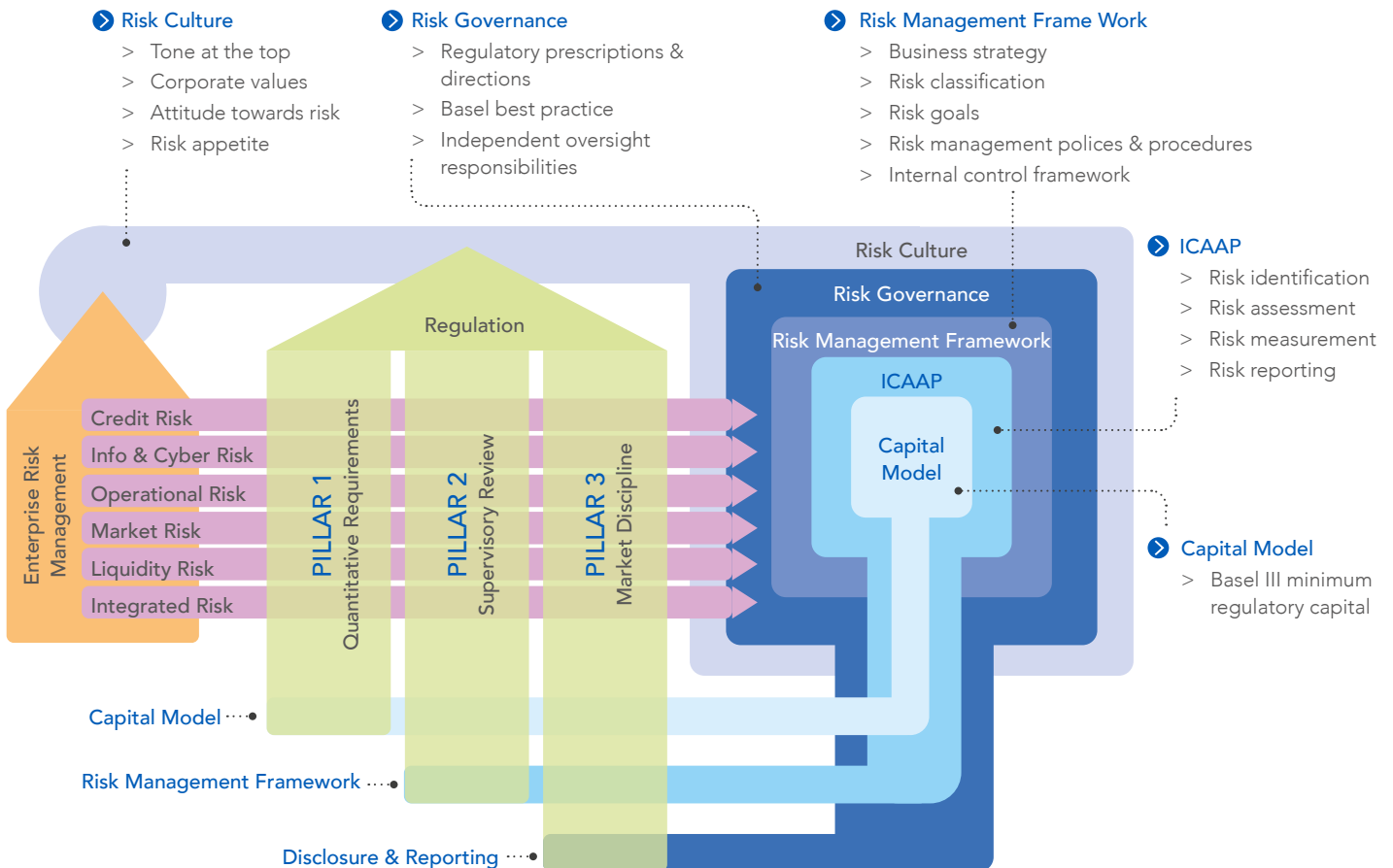


Figure 6: HNB Philosophy in Managing Risk



## RISK APPETITE

Understanding and establishing the Bank's risk appetite is an integral element of risk management and the Bank has developed a comprehensive Risk Appetite Statement which observes targets for a number of criteria such as capital adequacy, profitability and efficiency, concentration limits, liquidity positioning and limits for other risk types.

The objectives of the Bank's Risk Appetite Framework (RAF) are as follows:

- > Link the Bank's business strategy, products and processes with associated risk levels
- > Design Risk Appetite and thresholds in line with the Risk Management Framework of the Bank
- > Enable the Senior Management and the Board of Directors (BOD) to effectively monitor the material risks across various business units of the Bank, and take corrective actions, as and when required
- > Compliance to regulatory principles on Risk Appetite requirements

## STRESS TESTING

The Bank has in place a Stress testing framework which complies with the guidelines issued by CBSL and the Basel Committee and encompasses all significant and high impact risk areas of the Bank. Assessing the impact of adverse scenarios on the Bank's Capital Adequacy Ratio (CAR), profitability and liquidity are the primary objectives of stress testing, which is evaluated following Stress Tests for various risk factors. The outcome of the stress tests is communicated to the BIRMC and to the Board. In addition, appropriate stress scenario development methodologies applicable to each risk area are clearly specified. The identification of key macroeconomic factors impacting the Bank supports this key process. The key factors driving the stress testing framework are as follows:

- > The stress testing framework is based on an effective governance structure, with clearly documented responsibilities across the first line, second line and third line of defence

- > The stress testing framework is a key risk management tool within the Bank employed to ensure readiness of the Bank to face adverse business strategies and decisions. During the year additional scenarios were introduced for stress testing of capital adequacy, profitability and liquidity based on possible settlement risk of financial instruments.
- > The stress testing framework aims to capture material and relevant risks that apply across its business and apply stresses that are sufficiently severe
- > The models and methodologies to assess the impact of scenarios and sensitivities need to be fit for purpose, and are regularly reviewed to ensure their effectiveness and relevance
- > The stress test framework, models, and results are subject to challenge and regular review

## GROUP RISK

Stringent management of risks across the Group is vital for the stability and sustainability of the entire Group. Hence, the Bank's four direct subsidiaries come under the purview of the Integrated Risk Management Division for regular review and continuous supervision, while senior Bank officials are members of the Boards of subsidiaries ensuring high level of knowledge of the risk management activities of the subsidiaries. The two insurance subsidiaries and HNB Finance PLC also operate dedicated risk management units, which regularly liaise with the Bank's Integrated Risk Management division. The Integrated Risk Management (IRM) division also receives the Regulatory Inspection Reports and Management Letters of the Group entities to ascertain potential areas of risk concern and follow up on agreed remedial action to strengthen the risk management environment of Group companies.

In addition, some of the subsidiaries are also subject to external regulatory monitoring with two direct subsidiaries, which are public listed companies, complying with the regulatory reporting requirements of the Colombo Stock Exchange (i.e HNB Assurance PLC and HNB Finance PLC). Also, HNB Assurance PLC and HNB General Insurance Ltd., come under the regulations of the Insurance Regulatory Commission of Sri Lanka, while HNB Finance PLC is regulated by CBSL.

## STRENGTHENING RISK MANAGEMENT IN 2022

As both internal and external developments continually influence the risk landscape of the Bank, risk management is a dynamic function which is constantly evolving in response to the changing risk environment. Therefore, the Bank's risk management systems and processes are continually reviewed and improved in response to the changing risk factors. The Bank has also invested in the integration of modern information communication technology solutions towards enhancing the risk management process. The Bank also continued its timely submission of Statutory Reports such as the ICAAP report to the Regulator despite challenges encountered during the year.

# RISK & CAPITAL REVIEW

Figure 7: Key Initiatives of the Bank to Strengthen Risk Management in 2022



## CREDIT RISK

- > Bank's Baseline Credit and Collateral Framework policies including the Product Lending Policies across Corporate Banking, SME, Microfinance, Retail Banking, were reviewed and updated to ensure they are in line with the current market environment.
- > Post COVID-19 Revival Policy was established which provides a framework for identifying and assisting borrowers of HNB who were affected by the COVID-19 pandemic and had faced financial difficulties.
- > Credit Approval Structure was reviewed against new NPAs, LRM findings, Moratorium changes, Regulatory changes and other emerging credit risks to the loan book
- > Enhanced post loan disbursement reviews were carried out on the Advances Portfolio in order to ensure compliance to Credit Policies and Guidelines. Observations and learnings were shared with Business Units and Credit Teams in order to ensure qualitative improvements in Credit underwriting and Credit Administration process.
- > Training sessions were conducted for businesses and credit approvers on the Bank's credit policies and guidelines, best practises and common lapses in credit underwriting of facilities as well as rescheduling / restructuring of facilities.
- > Directions issued by CBSL on Environment were formalised and communicated on Social Risk Management / Sustainable Finance / IFRS 9 Classification Recognition to the business teams.



## INTEGRATED RISK MANAGEMENT

- > Bank's ICAAP was reviewed during the year to ensure capital adequacy was maintained above minimum regulatory requirements. Stress testing was conducted for a number of variables including asset quality, asset concentrations, market risk factors etc.
- > Risk appetite statement of the Bank was also reviewed in order to align with changes within the macro and micro economic factors of the country.
- > A series of industry reviews across various sectors were carried out in order to understand risk levels of these industries and recommendations were extended to business units.
- > Conducted series of training sessions across business divisions to enhance knowledge of Risk Adjusted Return on Capital (RAROC) model, market outlook, good credit governance practices etc.



## COMPLIANCE

- > Data Analytics/AI tools were introduced to improve monitoring of alerts generated by the AML system.
- > Review mechanisms were strengthened on Compliance Audits carried out covering critical areas in branches and departments of the Bank.
- > Quarterly group reviews on Risk, Compliance, Finance and Audit was implemented to ensure regular monitoring of compliance risk of Group Subsidiaries.

**Strengthening Risk Culture**



### INFORMATION & CYBER RISK

- > Risk Assessment Methodology & Risk Acceptance Criteria was introduced for the area of IT/Cyber Risk, which is in line with the ISO 27001 standard.
- > A process for the Cyber Risk unit to conduct regular security vulnerability assessments & application security testing was established to support Bank wide L2 technical reviews, security projects testing and technology implementations.
- > Policies on Information and Cyber Security was reviewed to deal with emerging risks and assessed risks with regard to the Bank's Information and Cyber Security metrics against embedded and emerging risks.
- > Risks covering Privilege Access Activities on Databases, Operating Systems and Applications were reviewed and assessed of critical systems
- > Business units and Branch Network was engaged to assess the technology & processes in order to identify security vulnerabilities and to enhance security awareness among the staff members.



### OPERATIONAL RISK

- > Fraud risk policy and Customer blacklisting guideline were reviewed to enhance the coverage to mitigate emerging risks from changes in socio-economic conditions.
- > Valuation policy was reviewed to address the changes in risk appetite of the Bank and to incorporate industry best practices.
- > Consolidated Recovery plan for the Bank was developed to identify credible options to survive a range of severe and plausible stress scenarios.
- > Outsourced services were reviewed to identify possible threats and continuation of business activities.
- > Guideline on provisioning and reporting of operational losses was reviewed to maintain the consistency and timely reporting of operational losses
- > Business Continuity Management process was evaluated to monitor the resilience of DR drills covering mission critical units and systems to ensure their resilience
- > Bank's Operational Risk Management Framework was strengthened in line with the current operating model and best practices
- > Business Continuity Policy was reviewed to incorporate risks related to continuation of business due to emerging developments in macro and micro economic fronts such as shortages in various supplies, social unrest etc.



### MARKET RISK

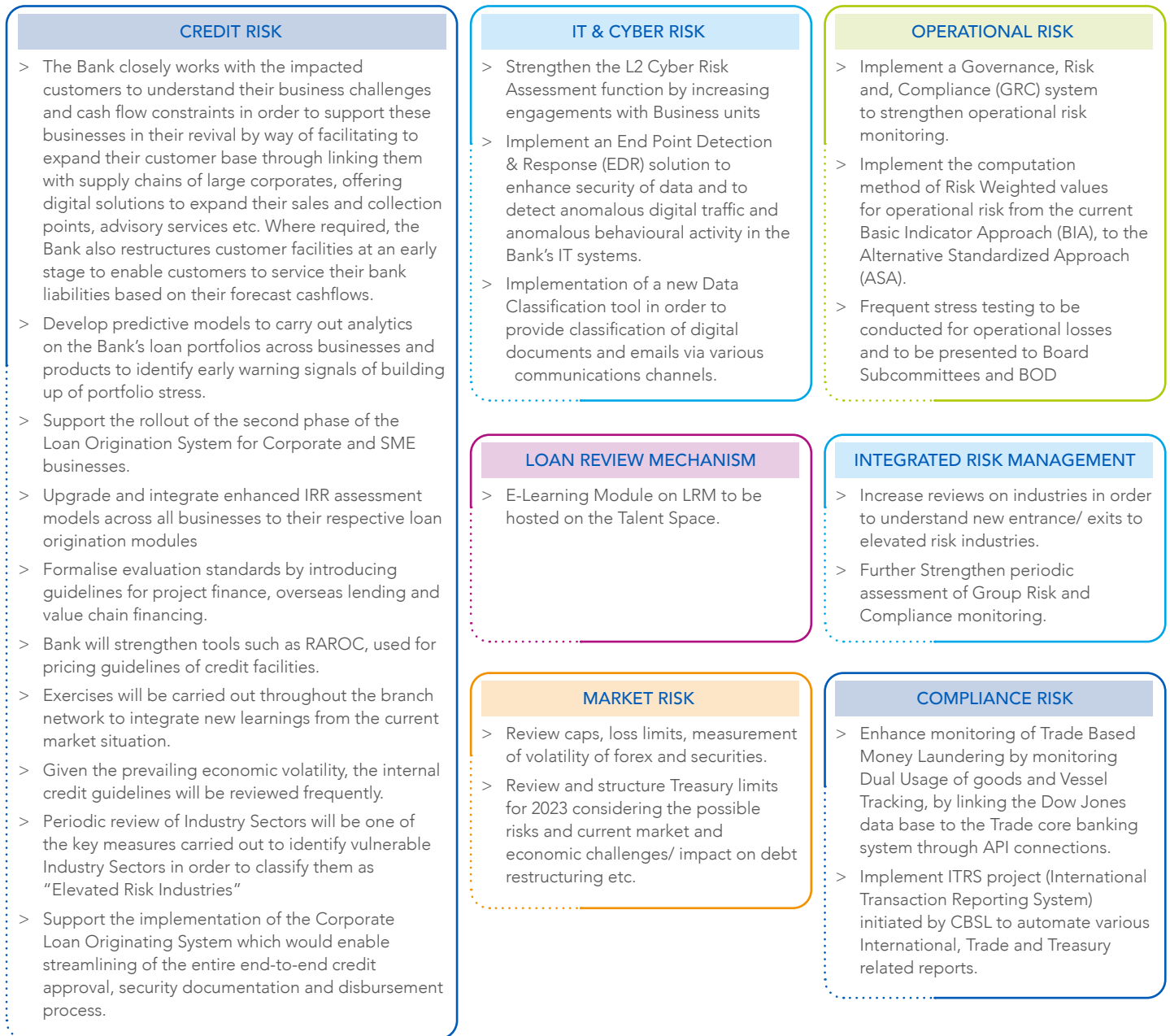
- > Treasury limits were reviewed more frequently in order to assess micro and macro-economic factors on counterparty limits.
- > Bank's liquidity and funding needs were periodically reviewed.
- > Stress testing was carried out regularly to understand the impact to Bank's liquidity position due to non-settlement of USD denominated bonds.
- > Impact analysis on Bank's capital base was carried out on the possible hair cut on Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC borrowings by overseas lenders including identifying strategies to minimize the impact of these events.

# RISK & CAPITAL REVIEW

## PLANS FOR 2023

In light of the existing economic conditions and forecasts for 2023 the Banking sector can anticipate continued macro environmental instability in both the global and local context. Consequently, the availability of a responsive and flexible risk management system will be vital for the future sustainability of the Bank in the coming months. Hence the Bank has emphasized strengthening of risk management systems in the new financial year. Plans for the new financial year includes:

Figure 8: Planned Initiatives to Strengthen Risk Management In 2023





## INTEGRATED RISK MANAGEMENT & CAPITAL MANAGEMENT

### Regulatory Capital

HNB is required to maintain a CET1 1.0% of Risk-Weighted Assets as HLA as opposed to 1.5% as per Direction No 01 of 2016. Requirements relevant to HNB are given below:

Figure 9: Regulatory Capital Requirements

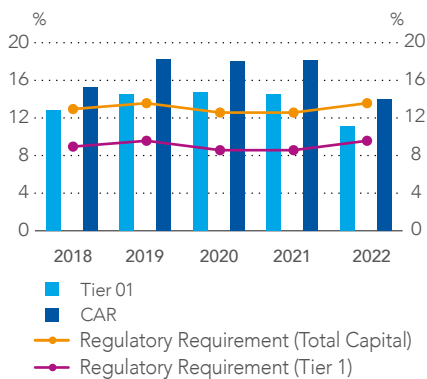
	Regulatory Requirement as at			Bank's Position as at		
	31.12.2020	31.12.2021	31.12.2022	31.12.2020	31.12.2021	31.12.2022
Common Equity Tier (CET) 1 (a)	7%	7%	7%	14.73%	14.53%	11.06%
Total Tier 1 (a)	8.5%	8.5%	9.5%	14.73%	14.53%	11.06%
Total Capital (a)	12.5%	12.5%	13.5%	17.98%	18.16%	14%

(a) Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks

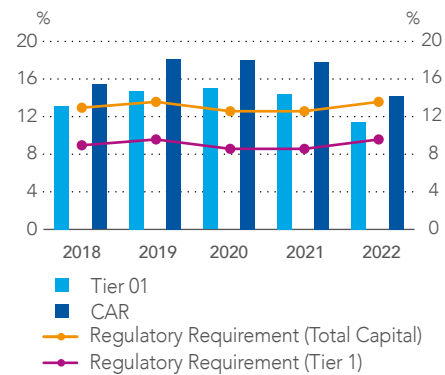
Figure 9 depicts the components of the Bank's capital and compliance with regulatory requirements.

During 2022 the CBSL issued new directives and regulations for capital adequacy and liquidity ratios of Banks

Capital Adequacy -Bank



Capital Adequacy -Group



### Risk Weighted Assets

Capital requirements are measured as a percentage of Risk Weighted Assets which are calculated on the following basis as per CBSL direction No.1 of 2016:

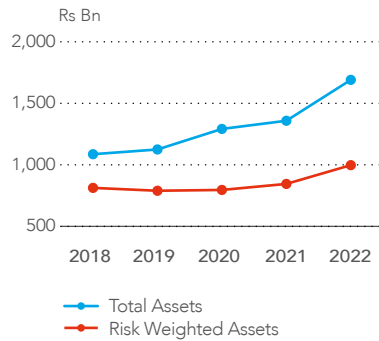
- > Credit Risk – The Standardised Approach
- > Market Risk – The Standardised Measurement Method
- > Operational Risk – Basic Indicator Approach

# RISK & CAPITAL REVIEW

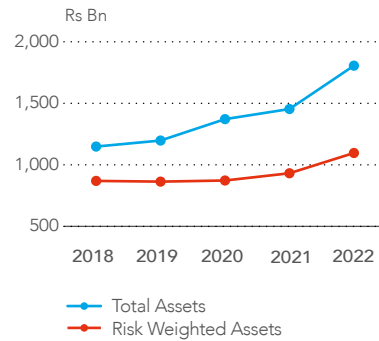
Figure 10: Risk Weighted Assets & Capital Charge

Item Rs.'000	Risk Weighted Assets		Capital Required	
	2021	2022	2021	2022
Credit Risk	770,527,810	886,459,570	96,315,976	119,672,042
Market Risk	1,495,688	14,398,617	186,961	1,943,813
Operational Risk	73,034,096	96,612,704	9,129,262	13,042,715
Total	845,057,594	997,470,892	105,632,199	134,658,570

Total Assets Vs. Risk Weighted Assets Bank

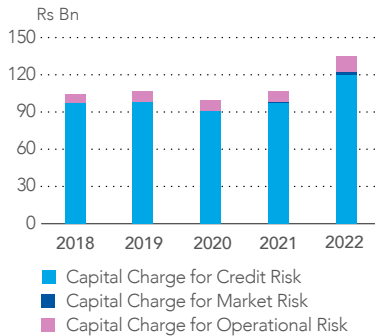


Total Assets Vs. Risk Weighted Assets Group

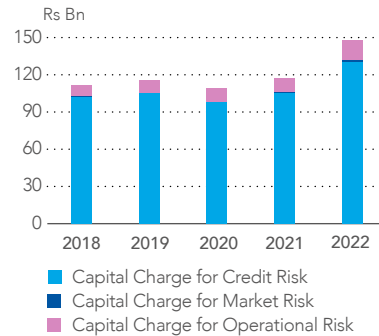


RWAs increased by Rs. 152 Bn during the year to Rs. 997 Bn. The difference between Total Assets and Risk Weighted assets increased during the year to Rs. 694 Bn.

Capital Charge for Risk- Bank



Capital Charge for Risk - Group



## STRESS TESTING

Stress testing is a key component of Capital Planning. Extracts from the Bank's comprehensive stress tests on the Bank's CAR are given below for the highest risk indicator in each major risk category.

Figure 11: Stress Testing Results On A Moderate Stress Scenario

Item		Impact on CAR as at 30.06.2022		
		High Impact	Moderate Impact	Severe Impact
NPL Stress	Increase in NPL ratio for different portfolio and thereby increase in provision.		✓	
Credit Risk – Asset Downgrade	Increasing the direct non-performing facilities over the direct performing facilities balance for the entire portfolio.	✓		
Credit Concentration Risk– Large Borrowers Default	Default of the higher borrowers by classifying the credit granted to them as non-performing.	✓		
Credit Concentration Risk– HHI	% increase in HHI under stress.	✓		
Interest Risk in Banking Book (IRRBB) EAR and EVE (LKR)	To assess the long-term impact of changes in interest rates on Bank's Economic Value of Equity (EVE) through changes in the economic value of its assets and liabilities and to assess the immediate impact of changes in interest rates on Bank's earnings through changes in interest rates on Bank's earnings through changes in its Net Interest Income (NII).	✓		
Foreign Exchange Risk	% shock in the LKR exchange rate against all other currencies.		✓	
Liquidity Risk	Deposit runs and rollovers		✓	
Global Financial Crisis (Multiple Scenarios)	1. Adverse changes in Foreign Exchange Rates 2. Interest Rate Risk 3. Liquidity	✓		
Overall Credit Portfolio Deterioration	1. NPL Stress 2. Asset Downgrade 3. Concentration Increase	✓		

## ACTIVITIES IN 2022

### Integrated Risk Management

Key activities implemented to enhance the Bank's management of integrated risk are as follows:

#### POLICY FRAMEWORK AND REVIEWS

- > Reviewed Risk Management Policies pertaining to Integrated Risk Framework, Model Risk and Stress Testing to ensure that they are in line with industry best practices.
- > Reviewed and revised the Risk Appetite Statement and Risk Goals to align with the current economic situation.

#### STRENGTHENING OF PROCESS

- > New scenarios were developed to identify risk of non-settlement of financial instruments for Bank capital.
- > The effectiveness of the Management Committees was evaluated including the review of their KPIs to enhance their contribution to the Bank.
- > Reviewed adequacy of Liquidity Management, Business Continuity Plans, Cybersecurity safeguards and Working from Home practices of Group businesses.
- > Commenced concept development and implementation of a new comprehensive risk rating models for all business segments and products of the Bank.
- > Risk adjusted return on capital (RAROC) assessment process was introduced for corporate and emerging corporate segments facilitating assessment of risk-based pricing when evaluating return on customer relationships.
- > ICAAP was strengthened by introducing Concentration Risk assessments for product, geography and maturity concentrations as well as Group Risk assessment.

#### MONITORING

- > Conducted periodic industry studies covering many sectors including tourism, construction, automobile and agriculture, which were significantly impacted by the pandemic and policy decisions.
- > Risk Appetite Statement of the Bank was reviewed periodically to understand the impact of adverse external factors to the Bank and appropriate mitigants were proposed to minimise the impact.

## RISK &amp; CAPITAL REVIEW

## CREDIT RISK MANAGEMENT

The Bank continued to cautiously manage credit risk during the year in accordance with the Credit Risk Policy whilst focusing on measures to strengthen credit risk management capabilities in response to elevated risk factors in the operating environment. The combined impacts of political and economic instability exerted increased pressure on clients, thereby heightening credit risk across industry and geographic sectors. However, the Bank has exhibited commendable results in managing the credit risk.

## DEFINITION OF CREDIT RISK

The risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

## CREDIT RISK COMPONENTS

- > Default Risk
- > Counterparty Risk
- > Concentration Risk
- > Residual Risk
- > Recovery Risk

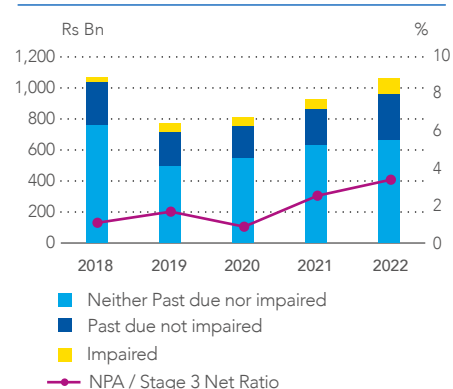
	2021 Maximum Exposure Rs. 000's	2022 Maximum Exposure Rs. 000's	%
Maximum Credit Exposures	1,474,568,401	1,853,037,478	26%
- Total Assets subject to Credit Risk	1,318,889,282	1,699,591,581	29%
- Off Balance Sheet Commitment subject to Credit Risk	155,679,119	153,445,897	-1%
- Max Exposure to credit risk Gross Loans & Receivables to customers	928,971,730	1,061,371,654	14%
Net exposure to credit risk of Loans & Receivables to Customers	380,445,266	452,717,179	19%
Impaired Loans	63,635,083	102,325,088	61%
Provisions for impairment	52,717,036	87,240,402	65%
- Individual Impairment	25,005,778	44,889,662	80%
- Collective Impairment	27,711,258	42,350,740	53%
Net Stage 3 Ratio	2.55%	3.4%	0.85%

## CREDIT RISK REVIEW

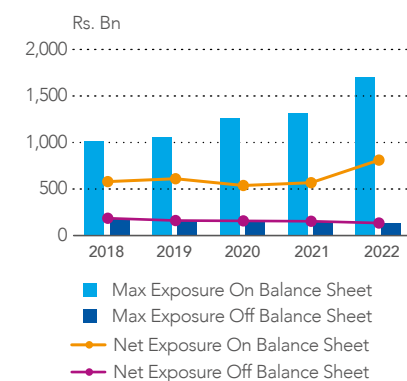
In 2022, the Bank's maximum exposures to credit risk increased by 26% while Impaired Loans as a % of Gross Loans and Receivables were at 9.64% reflecting a better position than its peers. The Bank's stringent oversight mechanism has demonstrated its effectiveness in containing the NPAs despite the high-risk environment that prevailed during the year. By working proactively with clients, the Bank was also able to reduce the number and value of moratoriums during the year.

Provisions for impairments increased by 65% due to heightened threats of the operating landscape. Allowance for individual impairments increased by 80% to Rs. 44.8Bn while allowance for collective impairments increased by 53% to Rs. 42.3Bn.

## Credit Quality



## Credit Exposure



## ACTIVITIES IN 2022

Key activities implemented to enhance the Banks management of credit risk are as follows;

### POLICY FRAMEWORK AND REVIEWS

- > Bank's Baseline Credit and Collateral Framework policies including the Product Lending Policies across Corporate Banking, SME, Microfinance, Retail Banking were reviewed and updated to ensure they are in line with the current market environment.

### STRENGTHENING PROCESSES

- > Credit Approval Structure was reviewed against new NPAs, LRM findings, moratorium changes, regulatory changes and other emerging credit risks to the loan book.
- > Enhanced post loan disbursement reviews were carried out on the Advances Portfolio in order to ensure compliance to Credit Policies and Guidelines. Observations and learnings were shared with Business Units and Credit Teams in order to ensure qualitative improvements in Credit underwriting and Credit Administration process.
- > Strengthened controls over Margin Trading products in view of the volatility of underlying market variables.

### STRENGTHENING RISK CULTURE

- > Training sessions were conducted for businesses and credit approvers on the Bank's credit policies and guidelines, best practises and common lapses in credit underwriting of facilities as well as rescheduling / restructuring of facilities.

### MONITORING

- > Directions issued by CBSL on Environment were formalised and communicated on Social Risk Management / Sustainable Finance / IFRS 9 Classification Recognition to the business teams.
- > The scope of LRM reviews was further enhanced to capture the learnings from Capital / Interest write off accounts in addition to the learnings from new entrants to Stage3, Watch Listed and Management Review List, & Parate Accounts highlighting the areas for improvement in credit underwriting and monitoring.
- > LRM findings were circulated to Corporate Management for remedial action and also followed up on the corrective measures taken to ensure effective implementation.

### CREDIT RISK GOVERNANCE

- > The Risk Management Department function was further streamlined to focus on the monitoring and advisory functions on credit risk, in order to enhance credit risk governance process.

# RISK & CAPITAL REVIEW

## CREDIT RISK GOVERNANCE

The Risk Management Department function was further streamlined to focus on the monitoring and advisory functions on credit risk, in order to enhance credit risk governance process.

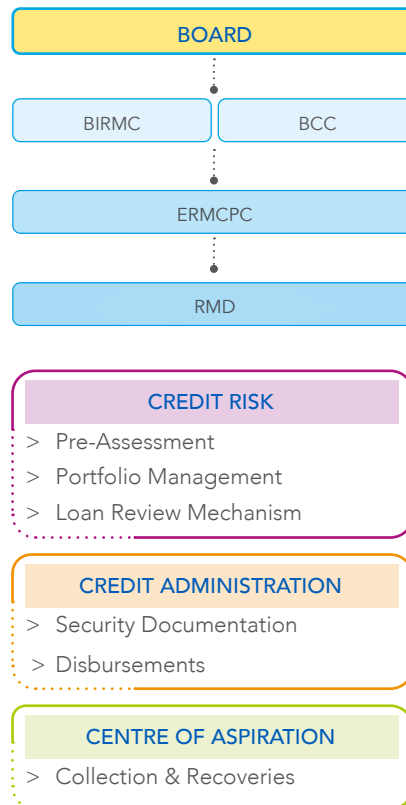
### Approved Regulatory Capital Approach

Complying with the CBSL Direction No.1 of 2016, the Bank uses the Standardised Approach to measure the capital charge for Credit Risk. Accordingly, specific risk weights are applied to net counterparty exposures in defined categories after recognising a limited set of qualifying collateral. Template 9 : Credit Risk under Standardized Approach: Exposures by Assets Classes and Risk Weights on page 192 provide details according to risk weights while Template 8: Credit Risk under Standardized Approach on page 443 details the computation of Risk Weighted Assets for Credit Risk

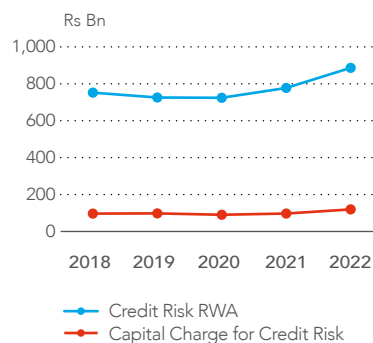
### Internal Risk Ratings (IRR)

The Bank's current IRR model, which is Basel III compliant serves to strengthen our capability to manage default risk. The Bank is currently in process of recalibrating the IRR models in order to factor emerging development in macro and microeconomic variables.

Figure 12: Credit Risk Governance



### Risk Weighted Assets & Capital Charge for Credit Risk



## CREDIT RISK MANAGEMENT PROCESSES

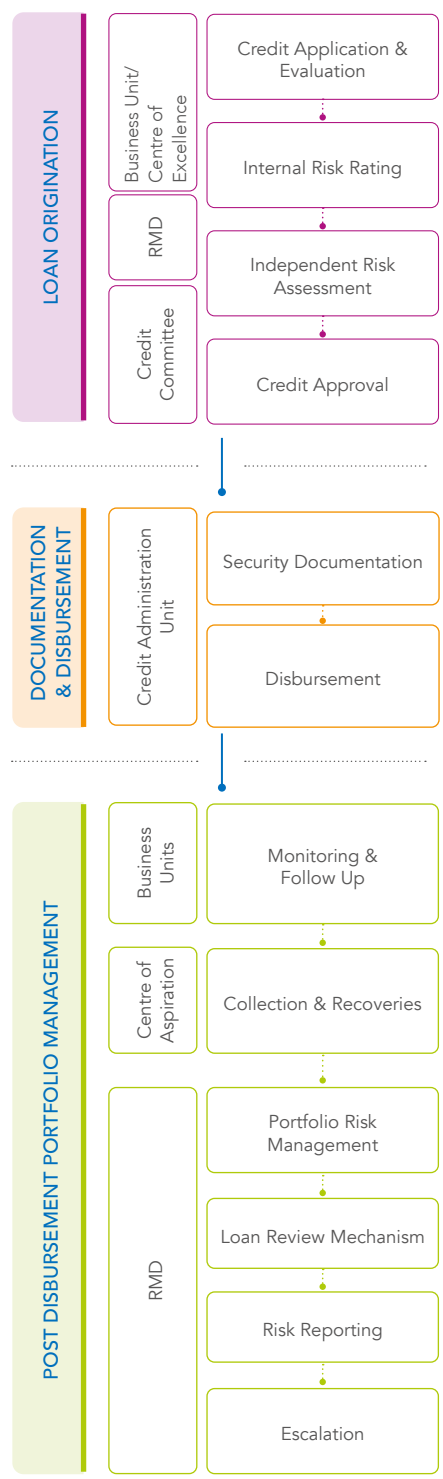
The Bank's comprehensive Credit risk management process includes the following:

- > *Segregation of credit risk management at branch level* – Duties between relationship management/ sales and the loan approval process for SME and retail segments are clearly segregated, facilitating high levels of specialisation. Separation of recoveries has enhanced recoveries with monitoring at management and Board levels. Due to this segregation, it is possible measure, monitor and make recommendations at portfolio level.
- > *Independent Risk Assessment* – The Credit Risk Management function independently reviews Corporate, Emerging Corporates and SME facilities, while Retail facilities are reviewed by the Centre of Excellence (COE) enabling high levels of specialisation, and improved turnaround times.
- > *Delegation of Authority* - Approval of credit facilities above a specified threshold have been assigned to Credit Approval Committees. The Credit Risk management division provides its assessment on credit facilities prior to approval of facilities in order to support decision making of the relevant approving committee.
- > *Internal Risk Ratings* – Risk ratings are assigned to borrowers above a certain threshold using the Internal Risk Rating framework, which has been approved/ accepted by the regulator. Since 2021, the Bank also computes the Risk adjusted return on capital (RAROC) for corporates and emerging corporates across the portfolio to assess the risk returns of customer relationships.
- > *Collateral* – The Bank obtains collateral as a secondary recourse through mortgage bonds over movable and immovable property, guarantees, liens over financial assets and assignments of receivables. Regular valuations are carried out to ensure adequacy of collateral throughout the lifecycle of the loan.



- > *Security Documentation and Disbursement* – The Centralised Security Repository centre checks completeness and authenticity of documentation including security documentation and compliance with pre-disbursement conditions. This function supports compliance and recovery processes with required documentation while the pre-disbursement function ensures that correct limits and rates are marked in the system facilitating accurate billing, monitoring and recovery processes.
- > *Loan Review Mechanism* – Post reviews of credit facilities are conducted covering all business lines and LRM reports are submitted to BIRMC and Board, and learnings from LRM reports are incorporated when Credit Policies are reviewed.
- > *Management of Large Exposures* – Exposures of the 20 largest borrowers are maintained within internal risk limits and material exposures and substantial exposures are monitored. Industry risk limits are set to monitor concentration risk facilitating early action on industries with elevated risk.
- > *Portfolio Risk Management* – Accounts are monitored to identify early warning signs of asset quality deterioration. EWS, Watch Lists and Management Review Lists, Likely to fall in to NPA lists are used for alerting Business units, Risk Management department, Management Committees and the Board. The Special Asset Management (SAM) Unit manages accounts with Early Warning Signals to manage credit risk of distressed accounts.
- > *Environmental and Social Risk Management* – The Bank's Environmental and Social Risk Management division provides the framework to establish internationally accepted best Environmental and Social Risk Management practices including country regulations and globally standards such as IFC Performance standards and ADB Safeguards.

Figure 13: segregation of duties for credit risk management



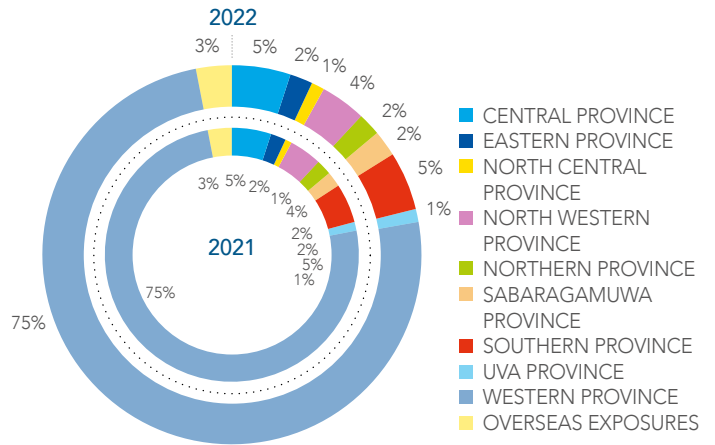
# RISK & CAPITAL REVIEW

## CONCENTRATION RISK

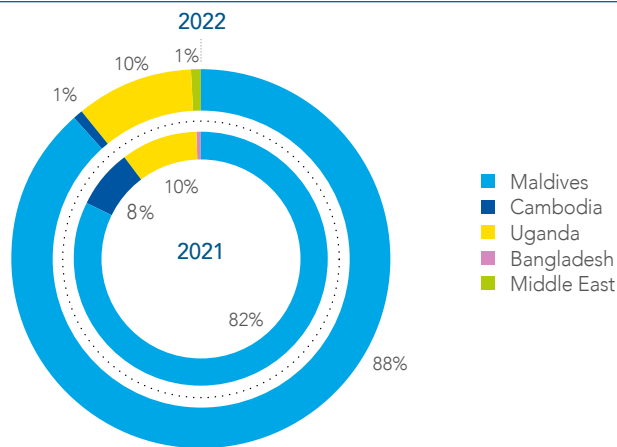
To manage potential concentration risk the Bank maintains a diversified portfolio in line with its risk appetite. The HHI model is used to quantify concentration risk and dashboards are reviewed at all levels of the risk governance structure to balance portfolio quality.

Portfolio Growth by Region (Mn)	Dec'21 (Rs. Mn)	Dec'22 (Rs. Mn)
Central	39,519	41,645
Colombo	126,597	133,961
Corporate/EC	432,991	531,994
Eastern	16,612	19,908
FCBU	956	1,513
Greater Colombo	68,765	71,090
North Central	40,192	41,162
Northern	20,449	22,018
North Western	69,836	69,882
Southern	39,612	42,774
South Western	53,282	57,063
Uva/Sabaragamuwa	25,896	28,102

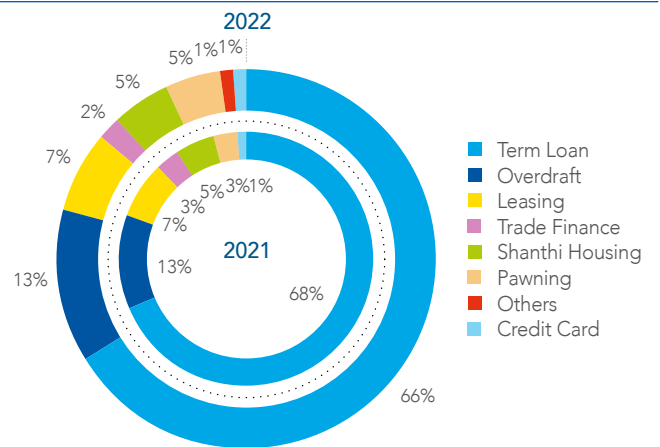
### Exposure By Geography



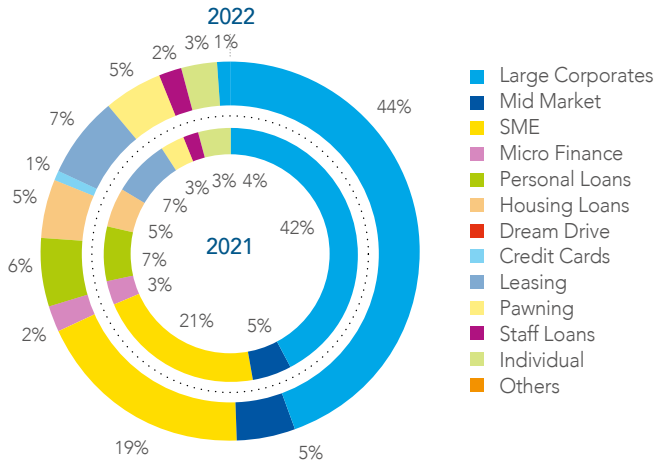
### Overseas Exposure



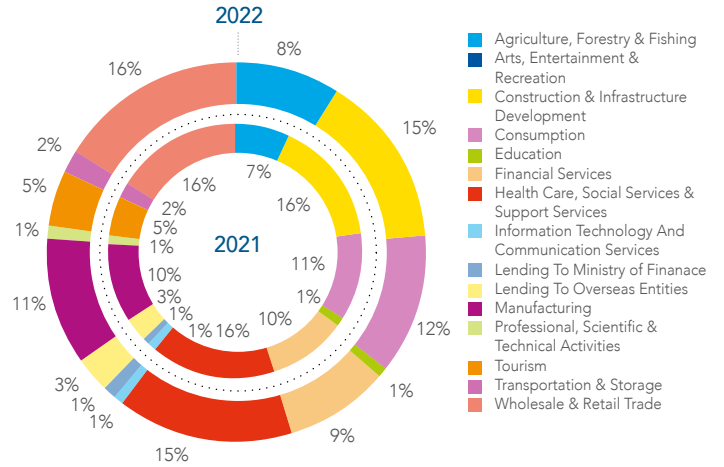
### Exposure By Product



### Exposure By Counter Party



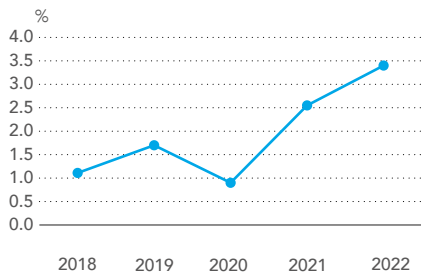
### Exposure By Industry Sector



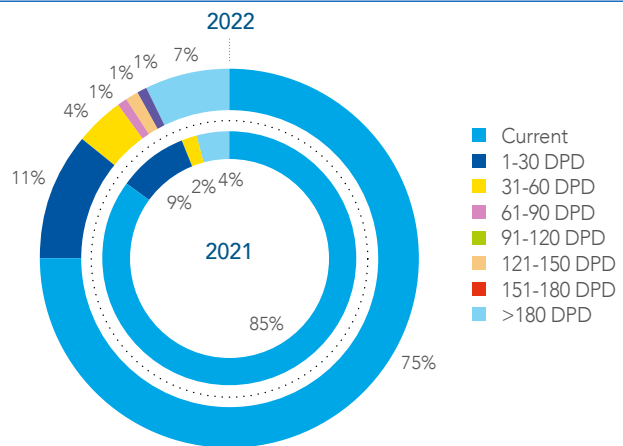
### DEFAULT RISK

Default risk remained significant in 2022 due to the challenging macroeconomic conditions that prevailed. Default risk Indicators include non-performing ratios, ageing of exposures and classification of the portfolio using Internal Risk Rating models.

### NPA / Stage 3 Net as a % of Loans & Advances



### Ageing of Past Due Loans



# RISK & CAPITAL REVIEW

## OPERATIONAL RISK

The Bank faces a high level of operational risk due to its island wide extensive market exposure across all economic sectors, given within the prevailing unpredictable market conditions. Cognisant of the volatile operating environment, the Bank has invested in monitoring and control mechanisms as well as specialised human resources and technical support systems for optimum management of operational risks to facilitate rapid responses to emergent threats while capitalising on emergent opportunities. The process was spearheaded by developing a consolidated Recovery Plan for the Bank considering Business Continuity Policy, Contingency Funding Plan, Internal Capital Adequacy Process and Crisis Communication Plan. Further, the Fraud Risk Management Policy and Customer Blacklisting Guideline were reviewed to address new and emerging risks.

Bank's operational risk profile also presented a challenging position due to the fallout from the sluggish economic environment that prevailed and disruptions to operations, suppliers and external services providers.

### RISKS ARISING THROUGH THIRD PARTY SERVICES PROVIDERS

- > These include delays, non-provision or unavailability of agreed services due to staff layoffs transportation difficulties and power failures. The impact of this risk is the adverse customer experiences, delays and consequent reputational damage.

### DISRUPTIONS TO SMOOTH FUNCTIONING OF BRANCH OPERATIONS

- > Operational efficiency of branch offices was adversely impacted due to a number of constraints during the year including power cuts, the fuel crisis, restricted banking hours etc. This situation had the impact of disrupting customer services.

### THEFT AND FRAUD (INTERNAL AND EXTERNAL)

- > The risk of theft within and without the organisation could result in the deterioration of service levels, losses and reputational damage.

### CHANGES IN VALUES OF MOVABLE AND IMMOVABLE ASSETS

- > The rapid changes in the value of assets decreases the collateral values and security margins.

### RISK DUE TO PREVAILING ECONOMIC AND POLITICAL INSTABILITY

- > Many risks arise due to economic and political volatility impacting the continuation of business and disruption of services.

### IT SYSTEM FAILURES AND UNEXPECTED ERRORS

- > IT system related risks impact the Bank through the deterioration of service levels, losses and also reputational damage.

### INCREASING TREND IN STAFF TURNOVER

- > The trend of increasing employee turnover due to migration and being recruited by competitor Banks and Financial Institutions impacts upon the customer experience while causing a dearth of staff for specialized operations

### INCREASING TREND IN FRAUDULENT ACTIVITIES

- > The growing trend of fraud by customers through the use of fraudulent documents, identity theft, impersonation, money laundering etc. could result in financial losses, reputational damage and possible lawsuits.

### DELAY IN NEW IT SYSTEM IMPLEMENTATION

- > Delays in implementing proposed new IT solutions within departments could result in escalation in prices, import restrictions etc.

### DETERIORATION OF SERVICE LEVELS OF THE VENDORS

- > Deterioration in standards of vendors such as insurance services providers, due to changes in the processes and costs could impact the Bank's processes and continuation of high quality of services.

### UNEXPECTED CHANGES IN OPERATIONAL CONDITIONS DUE TO POLITICAL INSTABILITY

- > In such cases the Bank faces the risk of service disruptions and threat to business continuity.

### OUTSOURCED BUSINESS RISK VULNERABILITIES

- > Outsourced service providers were impacted by high staff turnover and difficulty in resource allocation.

### EMERGING RISKS DUE TO OPERATIONAL PROCESS CHANGES

- > Such process changes to respond limitations in supplies could increase errors and result in customer dissatisfaction.

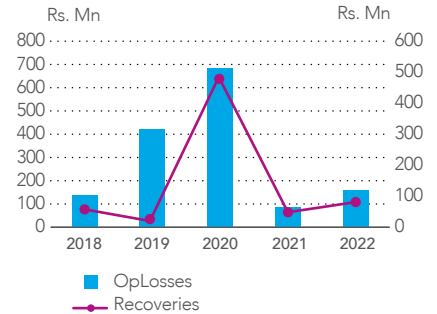
### DEFINITION OF OPERATIONAL RISK

The possibility of losses due to inadequate or failed internal processes, people or systems, or from external events.

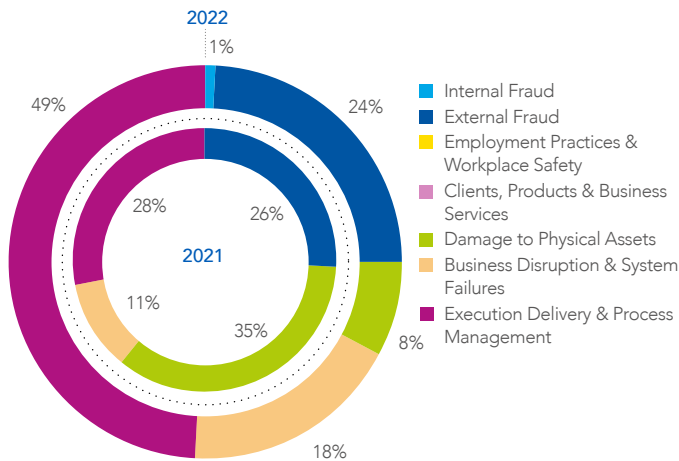
### OPERATIONAL RISK COMPONENTS

- > Compliance Risk
- > Legal Risk
- > Financial Crimes Risk
- > Technology Risk
- > Information & Cyber Risk
- > Business Continuity Management
- > Conduct Risk

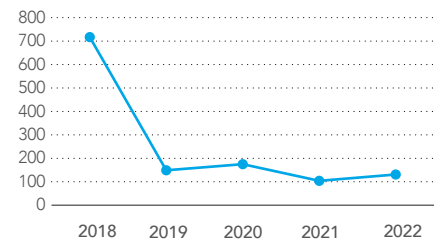
### Operational Losses & Recoveries



### Operational losses by event type -2021/2022



### No of Incidents



### Operational Risk Review

The frequent economic disruptions in the form of energy shortages and shortages of other essential goods, coupled with continuous political unrest resulted in a high level of operational risk during the year under review, which posed multiple threats towards business continuity and operational efficiency of the Bank. Responding to the unavoidable external developments, the Bank established a Management Committee, formally approved by the Board, to continually evaluate external socio-economic developments and provide vital feedback and advice with regards to navigating the unpredictable risk landscape that materialised during the 12 months under review. The Committee, which reports directly to the Board, comprises the top management of the Bank, including the CEO, COO, CRO and CFO and met once a week. Although mainly focused on managing the heightened operational risk, the Committee was actively involved in developing solutions to address many new challenges faced by the Bank and its stakeholders while accommodating all regulatory changes.

# RISK & CAPITAL REVIEW

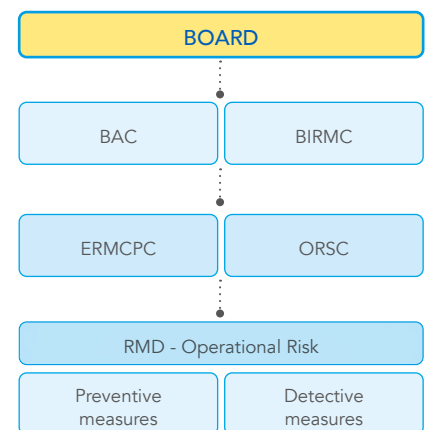
PLANNING	ORGANISING	STAFFING	LEADING	CONTROLLING
<p>The multi-disciplinary Committee was formulated with a diverse range of skills and expertise to enable an in-depth understanding of the dynamic external developments and comprised representation from Business units, Risk Management, Finance and Treasury which enabled a holistic assessment of potential and existing threats that escalated during the year. The objectives of the Committee were to:</p> <ul style="list-style-type: none"> <li>&gt; Proactively manage the Liquidity, Capital, Forex and impairment and interest rate risks stemming from the volatile external situation.</li> <li>&gt; Safeguard staff members from the fallout from adverse economic and political developments</li> <li>&gt; Review and comply with regulatory directives, including market policy changes</li> </ul>	<p>An alert and response matrix were developed and successfully deployed across the organisation to monitor liquidity, capital and impairment risks, which provided invaluable and vital forecasting to facilitate rapid decision - making.</p>	<p>Our highly-trained and experienced staff were an invaluable asset in safeguarding the Bank's operations and market position during the uncertain times that prevailed. To maximise on the Bank's human capital expertise, separate teams were created and entrusted with the task of overlooking different aspects of the risk factors.</p>	<p>Providing inspirational and prudent leadership was essential to enable teamwork and to navigate the headwinds faced by the Bank during the year. The Bank's senior leadership responded promptly by becoming actively engaged in reviewing actions taken to prepare against any possible risks stemming from liquidity, foreign exchange and interest rate volatility.</p>	<p>The control actions established in managing the risks included monitoring compliance with regulatory directions and focussing on ensuring smooth functioning of day to day banking operations. The Bank's stringent controls ensured the delivery of our trademark high standard of services to our customers through the effective delivery of services despite the many challenges in the operational area, while making sure the Bank accommodated all changes to regulations.</p>

The Bank implemented a hybrid working model, which varied in intensity with the external threats as we strived to maintain high levels of service excellence throughout our branch network for the convenience of our customers. We continued our transition from the Basic Indicator Approach which was used to calculate the capital charge for operational risk, to the more sophisticated Alternative Standardised Approach by submitting the relevant documentation for regulatory approval. Adoption of the Alternative Standardised Approach may enable the Bank to reduce the capital charge for operational risk which in turn will enhance the Bank's profitability. In addition, various processes were reviewed and adjusted in response to the prevailing external conditions while ensuring regulatory compliance.

### Operational Risk Governance

The Bank's operational risk policy was reviewed and revised with Board approval, during the year to safeguard the Bank from external threats. The BIRMC continued to engage with the Board in management of Risk including operational risk while the Board Audit Committee (BAC) maintained stringent oversight of internal controls, while liaising with internal and external auditors. The Board and Board subcommittees are supported in risk management by the Executive Risk Management & Credit Policy Committee (ERMPC) in addition to the Operational Risk Steering Committee (ORSC) which supports the BIRMC in identifying, measuring, monitoring and managing Operational Risk. The Operational Risk Unit maintained a close surveillance on the risk landscape through Preventive and Detective measures.

Figure 14: Operational Risk Governance





## KEY ACTIVITIES IN 2022

### POLICY FRAMEWORK AND REVIEWS

- > Fraud Risk Policy and Customer blacklisting Policy were reviewed to enhance the coverage to mitigate emerging risks from changes socio-economic conditions.
- > Business Continuity Policy was reviewed to incorporate risks related to continuation of business due to emerging developments in macro and micro economic fronts such as shortages in various supplies, social unrest etc.
- > Valuation Policy was reviewed to address the changes in risk appetite of the Bank and to incorporate Industry best practices.
- > Guideline on Provisioning and reporting of operational losses was reviewed to maintain the consistency and timely reporting of operational losses

### STRENGTHENING PROCESSES

- > Business Continuity Management process was evaluated to monitor the resilience of DR drills covering mission critical units and systems to ensure their resilience.
- > Bank's Operational Risk Management Framework was strengthened in line with the current operating model and best practices.
- > Consolidated Recovery Plan for the Bank was developed to identify credible options to survive a range of severe and plausible stress scenarios

### MONITORING

- > Outsourced services were reviewed to identify possible threats and continuation of business activities.

### STRENGTHENING RISK CULTURE

- > Conducted online training programs covering all staff in the Branch network.

### Approved regulatory capital approach

The Bank is in the process of transitioning to the Alternative Standardised Approach from the current Basic Indicator Approach for calculation of regulatory capital. The change in calculation methodology is expected to reduce the capital charge in the future.

### Managing operational risk

Operational risk is managed by utilising the following tools.

### Risk & Control Self-Assessment (RCSA)

The frequency of the RCSA process was increased to quarterly assessments, which has enhanced operational risk management, through more frequent operational risk identification, measurement and monitoring. Business units are required to assess their own processes and controls on a quarterly basis, which are reviewed by the Operational Risk Unit to estimate the operational risk profile of the entire Bank.

### Key Risk Indicators (KRI)

KRIs provide early warnings of escalations in risks and are monitored continuously to initiate timely and effective action. Triggers and thresholds are reviewed and revised

regularly to reflect regulatory requirements and changes to the Bank's risk appetite and internal benchmarks which reflect trends observed externally and internally.

### Internal Loss Data Capturing & Reporting

The Bank uses Operational Risk Dashboards in accordance with Basel guidelines on internal losses including potential losses and "near misses" for material risks. These are reviewed by ORSC, ERMCP and BIRMC to identify potential threats and determine appropriate action to manage the same. External loss incidents are captured on best effort basis and reviewed in relation to the internal control environment.

### Root Cause Analysis

The Bank has adopted a system to review material loss incidents to ascertain the root cause and these learnings are used to improve the control environment under the Operational Risk Management function.

### Risk Matrices

Risk matrices are used to consolidate and prioritize risks considering the potential impact and likelihood of occurrence.

### Risk Review of New Products & Processes

The Bank has set out clear policies and procedures for introducing new products or amending or discontinuing existing products or delivery channels, to minimise associated risks.

### Risk Weighted Assets & Capital Charge for Operational Risk



# RISK & CAPITAL REVIEW

## MITIGATING OPERATIONAL RISK

The ORM framework sets out the following specific tools for managing operational risk.



- > Risk Culture – The risk culture at the Bank is driven by the top with all senior personnel leading by example to inspire all grades of staff towards accountability and risk ownership. It is a key preventive tool and is nurtured through a fit for purpose policy framework, governance structure, regular training to increase risk awareness and effective internal controls.
- > Insurance – A comprehensive insurance cover is in place securing the Bank from low frequency- high severity and high frequency- low severity loss events. Adequacy and effectiveness of insurance covers were reviewed during the year with the assistance of external consultants. A new Cyber insurance cover was put in place in view of heightened threat levels.
- > Scenario planning - The operational risk unit uses scenario planning mainly in its BCM and related activities to demonstrate and make uses of the development of appropriate responses to few potential loss events that can or likely to take place together such as fire, security breach etc. Scenario planning was continued in 2022 to factor in changes in the country's risk profile stemming from the economic downturn.

- > Assessment of Outsourcing Activities’ – The Bank has developed and deployed a comprehensive Outsourcing Policy that defines the activities, terms and conditions relating to outsourced activities and the Compliance Division monitors the same. Detailed KYC and due diligence tests are conducted before engagement or renewal of existing contracts to assess the AML/CFT risks that may arise regarding the outsourcing arrangements. The Operational Risk Unit carries out a risk-based review of critical outsourcing activities on a need basis. The Operational Risk Unit will also ensure that all critical outsourcing service providers have a satisfactory BCP and that they perform regular tests on its BCP to ensure disaster readiness and a return to normal operations as quickly as possible.

### Business Continuity Planning & Disaster Recovery

The Bank has conducted a comprehensive Business Impact Analysis (BIA) and has identified mission critical units, critical processes and necessary resources, which have been clearly documented together with Recovery Time Objectives (RTO), Recovery

Point Objectives (RPO) and Recovery Strategies. This was augmented by a Business Continuity Management and Public Health Contagion Plan in 2020 following the emergence of the COVID-19 pandemic and Business Continuity policy documents and plans are updated regularly to reflect the regulatory changes.

Regular BCP and Disaster Recovery tests are conducted to cover all critical systems and the Mission Critical Units (MCUs) of the Bank. BCP tests are reviewed by the Bank's Internal Audit department and the Bank has also established a Business Continuity Steering Committee (BCSC) and a Disaster Management Team (DMT) to oversee the BCP strategy. Awareness sessions and Newsletters are used to educate the staff regarding the Business Continuity Management process, while maintaining clear communications with the public to communicate any emergency responses. The Bank has continued to demonstrate unflagging resilience during the pandemic era and in the post-COVID era, demonstrating the effectiveness of the business continuity process and has also successfully adopted new operating models such as telecommuting and product innovation with solutions like SOLO and MOMO to support customers.

## INFORMATION AND CYBER RISK

The rapid adoption on digital financial services within the country following the COVID-19 pandemic has fast tracked the integration of information technology solutions both internally within the Bank and among external stakeholders, thereby both facilitating greater convenience as well as mitigating potential security threat. Therefore, the Bank continued to focus on cyber security risk mitigation during the year by investing in governance structures, policy frameworks, competence and surveillance of monitoring tools.

### DEFINITION OF CYBER RISK

Risk of financial loss, operational disruption, or damage, from the failure of the digital technologies employed for informational and/ or operational functions via electronic means from the unauthorized access, use, disclosure, disruption, modification, or destruction of systems, services or data.

### COMPONENTS OF CYBER RISK

- > Information Risk
- > Cyber Risk
- > Financial Crime Risk
- > Technology Risk

### KEY TRENDS IMPACTING BANK'S CYBER RISK IN 2022

- > Increase in sophisticated malware, ransomware and phishing attacks around the globe
- > Unprecedented levels of online activity have made systems more expose to cyber-attacks worldwide.
- > New cyber threats in the form of supply chain attacks have dramatically changed the risk landscape

### INFORMATION & CYBER RISK REVIEWS

- > Information Security Policy & Procedure review
- > Privilege Access Management (PAM) reviews
- > Vulnerability assessments on critical internet facing IT infrastructure
- > Independent L2 Firewall Reviews
- > Digital/online banking application Reviews
- > End User level security controls reviews
- > Cyber Risk reviews related to various critical business functions and branch operations
- > Third party service provider/vendor information security risk reviews
- > Application software patch management reviews

### A BREAKDOWN OF GLOBAL CYBERCRIME DAMAGE COSTS PREDICTED IN 2023

- > **\$8 Trillion** a Year.
- > **\$667 Billion** a Month.
- > **\$154 Billion** a Week
- > **\$21.9 Billion** a Day.
- > **\$913 Million** an Hour.
- > **\$15.2 Million** a Minute.
- > **\$255,000** a Second.

(Source: Cybersecurity Ventures)

### CYBERSECURITY THREAT STATISTICS 2022

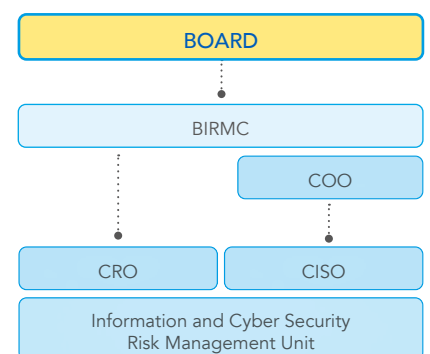
- > Global Average total cost of a data breach: **USD 4.35 Million**
- > Average cost of a critical infrastructure data breach **USD 4.82 Million**
- > Average cost savings associated with fully deployed security AI and automation **USD 3.05 Million**
- > Average cost of a ransomware attack, not including the cost of the ransom itself **USD 4.54 Million**
- > Average difference in cost where remote work was a factor in causing the breach versus when it wasn't a factor **USD 1 Million**
- > Average cost of a breach in the United States, the highest of any country: **USD 9.44 Million**

(Source: IBM)

### Information & Cyber Risk Governance

The Information and Cyber Security Risk Management Unit which operates within the Risk Management Department of the Bank, reports to the CRO who in turn reports independently to BIRMC. Given the growing importance of Information and cyber risk governance, the first line of defence was further strengthened with the appointment of a Chief Information Security Officer (CISO) who reports directly to the COO. Accordingly, policy formulation is under the purview of the CISO while implementation and compliance is overseen by the Information and Cyber Security Risk Management Team. The segregation of functions has brought about greater focus on the implementation and monitoring aspects of the cyber risk management function.

Figure 15: Information and Cyber Risk Governance



# RISK & CAPITAL REVIEW

## ACTIVITIES IN 2022

Key initiatives implemented to enhance the Bank's management of Information and Cyber risk are as follows:

### STRENGTHENING POLICY FRAMEWORK

- > IT & Cyber Risk Assessment Methodology and Risk Acceptance criteria was introduced to support Information & Cyber Security Risk Management of the Bank.
- > Policies on Information and Cyber Security were reviewed to assess the Bank's Information and Cyber security metrics against embedded and emerging risks to ensure that they are in line with industry best practices.

### MONITORING

- > Reviewed Privilege Access Management.
- > Conducted periodic reviews of the Bank's Internal IT/IS Management by Information & Cyber Security Risk Team in addition to independent reviews conducted by Internal audit and CISO

### STRENGTHENING PROCESSES

- > Continuous enhancements were made on security alert monitoring capabilities via the Security Operations Centre (SOC) in order to strengthen the Bank's cyber security surveillance.
- > Bank wide implementation of a new data classification tool was expedited in order to provide classification of digital documents and emails via various communication channels.
- > New security controls were introduced to remote access platforms.
- > Digital Rights Management (DRM) solution was implemented to enhance security of data transfers with third party entities.
- > Implemented a Mobile Application Management (MAM) to provide secure email access via mobile devices.
- > Implemented Data Loss Prevention controls over the cloud email platform.
- > Conducted phishing simulations to test resilience of Bank and Bank staff to potential threats and assess Bank's readiness against phishing attacks.

## INFORMATION SECURITY MANAGEMENT

As a future oriented financial services provider, the Bank has identified information communication technology assets as vital strategic assets and has deployed a fully-fledged Information & Cyber Security Policy. The policy defines the management approach towards the Bank's information assets, hardware and software, with the primary objective of protecting these assets from identified internal and external threats to ensure that all statutory and contractual obligations are met, and the brand is protected. It also provides guidance for systematic management of information assets throughout its lifecycle supporting the operational and strategic needs of the Bank in compliance with regulations and internal risk appetite. Additional tools used to ensure continuous protection of its information assets from emerging threats include the following:

- > *Layered Defence Model* – The Bank has implemented a layered defence model to support management of Information Security.
- > *Third Party Vulnerability Assessments and Third-Party Security & Compliance Reviews* – Carried out to manage risks arising from connectivity with third parties.
- > *Periodic reviews of the effectiveness of the Bank's Internal IT/IS Management by IT Security Team* - Internal Audit and CISO carry out separate reviews to assess the effectiveness of the Information and Cyber Risk Management processes and controls.
- > *Monitoring Cyber Threat Intelligence* – Review up to date information on current and emerging cyber threats with a view to initiating necessary action in a timely manner.
- > *Data Classification Methodology* - This initiative supports safeguarding of information assets through clear categorization of access to documents and uses leading IT tools.
- > *Controls over Data in Transit, At Rest and in Use* - Email flow and USB/CD ROM restrictions implemented together with organization wide awareness campaigns enhance levels of information security.
- > *Security Information & Event Management (SIEM) Solution* - All critical systems and databases are integrated for log analysis enhancing capabilities of identifying IT & Cyber risks
- > *Surveillance & Upgrading* – Continuous upgrade of anti-virus/ Malware/ Ransomware protection.
- > *Cyber Risk Dashboard* – Communicates developments in Information & Cyber Risk to Executive and Board Committees on a monthly basis. This dashboard includes a tracker of Information and Cyber Risk related incidents, Top 10 cyber risks, Cybersecurity incidents reported during 6 months, IS audit findings, adherence level of security standards, Cybersecurity awareness activities, Security Operations Centre statistics, malware & phishing related updates, update on BCP and DR drill, update on Endpoints exposed with risks, etc.
- > *IT disaster Recovery Plan* – A key component of the Bank's Business Continuity Plan, this is tested regularly and amended as appropriate.
- > *Privilege Access Management (PAM)* – Provide granular level visibility over activities carried out by privilege users in the banking systems.
- > *Security Operating Centre (SOC)* – Strengthens the Cyber Security surveillance and incident response process with 24x7 security alert monitoring function.

## MARKET RISK

The unpredictable and unfavourable developments within the market during the year had an unavoidable impact on consumer demand, the stock market, liquidity, foreign exchange and the cost of credit, as well as goods and services, which in turn impacted the profitability of the Bank. Consequently, the valuations of portfolios of assets and liabilities were also impacted as most transactions involve at least one element of market risk. Within this turbulent environment, the Bank has managed its exposures by prudently balancing profitability and stability within its predetermined risk appetite.

### DEFINITION OF MARKET RISK

Potential losses arising from factors that affect the overall performance of the financial markets which cannot be eliminated through diversification.

### COMPONENTS OF MARKET RISK

- > Interest Rate Risk
- > Foreign Exchange Risk
- > Equity Price Risk
- > Commodity Price Risk

### Market Risk Review

The Bank's market risk exposures arise mainly from the Bank's Non-Trading Portfolio (Banking Book) which accounts for 26% of Total Assets and 29% of Total Liabilities. Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk are the most significant components of market risk as the Bank has minimal exposure to commodity price risk and equity risk as these account for less than 5% of the total risk weighted exposure for market risk at the close of the year.

Rs Mn	2022	2021
<b>Assets Subject to Market Risk</b>		
Cash & Cash Equivalents	80,239	38,185
Balances with Central Bank	32,344	25,820
Placements with Banks	54,371	-
Derivative Financial Assets	5,371	927
Financial assets measured at fair value through profit or loss	112	103
Financial assets measured at amortised cost - debt and other instruments	448,792	160,678
Loans & Receivables to other customers	974,131	876,250
Financial assets measured at fair value through other comprehensive income	2,707	203,426
<b>Liabilities subject to Market Risk</b>		
Due to Banks	6,105	17,076
Derivative Financial Liabilities	26	353
Due to Other Customers/Deposits from customers	1,407,800	1,075,709
Other Borrowings	32,351	24,748
Subordinated Liabilities	22,914	23,552

In line with the continued tight monetary policy stance, the Central Bank increased its policy interest rates by a cumulative of 950 bps on four occasions during 2022, thereby increasing SDFR and the SLFR to 14.5 % and 15.5 %, respectively. Tightening monetary policy led to a deceleration in year-on-year growth of loans and advances to 6.8 % as at end August 2022,

compared to 14.5 % as at end 2021. Total loans and advances increased by Rs. 712.8 billion to reach Rs. 1.15 trillion, recording a 6.6 % growth during the eight months ending in August 2022, compared to an increase of Rs. 1.4 trillion, which was a 14.5 % growth reported in the same period of 2021, mainly due to the impact of the exchange rate depreciation on foreign currency loans.

Deposits expressed as a percentage of total assets stood at 62% as at end December 2022. The deposit base of the banking sector expanded by Rs. 1.9 trillion during the eight months ending in August 2022 and stood at Rs. 14.8 trillion recording a 14.9 % growth, mainly due to growth of rupee deposits, compared to an increase of Rs. 1.3 trillion and a corresponding 11.6 % growth recorded in the same period of 2021.

The growth in borrowings continued to decrease as a result of the decline in foreign currency borrowings. Borrowings of the banking sector moderated, recording a 5.8 % growth with an increase of Rs. 126.5 billion during the eight months ending in August 2022 and reached Rs. 2.3 trillion as at end August 2022, compared to an increase of Rs. 282.1 billion and a corresponding 16.5 % growth recorded in the same period of the previous year.

During the Year ending in December 2022, the Sri Lankan rupee recorded a significant depreciation of 45.5% against the US dollar from Rs. 200.43 as at end 2021 to Rs. 367.5 as at 31 December 2022.

The equity market witnessed a steep fall since early February 2022 as panicked investors started withdrawing their funds amid increased macroeconomic concerns and political instability. However, this declining trend moderated since May 2022, although significant volatilities were observed in several instances, and the market showed signs of improvements since July 2022. Overall, the ASPI and S&P SL 20 index recorded negative growth of 18.8 % and 25.2 %, respectively, during the year until end September 2022.

## RISK &amp; CAPITAL REVIEW

## ACTIVITIES IN 2022

The Market Risk Management unit implemented the following actions during the year:

STRENGTHENING POLICY FRAMEWORK	STRENGTHENING PROCESSES	MONITORING
<ul style="list-style-type: none"> <li>&gt; Treasury limits were reviewed more frequently in order to assess micro and macro-economic factors on counterparty limits</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Stress testing was carried out regularly to understand the impact to Bank's liquidity position due to non-settlement of USD denominated bonds.</li> <li>&gt; Impact analysis on Bank's capital base was carried out on the possible occurrence of hair cut on Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC borrowings by overseas lenders.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Counterparty limits were recalibrated to capture the impact of the economic situation.</li> </ul>

## Market Risk Governance

As the apex body involved in risk management the Board has overall responsibility for managing the market risks that the Bank is exposed to during the year. The Board is assisted in its duties by Board Integrated Risk Management Committee (BIRMC) who have oversight responsibility for this key topic, while the Executive Risk Management and Credit Policy Committee (ERMCP) made proposals on policy to monitor risks. Market risk exposures and profitability is supervised by Asset and Liability Committee (ALCO) ensuring that risks taken are commensurate with the rewards and managed within the Risk Appetite Statement (RAS) and the Treasury is involved in managing both the banking/trading book and the asset and liability position of the Bank. Accordingly, duties of the Bank's Treasury Operations are segregated into Front Office, Middle Office and Back Office in line with best practice. Treasury Middle Office (TMO) ensures that Treasury Front Office deals within limits set out in the Bank's risk appetite and Treasury Back Office reconciles and escalates key issues promptly. The Market Risk Management Unit of Risk Management Department (RMD) independently measures, monitors and reports on market risk exposures using Market Risk Dashboards and assists in review of the Bank's market risk related policies and exposure limits, supporting ALCO, ERMCP, BIRMC and the Board with information required for decision making.

## Approved Regulatory Capital Approaches

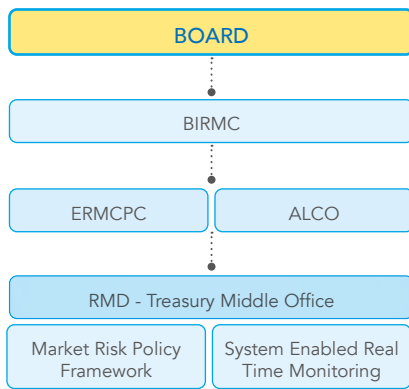
The Bank is in the process of adopting the more advanced Internal Model Approach, while using the Standardised Measurement method as required by CBSL Direction No.1 of 2016 in line with Basel III requirements for computing regulatory capital for Market Risk. Accordingly, the calculation of regulatory capital is based on specified risk weightings applied to net exposures in defined categories as set out in Template 10: Market Risk Under Standardised Measurement Method.

## Market Risk Management

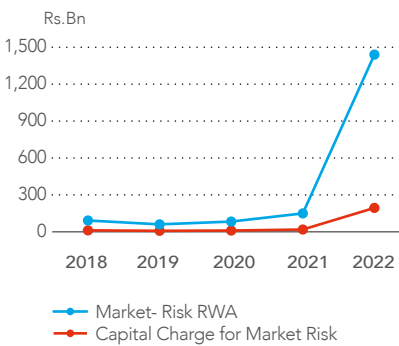
Market Risk is managed in accordance with the Asset and Liability Management (ALM) and Treasury Policy which support management of Interest Rate Risk, Investment and the Foreign Exchange Risk. The trading portfolio is managed by Treasury while the Non-Trading portfolio is impacted by both the Bank's business lines and Treasury. The Balance Sheet and Income Statement implications of market risk are summarised below.

Portfolio	Banking Book "Hold Until Maturity" and "Available for Sale"	Trading Book "Intend to Actively Trade"
Line Items	<ul style="list-style-type: none"> <li>&gt; Deposits</li> <li>&gt; Loans</li> <li>&gt; Bonds (Investment Portfolio)</li> <li>&gt; Bills &amp; Bonds (Treasury Portfolio)</li> <li>&gt; Derivatives</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Bills &amp; Bonds (Treasury Portfolio)</li> <li>&gt; Derivatives (Forward, Swaps and Options,)</li> </ul>
Balance Sheet Value	Historical Cost	Mark to Market daily
Income Statement	Net Interest Margins	Net Interest margins + Net Change in Value (Mark to Market)
Risk exposure	<ul style="list-style-type: none"> <li>&gt; Repricing risk</li> <li>&gt; Basis risk</li> <li>&gt; Forex Risk</li> </ul>	All components of market risk





Risk Weighted Assets & Capital Charge for Market Risk



Market risk management is a critical aspect in implementing Asset and Liability Management (ALM) framework of the Bank. Key tools and processes used to manage market risk include the following:

- > *Market Risk Limits* – Limits contain trading activities within a specified range in line with the Bank’s Risk Appetite Statement. These are reviewed and approved by the BIRMC as well as BOD and are regularly reviewed by ALCO and ERMCP

Figure 16: Market Risk Limits

Limit Type	Activity Limit	Target Risk Area
Exposure	Trading/Investment in foreign currency fixed income securities (excluding investment in Sri Lanka Government Treasury Bills & Bonds)	Governs the trading/investment in long-term securities with reputed issuers, with minimum credit ratings of A or equivalent.
	Investment in Sri Lanka Government Treasury Bills & Bonds/CBSL Securities	Governs trading & investments in Sri Lanka Government Treasury Bills & Bonds that are denominated in Sri Lanka Rupees.
	Cap on total investment on Gov. Securities	Will govern overall exposure to government securities in terms of balance sheet exposure
	Standing Deposit Facility (SDF) With CBSL	Governs Money Market Deals with CBSL
	Interbank Money Market/Trade borrowings in FCY both in Sri Lanka and Outside	Limits the Bank’s exposure to liquidity risk arising from funding mismatches and over reliance of FC borrowings to generate liquidity
Tolerance	Cap on inter-bank call borrowing / Call lending	Limits the Bank’s exposure to adverse fluctuations in inter-bank call money rates and liquidity risk arising due to market liquidity
	Rate tolerances	Governs minimum / maximum deviation from market rates on interest / exchange rates to ensure no undue risks are undertaken
	Amount Tolerances	Govern maximum transaction size undertaken on a currency, instrument or by a dealer.
	Tenor Tolerances	Protects the bank from both market and counterparty risk that could arise with time.

## RISK &amp; CAPITAL REVIEW

- > 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 used by the Bank is based upon a 99% confidence level and assumes 1-day and a 10-day holding period. It is based mainly on historical simulation. The model generates a wide range of plausible future scenarios for market price movements considering market data and observed relationships between different markets and prices.
- > Stress Testing - The Bank conducts stress testing on key components of market risk including interest rate, foreign currency, equity and gold to understand the potential impacts. This information is used to provide direction in managing portfolios, optimizing profitability and liquidity.
- > Bank also periodically conducts simulation on severe liquidity crisis event can be triggered off by any one or more of the following events taking place:
- Loss of reputation due to rumours of a large loss, fraud, management misdemeanour etc.
  - Severe rating downgrade (3-4 notches or to below investment grade)
  - News/speculation of an impending takeover/merger.
  - Large regulatory penalty/qualification of accounts by Auditors/other compliance related loss of reputation.
- The following stress scenarios were applied to assess the impact of a liquidity squeeze on the Bank:
- A run on the Bank by depositors
  - Loss of short-term interbank LKR liquidity
- A global banking crisis which could affect short term interbank FC liquidity
  - Worst case scenario comprising of the above stress situations (scenarios 1,2 and 3)
  - Loss of wholesale savings and deposits
- Results of the stress testing are tabled at ERMCP/ ALCO/ BIRMC for their reference on ALM decisions.

**Stress Testing On Projected NII**

Results of stress tests carried out on Interest Rate Risk for its Loans and Advances portfolio and the Fixed Income Securities portfolio are given below

Item Rs.'000	2022		2021	
	100 bp Parallel Up Rs. '000	100 bp Parallel Down Rs. '000	100 bp Parallel Up Rs. '000	100 bp Parallel Down Rs. '000
As at December 31st	2,549,391	(2,664,071)	5,171,597	(5,478,992)
Average for the Year	3,232,907	(3,405,999)	5,246,966	(5,560,314)
Maximum for the Year	5,705,000	(2,223,039)	6,008,522	(4,432,035)
Minimum for the year	2,136,798	(6,050,000)	4,160,462	(6,367,403)
Minimum for the year		1%	2%	5%
Fixed Income Risk	Orginal CAR		CAR after Change	
Fixed Income Total Portfolio	14%	13.94%	13.83%	13.57%
Fixed Income Trading Portfolio	14%	14%	14%	14%

### Interest Rate Risk in Banking Book (IRRBB)

The differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) can lead to IRRBB, which impact future interest income and expenses and its economic value. Different maturity buckets are used to analyse the Bank's interest rate sensitive assets and interest rate sensitive liabilities to determine suitable strategies to optimize earnings based on identified gaps and future interest rate forecasts. The modified duration gap approach is used for analysing changes in economic value of equity, which requires the mapping of assets and liabilities into different time buckets based on their residual maturity as set out below depicting an increased/decreased sensitivity.

(Rs Mn)	Upto 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non Sensitive	Total (Rs.Mn)
Assets and Off-Balance Sheet Exposures	525,445	335,515	121,782	116,825	248,222	99,184	120,368	175,415	1,742,756
Liabilities and Off-Balance Sheet Exposures	153,083	212,079	266,726	316,671	188,999	112,654	92,250	385,414	1,727,877
Period Gap	372,361	123,436	(144,944)	(199,846)	59,222	(13,470)	28,118		
Cumulative Gap	372,361	495,798	350,853	151,008	210,230	196,760	224,878		
RSA/RSL	3.43	1.58	0.46	0.37	1.31	0.88	1.30		

### FOREIGN EXCHANGE RISK

The sharp rupee depreciation heightened the Foreign Exchange Risk faced by the Bank during 2022 and foreign exchange exposure of the Bank was judiciously monitored and prudently managed to balance the Bank's exposure risks against customer demand. During the year 98% of the Bank's foreign currency exposure was in US dollars.

The Bank has implemented a broad risk management process to manages this risk which includes currency swaps, exposure limits and VaR. Market risk exposure of the Bank's overnight foreign exchange positions is measured using 10-day VaR, at 99% confidence level. TMO monitors limits in real time and at specified frequencies in accordance with the Bank's comprehensive market risk management limit structure to ensure compliance with Bank's risk appetite. Trigger points are escalated to CRO, MD/ CEO or Board of Directors depending on the potential loss that may arise.

The Bank's exposure to FX risk as at the end of the reporting period is given below. Foreign exchange exposures are subject to stress testing by applying shocks between 5% to 15% to estimate the impact on profitability and capital adequacy of the Bank. Accordingly, a 5% change in exchange rate has a minimal impact on CAR as given in the table below.

## RISK &amp; CAPITAL REVIEW

	Net Open Position (NOP) (000)	Overall Exposure in Respective Foreign Currency (000)	Overall Exposure in LKR 000'
United States Dollar	37,999	1,759,264	646,529,562
Great Britain Pound	5	77,399	34,238,133
Euro	17	131,236	51,418,450
Japanese Yen	1,485	314,849	875,280
Singapore Dollar	4	5,677	1,555,544
Other currencies in USD	768	80,844	29,710,309
Total Exposure	38,763	2,079,802	764,327,278
Total Capital Funds as at December 31st, 2022	139,614,626		
Total exposure as a % of Capital Funds as at December 31st, 2022	10.21%		
VaR (99%, 1 day) 31st December 2022	3.2%		
VaR (99%, 1 day) 31st December 2021	1.03%		

The Bank conducts stress testing on foreign exchange exposures by applying shocks between 5% to 15% to estimate the impact on profitability and capital adequacy. Accordingly, a 5% change in exchange rate has a minimal impact on CAR as given in the table below.

Magnitude of shock		5%	10%	15%
Foreign Currency Risk	Original CAR	CAR after Change		
All foreign currencies	14%	13.94%	13.87%	13.81%
USD/LKR	14%	13.94%	13.88%	13.82%

## EQUITY PRICE RISK

As at end Dec 2022, the Bank's equity portfolio stood at Rs. 111 Mn and is managed taking a long term view. Stress testing conducted at 10% to 40% change in equity prices indicate no change in CAR. The bank conducts mark-to-market calculations on a daily basis for held-for-trading and available-for sale portfolios and VaR calculations on a 10-day basis. Year-end positions are summarized below.

Magnitude of shock	2022		2021	
	Exposure Rs.Mn	VaR (99%, 10 day)	Exposure Rs. Mn	VaR (99%, 10 day)
Equity (MV)	111 Mn	17.86 Mn	103 Mn	11.94 Mn

## COMMODITY PRICE RISK

The Bank's commodity price risk was impacted by the sharp increase in gold prices as this risk factor is limited to the extent of the Pawning portfolio. During the year under review, the Bank's careful management of the pawning portfolio and the use of conservative loan to value ratios, have ensured that the risk exposure was limited to 5% of Total Market Risk exposures. It is noteworthy that the regulatory approach is to treat the exposure in line with Foreign Exchange Risk as described in the Approved Regulatory Capital Approach on Market Risk.

## LIQUIDITY RISK

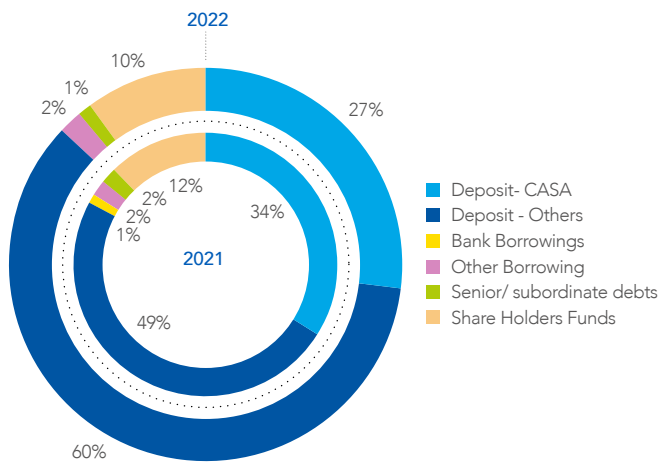
Farsighted and cautious liquidity risk management within the liquidity constraints experienced during the year has enabled the Bank to support its asset base and strategic goals.

### DEFINITION OF LIQUIDITY RISK

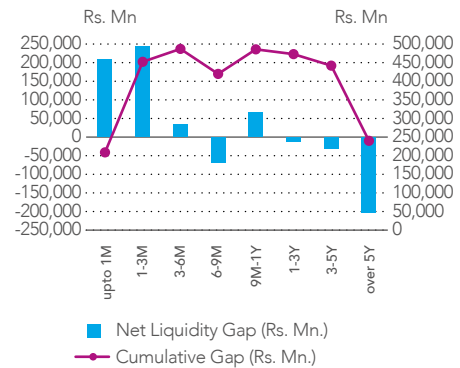
A bank's inability to meet its short-term contractual obligations without sustaining unacceptable losses.

Liquidity Ratios	2022	2021
Statutory Liquid Asset Ratio (SLAR)	33.95%	28.02%
Liquidity Coverage Ratio	252.37%	207.60%
Net Loans to Total Assets	56.02%	64.99%
Loans to Customer Deposits	79.65%	89.04%
Liquid Assets to Short Term Liabilities	118.89%	78.25%
Commitments to Liquid Assets	31.19%	68.11%
Commitments to Total Loans	20.89%	32.51%

### Funding Diversification by Product



### Liquidity Gap based on behavioural analysis



### Liquidity Risk Review

In consideration of rising inflationary pressures, the Central Bank tightened monetary and liquidity conditions to unprecedented level in 2022. Since the monetary tightening cycle that began in August 2021, the Central Bank's key policy interest rates, i.e., SDFR and SLFR, have been raised by 950 bps, and a larger portion of that adjustment took place in April 2022. Policy interest rates were increased by 700 bps in April 2022, with the intention of arresting the build-up of any demand driven inflationary pressures in the economy and pre-empting the escalation of inflation further while providing the required impetus

to stabilise the exchange rate and correct anomalies observed in the market interest rate structure. Such sizeable adjustments in the policy interest rates were in addition to the upward revision of SRR by 200 bps, effective September 2021.

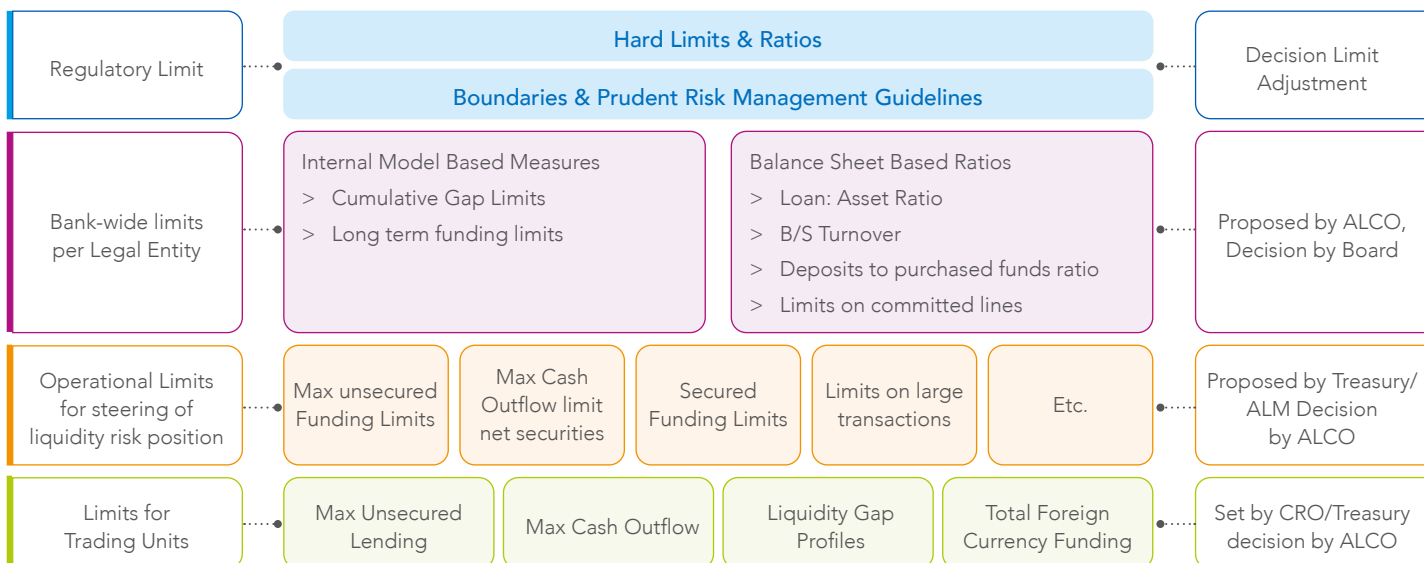
### Liquidity Risk Governance

A comprehensive liquidity risk management framework is in place which includes a contingency plan encompassing both contracted and un-contracted liquidity positions as summarized in Liquidity Ratios Table. The column on the extreme

right reflects the governance structures identifying roles of those with responsibility for managing liquidity risk. The Board, BIRMC, ERMPC and ALCO regularly review reports on the Bank's liquidity indicators to ensure that they are managed within agreed parameters

# RISK & CAPITAL REVIEW

Figure 17: Liquidity Risk Management Framework



## Liquidity Risk Management

The Bank has implemented a range of liquidity risk indicators which indicate changes in assets and liabilities to enable continuous and effective monitoring of liquidity risk. Appropriate funding activities to maintain desired levels of liquidity in line with the Bank’s risk appetite have been identified and liquidity ladders, probabilistic analysis and stress tests are undertaken to evaluate liquidity requirements of the Bank using both stock and flow approaches. The Bank has imposed Internal limits which are more stringent than the regulatory requirements in line with the Bank’s overall approach to risk management. Liquidity gaps are monitored based on the behavioural analysis of the Bank’s assets and liabilities, historical rollover patterns, drawdown of unutilized overdrafts and disbursement of approved but undisbursed loans.

Figure 18: Managing Liquidity Risk

Funding Plan	Managing Liquidity Risk	Managing intraday liquidity risk	Identify Contingent Funding Requirement	Managing Regulator
Identify concentration risk in banking book	Establish liquidity policy and appetite	Maintain liquidity buffers	Early warning indicators	Maintaining LCR
Pricing liquidity risk via transfer pricing mechanism within the Bank	Monitor intraday limits and carry out stress testing	Daily clearing and settlement	Conduct liquidity simulations	Reporting on liquidity assets and reserves

As a component of liquidity risk management, the Bank measures its liquidity position against all major currencies at both individual and aggregate levels to maintain potential risks within specified limits while liquidity commitments resulting from loan disbursements and undrawn overdrafts are also monitored to assess adequacy of funding sources. An adequate margin in high quality liquid assets and diverse funding sources are maintained and contingency funding agreements have been

negotiated with peer banks for sufficient liquidity buffers in accordance with the Bank’s Contingency Funding Plan.

Competition among financial institutions and market interventions, challenge the mobilising of low-cost LKR customer deposits. Moreover, with the dearth of lending opportunities in foreign currency and access to low cost foreign currency funding lines the bank has taken a strategic decision to generate low cost LKR funding

through foreign currency swaps for short to medium term liquidity. Exposure limits in terms of regulatory and internal, regular management information to ALCO/BIRMC/BOD manages the liquidity risk that could arise from overreliance of borrowings and cross currency liquidity generation, are actively managed.



## Funding Diversification

Deposits from customers account for 99% of funds making this the primary source of funding for the Bank. Total Capital of the Bank was Rs. 142 Bn as end of December 2022.

## Credit Ratings

The credit ratings of the Bank at the close of the year are as follows

Rating Type	Long Term National Rating
Issuer	Fitch Ratings Lanka Ltd
Rating	A (lka) / RWN
Date Issued	12th January 2023
What can change rating up	There is limited scope for upward rating action given the RWN. The resolution of the Rating Watch could be driven by reduced foreseeable risks from funding stresses, both at the bank as well as the sector and the bank's ability to service its obligations in local and foreign currency is not hindered.
What can change the rating down	<ul style="list-style-type: none"><li>&gt; HNB's National Rating is sensitive to a change in the bank's creditworthiness relative to other Sri Lankan issuers.</li><li>&gt; The RWN reflects rising risks to the bank's rating from funding stresses, which could lead to a multiple-notch downgrade.</li></ul>

# RISK & CAPITAL REVIEW

## COMPLIANCE RISK

As a responsible corporate citizen with an unblemished track record in integrity, the Bank ensured full compliance with all regulatory guidelines during the year. Compliance Risk is managed by a dedicated Compliance Department headed by the Compliance Officer who reports directly to the Board Integrated Risk Management Committee (BIRMC), ensuring the stringent oversight of all regulatory requirements. The Bank maintains a zero-tolerance approach for non-compliance with regulatory requirements and ensures that systems and policy frameworks are updated with the regulatory changes to facilitate compliance.

**DEFINITION**

Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss, or loss of reputation that a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice

**KEY ACTIVITIES OF THE COMPLIANCE FUNCTION**

- > Foreign Exchange Regulations
- > Financial Crime
- > Anti-Money Laundering & Know Your Client
- > FATCA
- > Group Compliance

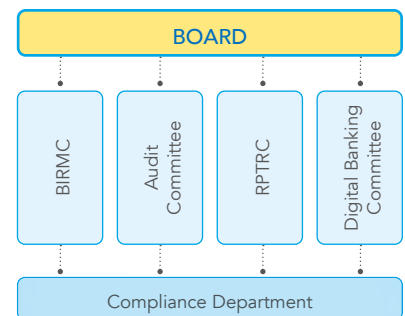
### Compliance Risk Governance

The Compliance function of the Bank falls within the purview of the Bank's Compliance Department which is empowered to ensure that the Bank complies with all legal and regulatory requirements including CBSL, SEC, CSE, SLAASMB etc., and encompasses both financial and operational compliance. The compliance function also extends to the Bank's wide-ranging policy framework. While the Compliance Department reports directly to BIRMC, it operates independently of the Risk Management Department but is invited to attend meetings of the Board Audit Committee, Board Related Party Review Committee and the Special Board Digital Banking Committee.

### Compliance Risk Review

In response to the prevailing adverse macroeconomic conditions, a range of regulatory changes were implemented during the year including regulations on Anti- Money Laundering (AML) and Foreign Exchange Operations. The Bank has maintained a rigorous focus on all new as well as existing compliance guidelines. Compliance Division has carried out regular compliance checks on branches and departments to ensure compliance to the regulatory guidelines.

Figure 19: Compliance Risk Governance



## ACTIVITIES IN 2022

The following projects were implemented to strengthen this key function:

### STRENGTHENING AML/ KYC PROCESSES

- > An on-site review was conducted by KPMG on the Bank's Risk Management framework and practices on Anti Money Laundering and Terrorist Financing.
- > The on-boarding process of Politically Exposed Persons was strengthened.
- > The Bank migrated to the new GoAML reporting system introduced by the CBSL and live operations commenced in February 2022.

### STRENGTHENING COMPLIANCE WITH ALL LEGAL AND REGULATORY REQUIREMENTS

- > Review mechanisms were strengthened on compliance audits carried out covering critical areas in branches and departments of the Bank.

### STRENGTHENING GROUP COMPLIANCE RISK

- > Quarterly group reviews on risk, compliance, finance and audit were implemented to ensure regular monitoring of compliance risk of Group subsidiaries.

## Mitigation

As a key mechanism of compliance risk mitigation, the Bank regularly reviews and updates its policy framework to incorporate changes in regulations, emerging threats, the Bank's processes and learnings from industry experiences and our own. All policy revisions are reviewed by the relevant Board sub-committees and approved by the Board of Directors.

The Bank ensures that the Compliance Division is staffed with the relevant expertise to enable full compliance with all regulations and is headed by the Compliance Officer. As the regulatory framework of the financial services industry continues to become increasingly more complex, it is essential that employees are regularly trained in compliance requirements to mitigate compliance risk that may arise from lack of awareness. The Compliance Division plays a key role in enhancing awareness on regulations, internal policies and best practices in the industry by integrating these into the training programmes

of the Bank, strengthening the first line of defence. New recruits and promoted employees receive a compliance training tailored to meet the demands of their new role and function. An e-learning AML module further supports knowledge enhancement on Anti Money Laundering covering all regions. The Bank also conducted compliance case studies for its branch network to mitigate potential compliance risk.

During the year compliance risk awareness was enhanced by:

- > Attendance at local & foreign training programmes, international summits, webinars and online certification courses to update employee knowledge regarding the latest regulations.
- > The E - Learning System, which has been updated with the latest regulations, AML courses, forex courses, & FAQs, for knowledge sharing.

## Plans for 2023

### Anti-Money Laundering

- > Enhanced monitoring of trade-based money laundering by monitoring dual usage of goods and vessel tracking by linking the Dow Jones data base to the trade core banking system through API connections.
- > Implementation of the ITRS project (International Transaction Reporting System) initiated by CBSL to automate various international, trade and treasury related reports, is on track.

## RISK & CAPITAL REVIEW

### REPUTATION RISK

As a systemically important financial institution, the Bank's brand name and associated reputation are a core component of the Bank's reputation risk. Reputation risk may arise from the potential adverse impact to the Bank's reputation, such as unethical practices, regulatory actions, customer dissatisfaction, negative/adverse publicity, inability to meet obligations, etc. Bank was able to prudently manage its reputation risk by maintaining transparent and timely communications with its stakeholders, despite disruptions due to adverse economic conditions that prevailed in the country. As an important initiative, the Bank implemented measures to safeguard the interests of its customers while ensuring customer touchpoints functioned efficiently to serve the needs of the communities it operates in. Additionally, awards and accolades received during 2022 reflect the high esteem in which the Bank is held.

#### Mitigation

Spearheaded by its leadership, the Bank has created a work environment that nurtures ethical and professional behaviour as well as creating an environment of transparency and accountability across the Bank. Other mechanisms in place to safeguard the reputation of the Bank include:

- > Continuation of COVID-19 responses
  - Providing moratoria according to CBSL guidelines for customers whose cash flows have been adversely impacted as a result of the pandemic.
  - Establishing Business Continuity Management and conducting DR drills covering mission critical units.
  - COVID-19 response team to identify potential areas of concerns and address them promptly.
  - Extending outreach through mobile ATMs, implementation of IPG as well as SOLO, MOMO etc.
  - Product innovation to meet customer and community challenges that emerged during the year.

- > Availability of a Code of Ethics applicable to all employees ensures that corporate values and expectations of conduct are clearly communicated throughout the Bank.
- > Comprehensive customer engagement mechanisms are in place including the contact centre, which is operative 24x7, enabling customers to contact the Bank for any assistance, report of a complaint and also enables the Bank to address any concerns promptly.
- > Print and electronic media exposure is monitored for any adverse remarks or customer complaints on the Bank and its services.
- > A comprehensive training and development plan facilitate employee learning on the subject and sharing of learnings while supporting competency development in this area.
- > Response plans and identification of spokespersons in the event of a crisis supports organization readiness to handle reputation risk events.

#### Monitoring

A scorecard approach has been deployed to assess Reputation Risk and the Reputational Risk Task Force (RRTF) which operates under the supervision of ORSC reviews, reputational risk trigger events and manages attributes that impact the reputation of the Bank, reducing the capital requirement. These pre-emptive measures support scoring, reducing capital allocation under reputational risk.

### STRATEGIC RISK

The Bank's strategies represent the future sustainability of the Bank and its ability to continually create value for its stakeholders through its operations. Strategic risk may arise if the Bank's future business plans and strategies are inadequate to meet desired business goals and expectations including protecting and enhancing the Bank's competitive position and shareholder returns. The leadership of the Bank is collectively responsible for providing strategic direction and undertake

evaluation of alternative strategies which are deliberated in depth to chart its course. Strategic risk was continually reviewed during the year to accommodate the highly volatile macroeconomic environment that prevailed and strategies were recalibrated to align with the dynamic market conditions.

#### Mitigation

The strategic risk mitigation system includes a dedicated Strategic Planning Department which oversees the strategic planning process. Inputs from RMD strengthen the process through testing of key assumptions and analysis to identify and assess potential areas of concern. Due care is exercised to facilitate compliance with all regulatory requirements including those anticipated for implementation within the forecast period. Key risk drivers and other material matters are monitored to identify potential areas of regulation, facilitating early understanding of related impacts and issues. In addition, the Bank engages external resources to support its strategic planning processes, injecting global expertise to enhance the management of strategic risk which contributed towards optimizing risk and returns by facilitating a thorough understanding of risks and opportunities. Regular communications are maintained with employees on progress of Projects through meetings, dedicated monthly newsletters and the intranet to ensure that employees were engaged and clearly understood their role in the transformation.

#### Monitoring

Strategic risk assessments are conducted in both quantitative and qualitative dimensions using a scorecard to compute capital allocation for strategic risk as a part of Pillar II risk assessment under ICAAP. The Bank plans to operationalize a strategic risk dashboard through which major strategic risks can be escalated to the BSIRC through the BIRMC which would support the BSIRC in reviewing macroeconomic strategic opportunities and risks available within and outside Sri Lanka.

## CONDUCT RISK

Conduct risk is any action of a bank or the banking industry that leads to customer dissatisfaction or negatively impacts market stability due to unacceptable or unexpected behaviour in meeting bank's obligations towards its stakeholders. Managing conduct risk has become increasingly critical in the banking industry as the number of risk events continues to rise. Underlying factors contributing to elevated conduct risk include failures in internal controls, noncompliance, negligence and failure to incentivize the right behaviours etc...

The challenging economic conditions, immediately in the aftermath of a global pandemic can escalate this risk as personal stress factors add pressure on finances and mental health of employees. Managing conduct risk has gained importance in the Bank's risk management agenda, as the prevailing unpredictable macroeconomic conditions are expected to persist in the foreseeable future.

### Mitigating

A clear understanding of the causes of poor conduct in the past has assisted the Bank in estimating and preventing a recurrence of the same conduct in the future. Therefore, the Bank has defined its key conduct risk drivers.

### Monitoring

Lines of defence in managing conduct risk:

- > Operational: Day to day monitoring and reviewing management of information. This line of defence remains with the respective business unit itself.
- > Compliance: Implementing policies and procedures as prescribed by regulator and industry best standards. The Operational Risk Management department is under the purview of RMD, and the Audit and Compliance department ensures the management of the risk control framework and ongoing compliance monitoring.
- > Board: Assessing conduct risks through review and analysis of periodic management information.

## LEGAL RISK

Legal risk can arise from the current and prospective risks to earnings or capital due to violations of, or non-conformance with laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. As per ISO 31000, Legal Risk can be of the following types:

- > Litigation Risk
- > Contract Risk
- > Regulatory Risk
- > Structural Risk

### Mitigation

The Bank has implemented a legal risk scorecard as a part of improvements made to the ICAAP document of the Bank and the same was considered as quantitative risk assessing parameters to be used in Pillar 2 risk assessment.

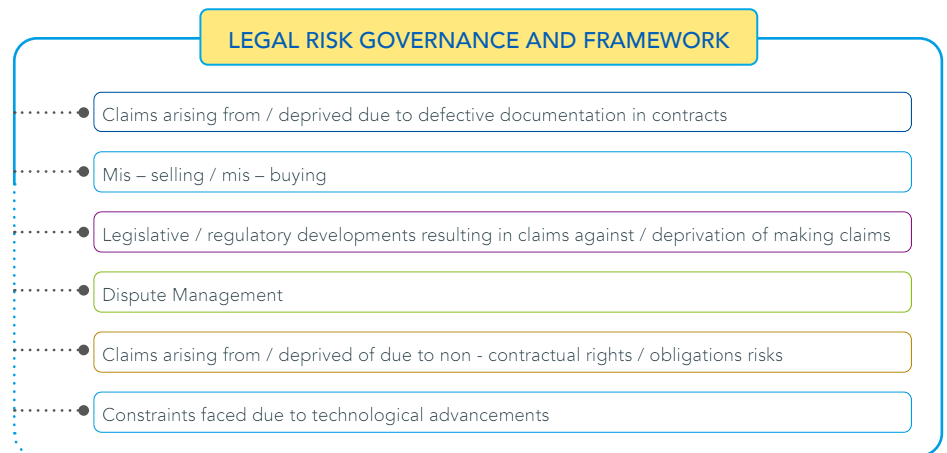
The Legal Department of the Bank carries out a comprehensive assessment prior to entering into an agreement with any 3rd party service providers. Additionally, the

Bank retains reputed legal counsellors to safeguard the Bank's interest in dealing with litigation against the Bank.

### Monitoring

Legal risks are analysed using a scorecard to ascertain the additional capital requirement under Basel II, pillar 2 calculations. Factors considered for the assessment of legal risk include, Legal Risk governance and framework, claims arising from / deprived due to defective documentation in contracts, legislative / regulatory developments resulting in claims against / deprivation of making claims etc.

The Legal Department prepares a quarterly compliance assessment report based on a comprehensive checklist covering a broad spectrum of the Bank's litigation and related functionalities which is signed off by every member of the Legal Department. This is reviewed by the Compliance Division on a quarterly basis, strengthening Legal Risk monitoring.



## MODEL RISK

Models are widely used to support decision making in the financial sector, and are therefore a critical component of a Bank's risk management. Model risk may arise from losses as a consequence of decisions that could be primarily based on the output of internal models or as a result of the errors in the development, implementation or use/ maintenance of the models.

# RISK & CAPITAL REVIEW

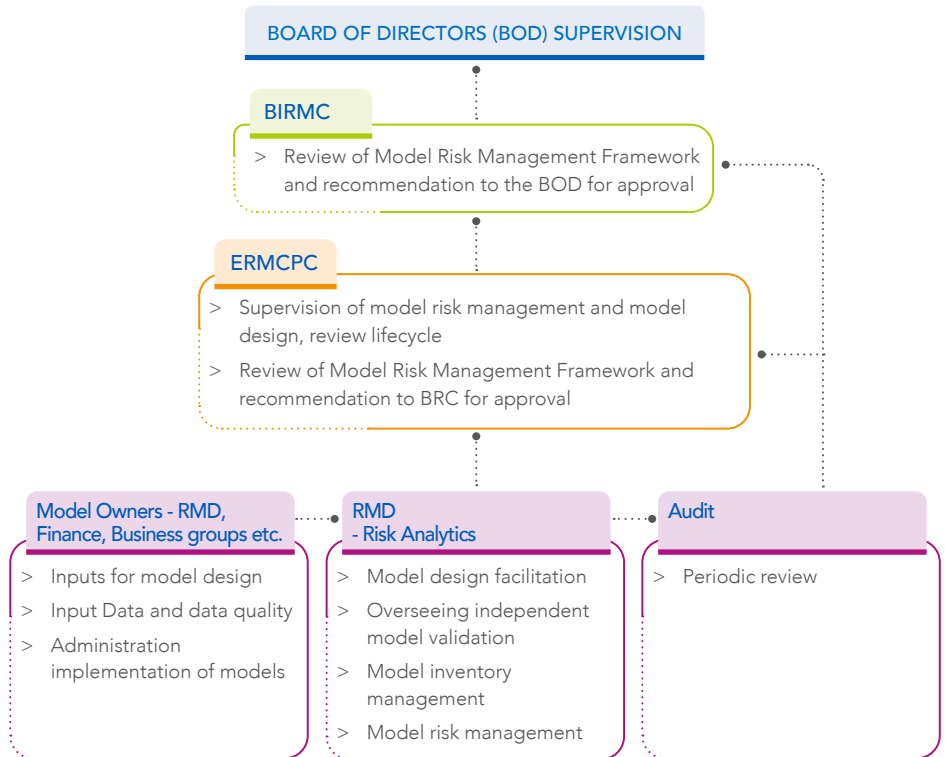
The Bank's model risk is governed by the Model Risk Management Framework which provides guidance on the structure of models and assumptions used for the Bank's business projections, financial analysis and risk management capabilities to ensure that they are sufficiently robust and effective to support its business strategies, risk assessment and measurement capabilities. Model risk can potentially lead to over/underestimating future profits or losses as it supports decision making. Therefore, the Bank conducts regular tests on internal models and the assumptions used for the models, supporting effective management to mitigate model risk. Accordingly, the Bank engaged with external risk consultants in 2019 to establish a Model Risk Guideline and framework governing all material models used by the Bank and the policy is regularly reviewed.

The governance principles for the Bank's model lifecycles are prescribed below:

- > Compliance with model development rules and risk estimation methodologies prescribed by Basel principles and leading model development practices across the globe.
- > Maintain data for models in line with the Risk Data Aggregation (and Reporting) Principles prescribed by the Basel Committee on Banking Supervision through the BCBS 239 principles.
- > Develop distinct models across different portfolios of the Bank such as Retail, Corporate, etc... for credit portfolios and loss data for market risk and operational risk.
- > Models are to be parsimonious, taking into account the appropriateness of variables, data length, ease of availability, with the aim to maximize performance with resources available.
- > Independent validation of models with the aim of ensuring accuracy of models.

Maintaining strong governance over development of models and their lifecycle is fundamentally important to their effectiveness and risk control. Given below is the overview of the Model Governance structure at the Bank.

Figure 20: Model Risk Governance Structure



### Monitoring

The governance of the Bank's model management framework is characterized by cross-departmental involvement in various stages of model development, implementation and review; with the oversight of the Board of Directors, through the BIRMC.

The following areas are managed through specific models in the Bank.

- > Gauging the market risk parameters for the Bank, assessment and monitoring methodology.
- > Statistical methodologies for business or risk estimations.
- > Non statistical models (such as Pillar 2 risk assessment models).
- > Models for assessment of obligors or facilities, to gauge the creditworthiness and risks involved with the same.

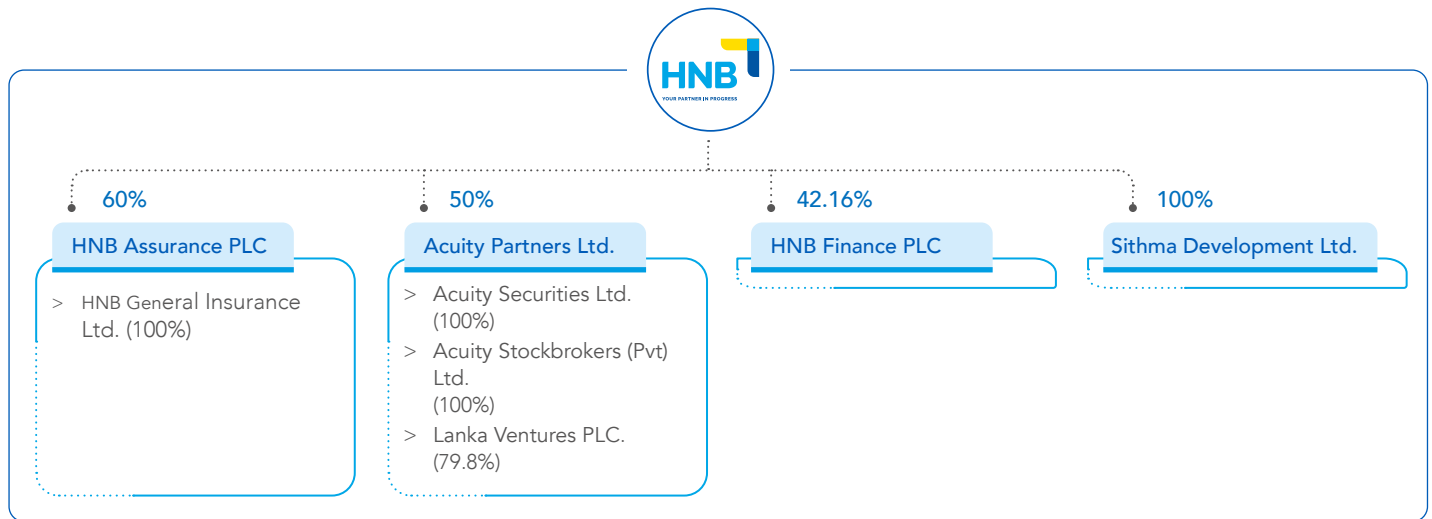
- > Estimation of losses (market, credit or operational risk losses) for specific portfolios of the Bank.
- > Bank's credit risk models, which aim to enable the Bank to predict the Probability of Defaults (PD), Loss Given Defaults (LGD) based on recoveries information, and Exposure at Default (EAD) based on customer and macroeconomic characteristics, facilitate calculation of impairment due to Expected Credit Loss(es) (ECL) as per the IFRS 9 stipulations of impairment and provision computation

The performance of models against actual results are reported via dashboards and other monthly reporting methods. Further, the Bank also obtains Independent validation of data quality and model processes to strengthen model risk management.



## MANAGING GROUP RISK

Out of the HNB Group's four subsidiaries, three are engaged in financial services. Acuity Partners is a joint venture providing investment banking services which has four subsidiaries which make up a fully-fledged wealth management and investment banking cluster. HNB Assurance PLC and HNB Finance PLC are listed on the Colombo Stock Exchange. These two subsidiaries are regulated by the Insurance Regulatory Commission of Sri Lanka and the Central Bank of Sri Lanka. Activities of Acuity Partners are subject to regulations of the SEC as market intermediaries. Sithma Development Ltd., the fourth subsidiary is the real estate arm of the HNB Group. The Group structure and the significance to the Group are given below.



## RISK &amp; CAPITAL REVIEW

**Mitigation & Monitoring**

Risk management of the Group companies are overseen by the HNB's Corporate Management team and they are on the Boards of Group companies. The risk management divisions of the Group companies forward Risk Management Review reports including the key risk concerns to the Risk division and compliance division of HNB. These reports identify the key risks faced by each entity, measures taken to manage or mitigate the risks and are reviewed by the Risk department of the Bank and tabled at the BIRMC meeting for further guidance.

Risk aggregating poses some challenges due to the varying operating models of the Group companies and the Bank continues to address this to facilitate assessment of the Bank's material risks as a group. Accordingly, the Bank's risk management department has developed a Group risk dashboard to monitor subsidiary specific financial and non-financial risk parameters covering changes to Group structure, general and specific financial highlights of each subsidiary, adherence to respective governing authorities, compliance breaches if any and non-financial risks faced by respective subsidiaries on a quarterly basis.

Effectiveness of the Group risk management is supported by the following:

- > All Group Companies indicate healthy financial positions at the close of the year despite an exceptionally challenging year.
- > HNB's capital at risk is limited to the amounts invested in these companies in the form of equities at the time of companies were incorporated or acquired.
- > Key Management Personnel/Director representation on boards of Group Companies support alignment to core values, business strategy and a sufficient information flow

Group Co.	Board Representation	Chairman	Board Risk Committee Representation
HNB Assurance PLC	✓	–	✓
Acuity Partners (Pvt) Ltd	✓	–	Represented at Acuity Securities Ltd Only
Sithma Development Pvt Ltd	✓	✓	–
HNB Finance PLC	✓	✓	✓

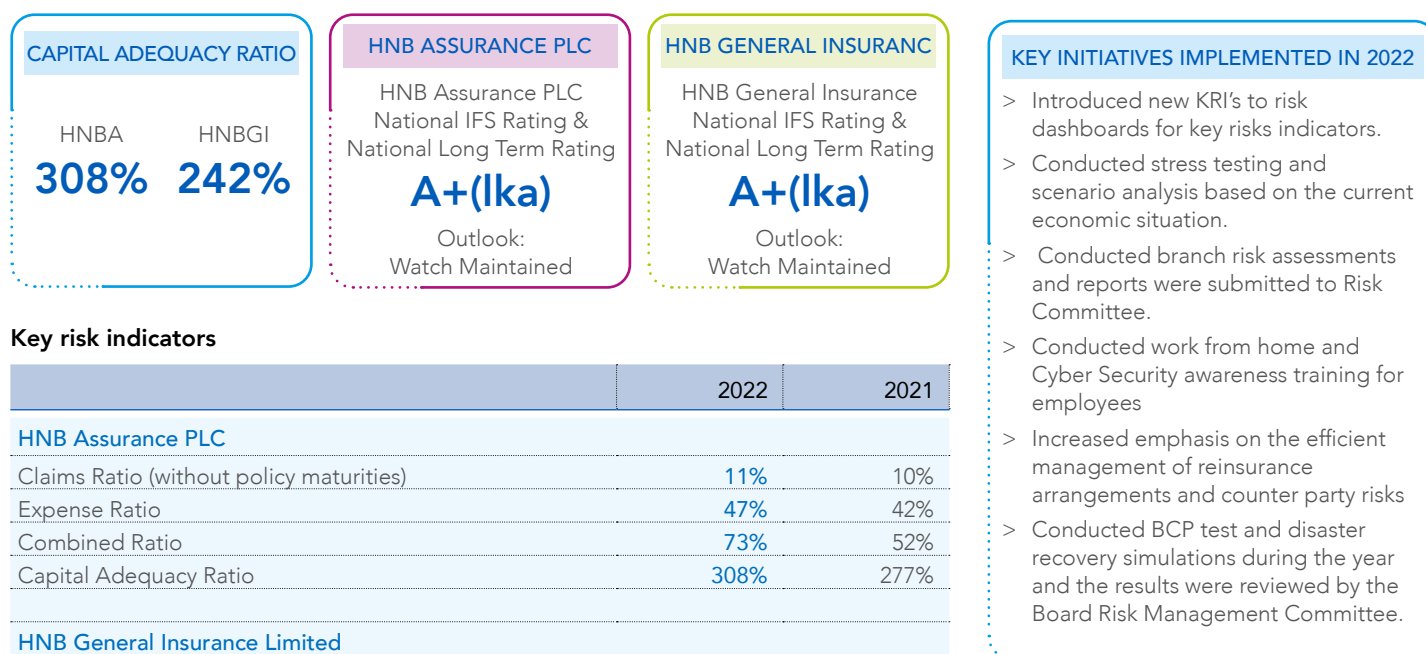
Group companies engaged in Insurance, Finance Business and Investment Banking are subject to regulatory oversight and have structures in place to facilitate compliance.

**KEY INITIATIVES IMPLEMENTED IN 2022**

- > Strengthened Credit Policy framework and Credit Risk Governance framework for HNB Finance
- > Strengthened credit risk management strategies and monitored effective implementation of the same through Group Risk Dashboard

## HNB ASSURANCE PLC

HNB Assurance PLC (HNBA) and its fully owned subsidiary HNB General Insurance Limited (HNBGI) have well established compliance and risk management systems in place and comply with the regulations of the Insurance Regulatory Commission of Sri Lanka, the CSE and the SEC. The key risk indicators of these two subsidiaries are given below and a summary of their performance is given on page 223 in this report.



### Key risk indicators

	2022	2021
<b>HNB Assurance PLC</b>		
Claims Ratio (without policy maturities)	11%	10%
Expense Ratio	47%	42%
Combined Ratio	73%	52%
Capital Adequacy Ratio	308%	277%
<b>HNB General Insurance Limited</b>		
Claims Ratio	72%	63%
Expense Ratio	38%	37%
Combined Ratio	110%	100%
Capital Adequacy Ratio	242%	258%

The HNBA Group Risk management policy framework defines the risk management policies and processes and provides clear guidance for managing foreseeable risks. The policy framework is aligned to the HNB policies where relevant to achieve strategic alignment and minimise potential adverse impacts. HNBA's Risk Governance structure includes a Board Level Risk Management Committee and the Board Audit Committee. Risk management activities carried out by HNBA and HNBGI are conveyed to the BIRMC of HNB PLC on a quarterly basis. The compliance risk is managed by the submission of confirmation on compliance to the compliance division of HNB on a quarterly basis. The following officials of the Bank are directors of HNBA facilitating alignment of values and culture:

Name	Role in HNBA	Role at the Bank
Mr. Dilshan P.N. Rodrigo	Non-Executive Director	COO/Executive Director HNB
Ms. L Chiranthi Cooray	Non-Executive Director	Chief Human Resources Officer
Mr. Sanjay Wijemanne	Non-Executive Director	Deputy General Manager -Retail and SME
Mr. Arjuna Abeygunasekara	Non-Executive Director	Deputy General Manager Treasury & Markets

## RISK &amp; CAPITAL REVIEW

## HNB FINANCE PLC

HNBF is a full-fledged finance company and was listed on the CSE in 2020. Its risk profiles are shaped by a legacy of microfinance with more recent successful penetration into the SME market segment, extending the customer life cycle and broad basing the market segments. As a regulated finance company, HNBF has a comprehensive Risk Management Framework aligned to the Bank's risk objectives and parameters. The key risk indicators of HNBF are given below while a summary of its performance is given on page 224.

## CAPITAL ADEQUACY RATIO

10.7%

## HNB FINANCE PLC

A(Ika)

Outlook: Stable

## Key Risk Indicators

	2022	2021
Deposit Growth (%)	18.27	13.89
Advances Growth (%)	18.38	26.02
Profitability (Rs. Mn)	(526)	514
Total Assets (Rs.Mn)	52,961	44,386
Shareholder Funds (Rs. Mn)	4,858	5,383
CAR (%) Total Capital	10.7	11.78
Impairment Charge (%)	22.95	16.11
Impaired Portfolio (Rs. Mn)	5,632	4,680
NPA Ratio (%)	15.05	14.78

HNBF recorded a loss of Rs. 526 Mn for the year 2022 and Nil which recorded an decrease of 8.36%. Increased credit risk necessitated another year of high provisioning which dampened profitability. Interest rate caps on deposits introduced by CBSL in 2020 remained in place easing competitive pressures. Liquidity risk remained at comfortable levels due to the strong domestic franchise of the HNB Group which enabled HNBF to attract deposits and lending activities were at a low ebb.

The CRO of HNB is the BIRMC Chairman of HNBF, and provides guidance on development of Risk Management policies, structures, processes and controls using the extensive experience of the Bank's risk management function.

Name	Role in HNBF	Role at the Bank
Mr. D.P.N. Rodrigo	Chairman/Non-Executive Director	Executive Director/COO
Mr. R.D. Manatunga	Non-Executive Director	Chief Risk Officer
Mr. A.G.R. Dissanayake	Non-Executive Director	Chief Financial Officer

## ACUITY PARTNERS (PVT) LTD

The APL Group Risk exposure is monitored and followed by the Groups' Audit Committees with oversight by HNB BIRMC. The APL group submits a quarterly report on Risk management activities to the Board Integrated Risk Management Committee of the Bank. In addition, HNB conducts a Group Governance follow up meeting on a quarterly basis with Acuity Group. The Margin Trading Operations of Acuity Partners (Pvt) Ltd and the stockbroking license of Acuity Stock Brokers is issued by the SEC and they comply with its requirements while Acuity Securities Ltd., is regulated by CBSL.

Material risks identified by the APL Group are market risks, compliance risk, interest rate risk and liquidity risk. Such risks are assessed and mitigated through laid down procedures based on regulatory and internal procedures. Additionally, Lanka Ventures is materially impacted by the Currency devaluation, deteriorating liquidity position of CEB, high interest cost & climate risks as its portfolio comprises of investments in renewable energy. However, climate risks are largely mitigated through diversification as the portfolio covers solar, wind and hydro power generation.

DEBT: EQUITY RATIO

22%

PROFIT AFTER TAX

Rs. 812 Mn

### Key Risk Indicators

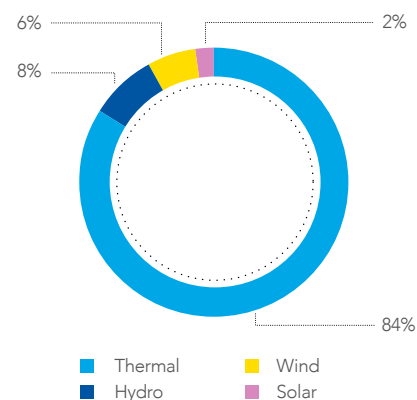
	2022	2021
ROE	9.83%	10.4%
ROI	44%	39%

APL Group has recorded a commendable performance despite sluggish economic conditions with the benchmark ASPI decreasing by 30% during 2022.

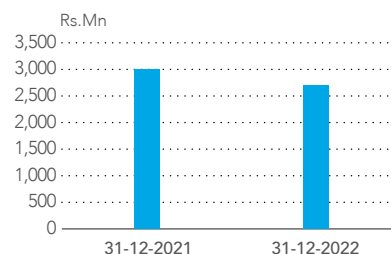
The following officials of the Bank are directors of Acuity Partners facilitating oversight and alignment of values and culture.

Name	Role in Acuity Partners	Role at the Bank
Rajive Dissanayake	Director-Acuity Partners(Pvt) Ltd & Member of Board integrated Audit Committee for ASB/APL. Director-Lanka Ventures PLC & LVL Energy Fund PLC	CFO
Damith Pallewatte	Director -Acuity Partners (Pvt) Ltd, Director-Acuity Securities Ltd & member of board integrated Risk Committee of ASL. Chairman-Lanka Ventures PLC & Director of LVL Energy Fund PLC	DGM-Wholesale Banking
Sanjay Wijemanne	Director -Acuity Partners (Pvt) Ltd & Director-Acuity Stockbrokers (Pvt) Ltd	DGM -Retail & SME banking
Arjuna Abeygunasekara	Director-Acuity Securities Ltd & member of board integrated Audit Committee	DGM-Treasury & Markets
Thushari Ranaweera	Director-Acuity Stockbrokers (Pvt) Ltd	DGM-Legal & Board Secretary

### Break-up of Installed power Generation capacity



### Funds Under management by Unit trust



## RISK &amp; CAPITAL REVIEW

## SITHMA DEVELOPMENT (PVT) LTD

Sithma Developers owns and manages the landmark building of the Bank's Head Office and manages the branch premises owned by the Bank. Risks related to Sithma are monitored by the Bank's Audit Committee and BIRMC in addition to the Board of the subsidiary and the Bank in its role as the parent company.

Typically, the main risks faced by the subsidiary are market risk and compliance risk. However, operational risk factors became the main risk in 2021 and 2022. Additionally, Sithma was also able to retain their clients despite the steep drop in demand in the commercial real estate rental market. Sithma was able to handle these measures satisfactorily through regular communication with key stakeholders and increased investment in personal protective gear and rigorous reinforcement of agreed upon procedures

The value of its assets and rental revenues are impacted by real estate market movements which stagnated during the period under review. However, these are expected to remain in line with 2022 rates due to its prime location and A - grade facility. As the building houses over 2,500 people, compliance with best practice in health and safety standards including fire detection and prevention is a key aspect of risk that is monitored continuously.

## SITHMA DEVELOPMENT (PVT) LTD

**A Grade**

Smart Building

Value of Properties	Rs. '000
<b>HNB Towers - No 479, TB Jayah Mawatha, Colombo 10.</b>	
Net Book Value	9,169,040
Market Value	18,606,600
<b>SMART Building - No 21, Janadhipathi Mawatha, Colombo 1.</b>	
Net Book Value	57,798
Market Value	474,950
<b>Building at Kegalle</b>	
Net Book Value	100,297
Market Value	192,578

	2022 Rs. '000	2021 Rs. '000
<b>Revenues from Rental</b>		
Rental Income	1,038,661	1,017,160
<b>Profitability</b>		
Profit After Tax	531,347	464,294
<b>Equity &amp; Debt : Equity Ratio</b>		
Equity & Reserves	8,854,587	8,240,760
Liabilities	2,106,864	2,696,122
Total Equity & Liabilities	10,961,451	10,936,882



# OURS IS A PROGRESSIVE POWER.

We're built to enable  
continuity and  
steadily advance into  
the years ahead.



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## FINANCIAL CALENDARS

FINANCIAL CALENDAR - 2022	
53rd Annual General Meeting held on	30th March 2022
Rs. 9.00 per share Final Dividend for 2021 paid on	12th April 2022
Audited Financial Statements signed on	17th February 2023
54th Annual General Meeting to be held on	30th March 2023
Rs. 5.00 per share Final Dividend for 2022 payable in the form of a scrip dividend*	April 2023
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	13th May 2022
2nd Quarter Interim Results released on	12th August 2022
3rd Quarter Interim Results released on	11th November 2022

FINANCIAL CALENDAR - 2023	
55th Annual General Meeting to be held in	March 2024
Final Dividend for 2023 payable in **	April 2024
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 2023
2nd Quarter Interim Results to be released in	August 2023
3rd Quarter Interim Results to be released in	November 2023

\* Subject to confirmation by Shareholders

\*\* 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, its subsidiaries, and the joint venture as at 31st December 2022 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 in this annual report comply with the formats prescribed by the Central Bank of Sri Lanka.

The significant 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 and the Group 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 the unstable economic environment prevailing in the Country. Based on the above and taking into account the Group's capital adequacy and its ability to access the liquidity mechanisms, the Group estimates that the conditions for the application of the going concern principle for the preparation of its financial statements are met. We confirm that the Bank and the Group 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 on page 167 to 168 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 2022, as required by the Banking Act Direction No 11 of 2007, result of which is given on page 167 to 168 in this report, the Directors' Statement on Internal Control Over Financial Reporting. External auditor's assurance report on the Directors' Statement on Internal Control Over Financial Reporting is given in page 169.

The financial statements of the Group for the year 2022 were audited by Messrs KPMG, Chartered Accountants, the independent external auditors. Their report is given in pages 232 to 236.

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' in page 162 to 164.

The Board Audit Committee approves the audit and non-audit services provided by external auditor, Messrs KPMG, in line with the Bank's policy on provision of non-audit services, in order to ensure that the provision of such services does not impair KPMG's independence.

We confirm that,

- the Bank, its subsidiaries and the joint venture have complied with all applicable laws, regulations, and prudential requirements;
- there are no material non-compliances;
- there are no material litigations and open tax assessments 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 31st December 2022, have been paid, or where relevant provided for.



**Jonathan Alles**  
*Managing Director/Chief Executive Officer*



**Rajive Dissanayake**  
*Chief Financial Officer*

Colombo, Sri Lanka  
17th February 2023

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the financial statements of the Bank, its subsidiaries and joint venture company 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 pages 232 to 236.

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 2022, 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, its subsidiaries and joint venture company give a true and fair view of:

- the state of affairs of the Bank, its subsidiaries and joint venture company as at 31st December 2022; and
- the profit or loss of the Bank, its subsidiaries and joint venture company 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, its subsidiaries and joint venture company have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements. The Directors are also required to take into consideration the implications of the current economic conditions on the Group's business, operations and financial performance this year. 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, its subsidiaries and joint venture company.

Financial statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) consistent with the underlying books of accounts and are in conformity with the requirements of 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 entire 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 2022 are given on pages 167 to 168 in, Directors' Statement on Internal Control Over Financial Reporting. External Auditor's Assurance Report on the Directors' Statement on Internal Control is given in page 169.

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 162 to 164. 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 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 232 to 236 in this report.

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 17th February 2023 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 5.00 per share (in the form of scrip) for the year 2022.

As required by Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and the Annual Report will be published/hosted in the Bank's website and Colombo Stock Exchange website. The link will be shared with the

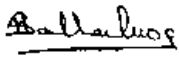
shareholders enabling them to access the Annual Report electronically. Bank will also ensure that a copy of the Annual Report is sent to every shareholder of the Bank, who expressed desire to receive a hard copy within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE.

Further, 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



Shiromi Halloluwa (Ms)  
*Head of Legal/Board Secretary*

Colombo, Sri Lanka  
17th February 2023

# INDEPENDENT AUDITOR'S REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
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Colombo 00300, Sri Lanka.

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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 2022, and the income statement, statement of profit or loss and 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 238 to 434 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 2022, 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.

#### Allowances for Expected Credit Losses

Refer to Note 2.2 (Accounting Judgement, 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

As disclosed in Note 31 & 15 to these financial statements, the Bank and the Group have recorded financial assets measured at amortised cost against loans and advances to customers, of Rs 1,061,372 Mn and Rs 1,107,500 Mn respectively as at 31st December 2022.

High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) (Bank Rs 87,240 Mn ; Group Rs 92,981 Mn) as at the reporting date.

#### Our Responses

Our audit procedures to assess the allowances for ECL included the following:

Testing key controls of the Bank and Group in relation to:

- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- IT system controls which record loans days past due, and non-performing loan classification.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

P.Y.S Perera FCA                      C.P Jayatilake FCA                      T.J.S Rajakane FCA  
W.J.C. Perera FCA                      Ms. S. Joseph FCA                      Ms. S.M.B Jayasekara FCA  
W.K.D.C Abeyrajane FCA                      S.T.D.L. Perera FCA                      G.A.U. Karunaratne FCA  
R.M.D.B. Rajapaksa FCA                      Ms. B.K.D.T.N. Rodrigo FCA                      R.H. Rajan FCA  
M.N.M. Shameel FCA                      Ms. C.T.K.N. Perera ACA                      A.M.R.P. Athakoon ACA  
Ms. P.M.K. Sumanasekara FCA  
Principals - S.R.I. Perera FCA(UK), LLB, Attorney-at-Law, M.S. Goonewardene ACA,  
W.A.A. Weerasekara CFA, ACMA, MRICS





Allowance for expected credit losses (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 Bank and Group's ECL models used to measure ECL allowances. These models used to determine the ECL include significant judgement in assumptions used to determine when a significant increase in credit risk (SICR) has occurred, impact of multiple macroeconomic scenarios, applying a probability weighting to different scenarios and identifying and calculating adjustments to model output (post model adjustments).

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 Bank and Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgmental post-model adjustments the Bank and Group applies to the ECL results.

Additional subjectivity and judgement have been introduced into the Bank and Group's measurement of ECL due to the heightened uncertainty associated with the impact of the economic outlook to the Bank/ Group's customers, increasing our audit effort thereon.

The Bank and Group's criteria selected to identify a SICR are key areas of judgement within the Bank and Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgement in evaluating 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 and Group in respect of the loans.

#### *Assessing impairment for individually significant customers*

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 and Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the potential implications of prevailing economic conditions).

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.

This included the following procedures

- Evaluating management's assessment of recoverability of the forecasted cash flows by comparing them to the historical performance of the customers, their financial position 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, forecasted timing of future cash flows in the context of underlying valuations and approved business plans and challenging key assumptions in the valuations;
- 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 and Group 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 and Group's SICR methodology by re-performing the staging calculation for a sample of loans;
- 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 form our own view whether any impairment indicators were present.

#### *Assessing the adequacy of collectively assessed provisions*

We tested key controls of the Bank and Group in relation to:

- Obtaining an understanding of the Bank and Group's processes to determine ECL allowances, evaluating the Bank and Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- 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 Bank and Group's considerations of the uncertainty relating to key economic indicators.

## INDEPENDENT AUDITOR'S REPORT



The disclosures regarding the Bank/ Group's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.

In addition to controls testing, our procedures included;

- Working with our Financial Risk Management (FRM) specialist; in
  - Challenging the Bank and Group's forward-looking macro-economic assumptions and scenarios incorporated in the ECL models by comparing the economic factors used to relevant publicly available macro-economic information, to identify contradictory indicators
  - Evaluating and challenging the key assumptions in the components of the Bank's and Group's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank/Group's ECL model and data limitations identified by the Bank/Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the prevailing economic conditions;
- Assessing the ongoing effectiveness of the SICR criteria and independently calculating the loans' stage to determine whether a SICR event had occurred;
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank/Group's assessment;
- Evaluating the approach taken by the management in identifying the risk elevated sectors and assessing the current market conditions and specific risks in the Bank and Group's loan portfolios due to exposure to risk elevated sectors;
- Reviewing the deliverables submitted by the component auditors (other KPMG audit teams) as per the Group Audit Instructions to assess any implications that could arise at the Group level stemming from issues at subsidiary level including adequacy of allowances for ECL as at reporting date.

*Assessing the adequacy of post model adjustments*

We challenged key assumptions in the components of the Bank and Group's post-model adjustments to the ECL allowance balance. This included :

- Assessing post-model adjustments against the Bank and Group's ECL model and data deficiencies identified by the Bank and Group's ECL model validation processes, particularly in light of the significant volatility in economic scenarios;
- Comparing underlying data used in concentration risk and economic cycle allowances to underlying loan portfolio characteristics of recent loss experience, current market conditions and exposure to risk elevated sectors in the Bank and Group's loan portfolios;
- Assessing certain post-model adjustments identified by the Bank and Group against internal and external information;
- Assessing the completeness of post-model adjustments by checking the consistency of risks we identified in the loan portfolios against the Bank and Group's assessment.

We also assessed the appropriateness of the related disclosures in the financial statements using our understanding obtained from our testing and against the requirements of Sri Lanka Accounting Standards.



## IT systems and controls over financial reporting

### Risk Description

The Bank and Group's businesses utilize many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. The controls over access, changes to and operation of IT systems are key to the recording of financial information and the preparation of financial statements which provide a true and fair view of the Bank and Group's financial position and performance.

The IT systems and controls, as they impact the recording and reporting of financial transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank and Group's IT controls.

### Our Responses

We worked with our internal 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.

Our further audit procedures included:

#### *General IT controls design, observation and operation*

- Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, review and awareness, and IT Risk Management practices;
- Obtaining an understanding and testing operating effectiveness of 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, monitor system integrity, program development and computer operations;
- Data integrity of critical system reporting used by us in our audit to select samples and analyze data used by management to generate Financial statements.

#### *Application controls*

- On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger.

#### *User access controls operation*

- Assessing the management's evaluation of access rights granted to applications relevant to financial accounting and reporting systems and;
- Evaluate the design and operating effectiveness of IT controls, including those related to user access and change management.
- Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.

### 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.

### 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.

# INDEPENDENT AUDITOR'S REPORT



## 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 auditor's report is FCA 2294.

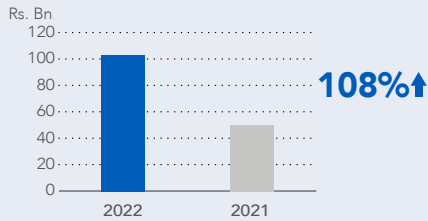
Chartered Accountants  
Colombo, Sri Lanka

17th February 2023

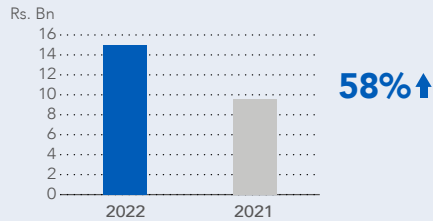
# FINANCIAL HIGHLIGHTS - BANK

## INCOME STATEMENT

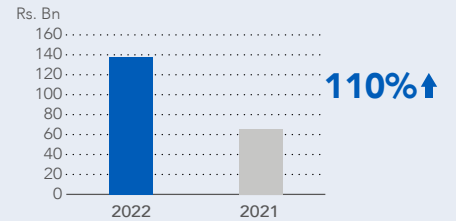
### Net Interest Income



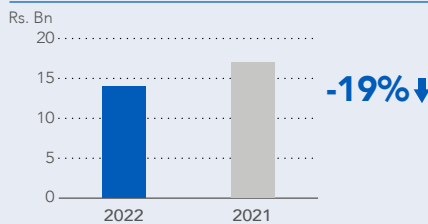
### Net Fee and Commission Income



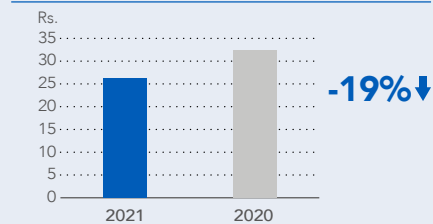
### Total Operating Income



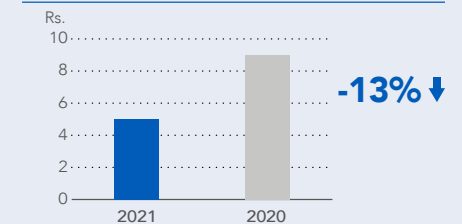
### Profit after Tax



### Earnings per Share - Basic

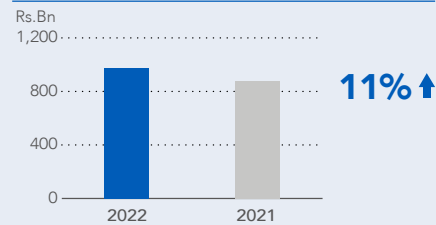


### Dividend per Share

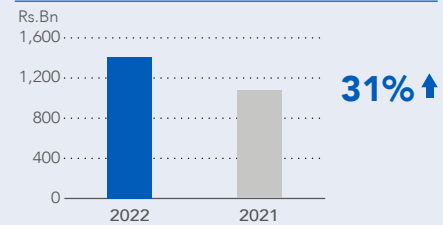


## ASSETS AND LIABILITIES

### Financial Assets measured at Amortised Cost - Loans and Advances to Customers

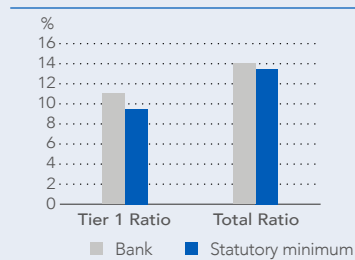


### Financial Liabilities measured at Amortised Cost - Due to Depositors

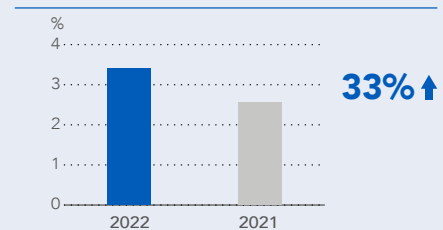


## RATIOS

### Capital Adequacy Ratio



### Net Stage 3 ratio



# INCOME STATEMENT

For the year ended 31st December	Note	Bank		Group	
		2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Gross income</b>	7	242,412,491	115,047,325	270,509,409	135,710,455
Interest income		207,019,354	98,600,557	220,581,307	107,407,723
Less: Interest expenses		104,142,478	49,041,200	109,014,763	50,945,355
<b>Net interest income</b>	8	102,876,876	49,559,357	111,566,544	56,462,368
Fee and commission income		15,520,113	9,893,263	16,521,300	10,676,982
Less: Fee and commission expenses		345,863	270,702	619,555	360,771
<b>Net fee and commission income</b>	9	15,174,250	9,622,561	15,901,745	10,316,211
<b>Net interest, fee and commission income</b>		118,051,126	59,181,918	127,468,289	66,778,579
Net gains / (losses) from trading	10	4,898,719	(522,039)	4,825,568	(383,772)
Net gain from financial investments at fair value through other comprehensive income	11	22,619	195,927	23,099	196,167
Net insurance premium income	12	-	-	12,750,482	10,641,842
Net gains arising on de-recognition of financial assets	13	-	-	-	5,874
Net other operating income	14	14,951,686	6,879,617	15,807,653	7,165,639
<b>Total operating income</b>		137,924,150	65,735,423	160,875,091	84,404,329
Less: Impairment charge for loans and other losses	15	90,461,305	18,778,047	91,735,672	19,534,309
<b>Net operating income</b>		47,462,845	46,957,376	69,139,419	64,870,020
<b>Less: Operating expenses</b>					
Personnel expenses	16	15,025,888	10,757,563	18,490,530	13,676,004
Benefits, claims and underwriting expenditure	17	-	-	11,715,338	8,955,217
Other expenses	18	15,361,679	11,875,964	19,597,651	14,718,170
<b>Total operating expenses</b>		30,387,567	22,633,527	49,803,519	37,349,391
<b>Operating profit before taxes on financial services</b>		17,075,278	24,323,849	19,335,900	27,520,629
Less: Taxes on financial services	19	5,101,372	4,498,822	5,247,616	4,759,882
<b>Operating profit after taxes on financial services</b>		11,973,906	19,825,027	14,088,284	22,760,747
Share of profit of joint venture (net of income tax)	20	-	-	331,973	292,837
<b>PROFIT BEFORE INCOME TAX</b>		11,973,906	19,825,027	14,420,257	23,053,584
Less: Income tax expense	21	(2,059,587)	2,525,260	(1,327,978)	2,969,222
<b>PROFIT FOR THE YEAR</b>		14,033,493	17,299,767	15,748,235	20,084,362
Profit attributable to:					
Equity holders of the Bank		14,033,493	17,299,767	15,328,572	19,024,882
Non-controlling interests		-	-	419,663	1,059,480
<b>PROFIT FOR THE YEAR</b>		14,033,493	17,299,767	15,748,235	20,084,362
<b>Earnings per share</b>					
Basic earnings per ordinary share (Rs)	22	26.20	32.30	28.62	35.52
Diluted earnings per ordinary share (Rs)		26.20	32.30	28.62	35.52
<b>Dividend per share</b>	23				
Dividend per share: Gross (Rs)		5.00*	9.00	5.00*	9.00

The notes to the financial statements from pages 248 to 434 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	
		2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>PROFIT FOR THE YEAR</b>		<b>14,033,493</b>	<b>17,299,767</b>	<b>15,748,235</b>	<b>20,084,362</b>
<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		(1,618,910)	(257,524)	(1,618,910)	(257,524)
Remeasurement of post-employment benefit obligations	53 (c) vi	1,857,052	1,030,928	1,911,065	1,100,788
Revaluation gain on freehold land and buildings		-	4,878,773	200,071	8,547,116
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss		-	-	448,051	1,108
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change	34 (b)	(1,157,240)	(576,923)	(2,442,419)	(786,036)
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>		<b>(919,098)</b>	<b>5,075,254</b>	<b>(1,502,142)</b>	<b>8,605,452</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		(3,634,091)	(2,972,433)	(5,287,257)	(3,916,786)
Cumulative net gains/(losses) on debt instruments measured at fair value through other comprehensive income that are reclassified to amortised cost		5,577,587	-	6,281,572	-
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to income statement		-	-	-	(5,874)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	15	(295,445)	186,758	(295,445)	186,758
Transfer to life policy holder reserve fund	57 (e)	-	-	1,244,429	851,693
Share of other comprehensive income of joint venture that will be reclassified to profit or loss		-	-	(7,090)	61,665
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change	34 (b)	(466,439)	754,541	(387,768)	763,270
<b>Total other comprehensive income that will be reclassified to profit or loss</b>		<b>1,181,612</b>	<b>(2,031,134)</b>	<b>1,548,441</b>	<b>(2,059,274)</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>262,514</b>	<b>3,044,120</b>	<b>46,299</b>	<b>6,546,178</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>14,296,007</b>	<b>20,343,887</b>	<b>15,794,534</b>	<b>26,630,540</b>
Total comprehensive income attributable to:					
Equity holders of the Bank		14,296,007	20,343,887	15,119,144	25,574,417
Non-controlling interests		-	-	675,390	1,056,123
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>14,296,007</b>	<b>20,343,887</b>	<b>15,794,534</b>	<b>26,630,540</b>

The notes to the financial statements from pages 248 to 434 form an integral part of these financial statements.

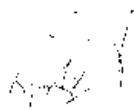
## STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	Bank		Group	
		2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>ASSETS</b>					
Cash and cash equivalents	25	80,238,881	38,185,254	80,629,698	40,900,372
Placements with banks	26	54,371,028	-	58,172,046	6,371,273
Balances with Central Bank of Sri Lanka	27	32,344,341	25,820,489	32,344,341	25,820,489
Reverse repurchase agreements	28	-	-	1,380,579	6,246,276
Derivative financial instruments	29	5,370,501	927,487	5,370,501	927,487
Financial assets measured at fair value through profit or loss	30	111,617	103,365	236,178	862,641
Financial assets measured at amortised cost - loans and advances to customers	31	974,131,252	876,254,693	1,014,518,939	911,253,345
Financial assets measured at amortised cost - debt and other financial instruments	32	448,791,874	160,677,520	479,787,015	171,930,640
Financial assets measured at fair value through other comprehensive income	33	2,706,660	203,426,433	6,062,195	210,804,487
Investment in joint venture	34	755,000	755,000	3,650,354	2,877,420
Investment in subsidiaries	35	3,017,285	3,017,285	-	-
Investment properties	36	464,439	469,774	935,549	964,854
Property, plant and equipment	37	24,835,729	24,953,738	49,616,338	49,724,473
Right-of-use assets	38	5,397,734	5,439,384	2,463,788	2,177,902
Intangible assets and goodwill	39	1,250,154	1,429,544	1,771,092	1,989,134
Deferred tax assets	40	30,471,351	4,461,561	30,763,166	4,941,105
Other assets	41	26,281,118	12,415,094	30,573,372	15,858,665
<b>Total assets</b>		<b>1,690,538,964</b>	<b>1,358,336,621</b>	<b>1,798,275,151</b>	<b>1,453,650,563</b>
<b>LIABILITIES</b>					
Due to banks	42	6,104,578	17,075,502	6,104,578	17,075,502
Derivative financial instruments	29	25,632	353,356	25,632	353,356
Securities sold under repurchase agreements	43	6,540,014	33,524,226	6,540,014	33,524,226
Financial liabilities measured at amortised cost - due to depositors	44	1,407,800,492	1,075,709,287	1,443,179,121	1,107,065,820
Dividends payable	45	1,008,325	989,212	1,038,542	1,013,629
Financial liabilities measured at amortised cost - other borrowings	46	32,350,594	24,747,869	33,385,598	25,555,834
Debt securities issued	47	2,062,950	1,962,749	2,555,109	2,465,085
Current tax liabilities	48	30,025,919	10,051,689	30,460,242	10,518,569
Deferred tax liabilities	40	-	-	6,465,029	5,157,978
Insurance provision - life	49	-	-	24,592,403	20,378,015
Insurance provision - non-life	50	-	-	4,181,588	3,735,921
Other provisions		5,000,513	3,928,598	5,467,274	4,550,802
Other liabilities	51	17,378,270	14,400,456	18,041,795	14,596,651
Subordinated term debts	52	22,914,299	23,552,323	26,151,300	24,391,912
<b>Total liabilities</b>		<b>1,531,211,586</b>	<b>1,206,295,267</b>	<b>1,608,188,225</b>	<b>1,270,383,300</b>

As at 31st December	Note	Bank		Group	
		2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>EQUITY</b>					
Stated capital	54	38,679,005	37,364,244	38,679,005	37,364,244
Statutory reserve fund	55	9,310,000	8,560,000	9,310,000	8,560,000
Retained earnings	56	40,706,963	35,186,607	50,247,360	43,643,800
Other reserves	57	70,631,410	70,930,503	85,055,465	87,099,997
<b>Total shareholders' equity</b>		<b>159,327,378</b>	<b>152,041,354</b>	<b>183,291,830</b>	<b>176,668,041</b>
Non-controlling interests	58	-	-	6,795,096	6,599,222
<b>Total equity</b>		<b>159,327,378</b>	<b>152,041,354</b>	<b>190,086,926</b>	<b>183,267,263</b>
<b>Total equity and liabilities</b>		<b>1,690,538,964</b>	<b>1,358,336,621</b>	<b>1,798,275,151</b>	<b>1,453,650,563</b>
Contingent liabilities and commitments	59	809,328,957	676,242,350	809,328,957	676,242,350
Net assets value per ordinary share (Rs.)	63	297.50	283.89	342.25	329.88

The notes to the financial statements from pages 248 to 434 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.



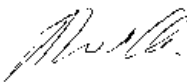
Rajive Dissanayake  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.

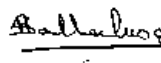
Approved and signed for and on behalf of the Board.



Jonathan Alles  
Managing Director/Chief Executive Officer



Aruni Goonetilleke  
Chairperson



Shiromi Halloluwa  
Head of Legal/Board Secretary

17th February 2023  
Colombo

## STATEMENT OF CHANGES IN EQUITY

Bank	Note	Stated Capital			Other Reserves				Total
		Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair Value Reserve	General Reserve	Retained Earnings	
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2021		29,244,472	6,327,857	7,660,000	10,782,706	1,221,363	56,100,000	22,665,227	134,001,625
Total comprehensive income for the year		-	-	-	-	-	-	17,299,767	17,299,767
Net profit for the year 2021		-	-	-	4,301,850	(2,475,416)	-	1,217,686	3,044,120
Other comprehensive income, net of tax		-	-	-	4,301,850	(2,475,416)	-	18,517,453	20,343,887
Total comprehensive income for the year		-	-	-	-	-	-	-	-
Transactions with equity holders, recognised directly in equity									
Contributions by and distributions to equity holders									
Dividends to equity holders									
Final dividend 2020- Cash	23	-	-	-	-	-	-	(2,303,891)	(2,303,891)
Final dividend 2020 - Scrip	23	1,436,119	355,796	-	-	-	-	(1,791,915)	-
Total contributions by and distributions to equity holders		1,436,119	355,796	-	-	-	-	(4,095,806)	(2,303,891)
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	(267)	(267)
Transfers during the year 2021		-	-	900,000	-	-	1,000,000	(1,900,000)	-
Balance as at 31st December 2021		30,680,591	6,683,653	8,560,000	15,084,556	(1,254,053)	57,100,000	35,186,607	152,041,354

Bank	Note	Stated Capital			Other Reserves				Total
		Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair Value Reserve	General Reserve	Retained Earnings	
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2022		30,680,591	6,683,653	8,560,000	15,084,556	(1,254,053)	57,100,000	35,186,607	152,041,354
Adjustment for surcharge tax levied under the surcharge tax Act No.14 of 2022	48 (a)	-	-	-	-	-	-	(3,611,625)	(3,611,625)
Adjusted balance as at 1st January 2022		30,680,591	6,683,653	8,560,000	15,084,556	(1,254,053)	57,100,000	31,574,982	148,429,729
<b>Total comprehensive income for the year</b>									
Net profit for the year 2022		-	-	-	-	-	-	14,033,493	14,033,493
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category (net of tax)	67 (d)	-	-	-	-	1,477,057	-	-	1,477,057
Other comprehensive income, net of tax					(1,157,240)	(1,618,910)	-	1,561,607	(1,214,543)
<b>Total comprehensive income for the year</b>					(1,157,240)	(141,853)	-	15,595,100	14,296,007
<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 2021 - Cash	23	-	-	-	-	-	-	(3,418,380)	(3,418,380)
Final dividend 2021 - Scrip	23	1,052,150	262,611	-	-	-	-	(1,314,761)	-
<b>Total contributions by and distributions to equity holders</b>		1,052,150	262,611	-	-	-	-	(4,733,141)	(3,418,380)
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	20,022	20,022
Transfers during the year 2022		-	-	750,000	-	-	1,000,000	(1,750,000)	-
<b>Balance as at 31st December 2022</b>		31,732,741	6,946,264	9,310,000	13,927,316	(1,395,906)	58,100,000	40,706,963	159,327,378

# STATEMENT OF CHANGES IN EQUITY

Group	Attributable to Equity Holders of the Bank												Total
	Stated Capital		Other Reserves					Shareholders' Funds		Controlling Interests		Total	
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair Value Reserve	Life Policy Reserve Fund	Restricted Regulatory Reserve	Exchange Equalization Reserve	Retained Earnings	Funds		
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Note													
Balance as at 1st January 2021	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
Acquisition of subsidiary through HNB Finance PLC	-	-	-	-	-	-	-	-	-	-	-	301,135	301,135
Adjusted balance as at 1st January 2022	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	5,711,099	159,960,574
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	19,024,882	19,024,882	1,059,480	20,084,362
Net profit for the year 2021	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income, net of tax	-	-	-	7,792,270	(2,528,094)	-	-	-	61,568	1,253,791	6,549,535	(3,357)	6,546,178
Total comprehensive income for the year	-	-	-	7,792,270	(2,528,094)	-	-	-	61,568	20,278,673	25,574,417	1,056,123	26,630,540
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(1,791,915)	-	-	-
Final dividend 2020 - Scrip	1,436,119	355,796	-	-	-	-	-	-	-	(2,303,891)	(2,303,891)	(168,000)	(2,471,891)
Final dividend 2020 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions to equity holders	1,436,119	355,796	-	-	-	-	-	-	-	(4,095,806)	(2,303,891)	(168,000)	(2,471,891)
Transfer from life policy holder reserve fund	-	-	-	-	-	-	(851,693)	-	-	-	(851,693)	-	(851,693)
Transfer of / (subsequent settlement of) unclaimed dividends	-	-	-	-	-	-	-	-	-	(267)	(267)	-	(267)
Transfers during the year 2021	-	-	900,000	-	1,000,000	-	-	-	-	(1,900,000)	-	-	-
Balance as at 31st December 2021	30,680,591	6,683,653	8,560,000	30,816,980	57,100,000	(1,258,039)	(103,302)	381,156	163,202	43,643,800	176,668,041	6,599,222	183,267,263



Group	Attributable to Equity Holders of the Bank												
	Stated Capital			Other Reserves									Total
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair Value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	Exchange Equalization Reserve	Retained Earnings	Shareholders' Funds	Non Controlling Interests	
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
	30,680,591	6,683,653	8,560,000	30,816,980	57,100,000	(1,259,039)	(103,302)	381,156	163,202	43,643,800	176,668,041	6,599,222	183,267,263
Balance as at 1st January 2022													
Adjustment for surcharge tax levied under the surcharge tax Act No. 14 of 2022	-	-	-	-	-	-	-	-	-	(3,912,900)	(3,912,900)	(68,995)	(3,981,895)
Acquisition of non controlling interest during amalgamation of HNB Finance PLC with Prime Finance PLC	-	-	-	-	-	-	-	-	-	-	-	(301,135)	(301,135)
Adjusted balance as at 1st January 2022	30,680,591	6,683,653	8,560,000	30,816,980	57,100,000	(1,259,039)	(103,302)	381,156	163,202	39,730,900	172,755,141	6,229,092	178,984,233
<b>Total comprehensive income for the year</b>													
Net profit for the year 2022	-	-	-	-	-	-	-	-	-	15,328,572	15,328,572	419,663	15,748,235
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category (net of tax)	-	-	-	-	-	2,181,042	-	-	-	-	2,181,042	-	2,181,042
Other comprehensive income, net of tax	-	-	-	(2,323,563)	-	(2,105,633)	-	-	448,051	1,590,675	(2,390,470)	255,727	(2,134,743)
<b>Total comprehensive income for the year</b>	-	-	-	(2,323,563)	-	75,409	-	-	448,051	16,919,247	15,119,144	675,390	15,794,534
Transactions with equity holders, recognised directly in equity													
Contributions by and distributions to equity holders													
<b>Dividends to equity holders</b>													
Final dividend 2021 - Cash	-	-	-	-	-	-	-	-	-	(3,418,380)	(3,418,380)	(192,000)	(3,610,380)
Final dividend 2021 - Scrip	1,052,150	262,611	-	-	-	-	-	-	-	(1,314,761)	-	-	-
Merger reserve arising from amalgamation of subsidiary, HNB Finance PLC and Prime Finance PLC	-	-	-	-	-	-	-	-	-	6,649	6,649	8,966	15,615
Pre amalgamation profit of Prime Finance PLC	-	-	-	-	-	-	-	-	-	53,683	53,683	73,648	127,331
<b>Total contributions by and distributions to equity holders</b>	1,052,150	262,611	-	-	-	-	-	-	-	(4,672,809)	(3,358,048)	(109,386)	(3,467,434)
Transfer to life policy holder reserve fund	-	-	-	-	-	-	(1,244,429)	-	-	-	(1,244,429)	-	(1,244,429)
Transfer of / (subsequent settlement of) unclaimed dividends	-	-	-	-	-	-	-	-	-	20,022	20,022	-	20,022
Transfers during the year 2022	-	-	750,000	-	1,000,000	-	-	-	-	(1,750,000)	-	-	-
Balance as at 31st December 2022	31,732,741	6,946,264	9,310,000	28,493,417	58,100,000	(1,182,630)	(1,347,731)	381,156	611,253	50,247,360	183,291,830	6,795,096	190,086,926

## 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	
		2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Cash flows from operating activities</b>					
Interest receipts		204,741,871	99,044,623	218,374,687	107,874,546
Interest payments		(78,077,951)	(50,890,505)	(82,156,552)	(53,610,605)
Net commission receipts		15,080,565	9,948,665	15,895,361	10,727,319
Net trading income		4,526,126	(600,577)	4,534,746	(608,174)
Payments to employees		(14,787,910)	(12,327,246)	(18,013,411)	(15,803,751)
Taxes on financial services		(3,857,416)	(4,824,723)	(4,061,341)	(5,069,260)
Receipts from other operating activities		7,568,756	4,974,996	21,354,498	16,396,591
Payments for other operating activities		(10,738,450)	(10,978,088)	(24,821,097)	(17,151,493)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>124,455,591</b>	<b>34,347,145</b>	<b>131,106,891</b>	<b>42,755,173</b>
<b>(Increase)/decrease in operating assets</b>					
Balances with Central Bank of Sri Lanka		(6,523,852)	(18,608,094)	(6,523,852)	(18,608,094)
Financial assets measured at amortised cost					
- loans and advances to customers		(58,431,085)	(114,928,093)	(65,103,007)	(117,923,219)
Reverse repurchase agreements		-	-	4,865,697	(3,419,226)
Other assets		(6,107,771)	(1,266,482)	(6,967,076)	(1,215,835)
		(71,062,708)	(134,802,669)	(73,728,238)	(141,166,374)
<b>Increase/(decrease) in operating liabilities</b>					
Financial liabilities measured at amortised cost - due to depositors		149,135,812	108,560,558	152,260,052	109,856,977
Financial liabilities measured at amortised cost - other borrowings		(14,013,993)	(77,713,587)	(13,786,954)	(77,614,427)
Securities sold under repurchase agreements		(27,224,146)	23,193,118	(27,224,146)	23,193,118
Other liabilities		(16,324,873)	1,100,303	(16,423,675)	1,365,904
		91,572,800	55,140,392	94,825,277	56,801,572
<b>Net cash (used in)/generated from operating activities before income tax</b>					
		144,965,683	(45,315,132)	152,203,930	(41,609,629)
Income and surcharge tax paid		(9,520,889)	(3,545,047)	(10,222,643)	(3,946,039)
<b>Net cash (used in)/generated from operating activities</b>		<b>135,444,794</b>	<b>(48,860,179)</b>	<b>141,981,287</b>	<b>(45,555,668)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	37	(1,173,458)	(706,891)	(1,471,498)	(1,063,001)
Proceeds from the sale of property, plant and equipment		13,295	12,801	17,387	10,622
Net proceeds from sale, maturity and purchase of financial investments		(33,860,569)	60,084,178	(46,443,765)	55,066,382
Net purchase of intangible assets	39	(229,884)	(504,339)	(285,513)	(661,046)
Net cash effect on acquisition of subsidiary through HNB Finance PLC	39 (a) i	-	-	-	(1,300,092)
Dividends received from investment in subsidiaries	14	287,933	251,941	-	-
Dividends received from other investments		41,771	60,778	50,872	70,809

For the year ended 31st December	Note	Bank		Group	
		2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Net cash (used in)/generated from investing activities</b>		(34,920,912)	59,198,468	(48,132,517)	52,123,674
<b>Cash flows from financing activities</b>					
Proceeds from the issue of subordinated debt		-	7,000,000	2,000,000	7,000,000
Repayment of subordinated debt/debt securities issued		(700,000)	(11,000,000)	(733,250)	(10,883,250)
Dividend paid to non controlling interests		-	-	(186,194)	(161,905)
Dividend paid to shareholders of the parent company		(3,399,227)	(2,276,597)	(3,399,227)	(2,276,597)
<b>Net cash used in financing activities</b>		<b>(4,099,227)</b>	<b>(6,276,597)</b>	<b>(2,318,671)</b>	<b>(6,321,752)</b>
<b>Net increase in cash and cash equivalents</b>		<b>96,424,655</b>	<b>4,061,692</b>	<b>91,530,099</b>	<b>246,254</b>
Cash and cash equivalents at the beginning of the year		38,185,254	34,123,562	47,271,645	47,025,391
<b>Cash and cash equivalents at the end of the year</b>		<b>134,609,909</b>	<b>38,185,254</b>	<b>138,801,744</b>	<b>47,271,645</b>
<b>Note [a] - Reconciliation of operating profit before changes in operating assets and liabilities</b>					
Profit before income tax		11,973,906	19,825,027	14,420,257	23,053,584
Amortisation of intangible assets	18 (b)	409,274	383,967	503,555	481,038
Amortisation of right of use assets	18 (b)	865,228	744,142	871,892	660,093
Accretion of interest on right of use assets	8 (b)	859,672	730,245	341,159	192,856
Accrual for interest payable		26,876,001	(3,648,124)	26,825,599	(2,611,235)
Accrual for interest receivable		(4,974,147)	516,166	(4,906,468)	543,245
Accrual for other payables		2,056,359	(2,049,594)	3,099,067	(2,192,951)
Accrual for other receivable		14,418,145	(228,755)	11,501,007	(197,038)
Depreciation of investment property	18 (b)	5,335	5,335	29,305	31,645
Depreciation of property, plant and equipment	18 (b)	1,287,867	1,309,520	1,782,933	1,732,520
Dividend income		(329,704)	(449,591)	(50,872)	(207,681)
Gain/(loss) on FCBU revaluation		(19,418,284)	(1,537,362)	(19,418,284)	(1,537,362)
Gain on disposal of property, plant and equipment	14	(9,695)	(12,661)	(12,114)	(13,199)
Impairment charge for loans and other losses	15	90,461,305	18,778,047	91,735,672	19,534,309
Increase in insurance contract liabilities - life		-	-	4,214,388	3,304,982
Movement in general insurance reserve fund		-	-	445,667	426,771
Net gain arising on de-recognition of financial assets	13	-	-	-	(5,874)
Net capital gain/(loss) from financial assets measured at fair value through profit or loss		(17,915)	(351)	(22,001)	(47,518)
Net gain from marked to market valuation on financial assets measured at fair value through profit or loss		(7,756)	(18,866)	78,102	(100,175)
Share of profits of joint venture	20	-	-	(331,973)	(292,837)
		124,455,591	34,347,145	131,106,891	42,755,173
<b>Note [b] - Cash and cash equivalents at the end of the year</b>					
Cash and cash equivalents	25	80,238,881	38,185,254	80,629,698	40,900,372
Placements with banks	26	54,371,028	-	58,172,046	6,371,273
		134,609,909	38,185,254	138,801,744	47,271,645

The notes to the financial statements from page 248 to 434 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 structure of the Group is given below.

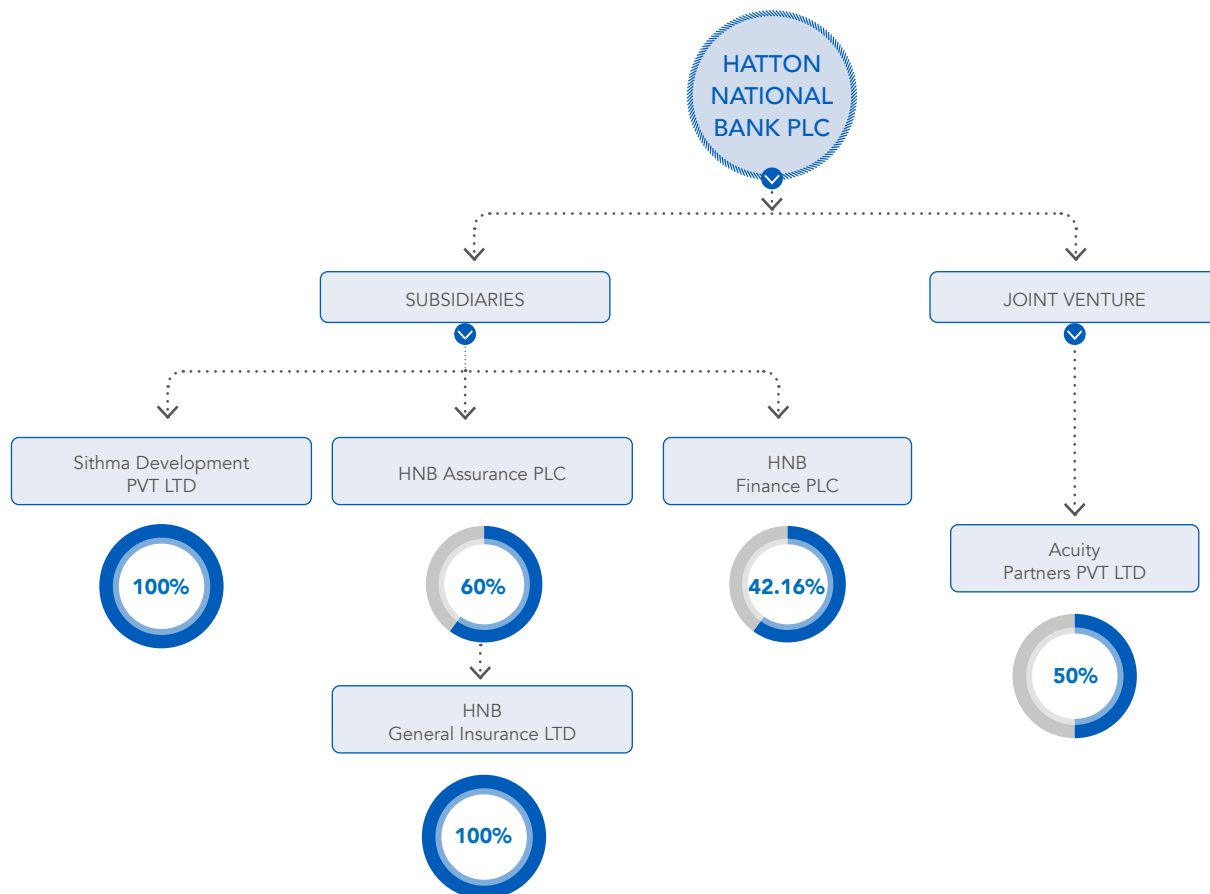
The staff strength of the Group and the Bank was as follows:

As at 31st December	2022	2021
Bank	5,156	5,042
Group	8,487	8,294

Corporate information is presented in inner back cover of this Annual Report.

### 1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st December 2022 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	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 (Fully owned subsidiary of HNB Assurance PLC)	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.  * On 12th May 2022, HNB Finance PLC amalgamated with Prime Finance PLC under section 239 of the Companies Act No 7 of 2007. Accordingly, the aforementioned amalgamating companies continue as HNB Finance PLC w.e.f. 12th May 2022.
Prime Finance PLC (Subsidiary of HNB Finance PLC upto 12th May 2022)	Provision of acceptance of deposits, granting lease facilities, hire purchase, mortgage loans and other credit facilities, real estate and related services.
<b>Joint Ventures</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. The group companies are domiciled in Sri Lanka.

## 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 62 on pages 254 to 433.

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"

Further, the tax liability arising from the Surcharge Tax Act No. 14 of 2022 has been accounted as recommended by the Statement of Alternative Treatment (SOAT) issued by the Institute of Chartered Accountants of Sri Lanka as disclosed under Note 48 (a) to the Financial Statements.

#### 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'

# NOTES TO THE FINANCIAL STATEMENTS

Responsibility for Financial Reporting” and the certification on the statement of financial position on pages 152, 231 and 241 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 17th February 2023.

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 238 and 239;

## 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	332
Financial assets measured at fair value through profit or loss	Fair value	30	333
Financial assets measured at fair value through other comprehensive income	Fair value	33	357
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	374
Insurance contract liabilities	Actuarially determined value of life insurance liability estimated based on actuarial guidelines issued by Insurance Regulatory Commission of Sri Lanka (IRCSL)	49	401
Incurred but not reported/incurred but not enough reported liability	Actuarially determined values based on internationally accepted actuarial policies and methodologies	50	403
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	408

## 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 current economic developments, in order to make projections for future economic conditions of the environment in which it operates. The main factors that cause uncertainties regarding the application of this principle relate to the unstable economic environment in the country, implications of COVID 19 pandemic on the business operations, performance of the Group and the measures adopted by the government to support the 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.

- a statement of financial position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. Refer pages 240 and 241;
- 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 242 to 245;
- 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 246 and 247;
- notes to the financial statements comprising significant accounting policies and other explanatory information. Refer pages 248 to 434.

Specifically, the high degree of uncertainty that characterizes the internal economic environment led to deterioration in the creditworthiness of corporate and individuals. This resulted in an increase of non performing loans and therefore the recognition of significant impairment losses by the Bank and by the banking sector in general. Based on the above along with the Group’s capital adequacy levels and the ability of the Bank to access the liquidity mechanisms, the Group estimates that the conditions for the application of the going concern principle in preparation of its financial statements are met. 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 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 Economic environment

High degree of uncertainty that characterizes the internal economic environment followed by the economic crisis in the country has led to a significant deterioration in the creditworthiness of corporate and individuals. This resulted in an increase of non performing loans and there-fore the recognition of significant impairment losses by the Bank and banking sector in general .

The Bank's total exposure to Sri Lanka government securities denominated in foreign currency is presented in Note 32 (a) to the financial statements. The main uncertainty in estimating the recoverability of the Bank's total exposure to foreign currency denominated government securities relate to the debt service capacity of the country. This in turn, is affected by the prevailing macroeconomic environment and the negotiations of Government of Sri Lanka in relation to the debt restructuring and financing.

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 economic conditions 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

## NOTES TO THE FINANCIAL STATEMENTS

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
Classification of financial assets and assessment of the business model within which the assets are held	3.4.3	257
Determination of fair value of financial instruments when there is no observable market data	6.2	300
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 Losses (ECL).	31 (f)	344
Determination of control over investees	34,35	362, 365
Classification of investment properties	36	368

### 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 2022 is included in the following notes.

Significant Assumptions and Estimation Uncertainties	Note Reference	Page Reference
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts	3.5,39	260, 389
Measurement of the fair value of financial instruments with significant unobservable inputs	6.2	300
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)	339
Useful life time of property, plant and equipment, investment properties and intangible assets	37,36,39	374, 368, 389
Determination of the fair value of freehold land and buildings on the basis of significant unobservable inputs	37 (b)	381
Right-of-use assets and operating lease liability	38	386
Fair value of consideration transferred and fair value of asset acquired and liabilities assumed measured on provisional basis	39 (a)i	391
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used	40 (d)	395
Valuation of life insurance contract liabilities of subsidiary, HNB Assurance PLC (HNBA)	49	401
Valuation of non-life insurance contract liabilities of subsidiary, HNB General Insurance Limited	50	403
Measurement of defined benefit obligations: key actuarial assumptions	53 (c) vii	412

Significant Assumptions and Estimation Uncertainties	Note Reference	Page Reference
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources	59	420

Accounting policy	Note Reference	Page Reference
<b>Significant accounting policies – General</b>		
Basis of consolidation	3.1	254
Foreign currency	3.2	255
Financial instruments – Initial recognition, classification and subsequent measurement	3.3	255
Investment in joint venture	34	362
Investment in subsidiaries	35	365
Investment properties	36	368
Property, plant and equipment	37	374
Right-of-use assets	38	386
Intangible assets and goodwill	39	389
Due to banks	42	397
Securities sold under repurchase agreements	43	397
Financial liabilities measured at amortised cost – Due to depositors	44	398
Financial liabilities at amortised cost – Other borrowings	46	399
Debt securities issued	47	400
Subordinated term debts	52	406
Insurance provision – Life	49	401
Insurance provision – Non-life	50	403
Employee benefit obligations	53	408
Contingent liabilities and commitments	59	420
<b>Significant accounting policies – Recognition of income and expenses</b>		
Gross income	7	303
Net interest income	8	304
Net fee and commission income	9	306
Net losses from trading	10	308
Net gain from financial investments at fair value through other comprehensive income	11	309
Net insurance premium income	12	310
Net gains arising on de-recognition of financial assets	13	311
Net other operating income	14	312
Impairment charge for loans and other losses	15	313
Personnel expenses	16	314
Benefits, claims and underwriting expenditure	17	315
Other expenses	18	317
Income tax expenses	21	319

# NOTES TO THE FINANCIAL STATEMENTS

## 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 4 to the financial statements.

### 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.

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 365. and 420 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 Bank, 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 362 and 420 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.

#### 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 income statement. However, foreign currency differences arising from the translation of 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.

## 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 Group.

### 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 plus or minus the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, 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

The "Day 1 loss" arising in the case of loans granted to 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 employee or tenure of the loan whichever is shorter.

### 3.4 Classification and Subsequent Measurement of Financial Instruments

The Group classifies all of its financial assets based on the business model for managing the asset and the asset's contractual terms.

# NOTES TO THE FINANCIAL STATEMENTS

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 (FVTPL) as explained in Note 30 to the financial statements.

The Group classifies and measures its derivative and trading portfolio at FVTPL as explained in Notes 29 and 30 to the financial statements. The Group may designate financial instruments at FVTPL, 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 FVTPL. The financial liabilities are measured at FVTPL 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 instruments 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 FVTPL.



### 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 FVTPL:</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	Note 25
		Placements with banks	Note 26
		Balances with Central Bank of Sri Lanka	Note 27
		Reverse repurchase agreements	Note 28
		Financial assets measured at amortised cost - loans and advances to customers	Note 31
		Financial assets measured at amortised cost - debt and other instruments	Note 32
Financial assets measured at fair value through other comprehensive income	<ul style="list-style-type: none"> <li>• A debt instrument is measured at Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met: <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> </li> <li>• Upon initial recognition, the Group may elect 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.</li> </ul>	Financial assets measured at fair value through other comprehensive income	Note 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	Note 29
		Financial assets measured at fair value through profit or loss	Note 30

# NOTES TO THE FINANCIAL STATEMENTS

## 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 measured at amortised cost	Due to banks	Note 42
		Securities sold under repurchase agreements	Note 43
		Financial liabilities measured at amortised cost - due to depositors	Note 44
		Financial liabilities measured at amortised cost - other borrowings	Note 46
		Debt securities issued	Note 47
		Subordinated term debts	Note 52
Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss include; <ul style="list-style-type: none"> <li>- Financial liabilities held for trading and</li> <li>- Financial liabilities designated at fair value through profit or loss</li> </ul>	Derivative financial instruments	Note 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 a financial liability at FVTPL 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 assets and 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 FVTPL 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 FVTPL 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.
- 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.

If the reclassification takes place out of the fair value through other comprehensive income measurement category to amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

- The details of reclassifications carried out are 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

# NOTES TO THE FINANCIAL STATEMENTS

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 and disclosed in Note 15 to the financial 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.

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

There were no changes to the significant accounting policies applied during the year.

## 4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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 are effective for annual periods beginning after 1st January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

### 4.1 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to Sri Lanka Accounting Standard LKAS 12 – "Income Taxes")

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1st January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other types of transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. There will be no impact on retained earnings on adoption of the amendments.

#### 4.2 Sri Lanka Accounting Standard - SLFRS 17 “Insurance Contracts” effective from 1st January 2025 - 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 new and amended standards are not expected to have a significant impact on the Group’s consolidated financial statements.

- Classification of liabilities as current or non-current (Amendments to LKAS 1) - effective for annual periods beginning on or after 1st January 2023.
- Disclosure of accounting policies (Amendments to LKAS 1 and SLFRS Practice Statement 2) - effective for annual periods beginning on or after 1st January 2023.
- Definition of accounting estimates (Amendments to LKAS 8) - effective for annual periods beginning on or after 1st January 2023.
- Lease liability in a sale and leased back (Amendment to SLFRS 16) - effective for annual periods beginning on or after 1st January 2024.

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT

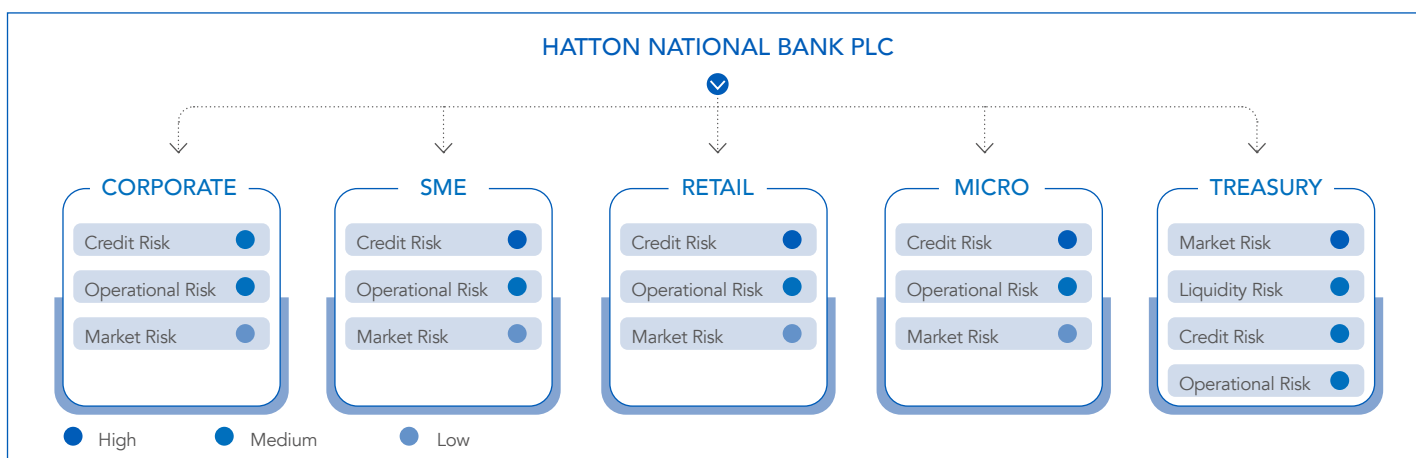
This note presents information about the Bank/Group exposure to financial risks and the Bank/Group’s management of capital.

### 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’s 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’s exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risks.

### 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 and 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 Information Security 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.

#### Consideration of current economic conditions on credit risk

Bank continued to conduct in-depth analysis on the industries which has been affected and the scale of impact on Bank's lending portfolio, through various stress testing techniques including stage shift assessment of elevated risk industries. Uncertainties relating to the economic conditions 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 the economic environment 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.

#### 5.3.2 Management of Credit 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.

# NOTES TO THE FINANCIAL STATEMENTS

- 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.
- Identification of elevated risk industries and the adequacy of any overlay adjustment made outside the ECL model, as part of model adjustments to address the potential implications of the prevailing economic conditions.

Each business unit is required to implement Bank's 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	2022		2021	
	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	41,167,892	41,167,892	7,316,562	7,316,562
Placements with banks	54,383,166	54,383,166	-	-
Derivative financial instruments	5,370,501	5,370,501	927,487	927,487
Financial assets measured at fair value through profit or loss	111,617	111,121	103,365	103,365
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	1,061,371,654	452,717,179	928,971,730	380,445,266
Financial assets measured at amortised cost				
- debt and other instruments	525,252,301	252,369,464	172,020,526	169,980,111
Financial assets measured at fair value through other comprehensive income	2,706,660	2,706,660	203,426,433	7,354,788
Other financial assets	9,227,790	1,748,708	6,123,181	1,718,031
	1,699,591,581	810,574,691	1,318,889,284	567,845,610
Guarantees, letters of credit and acceptances	137,337,700	134,466,381	155,679,119	153,445,897

#### Group

As at 31st December	2022		2021	
	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	41,297,208	41,297,208	9,952,802	9,952,802
Placements with banks	58,184,873	58,184,873	6,371,624	6,371,624
Reverse repurchase agreement	1,380,579	-	6,246,276	-
Derivative financial instruments	5,370,501	5,370,501	927,487	927,487
Financial assets measured at fair value through profit or loss	236,178	194,364	862,641	515,416
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	1,107,500,061	494,018,552	968,907,254	405,491,802
Financial assets measured at amortised cost				
- debt and other instruments	557,021,541	267,630,461	184,047,138	181,051,425
Financial assets measured at fair value through other comprehensive income	6,062,195	2,709,372	210,804,487	213,513,885
Other financial assets	12,041,606	4,745,658	8,034,880	3,629,730
	1,789,094,742	874,150,989	1,393,518,349	818,817,931
Guarantees, letters of credit and acceptances	137,337,700	134,466,381	155,679,119	153,445,897

## 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 2022</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	10,731,515	-	-	41,303,705	24,388,012	-	-	-	10,130	-	-	-
Placements with banks	54,383,166	-	-	-	-	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	32,344,341	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	12,180	-	-	-	3,259	-	-	-	-
Financial assets measured at fair value through profit or loss	496	-	-	34,910	-	-	-	1,543	-	-	-	-
Financial assets measured at amortised cost												
loans and advances to customers (gross)*	50,988,828	3,325,909	606,179	-	197,638,685	22,296,731	8,352,091	-	99,478,905	36,943,222	17,479,979	-
Financial assets measured at amortised cost												
debt and other instruments	278,149,988	-	-	-	-	241,750,564	-	3,131,700	-	-	123,417	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	2,134,875	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
	394,253,993	3,325,909	606,179	73,695,136	222,026,697	264,047,295	8,352,091	5,271,377	99,489,035	36,943,222	17,603,396	-
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	63,293,315	599,309	26,142	-	195,202,733	3,787,394	210,878	-	80,253,166	5,584,037	1,505,648	-
<b>As at 31st December 2021</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	1,464,931	-	-	31,124,322	5,014,799	-	-	-	590,081	-	-	-
Placements with banks	-	-	-	-	-	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	25,820,489	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	660,675	-	-	-	36,235
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	3,124
Financial assets measured at amortised cost												
loans and advances to customers (gross)*	71,352,488	22,691,242	4,583,438	-	178,759,493	13,558,640	3,011,971	-	92,669,508	44,833,754	11,790,220	-
Financial assets measured at amortised cost												
debt and other instruments	168,314,125	-	-	-	3,095,601	-	-	-	-	-	72,466	-
Financial assets measured at fair value through other comprehensive income	199,100,863	-	-	-	-	-	-	3,762,986	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
	440,232,407	22,691,242	4,583,438	56,944,811	186,869,893	13,558,640	3,011,971	4,423,661	93,259,589	44,833,754	11,862,686	39,359
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	54,619,896	343,473	120,833	-	151,735,757	3,268,005	265,778	-	39,847,893	8,251,109	2,252,491	-

\* 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		
	4,008,531	-	-	-	-	-	-	-	-	-	-	-	80,441,893	25
	-	-	-	-	-	-	-	-	-	-	-	-	54,383,166	26
	-	-	-	-	-	-	-	-	-	-	-	-	32,344,341	27
	-	-	-	-	-	-	-	5,355,062	-	-	-	-	5,370,501	29
	-	-	-	-	-	-	-	74,668	-	-	-	-	111,617	30
	19,337,181	14,778,441	25,557,280	-	339,979,474	90,475,928	49,667,730	-	83,167,162	636,116	661,812	-	1,061,371,654	31
	-	-	-	538,332	-	-	-	1,558,300	-	-	-	-	525,252,301	32
	-	-	-	-	-	-	-	571,785	-	-	-	-	2,706,660	33
	-	-	-	-	-	-	-	-	9,227,790	-	-	-	9,227,790	41
	23,345,712	14,778,441	25,557,280	538,332	339,979,474	90,475,928	49,667,730	7,559,815	92,394,952	636,116	661,812	-	1,771,209,923	
	13,075,762	1,483,096	809,651	-	378,161,352	9,391,357	601,113	-	-	-	-	-	753,984,953	5.3.6 (c)
	-	-	-	-	-	-	-	-	-	-	-	-	38,194,133	25
	-	-	-	-	-	-	-	-	-	-	-	-	-	26
	-	-	-	-	-	-	-	-	-	-	-	-	25,820,489	27
	-	-	-	124,833	-	-	-	105,744	-	-	-	-	927,487	29
	-	-	-	-	-	-	-	100,241	-	-	-	-	103,365	30
	24,715,471	10,160,762	18,557,055	-	289,995,172	58,552,125	24,668,823	-	57,618,100	429,892	1,023,576	-	928,971,730	31
	-	-	538,332	-	-	-	-	-	-	-	-	-	172,020,526	32
	-	-	-	-	-	-	-	562,584	-	-	-	-	203,426,433	33
	-	-	-	-	-	-	-	-	6,123,181	-	-	-	6,123,181	41
	24,715,471	10,160,762	19,095,387	124,833	289,995,172	58,552,125	24,668,823	768,569	63,741,281	429,892	1,023,576	-	1,375,587,344	
	11,387,762	1,186,808	318,088	-	318,644,841	1,959,664	613,597	-	-	-	-	-	594,815,995	5.3.6 (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 date due to other criteria.

Bank As at 31st December 2022	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
<b>Less than :</b>						
30 DPD	118,190,011	9,380,177	-	-	118,190,011	9,380,177
90 DPD	-	-	22,886,740	8,465,632	22,886,740	8,465,632
<b>More than :</b>						
30 DPD	50,266,336	6,855,196	-	-	50,266,336	6,855,196
90 DPD	-	-	79,438,332	50,062,020	79,438,332	50,062,020
<b>Total</b>	<b>168,456,347</b>	<b>16,235,373</b>	<b>102,325,072</b>	<b>58,527,652</b>	<b>270,781,419</b>	<b>74,763,025</b>

Bank As at 31st December 2021	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
<b>Less than :</b>						
30 DPD	116,010,199	3,481,729	-	-	116,010,199	3,481,729
90 DPD	-	-	30,807,389	15,459,411	30,807,389	15,459,411
<b>More than :</b>						
30 DPD	34,216,215	6,706,912	-	-	34,216,215	6,706,912
90 DPD	-	-	32,827,694	20,574,027	32,827,694	20,574,027
<b>Total</b>	<b>150,226,414</b>	<b>10,188,641</b>	<b>63,635,083</b>	<b>36,033,438</b>	<b>213,861,497</b>	<b>46,222,079</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 financial instruments.

As at 31st December 2022	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	-	-	9,657,644	5,320,269	1,644,019	10,759	11,301,663	5,331,028
- with other customers	2,510,983	39,473	-	-	-	-	2,510,983	39,473
<b>Total derivative financial assets</b>	<b>2,510,983</b>	<b>39,473</b>	<b>9,657,644</b>	<b>5,320,269</b>	<b>1,644,019</b>	<b>10,759</b>	<b>13,812,646</b>	<b>5,370,501</b>
<b>Derivative financial liabilities</b>								
By counterparty ;								
- with banks	-	-	-	-	335,347	819	335,347	819
- with other customers	2,078,850	24,813	-	-	-	-	2,078,850	24,813
<b>Total derivative financial liabilities</b>	<b>2,078,850</b>	<b>24,813</b>	<b>-</b>	<b>-</b>	<b>335,347</b>	<b>819</b>	<b>2,414,197</b>	<b>25,632</b>

As at 31st December 2021	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	471,250	40,433	37,919,048	780,190	621,506	1,120	39,011,804	821,743
- with other customers	1,150,250	105,744	-	-	-	-	1,150,250	105,744
<b>Total derivative financial assets</b>	<b>1,621,500</b>	<b>146,177</b>	<b>37,919,048</b>	<b>780,190</b>	<b>621,506</b>	<b>1,120</b>	<b>40,162,054</b>	<b>927,487</b>
<b>Derivative financial liabilities</b>								
By counterparty ;								
- with banks	-	-	15,603,655	352,092	598,446	1,251	16,202,101	353,343
- with other customers	111,650	14	-	-	-	-	111,650	14
<b>Total derivative financial liabilities</b>	<b>111,650</b>	<b>14</b>	<b>15,603,655</b>	<b>352,092</b>	<b>598,446</b>	<b>1,251</b>	<b>16,313,751</b>	<b>353,357</b>

## NOTES TO THE FINANCIAL STATEMENTS

**5 FINANCIAL RISK MANAGEMENT (Contd.)****5.3.3 (f) Modified financial assets**

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in 31 (c) iii.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new asset is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Concessions are granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Such concessions are granted to both retail and corporate loans and the management regularly reviews reports on loans.

Generally, a change to original repayment terms is a qualitative indicator of a significant increase in credit risk for performing credit facility while the repayment terms of the existing credit impaired credit facilities are also amended due to reasons noted above. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to have an increased credit risk or credit impaired / in default and the PD is considered to have decreased such that it falls within the 12 month PD range for the asset to be considered Stage 1.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	2022 Rs 000	2021 Rs 000
<b>Financial assets modified during the year</b>		
Amortised cost before modification	1,966,160	1,123,145
Net modification loss	350,228	121,188
<b>Financial assets modified since initial recognition</b>		
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12month ECL from lifetime	573,956	8,756

5.3.4 (a) Credit exposure and expected credit loss (ECL) provision movement - Stage wise

Bank - 2022	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total		
	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000		Gross carrying amount Rs 000	Gross carrying amount Rs 000	ECL Rs 000
<b>Cash and cash equivalents</b>										
As at 1st January 2022	7,316,562	8,879	-	-	-	-	30,877,571	38,194,133	8,879	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	35,755,950	199,945	-	-	-	-	8,396,430	44,152,380	199,945	
Financial assets derecognised or repaid (excluding write offs)	(1,904,620)	(5,812)	-	-	-	-	-	(1,904,620)	(5,812)	
Write offs	-	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	<b>41,167,892</b>	<b>203,012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,274,001</b>	<b>80,441,893</b>	<b>203,012</b>	
<b>Placements with banks</b>										
As at 1st January 2022	-	-	-	-	-	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	54,383,166	12,138	-	-	-	-	-	54,383,166	12,138	
Financial assets derecognised or repaid (excluding write offs)	-	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	<b>54,383,166</b>	<b>12,138</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,383,166</b>	<b>12,138</b>	
<b>Financial assets measured at amortised cost - debt and other financial instruments</b>										
As at 1st January 2022	171,409,727	10,732,205	-	-	610,799	610,799	-	172,020,526	11,343,004	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	372,617,295	66,097,175	-	-	50,951	50,951	-	372,668,246	66,148,126	
Financial assets derecognised or repaid (excluding write offs)	(19,436,471)	(1,030,703)	-	-	-	-	-	(19,436,471)	(1,030,703)	
Write offs	-	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	<b>524,590,551</b>	<b>75,798,677</b>	<b>-</b>	<b>-</b>	<b>661,750</b>	<b>661,750</b>	<b>-</b>	<b>525,252,301</b>	<b>76,460,427</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 - 2022	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000		Gross carrying amount Rs 000	Gross carrying amount Rs 000
<b>Financial assets measured at amortised cost</b>									
<b>- Loans and advances</b>									
As at 1st January 2022	715,110,232	6,494,958	150,226,415	10,188,640	63,635,083	36,033,438	-	928,971,730	52,717,036
Transfer to stage 1	34,945,673	2,869,494	(33,714,056)	(2,214,600)	(1,231,617)	(654,894)	-	-	-
Transfer to stage 2	(56,663,002)	(1,188,087)	59,886,453	2,509,049	(3,223,451)	(1,320,962)	-	-	-
Transfer to stage 3	(14,472,826)	(326,538)	(24,004,453)	(2,507,639)	38,477,279	2,834,177	-	-	-
New assets originated or purchased and effect of remeasurement	464,969,357	8,672,967	59,496,644	12,274,758	25,840,338	37,944,372	-	550,306,339	58,892,097
Financial assets derecognised or repaid (excluding write offs)	(353,299,199)	(3,847,373)	(43,434,656)	(3,307,415)	(20,472,849)	(10,310,201)	-	(417,206,704)	(17,464,989)
Write offs*	-	-	-	-	(699,711)	(699,711)	-	(699,711)	(699,711)
Foreign exchange adjustments	-	(198,044)	-	(707,420)	-	(5,298,567)	-	-	(6,204,031)
<b>As at 31st December 2022</b>	<b>790,590,235</b>	<b>12,477,377</b>	<b>168,456,347</b>	<b>16,235,373</b>	<b>102,325,072</b>	<b>58,527,652</b>	<b>-</b>	<b>1,061,371,654</b>	<b>87,240,402</b>
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2022	199,128,701	295,445	-	-	-	-	4,297,732	203,426,433	295,445
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	3,355,070	(295,445)	-	-	-	-	9,201	3,364,271	(295,445)
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(202,455,933)	-	-	-	-	-	(1,628,111)	(204,084,044)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	<b>27,838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,678,822</b>	<b>2,706,660</b>	<b>-</b>
<b>Financial assets recognised through profit or loss measured at fair value through</b>									
As at 1st January 2022	-	-	-	-	-	-	103,365	103,365	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	8,256	8,256	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	(4)	(4)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>111,617</b>	<b>111,617</b>	<b>-</b>

Bank - 2021	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	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 2021	7,775,703	17,576	-	-	-	-	26,365,435	34,141,138	17,576	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	1,305,619	2,246	-	-	-	-	4,512,136	5,817,755	2,246	
Financial assets derecognised or repaid (excluding write offs)	(1,764,760)	(10,943)	-	-	-	-	-	(1,764,760)	(10,943)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2021</b>	<b>7,316,562</b>	<b>8,879</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,877,571</b>	<b>38,194,133</b>	<b>8,879</b>	
<b>Financial assets measured at amortised cost - debt and other financial instruments</b>										
As at 1st January 2021	190,550,857	3,945,340	-	-	611,027	611,027	-	191,161,884	4,556,367	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	6,852,020	6,787,027	-	-	-	-	-	6,852,020	6,787,027	
Financial assets derecognised or repaid (excluding write offs)	(25,993,150)	(160)	-	-	(228)	(228)	-	(25,993,378)	(388)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2021</b>	<b>171,409,727</b>	<b>10,732,207</b>	<b>-</b>	<b>-</b>	<b>610,799</b>	<b>610,799</b>	<b>-</b>	<b>172,020,526</b>	<b>11,343,006</b>	
<b>Financial assets measured at amortised cost - Loans and advances</b>										
As at 1st January 2021	546,879,310	3,091,724	204,628,252	8,058,780	63,035,895	30,812,232	-	814,543,457	41,962,736	
Transfer to stage 1	39,437,433	1,867,086	(38,650,913)	(1,561,431)	(786,520)	(305,655)	-	-	-	
Transfer to stage 2	(24,563,063)	(231,210)	33,485,603	2,799,302	(8,922,540)	(2,568,093)	-	-	-	
Transfer to stage 3	(3,244,904)	(33,055)	(10,291,117)	(478,176)	13,536,021	511,231	-	-	-	
New assets originated or purchased and effect of remeasurement	429,647,042	4,462,178	34,556,814	6,973,891	12,280,977	15,417,437	-	476,484,833	26,853,506	
Financial assets derecognised or repaid (excluding write offs)	(273,045,585)	(2,661,765)	(73,502,225)	(5,603,725)	(14,267,919)	(6,279,860)	-	(360,815,729)	(14,545,350)	
Write offs*	-	-	-	-	(1,240,831)	(1,240,831)	-	(1,240,831)	(1,240,831)	
Foreign exchange adjustment	-	-	-	-	-	(313,023)	-	-	(313,023)	
<b>As at 31st December 2021</b>	<b>715,110,233</b>	<b>6,494,958</b>	<b>150,226,414</b>	<b>10,188,641</b>	<b>63,635,083</b>	<b>36,033,438</b>	<b>-</b>	<b>928,971,730</b>	<b>52,717,037</b>	

## NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

Bank - 2021	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000		Gross carrying amount Rs 000	ECL Rs 000
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2021	245,086,855	108,687	-	-	-	-	4,184,803	249,271,658	108,687
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	2,724,856	186,758	-	-	-	-	244,206	2,969,062	186,758
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(48,683,010)	-	-	-	-	-	(131,277)	(48,814,287)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2021</b>	<b>199,128,701</b>	<b>295,445</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,297,732</b>	<b>203,426,433</b>	<b>295,445</b>
<b>Financial assets recognised through profit or loss measured at fair value through</b>									
As at 1st January 2021	-	-	-	-	-	-	84,499	84,499	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	18,866	18,866	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>103,365</b>	<b>103,365</b>	<b>-</b>

\* The contractual amount outstanding on financial assets that were written off during the year ended 31st December 2022 and that are still subject to enforcement activity is Rs 48 Mn (2021 - Rs 729 Mn)



### 5.3.4 (b) Sensitivity of factors used to determine impairment provisions

Given the current economic uncertainties and the judgments 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 2022	Sensitivity effect on Statement of Financial Position				Sensitivity effect on Income Statement [Increase/(Decrease) in impairment charge] Rs.000
	[Increase/(Decrease) in impairment provision]				
	Stage 1	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	
<b>Change in Property realisation period of individually significant impaired customers</b>					
- Advanced by one year	-	-	(1,476,784)	(1,476,784)	(1,476,784)
- Deferred by one year	-	30,166	1,623,970	1,654,136	1,654,136
<b>Change in Probability of Default (PD)</b>					
- Increase existing PD by 10% across all age buckets	1,146,909	1,134,849	-	2,281,758	2,281,758
- Decrease existing PD by 10% across all age buckets	(1,146,909)	(1,134,849)	-	(2,281,758)	(2,281,758)
<b>Change in Loss Given Default (LGD)</b>					
- 1% increase	318,735	323,214	475,357	1,117,306	1,117,306
- 1% decrease	(318,735)	(323,214)	(475,357)	(1,117,306)	(1,117,306)
<b>Change in deemed loss period</b>					
- Deemed loss period increase by 1 year	(396,484)	(444,685)	(662,438)	(1,503,607)	(1,503,607)
- Deemed loss period decrease by 1 year	414,259	461,783	691,334	1,567,376	1,567,376
<b>Change in Economic Factor Adjustment (EFA)</b>					
- worse case 5% increase, best case % decrease, base case constant	178,343	176,954	-	355,297	355,297
- worse case 5% decrease, best case % increase, base case constant	(178,343)	(176,954)	-	(355,297)	(355,297)

## NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December 2021	Sensitivity effect on Statement of Financial Position				Sensitivity effect on Income Statement [Increase/(Decrease) in impairment charge] Rs.000
	[Increase/(Decrease) in impairment provision]				
	Stage 1	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	
<b>Change in Property realisation period of individually significant impaired customers</b>					
- Advanced by one year	-	-	(479,637)	(479,637)	(479,637)
- Deferred by one year	-	-	436,773	436,773	436,773
<b>Change in Probability of Default (PD)</b>					
- Increase existing PD by 10% across all age buckets	452,989	589,130	-	1,042,119	1,042,119
- Decrease existing PD by 10% across all age buckets	(452,989)	(675,627)	-	(1,128,616)	(1,128,616)
<b>Change in Loss Given Default (LGD)</b>					
- 1% increase	45,299	58,913	86,353	190,565	190,565
- 1% decrease	(45,299)	(58,913)	(86,353)	(190,565)	(190,565)
<b>Change in deemed loss period</b>					
- Deemed loss period increase by 1 year	(117,610)	(172,598)	(283,676)	(573,884)	(573,884)
- Deemed loss period decrease by 1 year	216,436	334,088	520,018	1,070,542	1,070,542
<b>Change in Economic Factor Adjustment (EFA)</b>					
- worse case 5% increase, best case % decrease, base case constant	53,420	69,940	-	123,360	123,360
- worse case 5% decrease, best case % increase, base case constant	(53,420)	(69,940)	-	(123,360)	(123,360)

### 5.3.5 Collateral held and other credit enhancement

The bank holds collateral and other credit enhancements against certain types of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

As at 31st December	2022		2021	
	Gross loan balance	Security value	Gross loan balance	Security value
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Stage 1</b>				
Cash Collateral	76,466,122	82,762,908	57,074,772	60,686,224
Property, plant and machinery	294,499,462	382,441,371	273,461,607	365,262,676
Treasury Guarantee	2,142,752	2,142,752	14,856,986	14,856,986
Others	243,973,379	288,778,859	217,713,744	256,397,144
Unsecured	173,508,520	-	152,003,124	-
	790,590,235	756,125,890	715,110,233	697,203,030
<b>Stage 2</b>				
Cash collateral	8,090,283	8,508,945	3,029,614	3,711,954
Property, plant and machinery	88,536,229	114,462,362	102,800,741	138,795,607
Treasury Guarantee	36,321,632	36,321,632	20,988,959	20,988,959
Others	20,894,344	26,665,323	18,766,097	24,190,747
Unsecured	14,613,859	-	4,641,003	-
	168,456,347	185,958,262	150,226,414	187,687,267
<b>Stage 3</b>				
Cash collateral	1,945,161	1,755,307	1,161,058	1,482,703
Property, plant and machinery	75,742,254	90,837,155	37,747,180	47,324,888
Treasury Guarantee	-	-	-	-
Others	9,567,545	13,193,178	14,846,454	18,112,775
Unsecured	15,070,112	-	9,880,391	-
	102,325,072	105,785,640	63,635,083	66,920,366

#### Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

	2022	2021
	Rs 000	Rs 000
Property	1,197,080	1,165,000
Debt securities	-	-
Other	-	-

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

## NOTES TO THE FINANCIAL STATEMENTS

**5 FINANCIAL RISK MANAGEMENT (Contd.)****5.3.6 Concentration of Credit Risk**

The Bank monitors concentration of credit risk by sector.

**5.3.6 (a) Concentration by Sector**

Bank	Agriculture and Fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2022</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	-	-	36,985	2,033	2	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	108,987,284	105,450,130	85,658,755	12,040,338	146,540,702	177,342,601
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	108,987,284	105,450,130	85,695,740	12,042,371	146,540,704	177,342,601
<b>As at 31st December 2021</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	-	-	33,485	3,108	6	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	63,850,296	101,518,565	49,170,201	13,262,719	135,880,409	153,153,301
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	63,850,296	101,518,565	49,203,686	13,265,827	135,880,415	153,153,301

	Information Technology and Communication Services Rs 000	Financial Services Rs 000	Professional, Scientific and Technical Services Rs 000	Art, Entertainment and Recreation Rs 000	Education Rs 000	Health care, Social Services and Support Services Rs 000	Consumption Rs 000	Other Rs 000	Lending to Overseas Entities Rs 000	Total Rs 000
-	80,441,893	-	-	-	-	-	-	-	-	80,441,893
-	54,383,166	-	-	-	-	-	-	-	-	54,383,166
-	32,344,341	-	-	-	-	-	-	-	-	32,344,341
-	5,370,501	-	-	-	-	-	-	-	-	5,370,501
-	36,947	-	-	-	-	-	-	35,650	-	111,617
4,947,990	141,025,253	11,057,038	403,142	3,659,499	9,938,769	10,716,939	242,294,306	308,908	1,060,371,654	
-	523,174,481	-	-	-	-	-	2,077,820	-	525,252,301	
-	2,706,660	-	-	-	-	-	-	-	2,706,660	
-	9,227,790	-	-	-	-	-	-	-	9,227,790	
4,947,990	848,711,032	11,057,038	403,142	3,659,499	9,938,769	10,716,939	244,407,776	308,908	1,770,209,923	
-	38,194,133	-	-	-	-	-	-	-	38,194,133	
-	-	-	-	-	-	-	-	-	-	
-	25,820,489	-	-	-	-	-	-	-	25,820,489	
-	927,487	-	-	-	-	-	-	-	927,487	
-	43,816	-	-	-	-	-	22,950	-	103,365	
7,240,456	123,046,609	11,187,113	368,144	3,073,415	7,313,087	9,728,805	235,528,029	14,650,581	928,971,730	
-	171,501,005	-	-	-	-	-	519,521	-	172,020,526	
-	203,426,433	-	-	-	-	-	-	-	203,426,433	
-	6,123,181	-	-	-	-	-	-	-	6,123,181	
7,240,456	569,083,151	11,187,113	368,144	3,073,415	7,313,087	9,728,805	236,070,500	14,650,581	1,375,587,344	

## NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 5.3.6 (a) Concentration by Sector (Contd.)

Group	Agriculture and Fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2022</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	-	-	36,985	2,033	2	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	118,863,213	110,548,454	86,309,121	13,881,238	148,063,546	195,084,245
Financial assets measured at amortised cost						
- debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value						
through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	118,863,213	110,548,454	86,346,106	13,883,271	148,063,548	195,084,245
<b>As at 31st December 2021</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	-	113,140	33,485	3,108	9,350	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	74,219,461	108,487,899	49,503,861	13,899,710	137,001,254	159,106,763
Financial assets measured at amortised cost						
- debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value						
through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	74,219,461	108,601,039	49,537,346	13,902,818	137,010,604	159,106,763

	Information Technology and Communication Services Rs 000	Financial Services Rs 000	Professional, Scientific and Technical Services Rs 000	Art, Entertainment and Recreation Rs 000	Education Rs 000	Health care, Social Services and Support Services Rs 000	Consumption Rs 000	Other Rs 000	Lending to Overseas Entities Rs 000	Total Rs 000
	-	80,832,734	-	-	-	-	-	-	-	80,832,734
	-	58,184,873	-	-	-	-	-	-	-	58,184,873
	-	32,344,341	-	-	-	-	-	-	-	32,344,341
	-	1,380,579	-	-	-	-	-	-	-	1,380,579
	-	5,370,501	-	-	-	-	-	-	-	5,370,501
	-	161,508	-	-	-	-	-	35,650	-	236,178
	5,286,460	141,601,973	11,651,141	462,943	3,997,790	16,431,478	12,527,822	242,481,729	308,908	1,107,500,061
	-	554,943,721	-	-	-	-	-	2,077,820	-	557,021,541
	-	6,062,195	-	-	-	-	-	-	-	6,062,195
	-	9,121,106	-	-	-	-	-	2,920,500	-	12,041,606
	5,286,460	890,003,531	11,651,141	462,943	3,997,790	16,431,478	12,527,822	247,515,699	308,908	1,860,974,609
	-	40,909,251	-	-	-	-	-	-	-	40,909,251
	-	6,371,624	-	-	-	-	-	-	-	6,371,624
	-	25,820,489	-	-	-	-	-	-	-	25,820,489
	-	6,246,276	-	-	-	-	-	-	-	6,246,276
	-	927,487	-	-	-	-	-	-	-	927,487
	-	647,938	-	-	-	-	-	55,620	-	862,641
	7,240,456	123,688,456	11,634,506	449,525	3,256,362	20,280,165	9,735,798	235,752,458	14,650,581	968,907,255
	148,112	183,002,583	-	-	-	-	-	896,443	-	184,047,138
	-	210,804,487	-	-	-	-	-	-	-	210,804,487
	-	8,034,880	-	-	-	-	-	-	-	8,034,880
	7,388,568	606,453,471	11,634,506	449,525	3,256,362	20,280,165	9,735,798	236,704,521	14,650,581	1,452,931,528



## NOTES TO THE FINANCIAL STATEMENTS

**5 FINANCIAL RISK MANAGEMENT (Contd.)****5.3.6 (b) Significant foreign lending 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		Uganda		Cambodia	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Gross carrying value	30,872,476	19,736,889	3,486,830	2,305,286	307,758	1,831,281
Impairment allowance	(796,365)	(353,443)	(345,979)	(41,701)	(1,970)	(3,741)
<b>Net carrying value</b>	<b>30,076,111</b>	<b>19,383,446</b>	<b>3,140,851</b>	<b>2,263,585</b>	<b>305,788</b>	<b>1,827,540</b>

Total unutilised overdrafts approved to above customers as at 31st December 2022 amounts to Rs 2,352.08Mn (2021 : Rs 544.55 Mn).

**5.3.6 (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	2022 Rs 000	2021 Rs 000
Documentary credit	21,226,810	32,567,799
Guarantees	109,352,321	100,774,437
Acceptances	6,758,569	22,336,884
Commitment for unutilised facilities - Direct	250,332,701	193,057,343
Commitment for unutilised facilities - Indirect	366,314,552	246,079,532
<b>Total</b>	<b>753,984,953</b>	<b>594,815,995</b>

**5.3.7 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.

**5.3.8 Loan to value ratio**

Bank complies with the requirements of Central Bank of Sri Lanka in relation to Loan to value ratio when granting credit facilities.

**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 potential implications of the current economic environment 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 above the regulatory requirements. Further, the Bank has increased its liquidity buffers on a prudent basis and maintained a strong excess liquidity position.

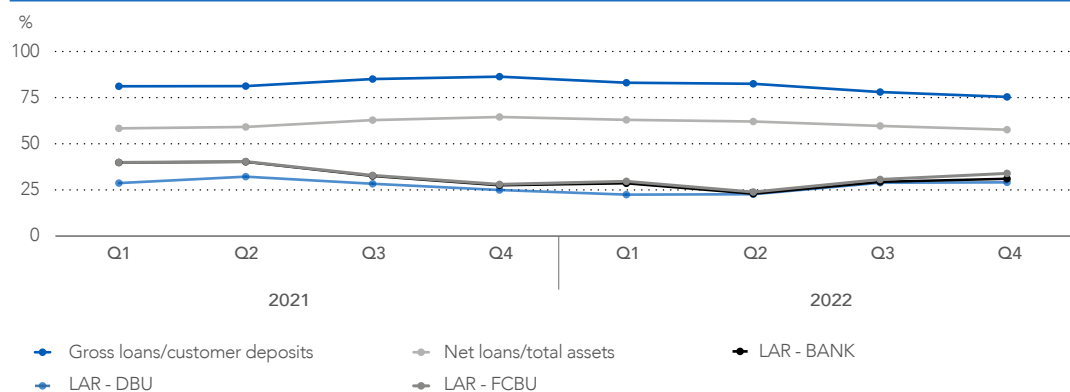
## 5.4.2 Exposure to Liquidity Risk

The Bank monitors the following liquidity ratios to assess funding requirements.

As at 31st December		2022	2021
		%	%
<b>Liquid Assets Ratio (LAR)</b>			
LAR is the percentage of liquid assets to total liabilities excluding shareholders' funds. For this purpose, "liquid assets" include cash and cash equivalents, Placements with banks and Government securities (net).	Domestic Banking Unit	31.04	27.51
	Off shore Banking Unit	29.10	24.95
	Bank Unit	33.95	-
<b>Liquidity Coverage Ratio (LCR)</b>			
This ratio determines the ability of the Bank to withstand adverse shocks (i.e. sudden withdrawal of a significant portion of deposits) by holding high quality liquid assets in a 30 day time span.	Rupee Liquidity Requirement	255.83	191.38
	All Currency Liquidity Requirement	519.47	207.99
<b>Net Stable Funding Ratio (NSFR)</b>			
This ratio measures the availability of stable funds against the required funds of the Bank. NSFR, requires banks to maintain stable funding profile by creating additional incentives to fund their activities with more stable sources of funding on an ongoing basis, over a longer time horizon.		130.85	117.57

As at 31st December	DBU		FCBU		Bank	
	2022	2021	2022	2021	2022	2021
	%	%	%	%	%	%
<b>Liquid Asset Ratio (LAR)</b>						
As at 31st December	31.04	27.51	29.10	24.95	33.95	28.02
Average for the year	27.28	35.98	24.80	29.05	28.62	36.16
Maximum for the year	31.04	40.58	29.10	32.91	33.95	40.71
Minimum for the year	22.94	27.51	20.20	24.95	23.86	28.02

### Liquidity Ratios



## NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## 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

Bank	Up to	3 - 12	1 - 3	3 - 5	More than	Total
As at 31st December 2022	3 months	months	years	years	5 years	
	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	5,370,501	-	-	-	-	5,370,501
<b>Non- derivative assets</b>						
Cash and cash equivalents	80,238,881	-	-	-	-	80,238,881
Balances with Central Bank of Sri Lanka	-	-	-	-	32,344,341	32,344,341
Financial assets measured at fair value through profit or loss	111,617	-	-	-	-	111,617
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	506,264,788	270,136,581	275,460,825	174,578,913	177,974,964	1,404,416,071
Financial assets measured at amortised cost						
- debt and other instruments	327,234,302	57,278,206	152,164,993	60,613,023	16,830,068	614,120,592
Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,706,660	2,706,660
Other financial assets	9,227,790	-	-	-	-	9,227,790
<b>Total undiscounted financial assets</b>	<b>928,447,879</b>	<b>327,414,787</b>	<b>427,625,818</b>	<b>235,191,936</b>	<b>229,856,033</b>	<b>2,148,536,453</b>
<b>Financial Liabilities</b>						
<b>Derivative liabilities</b>						
Derivative financial instruments held for risk management	25,632	-	-	-	-	25,632
<b>Non-derivative liabilities</b>						
Due to banks	4,780,031	524,045	558,692	318,770	-	6,181,538
Securities sold under repurchase agreements	4,282,462	2,465,795	-	-	-	6,748,257
Financial liabilities measured at amortised cost						
- due to depositors	1,097,056,617	580,352,671	135,381,426	32,939,069	1,111,947	1,846,841,730
Dividends payable	1,008,325	-	-	-	-	1,008,325
Financial liabilities measured at amortised cost						
- other borrowings	4,061,646	6,613,965	18,280,867	8,037,042	134,667	37,128,187
Financial liabilities at amortised cost						
- debt securities issued	-	2,167,000	90,715	-	-	2,257,715
Other financial liabilities	4,213	-	-	-	-	4,213
Subordinated term debts	-	6,455,387	6,919,668	10,441,341	9,660,000	33,476,396
<b>Total undiscounted financial liabilities</b>	<b>1,111,218,926</b>	<b>598,578,863</b>	<b>161,231,368</b>	<b>51,736,222</b>	<b>10,906,614</b>	<b>1,933,671,993</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(182,771,047)</b>	<b>(271,164,076)</b>	<b>266,394,450</b>	<b>183,455,714</b>	<b>218,949,419</b>	<b>214,864,460</b>

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank As at 31st December 2022	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
Documentary credit	13,483,828	7,742,983	-	-	-	21,226,811
Guarantees	33,192,654	52,079,594	19,941,837	1,762,628	2,375,607	109,352,320
Acceptances	5,670,069	990,609	97,891	-	-	6,758,569
Commitment for unutilised facilities - Direct	250,332,701	-	-	-	-	250,332,701
Commitment for unutilised facilities - Indirect	366,314,552	-	-	-	-	366,314,552
	668,993,804	60,813,186	20,039,728	1,762,628	2,375,607	753,984,953

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

Bank As at 31st December 2021	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>Financial Assets</b>						
<b>Derivative assets</b>						
Derivative financial instruments held for risk management	918,019	9,468	-	-	-	927,487
<b>Non- derivative assets</b>						
Cash and cash equivalents	38,194,133	-	-	-	-	38,194,133
Balances with Central Bank of Sri Lanka	-	-	-	-	25,820,489	25,820,489
Financial assets measured at fair value through profit or loss	103,365	-	-	-	-	103,365
Financial assets measured at amortised cost - loans and advances to customers (gross)	340,301,920	259,567,528	254,691,262	130,746,016	136,289,942	1,121,596,668
Financial assets measured at amortised cost - debt and other instruments	48,677,782	23,881,525	72,254,604	42,375,262	17,697,469	204,886,642
Financial assets measured at fair value through other comprehensive income	169,603,705	6,382,678	21,108,788	7,996,230	10,993,173	216,084,574
Other financial assets	6,123,181	-	-	-	-	6,123,181
<b>Total undiscounted financial assets</b>	<b>603,922,105</b>	<b>289,841,199</b>	<b>348,054,654</b>	<b>181,117,508</b>	<b>190,801,073</b>	<b>1,613,736,539</b>
<b>Financial Liabilities</b>						
<b>Derivative liabilities</b>						
Derivative financial instruments held for risk management	258,878	94,479	-	-	-	353,357
<b>Non-derivative liabilities</b>						
Due to banks	6,050,989	6,262,755	3,041,281	2,084,682	83,252	17,522,959
Securities sold under repurchase agreements	33,350,209	223,535	-	-	-	33,573,744
Financial liabilities measured at amortised cost - due to depositors	687,506,906	363,827,496	37,101,967	8,113,501	29,186	1,096,579,056
Dividends payable	989,212	-	-	-	-	989,212
Financial liabilities measured at amortised cost - other borrowings	5,889,972	2,903,335	6,900,771	7,424,656	1,941,680	25,060,414
Financial liabilities at amortised cost - debt securities issued	-	167,000	2,257,715	-	-	2,424,715
Other financial liabilities	9,346	-	-	-	-	9,346
Subordinated term debts	-	3,282,408	11,676,144	11,475,252	10,325,000	36,758,804
<b>Total undiscounted financial liabilities</b>	<b>734,055,512</b>	<b>376,761,008</b>	<b>60,977,878</b>	<b>29,098,091</b>	<b>12,379,118</b>	<b>1,213,271,607</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(130,133,407)</b>	<b>(86,919,809)</b>	<b>287,076,776</b>	<b>152,019,417</b>	<b>178,421,955</b>	<b>400,464,932</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank As at 31st December 2021	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
Documentary credit	24,149,348	5,843,906	2,574,545	-	-	32,567,799
Guarantees	25,718,038	46,601,604	22,795,051	2,674,113	2,985,631	100,774,437
Acceptances	16,286,190	6,050,694	-	-	-	22,336,884
Commitment for unutilised facilities - Direct	193,057,343	-	-	-	-	193,057,343
Commitment for unutilised facilities - Indirect	246,079,532	-	-	-	-	246,079,532
	505,290,451	58,496,204	25,369,596	2,674,113	2,985,631	594,815,995

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;
- undisbursed loan commitments are not all expected to be drawn down immediately;

## 5.4.4 Liquidity reserves

Components of the Bank's liquid assets portfolio used for the purpose of calculating statutory liquid asset ratio in December 2022 and December 2021 (average balance for the month) is given below.

As at 31st December	2022 Rs 000	2021 Rs 000
Cash	35,462,644	29,606,448
Balances with licensed commercial banks	1,492,200	1,036,786
Money at call in Sri Lanka	909,677	2,318,065
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka which have a maturity not exceeding one year	364,560,197	285,152,968
Import bills	1,177	3,028
Export bills	1,755,959	1,199,973
Cash items in the process of collection	243,012	303,139
Balances with banks abroad	90,037,563	6,459,173
<b>Total average liquid assets for the month of December</b>	<b>494,462,429</b>	<b>326,079,580</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 2022 is presented in Note 32 and 33 to the financial statements.

#### 5.4.5 Financial assets available to support future funding

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Bank has received collaterals that it is permitted to sell or repledge in the absence of default.

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities as at 31st December 2022 and 2021 is shown in the following tables.

As at 31st December 2022	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	-	-	80,441,893	-	80,441,893
Placements with banks	-	-	54,383,166	-	54,383,166
Balances with Central Banks	-	32,344,341	-	-	32,344,341
Derivative financial assets	-	-	-	5,370,501	5,370,501
Financial assets recognised through profit or loss measured at fair value	-	-	111,617	-	111,617
Financial assets measured at amortised cost					
Loans and advances to other customers	-	-	1,061,371,654	-	1,061,371,654
Financial assets measured at amortised cost					
Debt and other financial instruments	8,864,761	-	516,387,540	-	525,252,301
Financial assets measured at fair value through other comprehensive income	-	-	2,706,660	-	2,706,660
Other financial assets	-	-	-	922,790	922,790
<b>Total</b>	<b>8,864,761</b>	<b>32,344,341</b>	<b>1,715,402,530</b>	<b>6,293,291</b>	<b>1,762,904,923</b>

As at 31st December 2021	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	-	-	38,194,133	-	38,194,133
Placements with banks	-	-	-	-	-
Balances with Central Banks	-	25,820,489	-	-	25,820,489
Derivative financial assets	-	-	-	927,487	927,487
Financial assets recognised through profit or loss measured at fair value	-	-	103,365	-	103,365
Financial assets measured at amortised cost					
- Loans and advances to other customers	-	-	928,971,730	-	928,971,730
Financial assets measured at amortised cost					
- Debt and other financial instruments	-	-	172,020,526	-	172,020,526
Financial assets measured at fair value through other comprehensive income	34,873,733	-	168,552,700	-	203,426,433
Other financial assets	-	-	-	6,123,181	6,123,181
<b>Total</b>	<b>34,873,733</b>	<b>25,820,489</b>	<b>1,307,842,454</b>	<b>7,050,668</b>	<b>1,375,587,344</b>

## NOTES TO THE FINANCIAL STATEMENTS

**5 FINANCIAL RISK MANAGEMENT (Contd.)****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 holding 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.

**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 portfolio 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.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

As at 31st December 2022	Market Risk Measurement			
	Note	Carrying amount Rs 000	Trading Portfolio Rs 000	Non-Trading Portfolio Rs 000
<b>Assets subject to market risk</b>				
Cash and cash equivalents	25	80,441,893	-	80,441,893
Placements with banks	26	54,383,166	-	54,383,166
Derivatives financial assets	29	5,370,501	5,370,501	-
Financial assets measured at fair value through profit or loss	30	111,617	111,617	-
Financial assets measured at amortised cost				
- Loans to and advances to customers	31	1,061,371,654	-	1,061,371,654
Financial assets measured at amortised cost				
- Debt and other financial instruments	32	525,252,301	-	525,252,301
Financial assets measured at fair value through other comprehensive income	33	2,706,660	-	2,706,660
		1,729,637,792	5,482,118	1,724,155,674
<b>Liabilities subject to market risk</b>				
Due to banks	42	6,104,578	-	6,104,578
Derivatives financial liabilities	29	25,632	25,632	-
Financial liabilities measured at amortised cost - due to depositors	44	1,407,800,492	-	1,407,800,492
Financial liabilities measured at amortised cost - other borrowings	46	32,350,594	-	32,350,594
Debt securities issued	47	2,062,950	-	2,062,950
Subordinated term debt	52	22,914,299	-	22,914,299
		1,471,258,545	25,632	1,471,232,913



As at 31st December 2021	Note	Carrying amount Rs 000	Market Risk Measurement	
			Trading Portfolio Rs 000	Non-Trading Portfolio Rs 000
<b>Assets subject to market risk</b>				
Cash and cash equivalents	25	38,194,133	-	38,194,133
Placements with banks	26	-	-	-
Derivatives financial assets	29	927,487	927,487	-
Financial assets measured at fair value through profit or loss	30	103,365	103,365	-
Financial assets measured at amortised cost				
- Loans to and advances to customers	31	928,971,730	-	928,971,730
Financial assets measured at amortised cost				
- Debt and other financial instruments	32	172,020,526	-	172,020,526
Financial assets measured at fair value through other comprehensive income	33	203,426,433	-	203,426,433
		1,343,643,674	1,030,852	1,342,612,822
<b>Liabilities subject to market risk</b>				
Due to banks	42	17,075,502	-	17,075,502
Derivatives financial liabilities	29	353,356	353,356	-
Financial liabilities measured at amortised cost - due to depositors	44	1,075,709,287	-	1,075,709,287
Financial liabilities measured at amortised cost - other borrowings	46	24,747,869	-	24,747,869
Debt securities issued	47	1,962,749	-	1,962,749
Subordinated term debt	52	23,552,323	-	23,552,323
		1,143,401,086	353,356	1,143,047,730

### 5.5.2 Exposure to equity price risk

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).

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

## NOTES TO THE FINANCIAL STATEMENTS

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 is as follows:

As at 31st December	2022	2021
<b>Trading portfolio</b>		
Marked-to-market value of the trading equity portfolio - Rs 000	111,121	103,365
Value-at-Risk (under 99% confidence level for 10 day period)	16.07%	11.55%
Maximum possible loss of value in the marked-to-market value of the portfolio is indicated by the VaR over a 10 day period - Rs 000	17,857	11,939
<b>Non trading portfolio</b>		
Marked-to-market value of the non trading equity portfolio - Rs 000	17,290	23,835
Value-at-Risk (under 99% confidence level for 10 day period)	18.71%	13.53%
Maximum possible loss of value in the marked-to-market value of the portfolio is indicated by the VaR over a 10 day period - Rs 000	1,705,480	2,118,120

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).

### 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.

Majority of the Bank's holding in treasury bills and bonds are in shorter maturities, thus the impact of interest rate changes in prices of treasury bills and bonds are very insignificant. Modified duration of non-trading portfolios as at 31st December is given below.

As at 31st December	2022	2021
Non trading	1.0398	1.0794

The following is a summary of the Bank's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either the next repricing date or the maturity date if floating rate or the maturity date if fixed rate.

As at 31st December 2022	Carrying amount Rs 000	Less than 3 months Rs 000	3-6 months Rs 000	6-12 months Rs 000	1-5 years Rs 000	More than 5 years Rs 000
Financial assets measured at amortised cost						
- Loans and advances to customers	1,061,371,654	330,016,885	243,784,630	211,341,653	153,318,884	122,909,602
Financial assets measured at amortised cost						
- debt and other instruments	525,252,301	294,287,678	36,420,286	6,765,661	183,258,960	4,519,716
	1,586,623,955	624,304,563	280,204,916	218,107,314	336,577,844	127,429,318
Financial liabilities measured at amortised cost						
- due to depositors	1,407,800,492	422,412,043	253,110,823	326,425,886	296,267,818	109,583,922
Debt securities issued	2,062,950	-	-	1,978,910	84,040	-
Subordinated term debts	22,914,299	-	-	4,086,904	11,541,353	7,286,042
Borrowings	44,995,186	12,900,145	3,880,979	3,245,559	24,843,006	125,497
	1,477,772,927	435,312,188	256,991,802	335,737,259	332,736,217	116,995,461
	108,851,028	188,992,375	23,213,114	(117,629,945)	3,841,627	10,433,857

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 2022 is as follows.

As at 31st December	Increase of 100 bps	Decrease of 100 bps	Increase of 200 bps	Decrease of 200 bps
LKR Portfolio (Rs 000)	2,549,391	(2,664,071)	4,990,617	(5,449,786)
USD Portfolio (USD 000)	(5,602)	6,047	(10,799)	12,587

Interest rate movements affect reported equity in the following ways:

- Retained earnings: Increases/(decreases) in net interest income and in fair values of derivatives and other non-trading financial assets mandatorily measured at FVTPL reported in profit or loss;
- Fair value reserve: Increases/(decreases) in the fair values of financial assets at FVOCI reported directly in equity;

Aggregate non-trading interest rate risk positions are managed by Treasury, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the positions. The use of derivatives to manage interest rate risk is described in Note 29 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

**5 FINANCIAL RISK MANAGEMENT (Contd.)****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 31st December 2022, Bank carried a USD equivalent NOP/unhedged "Overbought" position of LKR 14.2 Bn. The impact of exchange rate risk is given below:

As at 31st December	2022	2021
Net exposure – USD equivalent	38,763,350	6,869,644
Value of position in Rs 000	14,245,531	1,394,366
Exchange rate (USD/LKR) as at 31 December	367.50	202.98
<b>Possible potential loss to Bank</b>		
– If exchange rate (USD/LKR) depreciates by 1% – Rs 000	142,455	13,944
– If exchange rate depreciates by 10% – Rs 000	1,424,553	139,437
– If exchange rate depreciates by 15% – Rs 000	2,136,830	209,155

**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/mitigate financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. All activities should be aligned with the Bank's policy and requires compliance with the applicable legal and regulatory requirements.

The following are included in the operational risk management process within the Bank.

- Review the risk exposure to the Bank with the current macro-economic changes through the Risk and Control Self Assessment process (RCSA) across the Bank's Departments and Branch network.
- Identify the risk exposure to the Bank in processes followed by departments through Risk and Control-Assessment(RCSA) process and monitor that necessary actions are introduced and implemented to mitigate the associated risks.
- Monitoring of Key Risk Indicators (KRIs) for the departments and ensure that they are operated within the defined threshold limits.
- Collate the loss incidents through the 'Operational risk incident reporting system' which are independently analyzed by the Integrated Risk Management Division (IRMD) and recommend necessary improvements to the systems, processes and procedures to avoid recurrence and mitigate risks to minimize the losses.
- Analyze 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.
- Ensuring business continuity management and operational resilience by Business Continuity Planning (BCP) and testing through Bank's disaster recovery drills to strengthen perceived areas for improvement.
- Reviewing risk in new products, processes and outsourcing activities.

The primary responsibility for the development of operational risk management framework and controls to address operational risk lies with RMD whilst implementation is assigned to senior management within each business unit and support function. This responsibility is supported by the development of overall standards for management of operational risk in the following areas

- Defining requirement for appropriate segregation of duties, including independent authorisation of transactions.
- Defining requirements for reconciliation and monitoring of transactions.
- Maintain compliance with regulatory and other legal requirements.
- Review of controls and procedures through RCSA process.
- Periodic review of operational risks to identify emerging threats and assess the adequacy of controls and procedures to mitigate the identified risks.
- Maintain a data base and reporting of operational losses to the senior management, Board of Directors and regulator.
- Development of contingency plans as a business continuity measure.
- Developing the risk awareness culture across the Bank through communication and conducting training and awareness programmes for the staff to maintain ethics and business standards.
- Recommend insurance coverage as a risk mitigation strategy under the operational risk framework for emerging threats arising from external and other events.
- Risk based reviews on critical outsourced activities.

## 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%. Regulatory minimum ratio as at 31st December 2021 - Common Equity Tier 1 ratio of 7% together with a Tier 1 ratio of 8.5% and a total capital ratio of 12.5%.

As at 31st December	2022	2021
<b>Common equity Tier 1 (CET1) capital after adjustments</b>	<b>110,339,128</b>	<b>122,797,863</b>
<b>Total common equity Tier 1 (CET1) capital</b>	<b>148,633,241</b>	<b>132,774,260</b>
Equity capital (stated capital)/assigned capital	38,679,005	38,679,005
Reserve fund	9,310,000	8,560,000
Published retained earnings/(accumulated retained losses)	40,600,740	30,266,696
Published accumulated other comprehensive income (OCI)	1,943,496	(1,831,441)
General and other disclosed reserves	58,100,000	57,100,000
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>38,294,113</b>	<b>9,976,396</b>
Goodwill (net)	-	-
Other intangible assets (net)	1,139,451	1,307,880
Revaluation losses of property, plant and equipment	-	-
Defined benefit pension fund assets	3,479,578	1,248,708
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	499,670	377,538
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,704,063	2,580,709
Deferred tax assets (net)	30,471,351	4,461,561
<b>Additional Tier 1 (AT1) capital after adjustments</b>	<b>-</b>	<b>-</b>
<b>Total additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>
Qualifying additional Tier 1 capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to AT1 capital</b>	<b>-</b>	<b>-</b>
Investment in own shares	-	-
Others (Specify)	-	-
<b>Tier 2 Capital after adjustments</b>	<b>29,275,498</b>	<b>30,685,749</b>
<b>Total Tier 2 Capital</b>	<b>29,275,498</b>	<b>30,685,749</b>

As at 31st December	2022	2021
Qualifying Tier 2 capital instruments	16,104,275	18,963,673
Revaluation gains	2,090,479	2,090,479
General provisions/Eligible impairment	11,080,745	9,631,598
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>148,633,241</b>	<b>132,774,260</b>
<b>Total Tier 1 capital</b>	<b>110,339,128</b>	<b>122,797,863</b>
<b>Total capital</b>	<b>139,614,626</b>	<b>153,483,612</b>

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Total Risk Weighted Assets (RWA)</b>	<b>997,470,891</b>	<b>845,057,594</b>	<b>1,096,482,202</b>	<b>931,653,271</b>
RWAs for credit risk	886,459,570	770,527,810	963,875,964	836,250,291
RWAs for market risk	14,398,617	1,495,688	14,566,345	1,770,833
RWAs for operational risk	96,612,704	73,034,096	118,039,893	93,632,147
<b>Regulatory capital ratios (%)</b>				
Common equity Tier 1 Capital ratio	11.06%	14.53%	11.42%	14.45%
Tier 1 capital ratio	11.06%	14.53%	11.42%	14.45%
Total capital ratio	14.00%	18.16%	14.15%	17.80%

## 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 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.

Group measures the fair value of an asset or a liability carried at fair value at bid price or ask price respectively. The long positions and short positions are measured using mid rates.

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, treasury bonds and Sri Lanka sovereign bonds, listed equity securities and forward contracts. 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 other than the Sri Lanka Sovereign Bonds which have been matured but remain unpaid as at reporting date. Such bonds are included in the fair value computation at amortised cost.

- **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 (FVTPL)**

Government debt securities classified as financial assets measured at fair value through profit or loss are valued using current yield rates or market rates 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

## ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

## Assessment of implications of uncertain economic environment

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 only observable market data as inputs. This has not changed as a result of current economic conditions. 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 current economic conditions 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.

## 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 2022	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	-	5,320,269	-	5,320,269	-	5,320,269	-	5,320,269
Forward foreign exchange contracts	-	50,232	-	50,232	-	50,232	-	50,232
	-	5,370,501	-	5,370,501	-	5,370,501	-	5,370,501
<b>Financial assets measured at fair value</b>								
<b>through profit or loss</b>								
Quoted shares	111,121	-	-	111,121	235,682	-	-	235,682
Government Securities	496	-	-	496	496	-	-	496
Unquoted units	-	-	-	-	-	-	-	-
	111,617	-	-	111,617	236,178	-	-	236,178
<b>Financial assets measured at fair</b>								
<b>value through other comprehensive</b>								
<b>income</b>								
Quoted shares	2,134,875	-	-	2,134,875	2,134,875	-	-	2,134,875
Unquoted shares	-	-	27,839	27,839	-	-	30,551	30,551
Unquoted units	-	543,946	-	543,946	-	543,946	-	543,946
Government Securities	-	-	-	-	3,352,823	-	-	3,352,823
	2,134,875	543,946	27,839	2,706,660	5,487,698	543,946	30,551	6,062,195
<b>Financial liabilities measured at</b>								
<b>fair value derivative financial</b>								
<b>instruments</b>								
Currency swaps	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	-	25,632	-	25,632	-	25,632	-	25,632
	-	25,632	-	25,632	-	25,632	-	25,632

As at 31st December 2021	Bank				Group			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Financial assets measured at fair value</b>								
<b>derivative financial instruments</b>								
Currency swaps	-	780,190	-	780,190	-	780,190	-	780,190
Forward foreign exchange contracts	-	147,297	-	147,297	-	147,297	-	147,297
	-	927,487	-	927,487	-	927,487	-	927,487
<b>Financial assets measured at fair value</b>								
<b>through profit or loss</b>								
Quoted shares	103,365	-	-	103,365	321,831	-	-	321,831
Government Securities	-	-	-	-	347,225	-	-	347,225
Unquoted units	-	-	-	-	-	193,585	-	193,585
	103,365	-	-	103,365	669,056	193,585	-	862,641
<b>Financial assets measured at fair</b>								
<b>value through other comprehensive</b>								
<b>income</b>								
Quoted shares	3,762,986	-	-	3,762,986	3,762,986	-	-	3,762,986
Unquoted shares	-	-	27,839	27,839	-	-	30,551	30,551
Unquoted units	-	534,745	-	534,745	-	534,745	-	534,745
Government Securities	199,100,863	-	-	199,100,863	206,476,205	-	-	206,476,205
	202,863,849	534,745	27,839	203,426,433	210,239,191	534,745	30,551	210,804,487
<b>Financial liabilities measured at</b>								
<b>fair value derivative financial</b>								
<b>instruments</b>								
Currency swaps	-	352,092	-	352,092	-	352,092	-	352,092
Forward foreign exchange contracts	-	1,264	-	1,264	-	1,264	-	1,264
	-	353,356	-	353,356	-	353,356	-	353,356

## NOTES TO THE FINANCIAL STATEMENTS

**6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)****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 [Rs 27.96 per unit (2021- Rs 27.49)]

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 2021. 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 2022.

Further, there were no transfers from Level 1 to Level 2 or Level 2 to Level 1 in 2022 and no transfers in either direction in 2021. There were no transfers out of Level 3 in 2022 or 2021.

**Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments**

A significant increase / ( decrease ) in the market interest rate would result in lower/( higher ) fair value being disclosed.

**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.

	Equity securities			
	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	27,839	27,839	30,551	30,494
Addition during the year	-	-	-	57
Net change in fair value (unrealised)	-	-	-	-
<b>Balance as at 31st December</b>	<b>27,839</b>	<b>27,839</b>	<b>30,551</b>	<b>30,551</b>

#### 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 2022	Bank Fair Value					Group Fair Value				
	Carrying	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Carrying	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
	Value Rs 000					Value Rs 000				
<b>Financial Assets</b>										
Cash and cash equivalents [Note 25]	80,238,881	-	80,238,881	-	80,238,881	80,629,698	-	80,629,698	-	80,629,698
Placements with banks [Note 26]	54,371,028	-	54,371,028	-	54,371,028	58,172,046	-	58,172,046	-	58,172,046
Balances with Central Bank of Sri Lanka [Note 27]	32,344,341	-	32,344,341	-	32,344,341	32,344,341	-	32,344,341	-	32,344,341
Reverse repurchase agreement [Note 28]	-	-	-	-	-	1,380,579	-	1,380,579	-	1,380,579
Financial assets at amortised cost										
- loans and advances to customers [Note 31]	974,131,252	-	933,800,835	-	933,800,835	1,014,518,939	-	973,541,510	-	973,541,510
Financial assets at amortised cost										
- debt and other financial instruments [Note 32]	448,791,874	348,994,206	40,082,026	-	389,076,232	479,787,015	370,428,179	45,475,163	-	415,903,342
Other financial assets [Note 41]	9,227,790	-	9,227,790	-	9,227,790	12,041,606	-	12,041,606	-	12,041,606
<b>Total financial assets measured at amortised cost</b>	<b>1,599,105,166</b>	<b>348,994,206</b>	<b>1,150,064,901</b>	<b>-</b>	<b>1,499,059,107</b>	<b>1,678,874,224</b>	<b>370,428,179</b>	<b>1,203,584,943</b>	<b>-</b>	<b>1,574,013,122</b>
<b>Financial Liabilities</b>										
Due to banks [Note 42]	6,104,578	-	6,104,578	-	6,104,578	6,104,578	-	6,104,578	-	6,104,578
Securities sold under repurchase agreements [Note 43]	6,540,014	-	6,540,014	-	6,540,014	6,540,014	-	6,540,014	-	6,540,014
Financial liabilities at amortised cost										
- due to depositors [Note 44]	1,407,800,492	-	1,421,837,816	-	1,421,837,816	1,443,179,121	-	1,455,835,738	-	1,455,835,738
Dividends payable [Note 45]	1,008,325	-	1,008,325	-	1,008,325	1,038,542	-	1,038,542	-	1,038,542
Financial liabilities at amortised cost										
- other borrowings [Note 46]	32,350,594	-	32,350,594	-	32,350,594	33,385,598	-	33,385,598	-	33,385,598
Debt securities issued [Note 47]	2,062,950	-	2,040,706	-	2,040,706	2,555,109	-	2,503,150	-	2,503,150
Subordinated term debts [Note 52]	22,914,299	-	14,718,789	-	14,718,789	26,151,300	-	17,204,354	-	17,204,354
Other financial liabilities [Note 51]	4,213	-	4,213	-	4,213	2,434,631	-	2,434,631	-	2,434,631
<b>Total financial liabilities measured at amortised cost</b>	<b>1,478,785,465</b>	<b>-</b>	<b>1,484,605,035</b>	<b>-</b>	<b>1,484,605,035</b>	<b>1,521,388,893</b>	<b>-</b>	<b>1,525,046,605</b>	<b>-</b>	<b>1,525,046,605</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December 2021	Bank Fair Value					Group Fair Value				
	Carrying					Carrying				
	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
<b>Financial Assets</b>										
Cash and cash equivalents [Note 25]	38,185,254	-	38,185,254	-	38,185,254	40,900,372	-	40,900,372	-	40,900,372
Placements with banks [Note 26]	-	-	-	-	-	6,371,273	-	6,371,273	-	6,371,273
Balances with Central Bank of Sri Lanka [Note 27]	25,820,489	-	25,820,489	-	25,820,489	25,820,489	-	25,820,489	-	25,820,489
Reverse repurchase agreement [Note 28]	-	-	-	-	-	6,246,276	-	6,246,276	-	6,246,276
Financial assets at amortised cost										
- loans and advances to customers [Note 31]	876,254,693	-	876,098,776	-	876,098,776	911,253,345	-	911,197,915	-	911,197,915
Financial assets at amortised cost										
- debt and other financial instruments [Note 32]	160,677,520	70,059,563	48,960,905	-	119,020,468	171,930,640	74,513,315	54,992,275	814,264	130,319,854
Other financial assets [Note 41]	6,123,181	-	6,123,181	-	6,123,181	8,034,880	-	8,034,880	-	8,034,880
<b>Total financial assets measured at amortised cost</b>	<b>1,107,061,137</b>	<b>70,059,563</b>	<b>995,188,605</b>	<b>-</b>	<b>1,065,248,168</b>	<b>1,170,557,275</b>	<b>74,513,315</b>	<b>1,053,563,480</b>	<b>814,264</b>	<b>1,128,891,059</b>
<b>Financial Liabilities</b>										
Due to banks [Note 42]	17,075,502	-	17,075,502	-	17,075,502	17,075,502	-	17,075,502	-	17,075,502
Securities sold under repurchase agreements [Note 43]	33,524,226	-	33,524,226	-	33,524,226	33,524,226	-	33,524,226	-	33,524,226
Financial liabilities at amortised cost - due to depositors [Note 44]	1,075,709,287	-	1,076,410,109	-	1,076,410,109	1,107,065,820	-	1,107,178,468	-	1,107,178,468
Dividends payable [Note 45]	989,212	-	989,212	-	989,212	1,013,629	-	1,013,629	-	1,013,629
Financial liabilities at amortised cost										
- other borrowings [Note 46]	24,747,869	-	24,747,869	-	24,747,869	25,555,834	-	25,555,834	-	25,555,834
Debt securities issued [Note 47]	1,962,749	-	2,067,803	-	2,067,803	2,465,085	-	2,565,609	-	2,565,609
Subordinated term debts [Note 52]	23,552,323	-	24,436,735	-	24,436,735	24,391,912	-	25,362,475	-	25,362,475
Other financial liabilities [Note 51]	9,346	-	9,346	-	9,346	2,329,388	-	2,329,388	-	2,329,388
<b>Total financial liabilities measured at amortised cost</b>	<b>1,177,570,514</b>	<b>-</b>	<b>1,179,260,802</b>	<b>-</b>	<b>1,179,260,802</b>	<b>1,213,421,396</b>	<b>-</b>	<b>1,214,605,131</b>	<b>-</b>	<b>1,214,605,131</b>

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 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 financial assets	Other financial 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Interest income [Note 8 (a)]	207,019,354	98,600,557	220,581,307	107,407,723
Fee and commission income (Note 9)	15,520,113	9,893,263	16,521,300	10,676,982
Net gain/(loss) from trading (Note 10)	4,898,719	(522,039)	4,825,568	(383,772)
Net gain from financial investments at fair value through other comprehensive income (Note 11)	22,619	195,927	23,099	196,167
Net insurance premium income (Note 12)	-	-	12,750,482	10,641,842
Net gains arising on de-recognition of financial assets (Note 13)	-	-	-	5,874
Net other operating income (Note 14)	14,951,686	6,879,617	15,807,653	7,165,639
	242,412,491	115,047,325	270,509,409	135,710,455

## NOTES TO THE FINANCIAL STATEMENTS

## 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 FVTPL 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Interest income [Note 8 (a)]	207,019,354	98,600,557	220,581,307	107,407,723
Interest expense [Note 8 (b)]	104,142,478	49,041,200	109,014,763	50,945,355
<b>Net interest income</b>	<b>102,876,876</b>	<b>49,559,357</b>	<b>111,566,544</b>	<b>56,462,368</b>

## 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(c) ii 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 31 (c) ii 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, (over 90 days past due) when it is probable that the economic benefits associated will not continue to flow to the Bank.

For Purchased or Originated Credit-Impaired (POCI) financial assets (as set out in Note 31 (b) ii 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 FVTPL is recognised using the contractual interest rate.

### 8 (a) Interest Income (Contd.)

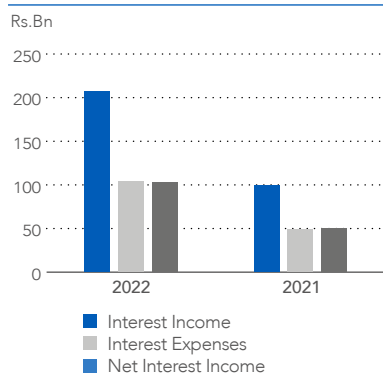
For the year ended 31st December	Bank		Group	
	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000
Cash and cash equivalents	140,689	1,584	240,985	22,384
Securities purchased under resale agreements	348,965	433,370	750,619	665,591
Placements with banks	455,901	280,475	816,576	994,835
Interest income accrued on impaired financial assets	2,100,903	171,414	2,100,903	171,414
Financial assets measured at fair value through profit or loss	2,448	3,913	35,361	4,289
<b>Financial assets measured at amortised cost</b>				
- Loans and advances to customers	141,356,955	68,095,835	149,742,363	74,259,970
- Debt and other instruments	58,280,183	15,784,213	61,160,376	16,906,089
Financial assets measured at fair value through other comprehensive income	4,129,607	13,773,930	5,561,098	14,383,151
Other interest income	203,703	55,823	173,026	-
	<b>207,019,354</b>	<b>98,600,557</b>	<b>220,581,307</b>	<b>107,407,723</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 and adverse economic conditions.

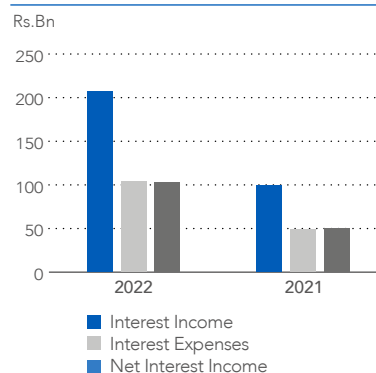
### 8 (b) Interest Expenses

For the year ended 31st December	Bank		Group	
	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000
Securities sold under repurchase agreements	3,666,452	770,336	3,558,106	767,454
Due to banks	817,668	2,636,152	817,668	2,636,152
Due to depositors (deposits from customers)	94,780,324	40,978,957	99,269,835	43,255,354
Debt securities issued	267,202	254,708	406,992	292,046
Other borrowings	1,108,221	809,625	1,473,701	832,209
Subordinated term debts	2,644,572	2,854,083	3,148,935	2,962,190
Interest expense on lease liabilities [Note 38 (b)]	859,672	730,245	341,159	192,856
Other interest expenses	(1,633)	7,094	(1,633)	7,094
	<b>104,142,478</b>	<b>49,041,200</b>	<b>109,014,763</b>	<b>50,945,355</b>

Analysis of Net Interest Income - Bank



Analysis of Net Interest Income - Group



## NOTES TO THE FINANCIAL STATEMENTS

**8 NET INTEREST INCOME (Contd.)****8 (c) Net Interest Income from Sri Lanka Government Securities**

Interest income and interest expenses on investment in government securities are summarised below.

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Interest income</b>				
Financial assets measured at fair value through profit or loss	2,448	3,913	35,361	3,913
Financial assets measured at amortised cost				
-Debt and other financial instruments	57,200,541	15,256,995	59,341,634	15,987,815
Financial assets measured at fair value through other comprehensive income	4,129,607	13,773,930	5,561,098	13,841,557
Securities purchased under resale agreements	348,965	433,370	849,141	668,473
<b>Less : Interest expenses</b>				
Securities sold under repurchase agreements	(3,666,452)	(770,336)	(3,558,106)	(767,454)
<b>Net interest income from Sri Lanka Government Securities</b>	<b>58,015,109</b>	<b>28,697,872</b>	<b>62,229,128</b>	<b>29,734,304</b>

**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;

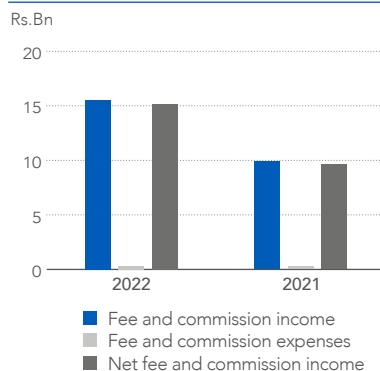
- Fee and commission income earned from services that are provided over a certain period of time are accrued over that period. Fees for guarantees and trade related commissions are recognised on a straight line basis over the period of contract.
- Fee and commission income from providing transaction services are recognised as and when the services are performed.

Other fees and commission expenses are mainly related to transaction and service fees that are expensed as and when the services are received.

A contract with a customer that results in 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, 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Fee and commission income [Note 9 (b)]	15,520,113	9,893,263	16,521,300	10,676,982
Less: Fee and commission expenses	345,863	270,702	619,555	360,771
<b>Net fee and commission income</b>	<b>15,174,250</b>	<b>9,622,561</b>	<b>15,901,745</b>	<b>10,316,211</b>

#### Net fee and commission income - Bank



#### 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 satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

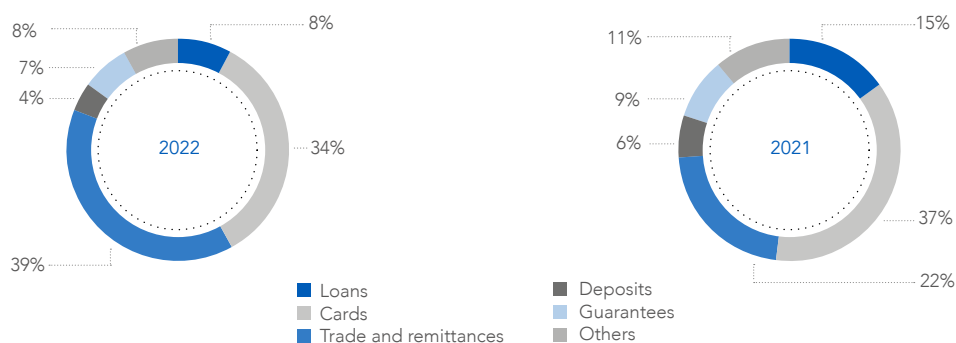
Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking services	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft 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.

## NOTES TO THE FINANCIAL STATEMENTS

**9 NET FEE AND COMMISSION INCOME (Contd.)****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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Loans and advances related services	1,170,253	1,450,264	1,170,253	2,008,243
Credit and debit cards related services	5,308,536	3,676,301	5,308,536	3,676,301
Trade and remittances related services	6,058,377	2,197,844	6,058,377	2,197,844
Deposits related services	624,784	562,309	624,784	562,309
Guarantees related services	1,089,948	911,749	1,089,948	911,749
Other financial services	1,268,215	1,094,796	2,269,402	1,320,536
<b>Gross fee and commission income</b>	<b>15,520,113</b>	<b>9,893,263</b>	<b>16,521,300</b>	<b>10,676,982</b>

**Analysis of Net Fee and Commission Income - Bank****10 NET GAINS/(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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Financial assets - Held for trading</b>				
<b>Fixed income</b>				
Net marked to market gain/(loss)	-	-	-	485
Net capital gain/(loss)	17,915	351	17,915	471
<b>Equities</b>				
Net marked to market gain/(loss)	7,756	18,866	(78,102)	99,690
Net capital gain	-	-	4,086	47,047
Dividend income	19,152	1,723	27,773	11,514
<b>Derivative financial instruments</b>				
Gain/(loss) on revaluation of foreign currency derivatives				
- With banks	4,839,236	(648,709)	4,839,236	(648,709)
- With customers	14,660	105,730	14,660	105,730
	4,898,719	(522,039)	4,825,568	(383,772)

## 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Equities</b>				
Dividend income	22,619	195,927	23,099	196,167
	22,619	195,927	23,099	196,167



## NOTES TO THE FINANCIAL STATEMENTS

## 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 a 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

Gross Written Premium (GWP) of general business is deferred over the term of the underlying policies' risk attached period according to the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments there to. Unearned premiums are the proportion of premiums that relate to the period of risk after the respective reporting period. Group uses 1/24th basis to defer the GWP 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 total premiums on title insurance are transferred to reserve for title insurance for the reporting period.

For the year ended 31st December	Group	
	2022 Rs 000	2021 Rs 000
Gross insurance premium income	15,300,741	12,532,955
Premium ceded to reinsurers	(2,164,702)	(1,648,861)
<b>Net written premium</b>	<b>13,136,039</b>	<b>10,884,094</b>
Net change in reserve for unearned premium	(385,557)	(242,252)
<b>Net insurance premium income [Note 12 (a)]</b>	<b>12,750,482</b>	<b>10,641,842</b>

## 12 (a) Net Insurance Premium income

For the year ended 31st December	Gross insurance premium income		Premium ceded to insurers		Net insurance premium income	
	2022	2021	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Life Insurance</b>						
Individual policies	7,266,600	6,045,977	(242,771)	(192,520)	7,023,829	5,853,457
Corporate policies	391,181	74,417	(55,473)	(140,832)	335,708	(66,415)
Single premium	1,217,620	916,307	(174,768)	(22,185)	1,042,852	894,122
<b>Gross written premium - life insurance</b>	<b>8,875,401</b>	<b>7,036,701</b>	<b>(473,012)</b>	<b>(355,537)</b>	<b>8,402,389</b>	<b>6,681,164</b>
<b>General Insurance</b>						
Fire	965,140	758,242	(914,763)	(732,462)	50,377	25,780
Motor	4,217,856	3,865,133	(176,934)	(175,612)	4,040,922	3,689,521
Marine	158,297	81,874	(146,234)	(76,423)	12,063	5,451
Miscellaneous	1,084,047	791,005	(453,759)	(308,827)	630,288	482,178
<b>Gross written premium - general insurance</b>	<b>6,425,340</b>	<b>5,496,254</b>	<b>(1,691,690)</b>	<b>(1,293,324)</b>	<b>4,733,650</b>	<b>4,202,930</b>
<b>Net change in reserves for unearned premium</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(385,557)</b>	<b>(242,252)</b>
	<b>15,300,741</b>	<b>12,532,955</b>	<b>(2,164,702)</b>	<b>(1,648,861)</b>	<b>12,750,482</b>	<b>10,641,842</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	
	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Financial assets measured at fair value through other comprehensive income</b>				
- Government Securities	-	-	-	5,874
<b>Net capital gain</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,874</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 through revaluation are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Dividend income from subsidiaries and joint venture	287,933	251,941	-	-
Foreign exchange gain *				
- With banks	11,598,865	5,278,346	11,989,821	5,302,965
- With customers	2,693,994	1,043,522	2,693,994	1,043,522
Gain on disposal of property, plant and equipment (net)	9,695	12,661	12,114	13,199
Rental income	12,520	11,709	252,050	226,222
Rental income from investment properties	103,737	66,834	197,160	162,907
Recovery of loans written off in prior years	169,459	172,162	218,133	186,619
Recovery of operational losses provided for in prior years	5,655	7,895	5,655	7,895
Miscellaneous	69,828	34,547	438,726	222,310
	14,951,686	6,879,617	15,807,653	7,165,639

\* Foreign exchange gain/(loss) represents both revaluation gain/(loss) on the Bank's net open position and gain/(loss) on foreign exchange contracts. Gains on revaluation of foreign currency derivatives amounting to Rs 4,854 Mn (2021 : Loss of Rs 543 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 2022 amounted to Rs 19,147 Mn and Rs 19,538 Mn respectively (2021 : Bank Rs 5,779 Mn and Group Rs 5,804 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 assets carried at amortised cost, debt instruments and other 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 (b) ii 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 assets and impairment charges on non financial assets recorded in the income statement:

#### Bank

For the year ended 31st December	2022					2021				
	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
<b>Impairment charge/(reversal) on financial assets measured at amortised cost</b>										
Cash and cash equivalents	194,133	-	-	-	194,133	(8,697)	-	-	-	(8,697)
Placements with banks	12,138	-	-	-	12,138	-	-	-	-	-
Loans and advances *	5,784,375	5,339,312	17,895,359	-	29,019,046	3,403,234	2,129,861	6,149,015	-	11,682,110
Debt instruments	(10,728,883)	69,641,596	50,951	-	58,963,664	6,786,867	-	(228)	-	6,786,639
<b>Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income</b>										
Debt instruments	(295,445)	-	-	-	(295,445)	186,758	-	-	-	186,758
Impairment charge / (reversal) on loan commitments and financial guarantee contracts	1,778,367	362,578	76,596	-	2,217,541	53,352	(101,494)	30,870	-	(17,272)
Impairment charge on property plant and equipment, intangible assets and prepayments	-	-	-	-	-	-	-	-	27,321	27,321
Other impairment charges	-	-	350,228	-	350,228	-	-	-	121,188	121,188
	(3,255,315)	75,343,486	18,373,134	-	90,461,305	10,421,514	2,028,367	6,179,657	148,509	18,778,047

\* Impairment charges recognised against loans and advances include the post model adjustments made outside ECL model using various stress testing techniques in order to address the potential implications of prevailing adverse economic conditions, continuing implications of COVID 19 outbreak and the resultant moratorium schemes introduced by the government / Bank.

## NOTES TO THE FINANCIAL STATEMENTS

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

Group

For the year ended 31st December	2022					2021				
	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
<b>Impairment charge/(reversal) on Financial assets measured at amortised cost</b>										
Cash and cash equivalents	194,157	-	-	-	194,157	(8,697)	-	-	-	(8,697)
Placements with banks	12,476	-	-	-	12,476	(126)	-	-	-	(126)
Loans and advances	7,063,302	5,336,892	17,864,736	-	30,264,930	3,784,649	2,425,593	6,224,164	-	12,434,406
Debt instruments	(10,728,276)	69,641,596	50,951	-	58,964,271	6,786,877	-	(228)	-	6,786,649
<b>Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income</b>										
Debt instruments	(295,445)	-	-	-	(295,445)	186,758	-	-	-	186,758
Impairment charge / (reversal) on loan commitments and financial guarantee contracts	1,778,367	362,578	76,597	-	2,217,542	53,352	(101,494)	30,870	-	(17,272)
Impairment charge on property plant and equipment, intangible assets and prepayments	-	-	-	-	-	-	-	-	27,321	27,321
Other impairment charges	-	-	377,741	-	377,741	-	-	-	125,270	125,270
	(1,975,419)	75,341,066	18,370,025	-	91,735,672	10,802,813	2,324,099	6,254,806	152,591	19,534,309

## 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 are disclosed under Note 53 to the financial statements.

For the year ended 31st December	Bank		Group	
	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000
Salaries and bonus	12,637,018	10,807,458	15,646,520	13,330,827
Contributions to Employees' Provident Fund (EPF)	898,035	808,412	1,172,828	1,039,520
Contributions to Employees' Trust Fund (ETF)	224,509	202,103	293,207	259,880
Provision for defined benefit plan (reversal)/charge - funded [Note 16 (a)]	609,248	(1,398,710)	609,248	(1,398,710)
Increase in liability for EPF interest guarantee [Note 53 (d)]	3,680	1,975	3,680	1,975
Increase/(decrease) in liability for accumulated leave [Note 53 (e)]	26,596	27,621	26,596	27,621
Provision for defined benefit plan - unfunded [Note 53 (g)]	-	-	111,649	106,187
Others	626,802	308,704	626,802	308,704
	15,025,888	10,757,563	18,490,530	13,676,004

**16 (a) Provision for Defined Benefit Plan - Funded**

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Current service cost [Note 53 (c) iii]	746,605	680,370	746,605	680,370
Net interest on defined benefit (asset)/liability [ Note 53 (c) v]	(137,357)	212,429	(137,357)	212,429
Past service benefit [Note 53 (c) iii]	-	(2,291,509)	-	(2,291,509)
	609,248	(1,398,710)	609,248	(1,398,710)

**16 (b) Past Service Benefit**

With the implementation of the provisions of Minimum Age of Workers Act No 28 of 2021, during the year ended 31st December 2021 Bank revised the minimum retirement age of its employees as follows.

Age of employee (As at 17th November 2021)	Minimum Retirement Age
54 or above and below 55 years	57 Years
53 or above and below 54 years	58 Years
52 or above and below 53 years	59 Years
Below 52 years	60 Years

The above revision was captured as a plan amendment in accordance with LKAS-19 in the actuarial valuation as at 31st December 2021 which resulted in a past service benefit of Rs.2,292 Mn which was recognised in the income statement during the year ended 31st December 2021.

**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 on 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	
	2022 Rs 000	2021 Rs 000
Net insurance benefits and claims paid [Note 17(a)]	5,408,276	4,095,720
Net change in insurance claims outstanding	145,419	127,570
Change in contract liabilities - life fund	4,340,103	3,275,670
Underwriting and net acquisition costs	1,821,540	1,456,257
	11,715,338	8,955,217

## 17 (a) Net insurance benefits and claims paid

For the year ended 31st December	Group					
	2022			2021		
	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	557,805	(210,879)	346,926	374,574	(163,159)	211,415
Surrenders	600,536	-	600,536	392,077	-	392,077
Annuity payments	12,767	-	12,767	13,621	-	13,621
Policy maturities	1,264,181	-	1,264,181	1,021,791	-	1,021,791
<b>Net life insurance claims</b>	<b>2,435,289</b>	<b>(210,879)</b>	<b>2,224,410</b>	<b>1,802,063</b>	<b>(163,159)</b>	<b>1,638,904</b>
<b>Non-life Insurance</b>						
Fire	326,523	(285,308)	41,215	175,826	(151,934)	23,892
Motor	2,660,477	(21,421)	2,639,056	1,857,467	(16,389)	1,841,078
Marine	43,883	(25,496)	18,387	12,575	(10,219)	2,356
Miscellaneous	548,595	(63,387)	485,208	622,537	(33,047)	589,490
<b>Net non-life insurance claims</b>	<b>3,579,478</b>	<b>(395,612)</b>	<b>3,183,866</b>	<b>2,668,405</b>	<b>(211,589)</b>	<b>2,456,816</b>
<b>Total net insurance benefits and claims paid</b>	<b>6,014,767</b>	<b>(606,491)</b>	<b>5,408,276</b>	<b>4,470,468</b>	<b>(374,748)</b>	<b>4,095,720</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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Directors' emoluments - Board related fees only	42,170	29,805	73,100	77,704
Advertising and related expenses	288,449	276,412	495,653	393,728
Auditors' remuneration [Note 18 (a)]	23,875	24,563	42,094	36,363
Business promotion and product expenses	707,055	569,668	707,055	569,668
Crop insurance levy	150,000	165,000	152,351	181,010
Debenture issue expenses	-	22,994	-	22,994
Deposit insurance premium	1,276,819	987,001	1,276,819	1,027,132
Depreciation and amortisation [Note 18 (b)]	2,567,704	2,442,964	3,187,685	2,905,296
Direct operating expenses on investment property	-	763	19,400	15,562
Donations	28,837	12,352	29,567	13,102
Legal expenses and professional fees	228,525	191,041	248,136	202,548
Office administration and establishment expenses	8,617,134	6,062,797	10,821,799	7,128,817
Operational risk event losses	33,055	36,056	33,055	36,056
Other overhead expenses	1,398,056	1,054,548	2,510,937	2,108,190
	15,361,679	11,875,964	19,597,651	14,718,170

### 18 (a) Auditors' Remuneration

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Audit fees and expenses	18,021	15,493	28,950	23,774
Audit related fee and expenses	2,890	2,994	6,601	5,085
Non-audit expenses	2,964	6,076	6,543	7,504
	23,875	24,563	42,094	36,363

### 18 (b) Depreciation and amortisation expenses

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Depreciation of investment property (Note 36)	5,335	5,335	29,305	31,645
Depreciation of property, plant and equipment (Note 37)	1,287,867	1,309,520	1,782,933	1,732,520
Amortisation of right-of-use assets (Note 38)	865,228	744,142	871,892	660,093
Amortisation of intangible assets (Note 39)	409,274	383,967	503,555	481,038
	2,567,704	2,442,964	3,187,685	2,905,296

## NOTES TO THE FINANCIAL STATEMENTS

## 19 TAXES ON FINANCIAL SERVICES

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Value Added Tax on financial services	4,932,774	4,498,822	5,070,791	4,759,882
Social Security Contribution Levy	168,598	-	176,825	-
	5,101,372	4,498,822	5,247,616	4,759,882

## (a) Value Added Tax (VAT) on Financial Services

The base of the calculation of Value Added Tax (VAT) on financial services is the value addition attributable to financial services which includes operating profit before VAT on financial services adjusted for emoluments of employees and economic depreciation.

VAT rate applied during 2022 was 18% (2021 - 15%).

## (b) Social Security Contribution Levy (SSCL)

Social Security Contribution Levy came into effect from 1st October 2022. The base of the calculation of Social Security Contribution Levy is the value addition attributable to financial services which includes operating profit before taxes on financial services adjusted for emoluments of employees and economic depreciation. SSCL rate applied during 2022 was 2.5%.

## 20 SHARE OF PROFIT OF JOINT VENTURE (NET OF INCOME TAX)

## ACCOUNTING POLICY

The policy adopted in accounting for joint venture investments is 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 Group's share of profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

For the year ended 31st December	Group	
	2022 Rs 000	2021 Rs 000
Share of profit of joint venture before income tax	473,264	376,288
Income tax on share of operating results of joint venture [(charge)/reversal]	(141,291)	(83,451)
<b>Share of profit of joint venture (net of income tax) [Note 34 (b)]</b>	<b>331,973</b>	<b>292,837</b>

**ACCOUNTING POLICY**

Income tax expense comprises of current and deferred tax. 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 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 Tax**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of current year as well as any adjustment to the tax payable or receivable in respect of previous years. The tax rates and tax laws used to compute the amount of current tax assets and liabilities 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 regulations involving identification of associated undertaking, estimation of respective arm's length prices and selection of appropriate pricing mechanism.

**Deferred Tax**

Deferred tax is recognised on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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. Unrecognised 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 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.

Temporary differences in relation to a right- of- use assets and liability for operating leases are regarded as net package (operating lease rights) for the purpose of recognising deferred tax.

Accordingly, provision for taxation is made on 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 21 INCOME TAX EXPENSE (Contd.)

## ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 "Uncertainty Over Income Tax Treatment".

The deferred tax liabilities/assets are disclosed under Note 40 to the financial statements.

## 21 (a) Income Tax Expense

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Current tax expense [Note 21 (b)]	25,573,882	6,002,665	25,981,411	6,450,391
Deferred tax expense [Note 21 (c)]	(27,633,469)	(3,477,405)	(27,309,389)	(3,481,169)
	(2,059,587)	2,525,260	(1,327,978)	2,969,222
Effective tax rate	(17.20%)	12.74%	(9.21%)	12.88%
Effective tax rate (excluding deferred tax)	213.58%	30.28%	180.17%	27.98%

## 21 (b) Current Income Tax Expense

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Current tax on profit for the year [Note 21 (b) (i) ,(ii)]	26,627,382	7,374,515	26,968,466	7,932,077
Effect of changes in tax rate [Note 21 (b) (iii)]	-	(820,750)	-	(869,702)
Over provision in previous years	(1,053,500)	(551,100)	(987,055)	(611,984)
	25,573,882	6,002,665	25,981,411	6,450,391

## 21 (b) (i) Effect of changes in tax rate in current year

The Inland Revenue (Amendment) Act No 45 of 2022 was certified by the Speaker on 19th December 2022. The standard rate of income tax has been increased to 30% from 24% w.e.f. 1st October 2022. The increase in income tax rate to 30% in mid-year has resulted in two tax rates being applicable for the Year of Assessment 2022/23. The Bank/ Group has computed the current tax payable on a pro rata basis for the Year of Assessment 2022/23.

## 21 (b) (ii) Treatment of impairment charges

As per Part I : Sec. (I) of the Gazette notification issued on 25th October 2022 under sub section (2) and (3) of section 66 of the Inland revenue Act, No. 24 of 2017, the impairment charges of Stage 3 credit facilities classified as per Sri Lanka Accounting Standards (SLFRS 9) have been considered as an allowable deduction (after adjusting for specifications given under section 1 of schedule 1 of the said Gazette notification).

### 21 (b) (iii) Effect of changes in tax rate in previous year

Further as per the Inland Revenue (Amendment) Act No 10 of 2021 which was certified by the Speaker on 13th May 2021 and which became effective from 1st January 2020, the Bank/Group computed the current tax payable for 2021 at the rate of 24% and the current tax liability for 2020 was reassessed at the said rate during the year 2021.

### 21 (c) Deferred Tax Expense

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Deferred Tax Liability</b>				
Origination / (reversal) of temporary difference during the year	(425,790)	(411,070)	(178,642)	(835,158)
Effect of changes in tax rate	362,723	(310,327)	261,026	(367,407)
	(63,067)	(721,397)	82,384	(1,202,565)
<b>Deferred Tax Asset</b>				
Reversal / (origination) of temporary difference during the year	(25,051,962)	(3,801,401)	(25,018,563)	(3,522,815)
Effect of changes in tax rate	(2,518,440)	1,045,393	(2,373,210)	1,244,211
	(27,570,402)	(2,756,008)	(27,391,773)	(2,278,604)
	(27,633,469)	(3,477,405)	(27,309,389)	(3,481,169)

The Inland Revenue (Amendment) Act No 45 of 2022 was certified by the Speaker on 19th December 2022. The standard rate of income tax has been increased to 30% from 24% w.e.f. 1st October 2022. Accordingly, deferred tax asset and liability have been computed at 30%.

Deferred tax asset has been recognized on all temporary differences arising on impairment provisions after adjustments been made in respect of impairment charges pertaining to stage 3 credit facilities, based on the specifications given in section 1 of schedule (I) of the Gazette notification issued on 25th October 2022 under Inland Revenue Act No 24 of 2017.

**21 INCOME TAX EXPENSE (Contd.)****21 (d) Current Tax on Profit for the year - Subsidiaries**

For the year ended 31st December	Group	
	2022 Rs 000	2021 Rs 000
Sithma Development (Pvt)Ltd	252,053	188,247
HNB Assurance PLC	288,436	99,902
HNB Finance PLC	(199,405)	269,414
	<b>341,084</b>	<b>557,563</b>

**21 (e) Applicable Tax Rates**

As explained in Note 21 (b) (i) the standard rate of income taxes have been revised . The new tax rates have been disclosed below.

Company	New tax rate	Previous tax rate
Hatton National Bank PLC	30%	24%
HNB Assurance PLC and its subsidiary HNB General Insurance Limited	30%	24%
HNB Finance PLC	30%	24%
Sithma Development (Pvt) Ltd	30%	24%

**21 (f) Reconciliation of Effective Tax Rate**

For the year ended 31st December	Bank				Group			
	2022		2021		2022		2021	
	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000
Profit before income tax		11,973,906		19,825,027		14,420,257		23,053,584
Tax using the corporate tax rate	27.00	3,232,955	24.00	4,758,006	27.00	3,893,440	24.00	5,532,861
Disallowable expenses	29.09	3,482,745	14.55	2,885,102	30.79	4,440,122	14.06	3,242,440
Tax effects on:								
Allowable expenses	(0.15)	(18,147)	(0.02)	(4,510)	(0.44)	(63,768)	(0.14)	(31,854)
Tax exempt income	(25.47)	(3,049,983)	(22.58)	(4,476,554)	(25.54)	(3,683,522)	(20.58)	(4,744,297)
Effect of change in tax rate	(38.86)	(4,653,657)	3.71	735,066	(32.57)	(4,697,188)	3.80	876,804
Utilisation of Previous Tax Losses	-	-	-	-	(1.90)	(273,554)		
Undistributable profits of subsidiaries and joint venture	-	-	-	-	0.30	43,561	(1.84)	(425,046)
	(8.40)	(1,006,087)	19.66	3,897,110	(2.36)	(340,909)	19.31	4,450,908
Over provision in previous years	(8.80)	(1,053,500)	(6.92)	(1,371,850)	(6.85)	(987,069)	(6.43)	(1,481,686)
<b>Income tax expense [Note21 (a)]</b>	<b>(17.20)</b>	<b>(2,059,587)</b>	<b>12.74</b>	<b>2,525,260</b>	<b>(9.21)</b>	<b>(1,327,978)</b>	<b>12.88</b>	<b>2,969,222</b>

**21 (g) Amounts Recognised in Other Comprehensive Income**

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Remeasurement of post-employment benefit obligations		-	(8,344)	(10,213)
Revaluation of freehold land and buildings	(1,157,240)	(576,923)	(2,434,075)	(775,823)
Net gains/(losses) on investments in government securities	(466,439)	754,541	(387,768)	763,270
	(1,623,679)	177,618	(2,830,187)	(22,766)

**21 (h) Tax Losses Brought Forward and Utilised during the Year**

	Group	
	2022 Rs 000	2021 Rs 000
Balance as at 1st January	1,139,763	2,590,197
Adjustment for brought forward tax losses	-	(891)
Tax losses utilised during the year	(1,139,763)	(1,449,543)
<b>Balance as at 31st December</b>	<b>-</b>	<b>1,139,763</b>

The details on tax losses utilized by subsidiaries have been given in Note 40 (d) to the financial statements.



## NOTES 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Amount used as the numerator</b>				
Profit attributable to equity holders of the Bank (Rs 000)	14,033,493	17,299,767	15,328,572	19,024,882
<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 ('000) [Note 22 (c)]	535,555	535,555	535,555	535,555
<b>Basic earnings per ordinary share (Rs)</b>	<b>26.20</b>	<b>32.30</b>	<b>28.62</b>	<b>35.52</b>

## 22 (b) Diluted Earnings per Share

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Amount used as the numerator</b>				
Profit attributable to equity holders of the Bank (Rs 000)	14,033,493	17,299,767	15,328,572	19,024,882
<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 ('000) [Note 22 (c)]	535,555	535,555	535,555	535,555
<b>Diluted earnings per ordinary share (Rs)</b>	<b>26.20</b>	<b>32.30</b>	<b>28.62</b>	<b>35.52</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 2022
Number of shares in issue as at 1st January	525,904,573
Number of shares satisfied in the form of issue and allotment of new shares for final dividend 2021	9,650,869
<b>Weighted average number of ordinary shares as at 31st December</b>	<b>535,555,442</b>

**23 DIVIDENDS PAID AND PROPOSED**

For the year ended 31st December	2022			2021		
	Gross Dividend	Dividend Tax	Net Dividend	Gross Dividend	Dividend Tax	Net Dividend
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Rs 3.50 scrip dividend per share declared in 2020 and paid in 2021	-	-	-	1,791,915	-	1,791,915
Rs 4.50 cash dividend per share declared in 2020 and paid in 2021	-	-	-	2,303,891	-	2,303,891
Rs 2.50 scrip dividend per share declared in 2021 and paid in 2022	1,314,761	-	1,314,761	-	-	-
Rs 6.50 cash dividend per share declared in 2021 and paid in 2022	3,418,380	-	3,418,380	-	-	-

**23 (a) Proposed Dividends**

The Directors recommend that a final dividend of Rs. 5.00 per share by way scrip dividend (2021: Rs. 6.50 per share, cash and Rs. 2.50 per share, scrip) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2022.

The final dividend is to be approved at the Annual General Meeting to be held on 30th March 2023. 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 2022. Final dividend proposed amounts to Rs 2,678 Mn (2021 final dividend : Rs 4,733 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 17th, 2023 has been audited by external auditor, Messrs. KPMG.

## NOTES TO THE FINANCIAL STATEMENTS

**24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS**

The accounting policies adopted in measurement of financial instruments are given in Notes 3.3, 3.4 to the financial statements.

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 2022	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	-	80,238,881	-	80,238,881
Placements with banks	-	54,371,028	-	54,371,028
Balances with Central Bank of Sri Lanka	-	32,344,341	-	32,344,341
Derivative financial instruments	5,370,501	-	-	5,370,501
Financial assets measured at fair value through profit or loss	111,617	-	-	111,617
Financial assets measured at amortised cost - loans and advances to customers	-	974,131,252	-	974,131,252
Financial assets measured at amortised cost - debt and other instruments	-	448,791,874	-	448,791,874
Financial assets measured at fair value through other comprehensive income	-	-	2,706,660	2,706,660
Other financial assets	-	9,227,790	-	9,227,790
<b>Total financial assets</b>	<b>5,482,118</b>	<b>1,599,105,166</b>	<b>2,706,660</b>	<b>1,607,293,944</b>
<b>Liabilities</b>				
Due to banks	-	6,104,578	-	6,104,578
Derivative financial instruments	25,632	-	-	25,632
Securities sold under repurchase agreements	-	6,540,014	-	6,540,014
Financial liabilities measured at amortised cost - due to depositors	-	1,407,800,492	-	1,407,800,492
Dividends payable	-	1,008,325	-	1,008,325
Financial liabilities measured at amortised cost - other borrowings	-	32,350,594	-	32,350,594
Debt securities issued	-	2,062,950	-	2,062,950
Other financial liabilities	-	4,213	-	4,213
Subordinated term debts	-	22,914,299	-	22,914,299
<b>Total financial liabilities</b>	<b>25,632</b>	<b>1,478,785,465</b>	<b>-</b>	<b>1,478,811,097</b>

**24 (a) Analysis of Financial Instruments by Measurement Basis - Bank**

As at 31st December 2021	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	-	38,185,254	-	38,185,254
Balances with Central Bank of Sri Lanka	-	25,820,489	-	25,820,489
Derivative financial instruments	927,487	-	-	927,487
Financial assets measured at fair value through profit or loss	103,365	-	-	103,365
Financial assets measured at amortised cost - loans and advances to customers	-	876,254,693	-	876,254,693
Financial assets measured at amortised cost -debt and other instruments	-	160,677,520	-	160,677,520
Financial assets measured at fair value through other comprehensive income	-	-	203,426,433	203,426,433
Other financial assets	-	6,123,181	-	6,123,181
<b>Total financial assets</b>	<b>1,030,852</b>	<b>1,107,061,137</b>	<b>203,426,433</b>	<b>1,311,518,422</b>
<b>Liabilities</b>				
Due to banks	-	17,075,502	-	17,075,502
Derivative financial instruments	353,356	-	-	353,356
Securities sold under repurchase agreements	-	33,524,226	-	33,524,226
Financial liabilities measured at amortised cost - due to depositors	-	1,075,709,287	-	1,075,709,287
Dividends payable	-	989,212	-	989,212
Financial liabilities measured at amortised cost - other borrowings	-	24,747,869	-	24,747,869
Debt securities issued	-	1,962,749	-	1,962,749
Other financial liabilities	-	9,346	-	9,346
Subordinated term debts	-	23,552,323	-	23,552,323
<b>Total financial liabilities</b>	<b>353,356</b>	<b>1,177,570,514</b>	<b>-</b>	<b>1,177,923,870</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

As at 31st December 2022	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	-	80,629,698	-	80,629,698
Placements with banks	-	58,172,046	-	58,172,046
Balances with Central Bank of Sri Lanka	-	32,344,341	-	32,344,341
Reverse repurchase agreements	-	1,380,579	-	1,380,579
Derivative financial instruments	5,370,501	-	-	5,370,501
Financial assets measured at fair value through profit or loss	236,178	-	-	236,178
Financial assets measured at amortised cost-loans and advances to customers	-	1,014,518,939	-	1,014,518,939
Financial assets measured at amortised cost-debt and other instruments	-	479,787,015	-	479,787,015
Financial assets measured at fair value through Other comprehensive income	-	-	6,062,195	6,062,195
Other financial assets	-	12,041,606	-	12,041,606
<b>Total financial assets</b>	<b>5,606,679</b>	<b>1,678,874,224</b>	<b>6,062,195</b>	<b>1,690,543,098</b>
<b>Liabilities</b>				
Due to banks	-	6,104,578	-	6,104,578
Derivative financial instruments	25,632	-	-	25,632
Securities sold under repurchase agreements	-	6,540,014	-	6,540,014
Financial liabilities measured at amortised cost - due to depositors	-	1,443,179,121	-	1,443,179,121
Dividends payable	-	1,038,542	-	1,038,542
Financial liabilities measured at amortised cost - other borrowings	-	33,385,598	-	33,385,598
Debt securities issued	-	2,555,109	-	2,555,109
Other financial liabilities	-	2,434,631	-	2,434,631
Subordinated term debts	-	26,151,300	-	26,151,300
<b>Total financial liabilities</b>	<b>25,632</b>	<b>1,521,388,893</b>	<b>-</b>	<b>1,521,414,525</b>

**24 (b) Analysis of Financial Instruments by Measurement Basis - Group**

As at 31st December 2021	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	-	40,900,372	-	40,900,372
Placements with banks	-	6,371,273	-	6,371,273
Balances with Central Bank of Sri Lanka	-	25,820,489	-	25,820,489
Reverse repurchase agreements	-	6,246,276	-	6,246,276
Derivative financial instruments	927,487	-	-	927,487
Financial assets measured at fair value through profit or loss	862,641	-	-	862,641
Financial assets measured at amortised cost -loans and advances to customers	-	911,253,345	-	911,253,345
Financial assets measured at amortised cost -debt and other instruments	-	171,930,640	-	171,930,640
Financial assets measured at fair value through other comprehensive income	-	-	210,804,487	210,804,487
Other financial assets	-	8,034,880	-	8,034,880
<b>Total financial assets</b>	<b>1,790,128</b>	<b>1,170,557,275</b>	<b>210,804,487</b>	<b>1,383,151,890</b>
<b>Liabilities</b>				
Due to banks	-	17,075,502	-	17,075,502
Derivative financial instruments	353,356	-	-	353,356
Securities sold under repurchase agreements	-	33,524,226	-	33,524,226
Financial liabilities measured at amortised cost - due to depositors	-	1,107,065,820	-	1,107,065,820
Dividends payable	-	1,013,629	-	1,013,629
Financial liabilities measured at amortised cost - other borrowings	-	25,555,834	-	25,555,834
Debt securities issued	-	2,465,085	-	2,465,085
Other financial liabilities	-	2,329,388	-	2,329,388
Subordinated term debts	-	24,391,912	-	24,391,912
<b>Total financial liabilities</b>	<b>353,356</b>	<b>1,213,421,396</b>	<b>-</b>	<b>1,213,774,752</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Local currency in hand	36,929,336	30,252,225	37,190,861	30,331,103
Foreign currency in hand	2,344,665	625,346	2,344,665	625,346
Balances with banks	41,167,892	7,316,562	41,297,208	9,952,802
	80,441,893	38,194,133	80,832,734	40,909,251
Less : Allowance for impairment losses [Note 25 (a)]	203,012	8,879	203,036	8,879
	80,238,881	38,185,254	80,629,698	40,900,372

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

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	8,879	17,576	8,879	17,576
Net impairment charge/(reversal) during the year [Note 15]	194,133	(8,697)	194,157	(8,697)
<b>Balance as at 31st December</b>	<b>203,012</b>	<b>8,879</b>	<b>203,036</b>	<b>8,879</b>

## 25 (b) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

## 26 PLACEMENTS WITH BANKS

## ACCOUNTING POLICY

Placements with banks include money at call and short notice that are subject to an insignificant risk of change in the 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. Placements with banks are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Placements - within Sri Lanka	-	-	3,801,707	6,371,624
Placements - outside Sri Lanka	54,383,166	-	54,383,166	-
Less : Allowance for impairment losses [Note 26 (a)]	12,138	-	12,827	351
	54,371,028	-	58,172,046	6,371,273



**26 (a) Movement in Impairment during the year**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	-	-	351	477
Net impairment (reversal)/charge during the year [Note 15]	12,138	-	12,476	(126)
<b>Balance as at 31st December</b>	<b>12,138</b>	<b>-</b>	<b>12,827</b>	<b>351</b>

**26 (b) Credit and Market risk**

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

**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 4% as at 31st December 2022 (2021 : 4%).

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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Statutory balance with Central Bank of Sri Lanka	32,344,341	25,820,489	32,344,341	25,820,489
Standing deposit facility with Central Bank of Sri Lanka	4,403,505	-	4,403,505	-
	<b>32,344,341</b>	<b>25,820,489</b>	<b>32,344,341</b>	<b>25,820,489</b>

**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	
	2022 Rs 000	2021 Rs 000
<b>Securities purchased under reverse repurchase agreements</b>		
with banks	-	3,527,823
with customers	1,380,579	2,718,453
	<b>1,380,579</b>	<b>6,246,276</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 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 derivative as a hedging instrument and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with 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			
	2022		2021	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
<b>Currency swaps</b>				
Sales	-	-	263,490	81,645
Purchases	5,320,269	-	516,700	270,447
	5,320,269	-	780,190	352,092
<b>Forward foreign exchange contracts</b>				
Sales	35,271	4,103	105,773	1,227
Purchases	14,961	21,529	41,524	37
	50,232	25,632	147,297	1,264
	5,370,501	25,632	927,487	353,356

**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 in the statement of financial position. Changes in fair value are recognised in "net gain/(loss) from trading" (Note 10). Interest income from financial assets held for trading 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	2022 Fair Value Rs 000	2021 Fair Value Rs 000
Quoted shares - Bank [Note 30 (a)]	111,121	103,365
Government of Sri Lanka treasury bills - Bank [Note 30 (b)]	496	-
<b>Total financial assets measured at fair value through profit or loss - Bank</b>	<b>111,617</b>	<b>103,365</b>
Quoted shares - Subsidiaries [Note 30 (c)]	124,561	218,466
Government of Sri Lanka treasury bonds - Subsidiaries [Note 30 (d)]	-	347,225
Unquoted units in unit trusts - Subsidiaries [Note 30 (e)]	-	193,585
<b>Total financial assets measured at fair value through profit or loss - Subsidiaries</b>	<b>124,561</b>	<b>759,276</b>
<b>Total financial assets measured at fair value through profit or loss - Group</b>	<b>236,178</b>	<b>862,641</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

## 30 (a) Quoted Shares Held by the Bank

As at 31st December	2022				2021			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total	Fair Value Rs 000
<b>Banks, Finance and Insurance</b>								
Ceylinco Insurance PLC	34,000	23,035	18	34,910	34,000	23,035	18	40,698
National Development Bank PLC	48,164	10,904	8	1,541	45,254	10,903	8	3,118
<b>Sector Total</b>		<b>33,939</b>		<b>36,451</b>		<b>33,938</b>		<b>43,816</b>
<b>Construction and Engineering</b>								
Access Engineering PLC	175	6	-	2	175	6	-	6
<b>Sector Total</b>		<b>6</b>		<b>2</b>		<b>6</b>		<b>6</b>
<b>Diversified Holdings</b>								
Aitken Spence PLC	278,515	30,625	24	35,650	278,515	30,625	24	22,950
<b>Sector Total</b>		<b>30,625</b>		<b>35,650</b>		<b>30,625</b>		<b>22,950</b>
<b>Hotels and Travels</b>								
Aitken Spence Hotel Holdings PLC	575,301	45,998	36	29,225	575,301	45,999	36	24,335
Asian Hotels and Properties PLC	207,476	14,918	12	7,760	207,476	14,918	12	9,150
<b>Sector Total</b>		<b>60,916</b>		<b>36,985</b>		<b>60,917</b>		<b>33,485</b>
<b>Motors</b>								
United Motors Lanka PLC	33,385	3,522	3	2,033	33,385	3,522	2	3,108
<b>Sector Total</b>		<b>3,522</b>		<b>2,033</b>		<b>3,522</b>		<b>3,108</b>
		<b>129,008</b>		<b>111,121</b>		<b>129,008</b>		<b>103,365</b>
Unrealised loss from marked to market valuation		(17,887)				(25,643)		
<b>Total quoted shares - Bank</b>		<b>111,121</b>		<b>111,121</b>		<b>103,365</b>		<b>103,365</b>

## 30 (b) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December	2022		2021	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2023	496	496	-	-
Unrealised loss from marked to market valuation	-	-	-	-
<b>Total Government of Sri Lanka treasury bills - Bank</b>	<b>496</b>	<b>496</b>	<b>-</b>	<b>-</b>

**30 (c) Quoted shares Held by Subsidiaries**

As at 31st December	2022				2021			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total	Fair Value Rs 000
<b>Banks, Finance and Insurance</b>								
Central Finance Company PLC	142,285	17,088	12	8,893	142,285	17,088	12	13,233
Nations Trust Bank PLC	97,177	6,578	5	4,489	91,471	6,258	4	5,031
Peoples Leasing & Finance PLC	615,201	10,008	7	3,076	543,212	9,452	7	5,812
Sampath Bank PLC	318,048	19,747	14	10,877	318,048	19,747	14	16,570
Seylan Bank PLC - (Non-Voting)	744,066	26,848	18	12,054	680,652	24,807	17	22,666
<b>Sector Total</b>		<b>80,269</b>		<b>39,389</b>		<b>77,352</b>		<b>63,312</b>
<b>Beverage Food and Tobacco</b>								
Distilleries Company of Sri Lanka PLC	33,935	-	-	448	33,935	-	-	577
<b>Sector Total</b>		<b>-</b>		<b>448</b>		<b>-</b>		<b>577</b>
<b>Diversified Holdings</b>								
John Keells Holdings PLC	29,670	3,679	3	4,013	29,670	3,679	3	4,450
Melstacorp PLC	94,532	5,603	4	4,367	94,532	5,603	4	5,303
Richard Peiris and Company PLC	312,851	4,351	3	7,540	312,851	4,351	3	7,696
Vallibel One PLC	209,638	4,000	3	6,310	209,638	4,000	3	15,220
<b>Sector Total</b>		<b>17,633</b>		<b>22,230</b>		<b>17,633</b>		<b>32,669</b>
<b>Land and Property</b>								
Overseas Realty (Ceylon) PLC	486,679	12,454	9	7,252	486,679	12,454	9	9,344
<b>Sector Total</b>		<b>12,454</b>		<b>7,252</b>		<b>12,454</b>		<b>9,344</b>
<b>Manufacturing</b>								
ACL Cables PLC	190,400	3,016	2	13,347	190,400	3,016	2	19,088
Dipped Products PLC	334,000	10,354	7	9,719	334,000	10,354	7	16,934
Royal Ceramic Lanka PLC	680,000	9,172	6	19,244	680,000	9,172	6	53,108
Tokyo Cement Company (Lanka) PLC	391,871	12,824	9	12,932	391,871	12,824	9	23,434
<b>Sector Total</b>		<b>35,366</b>		<b>55,242</b>		<b>35,366</b>		<b>112,564</b>
		<b>145,722</b>		<b>124,561</b>		<b>142,805</b>		<b>218,466</b>
Unrealised loss From marked to market valuation		(21,161)				75,661		
<b>Total quoted shares - Subsidiaries</b>		<b>124,561</b>		<b>124,561</b>		<b>218,466</b>		<b>218,466</b>

## NOTES TO THE FINANCIAL STATEMENTS

**30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)****30 (d) Government of Sri Lanka Treasury Bonds Held by Subsidiaries**

As at 31st December	2022		2021	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2022	-	-	346,740	347,225
Unrealised gain/(loss) from marked to market valuation	-	-	485	
<b>Total Government of Sri Lanka treasury bonds - Subsidiaries</b>	<b>-</b>	<b>-</b>	<b>347,225</b>	<b>347,225</b>

**30 (e) Unquoted Units in Unit Trusts Held by Subsidiaries**

As at 31st December	2022			2021		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
Capital Alliance Income Fund	-	-	-	2,934,718	60,000	64,793
Capital Alliance Investment Grade Fund	-	-	-	3,043,832	60,000	64,453
JB Vantage Money Market Fund	-	-	-	2,189,530	60,000	64,339
Unrealised gain from marked to market valuation		-	-		13,585	
<b>Total quoted units - Subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,168,080</b>	<b>193,585</b>	<b>193,585</b>

**30 (f) Analysis**

As at 31st December	Bank		Group	
	2022 Fair Value Rs 000	2021 Fair Value Rs 000	2022 Fair Value Rs 000	2021 Fair Value Rs 000
<b>By currency</b>				
Sri Lankan Rupee	111,617	103,365	236,178	862,641
	<b>111,617</b>	<b>103,365</b>	<b>236,178</b>	<b>862,641</b>

**30 (g) Credit and Market risk**

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

### 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Gross loans and advances</b>	<b>1,061,371,654</b>	<b>928,971,730</b>	<b>1,107,500,061</b>	<b>968,907,254</b>
stage 1	790,590,235	715,110,233	821,011,410	741,920,173
stage 2	168,456,347	150,226,414	176,596,183	155,690,342
stage 3	102,325,072	63,635,083	109,892,468	71,296,739
<b>Less : Accumulated impairment under:</b>	<b>87,240,402</b>	<b>52,717,037</b>	<b>92,981,122</b>	<b>57,653,909</b>
stage 1 [Note 31 (g)]	12,477,377	6,494,958	14,914,751	7,653,405
stage 2 [Note 31 (g)]	16,235,373	10,188,641	16,799,238	10,754,926
stage 3 [Note 31 (g)]	58,527,652	36,033,438	61,267,133	39,245,578
<b>Net loans and advances</b>	<b>974,131,252</b>	<b>876,254,693</b>	<b>1,014,518,939</b>	<b>911,253,345</b>



## NOTES TO THE FINANCIAL STATEMENTS

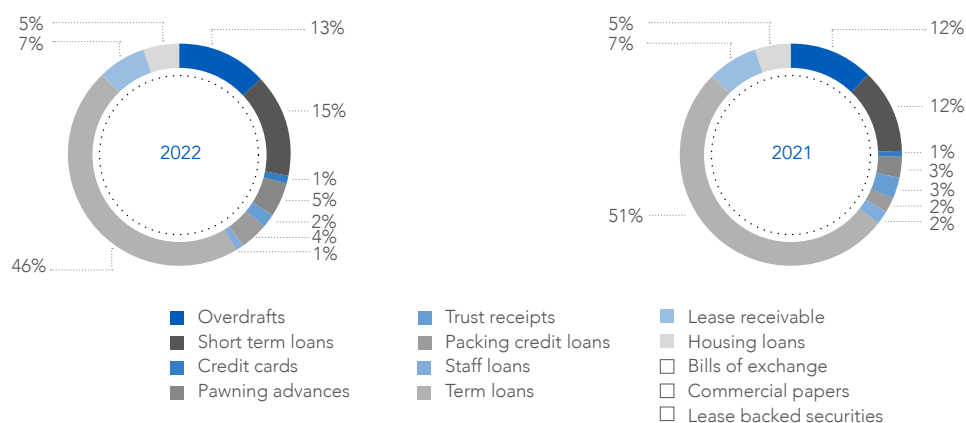
## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

## 31 (a) Analysis of Loans and Advances

## 31 (a) i By Product

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Overdrafts	141,393,778	116,026,873	140,892,245	115,907,874
Bills of exchange	1,905,532	1,328,855	1,905,532	1,328,855
Commercial papers	156,664	153,705	156,664	153,705
Short term loans	154,418,226	116,022,030	154,839,140	116,425,532
Credit cards	15,318,167	12,136,458	15,318,167	12,136,458
Pawning advances	53,678,626	28,085,905	59,517,414	30,146,476
Trust receipts	23,842,855	23,576,849	23,842,855	23,576,849
Packing credit loans	37,385,421	21,082,668	37,385,421	21,082,668
Staff loans	14,619,004	18,504,857	15,169,226	19,087,913
Term loans	491,630,198	472,506,074	516,321,644	496,472,196
Lease receivable	70,802,779	67,835,623	85,931,349	80,876,895
Housing loans	55,496,541	50,360,273	55,496,541	50,360,273
Lease backed securities	723,863	1,351,560	723,863	1,351,560
<b>Total gross loans and advances [Note 31 (a) ii]</b>	<b>1,061,371,654</b>	<b>928,971,730</b>	<b>1,107,500,061</b>	<b>968,907,254</b>

## Analysis of Loans and Advances - Bank



## 31 (a) ii By Currency

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Sri Lankan Rupees	888,439,422	827,386,958	934,199,325	867,322,482
United States Dollars	170,245,428	99,642,964	170,608,078	99,642,964
Great Britain Pounds	973,237	619,700	979,044	619,700
Euros	1,541,758	1,166,282	1,541,792	1,166,282
Other currencies	171,809	155,826	171,822	155,826
<b>Total gross loans and advances [Note 31 (a) i]</b>	<b>1,061,371,654</b>	<b>928,971,730</b>	<b>1,107,500,061</b>	<b>968,907,254</b>

### Repayment deferral packages offered to customers affected by COVID 19 / prevailing economic conditions

The Group has offered various forms of assistance to customers since March 2020, to counteract the impact of COVID-19 and prevailing economic conditions on the ability of customers to meet their loan obligations 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 (f) 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 issued by Central Bank of Sri Lanka (CBSL).

### 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.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents
- Placements with banks
- Financial assets measured at amortised cost - loans and advances to customers
- Financial assets measured at amortised cost - debt and other financial instruments
- Financial assets measured at fair value through other comprehensive income
- Loan commitments and financial guarantee contracts

Equity instruments are not subject to impairment losses under SLFRS 9.

#### 31 (b) Overview of the Expected Credit Loss Principles

The Group measures, 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 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.

The Group's policies for determining whether there has been a significant increase in credit risk are set out in Note 31 (c) i to the financial statements.

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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)****31 (b) i Grouping of Financial Assets for Impairment Assessment**

The Group's policy for grouping financial assets for impairment assessment are as follows.

- **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 as 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
- the potential implications of the prevailing economic conditions on the business cashflows of the borrower and/or the recoverable value of the security

- **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 (b) ii 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 a 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 in place 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 risk of default occurring over the remaining life of the financial instrument.

As per SLFRS 9, a three stage model is adopted for impairment assessment based on changes in credit quality since initial recognition.

Stage	Classification Criteria	ECL measurement
Stage 1	Financial assets that have not undergone a significant increase in credit risk since initial recognition and are not credit impaired	12 months expected credit loss
Stage 2	Financial assets that have experienced a significant increase in credit risk since initial recognition but not credit impaired	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

**31 (c) Factors considered in the Assessment of Expected Credit Losses**

### 31 (c) i Significant Increase in Credit Risk (SICR)

The Group considers an exposure to have a 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 realizability 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.

- Repayment deferral packages

In respect of facilities subject to the repayment deferral arrangements, an assessment of SICR has been carried out based on various factors such as the customer's current financial position, future earnings capacity, whether the customer has availed the repayment deferral arrangements over an extended period of time 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.

- Economic conditions

Bank takes into consideration the uncertainties relating to the current economic conditions in order to assess cashflow projections for future recoveries. The main factors that cause uncertainties regarding this application relate to the unstable economic environment prevailing in the country and to the resultant implications on the creditworthiness of the borrowers .

### 31 (c) ii Definition of Default and Credit Impaired Assets

The Group generally considers financial assets as defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments (excluding securities issued by Government of Sri Lanka) under Stage 3 when the external credit rating assigned to the particular investment is "default".

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 customers with one or more of the default indicators as credit impaired. [Further as per Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : "Financial Instruments" issued by Central Bank of Sri Lanka, all the credit facilities/customers classified as non-performing as per Central Bank of Sri Lanka Directions are assessed as Stage 3 exposures].

### 31 (c) iii Modified Financial Assets

# NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

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. 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.

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 31 (c) i to the financial statements. Accordingly, all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period. Further loans which have been restructured up to two times unless upgraded due to satisfactory performing period are classified as Stage 2 while such loans which have been restructured more than two times are classified as Stage 3 in accordance with Banking Act Direction No 13 of 2021 on "Classification, Recognition and Measurement of credit facilities in Licensed Banks".

### 31 (d) Movement between the Stages

Financial assets can be transferred between the different categories (other than POCI) 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 upgraded in accordance with board approved policies upon the settlement of due payment and Bank is satisfied, the customer is able to service debt obligations upto a foreseeable future and the upgraded credit facility has exhibited a sustained/trend/status of improvement to justify an improved classification in accordance with Banking Act Direction No 13 of 2021 on "Classification, Recognition and Measurement of Credit Facilities in Licensed Banks".

### 31 (e) 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 3-6 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 POCI 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, SME 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 (utilised 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

- **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 and ECL is recognised based on probability of default, loss given default and economic factor adjustment. 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 ECL component related to the financial guarantee contracts are recognised within "other liabilities".

- **Recognition of expected credit loss provisions on government securities**

Bank does not recognise impairment provisions in respect of Rupee denominated government securities while recognition of impairment on foreign currency denominated government securities is determined based on the applicable exposure at default, probability of default and loss given default.

- **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 and when such information is not available, forecasts published by International Monetary Fund and World Bank have been used. 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	

- **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.

- **Write-off of financial assets**

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 individual asset level.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

## NOTES TO THE FINANCIAL STATEMENTS

**31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)**

- **Regulations issued by the Central Bank of Sri Lanka (CBSL)**

Since the outbreak of COVID – 19, CBSL issued various circulars relating to moratorium/debt relief credit support to customers and industries through schemes offered by the Government to support recovery of the economy. Bank has taken into account these circulars in the recognition of interest income, stage wise classification of facilities and computation of expected credit loss. All moratoriums / debt relief credit support schemes granted to customers based on regulations issued by Central Bank of Sri Lanka ended during 2022.

**31 (f)****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 of which can result in different levels of impairment allowances.

The Group's Expected Credit Loss (ECL) calculations are the 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 whether 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
- 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 prevailing economic conditions and 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. 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, and the interdependencies between those inputs.



Judgement/ Assumption	Description	Considerations for the year ended 31st December 2022
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 and current economic conditions, 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 cash flows, 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 2022. Due to the implications of moratorium/debt concessionary schemes on PDs and LGDs (due to limited movements to Stage 2 and Stage 3), and current economic condition 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 2022.
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.	As at 31 December 2022, the base case assumptions have been updated to reflect the evolving situation with respect to prevailing economic conditions and economic forecasts provided by the Central Bank of Sri Lanka, International Monetary Fund and World Bank.
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.	The key consideration for probability weightings in the current period is the prevailing uncertain economic conditions.  In addition to the base case forecast which reflects the negative economic consequences of COVID-19 and current economic crisis, 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

Judgement/ Assumption	Description	Considerations for the year ended 31st December 2022
Post model adjustments	<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 the prevailing economic conditions 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 as post model adjustments primarily due to the uncertainty associated with prevailing uncertain economic conditions.</p> <p>Post model adjustments have been made to the modelled ECL provision against exposures to the risk elevated sectors identified by the Group</p>

## 31 (g) Movement in Impairment during the year

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>As at 31st December</b>				
<b>Stage 1</b>				
Balance as at 1st January	6,494,958	3,091,724	7,653,405	3,799,786
Acquisition of subsidiary through HNB Finance PLC	-	-	-	68,970
Effect of exchange rate fluctuations	198,044	-	198,044	-
Net impairment (reversal)/charge for the year [Note 15]	5,784,375	3,403,234	7,063,302	3,784,649
<b>Balance as at 31st December [Note 31]</b>	<b>12,477,377</b>	<b>6,494,958</b>	<b>14,914,751</b>	<b>7,653,405</b>
<b>Stage 2</b>				
Balance as at 1st January	10,188,641	8,058,780	10,754,926	8,284,622
Acquisition of subsidiary through HNB Finance PLC	-	-	-	44,711
Effect of exchange rate fluctuations	707,420	-	707,420	-
Net impairment charge for the year [Note 15]	5,339,312	2,129,861	5,336,892	2,425,593
<b>Balance as at 31st December [Note 31]</b>	<b>16,235,373</b>	<b>10,188,641</b>	<b>16,799,238</b>	<b>10,754,926</b>
<b>Stage 3</b>				
Balance as at 1st January	36,033,438	30,812,232	39,245,578	33,820,590
Acquisition of subsidiary through HNB Finance PLC	-	-	-	675,812
Effect of exchange rate fluctuations	5,298,566	313,022	5,298,566	313,022
Net impairment charge for the year [Note 15]	17,895,359	6,149,015	17,864,736	6,224,164
Write-offs during the year	(699,711)	(1,240,831)	(1,141,747)	(1,788,010)
<b>Balance as at 31st December [Note 31]</b>	<b>58,527,652</b>	<b>36,033,438</b>	<b>61,267,133</b>	<b>39,245,578</b>
<b>Total impairment allowance for financial assets measured at amortised cost - Loans and advances to customers</b>	<b>87,240,402</b>	<b>52,717,037</b>	<b>92,981,122</b>	<b>57,653,909</b>

31 (g) i Product wise Movement in Allowance for Impairment Losses - Bank

	2022				2021
	Lease Receivable	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	1,514,125	51,132,915	69,997	52,717,037	41,962,736
Effect of exchange rate fluctuations	-	6,204,030	-	6,204,030	313,022
Net impairment charge for the year	1,073,966	27,925,236	19,844	29,019,046	11,682,110
Write-offs during the year	(131,802)	(567,909)	-	(699,711)	(1,240,831)
<b>Balance as at 31st December</b>	<b>2,456,289</b>	<b>84,694,272</b>	<b>89,841</b>	<b>87,240,402</b>	<b>52,717,037</b>

31 (g) ii Product wise Movement in Allowance for Impairment Losses - Group

	2022				2021
	Lease Receivable	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	2,524,650	55,067,401	61,858	57,653,909	45,904,996
Acquisition of subsidiary through HNB Finance PLC	-	-	-	-	789,495
Effect of exchange rate fluctuations	-	6,204,030	-	6,204,030	313,022
Net impairment charge for the year	1,344,635	28,856,663	63,632	30,264,930	12,434,406
Write-offs during the year	(131,802)	(1,009,945)	-	(1,141,747)	(1,788,010)
<b>Balance as at 31st December</b>	<b>3,737,483</b>	<b>89,118,149</b>	<b>125,490</b>	<b>92,981,122</b>	<b>57,653,909</b>

31 (h) Lease 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 receivables and presented within loans and advances 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Total lease rentals receivable	84,912,133	78,226,295	105,044,928	95,082,134
Unearned lease income	(14,109,354)	(10,390,672)	(19,113,579)	(14,205,239)
<b>Gross lease receivable</b>	<b>70,802,779</b>	<b>67,835,623</b>	<b>85,931,349</b>	<b>80,876,895</b>
Impairment allowance for lease receivable	(2,456,289)	(1,514,125)	(3,737,483)	(2,524,650)
<b>Net lease receivable</b>	<b>68,346,490</b>	<b>66,321,498</b>	<b>82,193,866</b>	<b>78,352,245</b>
Net lease receivables within one year [Note 31 (h) (i)]	27,026,605	23,815,909	31,121,193	28,724,359
Net lease receivables from one to five years [Note 31 (h) (ii)]	40,996,015	42,093,165	50,747,054	49,215,462
Net lease receivables after five years [Note 30 (h) (iii)]	323,870	412,424	325,619	412,424
	<b>68,346,490</b>	<b>66,321,498</b>	<b>82,193,866</b>	<b>78,352,245</b>

## NOTES TO THE FINANCIAL STATEMENTS

**31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)****31 (h) i Net Lease Receivables within one year**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Total lease rentals receivable within one year from the reporting date	34,933,505	29,481,316	41,066,147	35,795,442
Unearned lease income	(6,935,597)	(5,121,687)	(7,984,487)	(6,404,339)
Less: Impairment allowance for lease receivables	(971,303)	(543,720)	(1,960,467)	(666,744)
	27,026,605	23,815,909	31,121,193	28,724,359

**31 (h) ii Net Lease Receivables from one to five years**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Total lease rentals receivables from one to five years from the reporting date	49,614,973	48,297,027	63,613,096	58,838,740
Unearned lease income	(7,145,611)	(5,242,872)	(11,100,843)	(7,774,788)
Less: Impairment allowance for lease receivables	(1,473,347)	(960,990)	(1,765,199)	(1,848,490)
	40,996,015	42,093,165	50,747,054	49,215,462

**31 (h) iii Net Lease Receivables after five years**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Total lease rentals receivable after five years from the reporting date	363,655	447,953	365,685	447,953
Unearned lease income	(28,146)	(26,114)	(28,249)	(26,113)
Less: Impairment allowance for lease receivables	(11,639)	(9,415)	(11,817)	(9,416)
	323,870	412,424	325,619	412,424

Impairment allowance for lease receivables are included in the stage wise movement for impairment presented in Note 31 (g) to the financial statements.

**31 (i) Credit and Market risk**

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

**31 (j)** Banking Act Direction No 13 of 2021 on "Classification, Recognition and Measurement of Credit Facilities in Licensed Banks", Banking Act Direction No 14 of 2021 on "Classification, Recognition and Measurement of Financial Assets other than Credit Facilities in Licensed Banks" and Banking Act Direction No 11 of 2021 on "Supplementary Circular to Banking Act Direction On Classification, Recognition and Measurement of Credit Facilities and Other Financial Assets in Licensed Banks"

Central Bank of Sri Lanka on 14th and 30th September 2021 issued the above Directions with a view to further strengthening and harmonising the regulatory framework on classification, recognition and measurement of credit facilities and other financial assets with the Sri Lanka Accounting Standard SLFRS 9 – "Financial Instruments" and establishing consistent and prudent practices in the banking industry. These Directions became effective from 1st January 2022 and the previous Directions issued by Central Bank of Sri Lanka pertaining to classification, income recognition and provisioning on of loans and advances and investment portfolios were revoked from such date.

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at amortised cost - debt and other financial instruments has been given in Note 3.3 and 3.4 to the financial statements

The Group measures 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 financial 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 financial instruments

The Group assesses impairment for financial assets measured at amortised cost - debt and other financial 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 financial instruments is disclosed in Note 32 (b) to the financial statements.

As at 31st December	2022 Rs 000	2021 Rs 000
Government of Sri Lanka treasury bills held by the Bank [Note 32 (c)]	216,516,708	-
Government of Sri Lanka treasury bonds held by the Bank [Note 32 (d)]	56,366,129	2,040,413
Sri Lanka development bonds held by the Bank [Note 32 (e)]	32,110,047	51,546,518
Sri Lanka sovereign bonds held by the Bank [Note 32 (f)]	209,640,517	109,636,330
Foreign government bonds held by the Bank [Note 32 (g)]	123,417	72,466
Quoted debentures held by the Bank [Note 32 (h)]	10,495,483	8,724,799
<b>Total financial assets at amortised cost – debt and other financial instruments - Bank [Note 32 (a)]</b>	<b>525,252,301</b>	<b>172,020,526</b>
<b>Allowance for impairment on financial assets at amortised cost – debt and other financial instruments Bank [Note 32 (b)]</b>	<b>(76,460,427)</b>	<b>(11,343,006)</b>
Stage 1	(3,324)	(10,732,207)
Stage 2	(75,795,353)	-
Stage 3	(661,750)	(610,799)
<b>Net financial assets at amortised cost - debt and other financial instruments - Bank</b>	<b>448,791,874</b>	<b>160,677,520</b>

## NOTES TO THE FINANCIAL STATEMENTS

**32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)**

As at 31st December	2022 Rs 000	2021 Rs 000
Government of Sri Lanka treasury bonds held by subsidiaries [Note 32 (i)]	10,094,935	313,465
Government of Sri Lanka treasury bills held by subsidiaries [Note 32 (j)]	13,645,488	3,918,251
Sri Lanka development bonds held by subsidiaries [Note 32 (k)]	-	182,209
Quoted debentures held by subsidiaries [Note 32 (l)]	6,394,976	5,978,846
Unquoted debentures held by subsidiaries [Note 32 (m)]	860,750	860,750
Other loans and receivables held by subsidiaries [Note 32 (n)]	773,091	773,091
<b>Total financial assets at amortised cost - debt and other financial instruments - Subsidiaries</b>	<b>31,769,240</b>	<b>12,026,612</b>
<b>Total financial assets at amortised cost - debt and other financial instruments - Group</b>	<b>557,021,541</b>	<b>184,047,138</b>
Allowance for impairment on financial assets at amortised cost - debt and other financial instruments Group [Note 32 (b)]	(77,234,526)	(12,116,498)
Stage 1	(4,333)	(10,732,609)
Stage 2	(75,795,353)	-
Stage 3	(1,434,840)	(1,383,889)
<b>Net financial assets at amortised cost – debt and other financial instruments - Group</b>	<b>479,787,015</b>	<b>171,930,640</b>

As described in Note 33 to the financial statements, the Bank reclassified Government of Sri Lanka treasury bills, Government of Sri Lanka treasury bonds and international sovereign bond investments which were previously classified as financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) to financial assets measured at amortised cost with effect from 1st April 2022.

**32 (a) Analysis**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>By Collateralisation</b>				
Pledged as collateral	8,864,761	-	8,864,761	-
Unencumbered	516,387,540	172,020,526	548,156,780	184,047,138
<b>Total</b>	<b>525,252,301</b>	<b>172,020,526</b>	<b>557,021,541</b>	<b>184,047,138</b>
<b>By Currency</b>				
Sri Lankan Rupee	283,378,320	10,765,212	315,147,560	22,609,615
United States Dollar	241,750,564	161,182,848	241,750,564	161,365,057
Euros	123,417	72,466	123,417	72,466
	<b>525,252,301</b>	<b>172,020,526</b>	<b>557,021,541</b>	<b>184,047,138</b>

**32 (a) (i) Disclosure as per Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No 01 of 2019 on Repurchase and Reverse Repurchase transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills**

Bank has allocated government securities amounting to Rs 8.8 Bn (2021 - Rs 34.8 Bn) in respect of securities sold under repurchase agreements.

Banks policy on haircuts for repurchase and reverse repurchase transactions are explained below.

Board approved policy guideline outlines the allocation of securities and haircut rules for repurchase and reverse repurchase agreements and valuation process. The policy has been formulated in line with the Direction No.01 of 2019 on Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance issued by the Monetary Board of the Central Bank of Sri Lanka taking in to consideration the market practices. Securities are allocated/obtained as per the set guidelines. No penalties were levied on the Bank during the year, for any non-compliance with the said Direction.

**32 (b) Movement in Impairment during the year**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	10,732,207	3,945,340	10,732,609	3,945,732
Net impairment charge for the year [Note 15]	(10,728,883)	6,786,867	(10,728,276)	6,786,877
<b>Balance as at 31st December</b>	<b>3,324</b>	<b>10,732,207</b>	<b>4,333</b>	<b>10,732,609</b>
<b>Stage 2</b>				
Balance as at 1st January	-	-	-	-
Net impairment charge for the year [Note 15]	69,641,596	-	69,641,596	-
Effect of exchange rate fluctuations	6,153,757	-	6,153,757	-
<b>Balance as at 31st December</b>	<b>75,795,353</b>	<b>-</b>	<b>75,795,353</b>	<b>-</b>
<b>Stage 3</b>				
Balance as at 1st January	610,799	611,027	1,383,889	1,384,117
Net impairment charge for the year [Note 15]	50,951	(228)	50,951	(228)
<b>Balance as at 31st December</b>	<b>661,750</b>	<b>610,799</b>	<b>1,434,840</b>	<b>1,383,889</b>
<b>Total impairment allowance for financial assets measured at amortised cost - Debt and other financial instruments</b>	<b>76,460,427</b>	<b>11,343,006</b>	<b>77,234,526</b>	<b>12,116,498</b>

**32 (c) Government of Sri Lanka treasury bills held by the Bank**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2023	216,516,708	-
<b>Total Government of Sri Lanka treasury bills - Bank</b>	<b>216,516,708</b>	<b>-</b>

**32 (d) Government of Sri Lanka treasury bonds held by the Bank**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2022	-	45,194
2023	8,629,674	-
2024	11,184,587	-
2025	25,202,875	-
2026	1,358,320	-
2027	4,976,332	1,995,219
2028	1,204,018	-
2032	3,810,323	-
<b>Total Government of Sri Lanka treasury bonds - Bank</b>	<b>56,366,129</b>	<b>2,040,413</b>



## NOTES TO THE FINANCIAL STATEMENTS

**32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)****32 (e) Sri Lanka development bonds held by the Bank**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2022	-	39,368,033
2023	32,110,047	12,178,485
<b>Total Sri Lanka development bonds - Bank</b>	<b>32,110,047</b>	<b>51,546,518</b>

**32 (f) Sri Lanka sovereign bonds held by the Bank**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2022*	45,163,845	24,923,701
2023	36,627,357	16,082,945
2024	52,188,327	27,589,981
2025	29,753,157	16,073,147
2026	23,061,642	12,624,291
2027	13,949,047	7,507,767
2028	8,204,898	4,454,876
2029	692,244	379,622
<b>Total Sri Lanka sovereign bonds - Bank</b>	<b>209,640,517</b>	<b>109,636,330</b>

\* Comprises of Rs. 45.16 Bn matured Sri Lankan sovereign bonds and coupon receivables which remain unpaid as at 31st December 2022

\*\*Bank's investments in Sri Lanka development bonds and Sri Lanka sovereign bonds presented in Note 32 (e) and 32 (f) have been classified in stage 2 and adequate provisions have been made based on the information available as at the reporting date.

**32 (g) Foreign Government bonds held by the Bank**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2042*	123,417	72,466
<b>Total foreign government bonds - Bank</b>	<b>123,417</b>	<b>72,466</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.123.41 Mn (2021 - Rs. 72.46 Mn) in respect of this investment.

**32 (h) Quoted debentures held by the Bank**

As at 31st December	2022		2021	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Brown &amp; Company PLC</b> (15.42% debentures redeemable on 31st March 2027)	15,000,000	1,558,300	-	-
<b>Commercial Leasing &amp; Finance PLC</b> (6 months T bill rate + 4.25% debentures redeemable on 24th September 2025)	5,000,000	547,303	5,000,000	511,207
<b>Lanka Orix Leasing Company PLC</b> (15% debentures redeemable on 27th September 2024)	5,000,000	519,520	5,000,000	519,521
<b>MTD Walkers PLC</b> (10.25% debentures redeemable on 30th September 2020) *	5,000,000	538,332	5,000,000	538,332
<b>National Savings Bank</b> (6 months AWPLR + 1% debentures redeemable on 24th September 2026)	50,000,000	5,267,151	50,000,000	5,090,862
<b>People's Leasing and Finance PLC</b> (8% debentures redeemable on 29th July 2024)	20,000,000	2,064,877	20,000,000	2,064,877
<b>Quoted Debentures - Bank</b>		<b>10,495,483</b>		<b>8,724,799</b>

\* 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 (i) Government of Sri Lanka treasury bonds held by subsidiaries**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2025	1,265,351	-
2026	587,267	-
2027	951,599	106,397
2028	2,437,632	207,068
2029	1,486,553	-
2030	1,176,780	-
2031	563,251	-
2032	576,965	-
2033	486,517	-
2034	198,467	-
2044	138,036	-
2045	226,517	-
<b>Total Government of Sri Lanka treasury bonds - subsidiaries</b>	<b>10,094,935</b>	<b>313,465</b>

**32 (j) Government of Sri Lanka treasury bills held by subsidiaries**

As at 31st December	2022 Rs 000	2021 Rs 000
<b>Year of Maturity</b>		
2022	-	3,918,251
2023	13,645,488	-
<b>Total Government of Sri Lanka treasury bills - subsidiaries</b>	<b>13,645,488</b>	<b>3,918,251</b>

## NOTES TO THE FINANCIAL STATEMENTS

**32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)****32 (k) Sri Lanka development bonds held by subsidiaries**

As at 31st December	2022 Rs 000	2021 Rs 000
Year of Maturity		
2022	-	182,209
Total Government of Sri Lanka development bonds - subsidiaries	-	182,209

**32 (l) Quoted debentures held by subsidiaries**

As at 31st December	2022		2021	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Commercial Bank of Ceylon PLC</b>				
(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
(28.00% Debentures redeemable on 11th December 2027)	5,000,000	507,288	-	-
		707,844		200,556
<b>Commercial Leasing and Finance PLC</b>				
(10.50% debentures redeemable on 23rd September 2025)	2,700,000	277,612	2,700,000	277,612
		277,612		277,612
<b>DFCC Bank PLC</b>				
(12.60% debentures redeemable on 29th March 2023)	1,400,000	153,435	1,400,000	153,435
(12.75% debentures redeemable on 09th June 2023)	700,000	71,296	700,000	71,296
(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	54,951
(9.00% debentures redeemable on 23rd October 2025)	2,700,000	274,594	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	390,604
		1,198,566		1,198,566
<b>First Capital Holdings PLC</b>				
(10.00% debentures redeemable on 07th February 2026)	2,903,200	316,250	2,903,200	316,250
		316,250		316,250
<b>Hayleys PLC</b>				
(12.50% debentures redeemable on 31st July 2023)	3,300,000	347,404	3,300,000	347,404
(13.00% debentures redeemable on 26th August 2024)	282,300	29,517	282,300	29,517
		376,921		376,921
<b>LB Finance PLC</b>				
(12.75% debentures redeemed on 11th December 2022)	-	-	170,000	17,125
		-		17,125

As at 31st December	2022		2021	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>LOLC Holdings PLC</b>				
(15.00% debentures redeemable on 27th September 2024)	2,800,000	290,932	2,800,000	290,932
(10.25% debentures redeemable on 24th February 2026)	4,050,000	440,257	4,050,000	440,257
		731,189		731,189
<b>National Development Bank PLC</b>				
(13.90% debentures redeemable on 19th December 2023)	187,500	21,416	187,500	21,416
(13.95% debentures redeemable on 30th March 2024)	1,700,000	188,217	1,700,000	188,431
(9.50% debentures redeemable on 24th September 2025)	1,114,600	114,274	1,114,600	114,274
(11.90% debentures redeemable on 23rd November 2026)	5,000,000	506,031	5,000,000	506,031
		829,938		830,152
<b>Nations Trust Bank PLC</b>				
(13.00% debentures redeemable on 20th April 2023)	1,550,000	169,133	1,550,000	169,133
(12.80% debentures redeemable on 23rd December 2024)	3,000,000	300,947	3,000,000	300,947
(12.90% debentures redeemable on 23rd December 2026)	800,000	80,254	800,000	80,254
		550,334		550,334
<b>People's Leasing and Finance PLC</b>				
(12.80% debentures redeemable on 18th April 2023)	653,600	71,274	653,600	71,274
(8.00% debentures redeemable on 05th August 2024)	815,000	84,144	815,000	84,144
(9.00% debentures redeemable on 05th August 2026)	1,205,600	124,960	1,205,600	124,960
(9.00% debentures redeemable on 05th August 2026)	1,076,967	79,075	1,076,967	72,546
		359,453		352,924
<b>Sampath Bank PLC</b>				
(12.50% debentures redeemed on 21st December 2022)	-	-	800,000	80,348
(12.50% debentures redeemable on 20th March 2023)	2,000,000	207,055	2,000,000	207,055
(13.90% debentures redeemable on 28th February 2024)	2,800,000	312,735	2,800,000	312,735
		519,790		600,138
<b>Seylan Bank PLC</b>				
(12.85% debentures redeemable on 29th March 2023)	2,500,000	258,273	2,500,000	258,273
(9.75% debentures redeemable on 12th April 2026)	973,100	104,146	973,100	104,146
		362,419		362,419
<b>Siyapatha Finance PLC</b>				
(13.33% debentures redeemable on 08th August 2024)	157,100	16,548	157,100	16,548
		16,548		16,548
<b>Sri Lanka Telecom PLC</b>				
(12.75% debentures redeemable on 19th April 2028)	1,443,800	148,112	1,443,800	148,112
		148,112		148,112
<b>Total quoted debentures - Subsidiaries</b>		6,394,976		5,978,846

## NOTES TO THE FINANCIAL STATEMENTS

**32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)****32 (m) Unquoted debentures held by subsidiaries**

	2022		2021	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>DFCC Bank PLC</b>				
(11.00% debentures redeemable on 12th June 2025)	2,460,000	260,976	2,460,000	260,976
		260,976		260,976
<b>Nations Trust Bank PLC</b>				
(9.15% debentures redeemable on 9th July 2026)	4,250,000	443,645	4,250,000	443,645
		443,645		443,645
<b>Peoples Bank</b>				
(9.50% debentures redeemable on 27th July 2025)	1,500,000	156,129	1,500,000	156,129
		156,129		156,129
<b>Total unquoted Debentures - Subsidiaries</b>		<b>860,750</b>		<b>860,750</b>

**32 (n) Other loans and receivables held by subsidiaries**

As at 31st December	2022 Amortised Cost Rs 000	2021 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.

**32 (o) Credit and Market risk**

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

**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

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 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.

The FVOCI designation was made because the investments are expected to be held for long term strategic purposes and regulatory nature of investments. None of these investments were disposed during the year.

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.

## NOTES TO THE FINANCIAL STATEMENTS

**33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)**

As at 31st December	Fair Value	
	2022 Rs 000	2021 Rs 000
Quoted shares held by Bank [Note 33 (b)]	2,134,875	3,762,986
Unquoted shares held by Bank [Note 33 (c)]	27,839	27,839
Unquoted units held by Bank [Note 33 (d)]	543,946	534,745
Government of Sri Lanka treasury bonds held by Bank [Note 33 (e)]	-	27,951,852
Government of Sri Lanka treasury bills held by Bank [Note 33 (f)]	-	168,119,793
Government of Sri Lanka sovereign bonds held by Bank [Note 33 (g)]	-	3,029,218
<b>Total financial assets at fair value through other comprehensive income - Bank [Note 33 (a)]</b>	<b>2,706,660</b>	<b>203,426,433</b>
Government of Sri Lanka treasury bonds held by subsidiaries [Note 33 (h)]	3,352,823	7,375,342
Unquoted shares held by subsidiaries [Note 33 (i)]	2,712	2,712
<b>Total financial assets at fair value through other comprehensive income - Subsidiaries</b>	<b>3,355,535</b>	<b>7,378,054</b>
<b>Total financial assets at fair value through other comprehensive income - Group [Note 33 (a)]</b>	<b>6,062,195</b>	<b>210,804,487</b>

**33 (a) Analysis**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>By collateralisation</b>				
Pledged as collateral	-	34,873,733	-	34,873,733
Unencumbered	2,706,660	168,552,700	6,062,195	175,930,754
	<b>2,706,660</b>	<b>203,426,433</b>	<b>6,062,195</b>	<b>210,804,487</b>
<b>By Currency</b>				
Sri Lankan Rupee	2,706,660	200,397,215	6,062,195	207,775,269
United States Dollar	-	3,029,218	-	3,029,218
	<b>2,706,660</b>	<b>203,426,433</b>	<b>6,062,195</b>	<b>210,804,487</b>



**33 (b) Quoted shares held by the Bank**

As at 31st December	2022			2021		
	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	50,224,072	2,178,579	1,607,170	47,789,949	2,035,210	2,867,397
National Development Bank PLC	10,536,091	1,247,439	337,155	9,899,341	1,202,892	682,065
Nations Trust Bank PLC	4,124,460	411,857	190,550	3,882,252	398,269	213,524
<b>Total quoted shares - Bank</b>		<b>3,837,875</b>	<b>2,134,875</b>		<b>3,636,371</b>	<b>3,762,986</b>

**33 (c) Unquoted shares held by the Bank**

As at 31st December	2022			2021		
	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	2,214,521	24,559	24,559
Lanka Financial Services Bureau	500,000	5,000	2,750	500,000	5,000	2,750
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>66,195</b>	<b>27,839</b>

**33 (d) Unquoted units in unit trusts held by the Bank**

As at 31st December	2022			2021		
	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	543,946	19,455,327	400,000	534,745
<b>Total unquoted units in unit trusts - Bank</b>		<b>400,000</b>	<b>543,946</b>		<b>400,000</b>	<b>534,745</b>

**33 (e) Government of Sri Lanka treasury bonds held by the Bank**

As at 31st December	2022		2021	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of Maturity</b>				
2022	-	-	2,494,325	1,518,990
2023	-	-	8,374,310	8,485,532
2024	-	-	5,995,731	6,177,717
2025	-	-	6,768,828	6,766,913
2028	-	-	1,156,974	1,177,387
2032	-	-	3,668,096	3,825,313
<b>Total government of Sri Lanka treasury bonds - Bank</b>	<b>-</b>	<b>-</b>	<b>28,458,264</b>	<b>27,951,852</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	2022		2021	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2022	-	-	168,144,851	168,119,793
<b>Total government of Sri Lanka treasury bills - Bank</b>	<b>-</b>	<b>-</b>	<b>168,144,851</b>	<b>168,119,793</b>

**33 (g) Government of Sri Lanka sovereign bonds held by the Bank**

As at 31st December	2022		2021	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2022	-	-	2,045,680	1,566,119
2023	-	-	1,682,658	1,035,661
2024	-	-	712,906	427,438
<b>Total government of Sri Lanka sovereign bonds - Bank</b>	<b>-</b>	<b>-</b>	<b>4,441,244</b>	<b>3,029,218</b>

**33 (h) Government of Sri Lanka treasury bonds held by subsidiaries**

As at 31st December	2022		2021	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2022	-	-	869,875	883,426
2023	618,050	562,682	618,051	627,956
2024	861,921	704,793	861,922	885,196
2025	809,370	656,352	359,096	358,919
2026	358,387	286,720	211,966	214,980
2027	1,183,871	735,200	1,026,677	1,012,076
2028	165,247	144,640	482,455	486,910
2029	150,301	78,272	960,331	908,866
2030	-	-	1,189,129	1,141,340
2031	231,186	184,164	235,251	238,483
2033	-	-	102,404	102,857
2034	-	-	192,025	185,899
2044	-	-	143,435	114,609
2045	-	-	222,303	213,825
<b>Total government of Sri Lanka treasury bonds - Subsidiaries</b>	<b>4,378,333</b>	<b>3,352,823</b>	<b>7,474,920</b>	<b>7,375,342</b>

**33 (i) Unquoted shares held by subsidiaries**

As at 31st December	2022			2021		
	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	200	290	2,154	100	234	2,154
UB Finance	1,742,326	12,196	558	1,742,326	12,196	558
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>51,179</b>	<b>2,712</b>		<b>51,122</b>	<b>2,712</b>

**33 (j) Movement in impairment during the year - Government of Sri Lanka sovereign bonds**

As at 31st December	Fair Value	
	2022 Rs 000	2021 Rs 000
<b>Stage 1</b>		
Balance as at 1st January	295,445	108,687
Impairment charge for the year [Note 15]	(295,445)	186,758
<b>Balance as at 31st December</b>	<b>-</b>	<b>295,445</b>

**33 (k) Credit and Market risk**

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

**33 (l) Reclassification of financial instruments**

The Bank re-classified its debt securities portfolio measured at Fair Value Through Other Comprehensive Income category to Amortised Cost category with effect from 1st April 2022 in accordance with "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio" issued by CA Sri Lanka. Accordingly, Government of Sri Lanka treasury bills, Government of Sri Lanka treasury bonds and international sovereign bond investments 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 2022.

Had these investments continued to be carried at fair value through other comprehensive income, the fair value of same as at 31st December 2022 would have amounted to Rs 22 Bn and would have resulted in the recognition of a fair value loss of Rs 6 Bn (net of tax) in other comprehensive income statement during the period.

## 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	2022			2021		
	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
Acuity Partners (Pvt) Ltd	50	755,000	3,669,272	50	755,000	2,989,600
		755,000			755,000	

Bank did not receive any dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2022 (2021 : Rs Nil Mn).

**34 (b) Investment in Unquoted Joint Venture - Group**

	2022	2021
	Rs 000	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	2,234,558	1,878,948
<b>Group's share of net assets of joint venture company as at 1st January</b>	<b>2,989,558</b>	<b>2,633,948</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>2,877,420</b>	<b>2,521,810</b>
Share of profit of joint venture (net of income tax) [Note 20]	331,973	292,837
Share of other comprehensive income of equity accounted joint venture	440,961	62,773
Dividend received during the year	-	-
<b>Group's share of net assets of joint venture company as at 31st December</b>	<b>3,650,354</b>	<b>2,877,420</b>

**34 (c) Summarised Financial Position of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries**

As at 31st December	2022	2021
	Rs 000	Rs 000
Cash and cash equivalents	835,375	399,528
Trade and other receivables	2,598,098	3,436,204
Other current assets	10,807,208	4,807,418
Non-current assets	14,351,970	13,770,951
Trade and other payables	(605,712)	(613,335)
Other current liabilities	(13,109,095)	(9,561,384)
Non-current liabilities	(3,003,876)	(3,100,309)
Non controlling interest	(4,348,985)	(3,159,957)
Share holder's equity of Joint Venture	7,524,983	5,979,116
Group's carrying amount of the investment	3,762,492	2,989,558
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
<b>Group's carrying amount of the investment - Net</b>	<b>3,650,354</b>	<b>2,877,420</b>

## NOTES TO THE FINANCIAL STATEMENTS

**34 INVESTMENT IN JOINT VENTURE (Contd.)****34 (d) Summarised Statement of Profit or Loss of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries**

For the year ended 31st December	2022 Rs 000	2021 Rs 000
Interest income	2,410,130	902,841
Other Income	173,120	1,121,869
Revenue	2,583,250	2,024,710
Depreciation and amortisation expenses	(130,875)	(102,555)
Administration and distribution expenses	(473,586)	(451,375)
Finance cost	(802,778)	(303,896)
Profit from operations	1,176,011	1,166,884
VAT on financial services	(18,418)	46,923
Profit before tax	1,157,593	1,213,807
Income tax expenses	(344,665)	(269,193)
Profit for the year	812,928	944,614
Other comprehensive income	1,961,384	270,437
Total comprehensive income for the year	2,774,312	1,215,051
Non controlling interest	(1,228,448)	(503,833)
<b>Total comprehensive income for the year</b>	<b>1,545,864</b>	<b>711,218</b>
<b>Group's share of :</b>		
Profit or loss for the year	331,973	292,837
Other comprehensive income for the year	440,961	62,773
Comprehensive income for the year	772,934	355,610

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 Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

**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 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 JUDGEMENTS, 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.



## NOTES TO THE FINANCIAL STATEMENTS

**35 INVESTMENT IN SUBSIDIARIES (Contd.)****35 (a) Investment in Subsidiaries - Quoted**

As at 31st December	2022			2021		
	% 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 (89,979,000 ordinary shares)	60.00	384,285	3,860,099	60.00	384,285	4,354,984
HNB Finance PLC [Note 35 (b) i] (724,904,118 ordinary shares)	42.16	660,000	3,117,088	42.16	660,000	7,539,003
<b>Total Investments in quoted subsidiaries</b>		<b>1,044,285</b>			<b>1,044,285</b>	

**35 (b) Investment in Subsidiary - Unquoted**

As at 31st December	2022			2021		
	% 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	8,724,357	100	1,973,000	8,517,536
<b>Total Investments in quoted subsidiaries</b>		<b>1,973,000</b>			<b>1,973,000</b>	
<b>Total for the Bank [35 (a) and 35 (b)]</b>		<b>3,017,285</b>			<b>3,017,285</b>	

**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%.

**35 (c) Subsidiary Held through HNB Assurance PLC**

As at 31st December	2022		2021	
	% 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
		<b>1,150,000</b>		<b>1,150,000</b>

### 35 (d) Subsidiary Held through HNB Finance PLC

As at 31st December	2022			2021		
	% Holding	Cost of Investment Rs 000	Fair Value Rs 000	% Holding	Cost of Investment Rs 000	Fair Value Rs 000
Prime Finance PLC (105,602,251 ordinary shares)	-	-	-	87.27	2,122,605	2,122,605
		-	-		2,122,605	2,122,605

HNB Finance PLC, subsidiary of the Bank, acquired 87.27% of the ordinary shares of Prime Finance PLC on 23rd December 2021, by way of a crossing transaction on the Colombo Stock Exchange consequent thereto, a mandatory offer at a price of LKR 20.10 per share was made by the company to the remaining shareholders of Prime Finance PLC in terms of Rule 31(1)(a) of the Company Takeovers and Mergers code 1995 as amended in 2003 to acquire the ordinary shares held by such shareholders in Prime Finance PLC. The above noted mandatory offer was closed on 8th February 2022 and the holding of HNB Finance PLC on Prime Finance PLC amounted to 96.64% as at that date.

When preparing the consolidated financial statements for 2021, the effective date of acquisition of Prime Finance PLC was considered as 31st December 2021.

Amalgamation of HNB Finance PLC and Prime Finance PLC under Section 239 of the Companies Act No. 7 of 2007 was duly completed during the year 2022 and the effective date of the amalgamation was 12th May 2022. Accordingly, the aforementioned amalgamating companies continue as HNB Finance PLC with effect from such date.

On amalgamation, HNB Finance PLC paid Rs 308.7 Mn as the purchase consideration for the equity component of non-controlling interest in Prime Finance PLC amounting to Rs 324.3 Mn, by the amalgamation date. Accordingly, Rs 15.6 Mn was recognized as the merger reserve on the amalgamation date and same was accounted through retained earnings since the amount concerned is not material to the consolidated financial statements. Goodwill amounting to Rs 58.2 Mn recognised on amalgamation will be amortised over a 3 year period.

### 35 (e) Summarised Financial Position of Subsidiaries

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Assets	41,698,294	35,851,889	10,970,479	10,954,224	52,961,257	44,386,340
Liabilities	33,306,924	27,781,434	2,505,891	2,439,120	48,103,075	39,003,774
Equity	8,391,370	8,070,455	8,464,588	8,515,104	4,858,182	5,382,566

### 35 (f) Summarised Financial Performance of Subsidiaries

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Revenue	18,247,007	13,657,458	1,257,486	1,001,951	11,097,674	3,775,179
Profit after tax	1,810,134	1,221,758	510,136	464,293	(526,263)	513,584
Total comprehensive income	2,217,832	1,172,052	124,548	723,860	(366,083)	542,156

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Cash flows from operating activities	2,156,635	3,141,494	34,081	647,987	3,077,563	507,632
Cash flows from Investing activities	(715,210)	(1,176,386)	991,563	(900,454)	(3,201,534)	(3,379,328)
Cash flows from financing activities	(642,654)	(550,835)	-	-	(359,941)	(311,253)

#### Assessment of Impairment

The Board of Directors has assessed the potential impairment loss on investments in subsidiaries as at 31st December 2022. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

## 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 Assets	% 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 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.

## ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

### 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.

### 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.

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Cost</b>				
Balance as at 1st January	507,684	507,684	1,209,059	1,241,516
Transferred to property, plant and equipment	-	-	-	(32,800)
Additions and improvements	-	-	-	343
<b>Balance as at 31st December</b>	<b>507,684</b>	<b>507,684</b>	<b>1,209,059</b>	<b>1,209,059</b>
<b>Accumulated depreciation</b>				
Balance as at 1st January	37,910	32,575	244,205	212,560
Charge for the year [Note 18 (b)]	5,335	5,335	29,305	31,645
<b>Balance as at 31st December</b>	<b>43,245</b>	<b>37,910</b>	<b>273,510</b>	<b>244,205</b>
<b>Carrying value as at 31st December</b>	<b>464,439</b>	<b>469,774</b>	<b>935,549</b>	<b>964,854</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 36 INVESTMENT PROPERTIES (Contd.)

## 36 (a) Valuation of Investment Properties - Bank

	Cost/Carrying Amount As at 31st December 2022					Fair Value As at 31st December 2022			Fair Value As at 31st December 2021 Total Rs 000
	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)	
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	37,385	74,466	-	-	1,045,000	1,015,000
479, T B Jayah Mawatha, Colombo 10 [Note 36 (b) ii]	Land	112.96	126,480	-	126,480	2,541,600	-	2,541,600	2,485,100
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	Land	26.62	34,889	-	34,889	732,050	-	732,050	718,700
451, Kandy Road, Kegalle [Note 36 (b) ii]	Land	61.70	83,400	-	83,400	204,088	-	204,088	202,680
181, High Level Road, Nugegoda.	11,096	16.50	82,500	62,704	145,204	193,875	102,325	296,200	285,300
			364,350	100,089	464,439	3,671,613	102,325	4,818,938	4,706,780

## 36 (b) Valuation of Investment Properties - Group

	Cost/Carrying Amount As at 31st December 2022					Fair Value As at 31st December 2022			Fair Value As at 31st December 2021 Total Rs 000
	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)	
<b>Through the Bank</b>									
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	37,385	74,466	-	-	1,045,000	1,015,000
181, High level Road, Nugegoda	11,096	16.50	82,500	62,704	145,204	193,875	102,325	296,200	285,300
<b>Through the Subsidiary -Sithma Development (Pvt) Ltd</b>									
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	41,688	-	-	54,846	54,846	-	468,900	468,900	468,900
451, Kandy Road, Kegalle [Note 36 (b) ii]	16,000	-	-	97,478	97,478	-	197,111	197,111	197,111
<b>Through the Subsidiary -HNB Finance PLC [Note 36 (b) iii]</b>									
249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	21,930	39.60	151,063	289,152	440,215	352,800	547,200	900,000	840,000
Vihara Road, Rankewatte, Matale	-	15.00	9,000	-	9,000	15,000	-	15,000	10,500
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	3,967	182.59	49,008	51,332	100,340	110,695	81,305	192,000	155,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	-	724.00	14,000	-	14,000	29,000	-	29,000	18,000
			342,652	592,897	935,549	701,370	1,396,841	3,143,211	2,989,811

**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, 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 and substantial portion of the building is occupied by the third party tenants. 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.

There are no restrictions on the realizability of investment properties of the Group other than as specified in Note 36 (b) iii to the financial statements.

**36 (b) iv** Lands situated at No 44/1, Service Road, Puttalam and No 6, Abaya Place , 7th Lane , Anuradhapura held by HNB Finance PLC have been transferred from Investment property to Property Plant and Equipment during the year ended 31st December 2021 since the building constructed in the said location are being used by Company.

**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. G. W. G. Abeygunawardene	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,076,449 22.22 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr. G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 22,000,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 27,000,000
451, Kandy Road, Kegalle	Mr. W.M. S.K. Walisundara	Market comparable method - Rate per perch for land	Rs. 3,600,000
181, High Level Road, Nugegoda	Mr.G.W.G.Abeygunawardene	Market comparable method and income approach - Rate per perch for land - Rate per Sq.ft.	Rs. 11,500,000 Rs. 6,250 to Rs.8,000

## NOTES TO THE FINANCIAL STATEMENTS

## 36 INVESTMENT PROPERTIES (Contd.)

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. G.W.G. Abeyagunawardene	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,076,449 22.22 25%
<b>Through the subsidiary - Sithma Development (Pvt) Ltd</b>			
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. G.W.G. Abeyagunawardene	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs. 75,000 - Rs 10,250
451, Kandy Road, Kegalle	Mr. W.M.S.K. Walisundara	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs. 10,000 - Rs 12,500
<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.465/1, Old Police Station Road, Kahathduwa, Polgasowita	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount rate	Rs. 576,875 20%
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 2022 while the fair valuation of investment properties held through the subsidiary, HNB Finance PLC was carried out in 2021.

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.

### 36 (d) Statement of Income and Expenditure of investment properties

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Rental income derived from the investment properties	103,737	66,834	197,160	162,907
Direct operating expenses (including repair and maintenance generating rental income)	-	763	19,400	15,562

## NOTES TO THE FINANCIAL STATEMENTS

## 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

### 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 escalators	4.00
Building management systems	4.00
Plant and machinery	20.00
Equipment	20.00
Furniture and fittings	10.00

## 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	2022 Total Rs 000	2021 Total Rs 000
<b>Cost/valuation as at 1st January</b>	1,970,719	21,855,450	6,034,942	6,457,214	144,622	3,751	<b>36,466,698</b>	31,584,836
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(570,494)
Revaluation surplus	-	-	-	-	-	-	-	4,878,771
Additions and improvements	60,859	14,532	452,555	607,982	-	37,530	<b>1,173,458</b>	706,891
Disposals during the year	(386)	-	(6,377)	(62,362)	-	-	<b>(69,125)</b>	(105,985)
Net impairment charge	-	-	-	-	-	-	-	(27,321)
Transferred from capital work-in-progress	21,533	912	-	10,966	-	(33,411)	-	-
<b>Cost/valuation as at 31st December</b>	<b>2,052,725</b>	<b>21,870,894</b>	<b>6,481,120</b>	<b>7,013,800</b>	<b>144,622</b>	<b>7,870</b>	<b>37,571,031</b>	<b>36,466,698</b>
<b>Accumulated depreciation as at 1st January</b>	<b>1,749,131</b>	<b>2,760</b>	<b>4,461,656</b>	<b>5,171,633</b>	<b>127,780</b>	<b>-</b>	<b>11,512,960</b>	<b>10,879,780</b>
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(570,494)
Charge for the year [Note 18 (b)]	70,604	254,739	520,082	429,391	13,192	-	<b>1,287,867</b>	1,309,520
Disposals during the year	-	-	(4,746)	(60,920)	-	-	<b>(65,525)</b>	(105,846)
<b>Accumulated depreciation as at 31st December</b>	<b>1,819,735</b>	<b>257,499</b>	<b>4,976,992</b>	<b>5,540,104</b>	<b>140,972</b>	<b>-</b>	<b>12,735,302</b>	<b>11,512,960</b>
<b>Carrying value as at 31st December 2022</b>	<b>232,990</b>	<b>21,613,395</b>	<b>1,504,128</b>	<b>1,473,696</b>	<b>3,650</b>	<b>7,870</b>	<b>24,835,729</b>	
<b>Carrying value as at 31st December 2021</b>	<b>221,588</b>	<b>21,852,690</b>	<b>1,573,286</b>	<b>1,285,581</b>	<b>16,842</b>	<b>3,751</b>		<b>24,953,738</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	2022 Total Rs 000	2021 Total Rs 000
<b>Cost/valuation as at 1st January</b>	1,970,719	45,610,312	6,689,694	9,552,306	184,433	27,696	<b>64,035,160</b>	55,241,387
Accumulated depreciation adjustment on revaluation	-	(69,539)	-	-	-	-	<b>(69,539)</b>	(799,139)
Revaluation surplus	-	200,070	-	-	-	-	<b>200,070</b>	8,547,117
Acquisition of subsidiary through HNB Finance PLC	-	-	-	-	-	-	-	101,911
Additions and improvements	60,859	14,532	618,291	739,731	555	37,530	<b>1,471,498</b>	1,063,001
Net Impairment charge	-	-	-	-	-	-	-	(27,322)
Disposals during the year	(386)	-	(45,975)	(75,366)	-	-	<b>(121,727)</b>	(124,595)
Transferred from investment properties	-	-	-	-	-	-	-	32,800
Transferred from capital work-in-progress	21,533	912	-	10,966	-	(33,411)	-	-
<b>Cost/valuation as at 31st December</b>	<b>2,052,725</b>	<b>45,756,287</b>	<b>7,262,010</b>	<b>10,227,637</b>	<b>184,988</b>	<b>31,815</b>	<b>65,515,462</b>	64,035,160
<b>Accumulated depreciation as at 1st January</b>	<b>1,749,131</b>	<b>703,858</b>	<b>4,917,198</b>	<b>6,783,277</b>	<b>157,223</b>	<b>-</b>	<b>14,310,687</b>	13,414,003
Accumulated depreciation adjustment on revaluation	-	(69,539)	-	-	-	-	<b>(69,539)</b>	(799,139)
Acquisition of subsidiary through HNB Finance PLC	-	-	-	-	-	-	-	85,319
Charge for the year [Note 18 (b)]	70,604	498,993	605,011	590,594	17,872	-	<b>1,782,933</b>	1,732,520
Disposals during the year	-	-	(52,087)	(73,011)	-	-	<b>(124,957)</b>	(122,016)
<b>Accumulated depreciation as at 31st December</b>	<b>1,819,735</b>	<b>1,133,312</b>	<b>5,470,122</b>	<b>7,300,860</b>	<b>175,095</b>	<b>-</b>	<b>15,899,124</b>	14,310,687
<b>Carrying value as at 31st December 2022</b>	<b>232,990</b>	<b>44,622,975</b>	<b>1,762,284</b>	<b>2,955,979</b>	<b>10,295</b>	<b>31,815</b>	<b>49,616,338</b>	
<b>Carrying value as at 31st December 2021</b>	<b>221,588</b>	<b>44,906,454</b>	<b>1,772,496</b>	<b>2,769,029</b>	<b>27,210</b>	<b>27,696</b>		<b>49,724,473</b>

## 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**

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 2022 Carrying Value Rs 000	As at 31st December 2021 Carrying Value Rs 000
<b>Akkaraipattu Branch</b>								
14, Main Street, Akkaraipattu.	19.32	9,142	135,000	37,700	172,700	2,115	170,585	172,678
<b>Ambalangoda Branch</b>								
94/1, New Galle Road, Ambalangoda.	29.90	4,959	150,000	26,000	176,000	1,446	174,554	175,985
<b>Anuradhapura Branch</b>								
30, Maithripala Senanayake Mawatha, Anuradhapura.	57.01	9,440	143,647	73,393	217,040	4,115	212,925	216,956
<b>Badulla Branch</b>								
15, 15 1/1, Udayaraja Mawatha, Badulla.	28.44	5,715	127,890	20,110	148,000	1,128	146,872	147,988
<b>Bambalapitiya Branch</b>								
285, Galle Road, Colombo 04.	20.00	19,018	450,000	102,888	552,888	5,771	547,117	552,739
<b>Boralesgamuwa Branch</b>								
24, Maharagama Road, Boralesgamuwa.	30.34	6,250	176,000	38,500	214,500	2,160	212,340	214,477
<b>Borella Branch</b>								
53/1, D S Senanayake Mawatha, Colombo 08.	28.00	10,950	392,000	123,270	515,270	6,914	508,356	514,927
<b>Centre of Aspirations</b>								
90, Vinayalankara Mawatha, Colombo 10.	249.00	10,270	4,233,000	86,040	4,319,040	4,825	4,314,215	4,318,981
<b>Centralised Operations</b>								
10, Sri Uttarananda Mawatha, Colombo 3	40.00	70,240	1,080,000	578,922	1,658,922	32,434	1,626,488	1,657,655
<b>City Office</b>								
16, Janadhipathi Mawatha, Colombo 1.	84.00	48,350	2,184,000	287,854	2,471,854	15,280	2,456,574	2,470,529
<b>Chavakachcheri Branch</b>								
170, Kandy Road, Chavakachcheri .	35.31	5,387	49,500	22,821	72,321	639	71,682	72,293
<b>Dambulla Branch</b>								
700B, Anuradhapura Road, Dambulla.	87.00	7,486	224,600	53,620	278,220	2,997	275,223	277,968
<b>Fruithill Bungalow</b>								
No 295/6, Dimbula Road, Hatton.	53.08	4,530	26,900	20,100	47,000	1,128	45,872	46,988
<b>Galle Branch</b>								
3, Wakwella Road, Galle.	13.28	7,920	117,300	52,200	169,500	2,928	166,572	169,469
<b>Gampaha Branch</b>								
148, Colombo Road, Gampaha.	25.00	16,626	121,250	160,774	282,024	9,019	273,005	281,904
<b>Gampola Branch</b>								
142, Kandy Road, Gampola.	17.05	13,340	76,725	136,275	213,000	4,311	208,689	212,954
<b>Grandpass Branch</b>								
182, St Joseph Street, Colombo 14.	24.00	11,240	216,000	125,208	341,208	7,024	334,184	341,125

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 2022 Carrying Value Rs 000	As at 31st December 2021 Carrying Value Rs 000
<b>Gunasinghapura Stores</b>								
11, Mohandiram's Road, Colombo 12.	48.30	6,030	458,900	32,000	490,900	1,795	489,105	490,849
<b>Ja-Ela Branch</b>								
73, Old Negombo Road, Kanuwana, Ja-Ela.	19.00	-	62,000	-	62,000	-	62,000	62,000
<b>Jaffna Metro Branch</b>								
177 & 179, Ponnampalam Road, Jaffna.	62.09	30,988	372,500	297,183	669,683	9,147	660,536	668,903
<b>Kahawatte Branch</b>								
772 A, Main Street, Kahawatte.	16.14	15,139	36,315	49,685	86,000	2,787	83,213	85,970
<b>Kalmunai Branch</b>								
30A, Batticaloa Road, Kalmunai.	25.10	6,396	113,000	30,912	143,912	950	142,962	142,990
<b>Kandy Branch</b>								
1, Dalada Veediya, Kandy.	57.65	27,705	1,153,000	264,417	1,417,417	14,350	1,403,067	1,415,843
<b>Kuliyapitiya Branch</b>								
225, Main Street, Kuliyapitiya.	25.30	4,500	41,745	31,255	73,000	1,753	71,247	72,981
<b>Kurunegala Branch</b>								
6, St. Anne's Street, Kurunegala.	26.00	17,970	150,800	164,200	315,000	9,211	305,789	314,902
<b>Mount Bungalow</b>								
16, Mount Road, Hatton.	160.09	4,728	48,027	21,984	70,011	1,159	68,852	68,987
<b>Mannar Branch</b>								
68, Main Street, Mannar.	23.00	6,490	40,000	22,738	62,738	1,231	61,507	62,686
<b>Marawila Branch</b>								
534, Colombo Road, Marawila.	42.00	7,217	58,800	52,200	111,000	2,928	108,072	110,969
<b>Maskeliya Branch</b>								
7/11, New Town, Maskeliya.	20.32	8,231	44,704	51,296	96,000	2,878	93,122	95,969
<b>Matara Branch</b>								
58D, Esplanade Road, Matara.	22.50	10,377	90,000	59,000	149,000	3,310	145,690	148,965
<b>Minuwangoda Branch</b>								
41, Samarakkody Road, Minuwangoda.	20.51	5,155	51,275	33,725	85,000	1,892	83,108	84,980
<b>Managers' Bungalow</b>								
295, Dimbula Road, Hatton.	42.20	2,060	20,045	7,355	27,400	413	26,987	27,396
<b>Mount Lavinia Branch</b>								
605, Galle Road, Mount Lavinia.	22.60	14,730	192,100	97,768	289,868	5,192	284,676	289,142
<b>Negombo Branch</b>								
18, Rajapakse Broadway, Negombo.	8.88	5,490	32,000	30,000	62,000	1,683	60,317	61,982
<b>Negombo Metro</b>								
201, Colombo Road, Negombo.	51.98	21,495	170,000	240,050	410,050	13,465	396,585	409,857
<b>Nittambuwa Branch</b>								
22, Kandy Road, Nittambuwa.	55.69	11,603	155,932	172,079	328,011	9,550	318,461	327,897
<b>Nochchiyagama Branch *</b>								
10, Puttalam Road, Nochchiyagama.	-	8,280	-	50,667	50,667	2,837	47,830	50,470



## NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (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 2022 Carrying Value Rs 000	As at 31st December 2021 Carrying Value Rs 000
<b>Nuwara Eliya Branch/Bungalow</b>								
42, Queen Elizabeth Drive, Nuwara Eliya.	149.03	13,815	865,150	54,152	919,302	2,854	916,448	916,969
<b>Nugegoda Branch</b>								
190, 190/1, Highlevel Road (New), Nugegoda.	39.70	20,160	416,300	226,300	642,600	6,176	636,424	642,534
<b>Panchikawatte Branch</b>								
168, Panchikawatta Road, Colombo 10.	22.55	16,030	281,800	136,543	418,343	7,637	410,706	418,219
<b>Pettah Branch</b>								
149-151, Main Street, Colombo 11.	13.03	12,480	390,900	122,135	513,035	6,754	506,281	511,028
<b>Pettah Metro **</b>								
88, Main Street, Colombo 11.	-	3,708	-	127,962	127,962	7,170	120,792	127,624
<b>Polonnaruwa Branch *</b>								
467, Main Street, Kaduruwela, Polonnaruwa.	-	9,882	-	80,282	80,282	4,499	75,783	79,952
<b>Pussellawa Branch</b>								
510, Nuwara Eliya Road, Pussellawa.	14.30	6,590	39,325	59,223	98,548	3,322	95,226	98,465
<b>Ratnapura Branch</b>								
21 & 23, Senanayake Mawatha, Ratnapura.	43.40	18,970	206,150	78,906	285,056	2,130	282,926	284,977
<b>Sea Street Branch</b>								
60, Sea Street, Colombo 11.	6.90	9,625	191,500	65,867	257,367	3,692	253,675	257,261
<b>Trincomalee Branch</b>								
59, Ehamparam Road, Trincomalee.	31.75	9,103	111,000	38,101	149,101	2,124	146,977	148,977
<b>Vavuniya Branch</b>								
43, Inner Circular Road, Vavuniya.	-	9,571	-	37,016	37,016	2,052	34,964	36,828
<b>Wattala Branch</b>								
270, 270/1, Negombo Road, Wattala.	53.00	8,770	318,000	57,239	375,239	3,207	372,032	374,966
<b>Welimada Branch</b>								
35, Nuwara Eliya Road, Welimada.	14.37	12,832	71,850	49,493	121,343	2,512	118,831	119,971
<b>Wellawaya Branch</b>								
70, Kumaradasa Mawatha, Wellawaya.	25.50	10,525	31,560	41,504	73,064	2,283	70,781	72,975
<b>Wellawatte Branch</b>								
100 & 102, Galle Road, Colombo 06.	36.10	16,280	739,000	184,492	923,492	10,322	913,170	922,590
<b>Total freehold land and buildings - Bank</b>			16,857,490	5,013,404	21,870,894	257,499	21,613,395	21,852,690

\* Buildings constructed on state land given on lease

\*\* Condominium property

Bank has 52 freehold buildings as at 31st December 2022.

### 37 (a) Information on Freehold Land and Buildings of the Group - Extents and Locations

Group	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land	Cost/Valuation of Buildings	Total Value	Accumulated Depreciation	As at 31st December 2022 Net Book Value Rs 000	As at 31st December 2021 Net Book Value Rs 000
<b>Through the subsidiary - Sithma Development (Pvt) Ltd.</b>								
479 T B Jayah Mawatha, Colombo 10 [Note 37 (b) ii]	113.00	549,890	2,485,100	18,868,113	21,353,213	854,034	20,499,179	20,712,461
Janadhipathi Mawatha, Colombo 1 [Note 37 (b) ii]	26.62	-	718,700	-	718,700	-	718,700	718,700
451, Kandy Road, Kegalle	61.70	-	202,680	-	202,680	-	202,680	202,680
<b>Through the subsidiary - HNB Finance PLC</b>								
94 96/1, Kandy Road, Kurunagala	7.05	5,755	36,504	74,496	111,000	1,510	109,490	85,476
46/A, Tangalle Road, Hambanthota	14.20	2,113	6,322	15,678	22,000	318	21,682	24,083
677, William Gopallawa Mawatha, Kandy	9.26	5,400	32,101	62,399	94,500	1,265	93,235	77,102
168, Nawala Road, Nugegoda	25.90	30,887	249,062	684,938	934,000	13,884	920,116	825,373
No 67/1, Mahinda Place, Kirulapone, Colombo 5	8.00	5,786	45,695	104,105	149,800	2,110	147,690	139,914
No 10/11, Galle Road, Katubedda, Moratuwa	23.00	-	57,500	-	57,500	-	57,500	46,000
No.56, Puttalam Service Mawatha, Puttalam	25.60	7,888	44,692	54,308	99,000	1,018	97,982	85,677
No.06, Abaya Place, 7th Lane, Anuradapura.	13.52	11,239	53,713	89,287	143,000	1,674	141,326	136,298
<b>Total freehold land and buildings - Subsidiaries</b>			3,932,069	19,953,324	23,885,393	875,813	23,009,580	23,053,764
<b>Total freehold land and buildings - Group</b>			20,789,559	24,966,728	45,756,287	1,133,312	44,622,975	44,906,454

### 37 (b) Improvements to Leasehold Buildings

As at 31st December	Bank				Group			
	2022		2021		2022		2021	
	Cost of Buildings Rs 000	Accumulated Depreciation Rs 000	Net Book Value Rs 000	Net Book Value Rs 000	Cost of Buildings Rs 000	Accumulated Depreciation Rs 000	Net Book Value Rs 000	Net Book Value Rs 000
01 - 05 years	987,711	917,231	70,480	80,572	987,711	917,231	70,480	80,572
06 - 10 years	970,100	833,185	136,915	119,561	970,100	833,185	136,915	119,561
11 - 15 years	48,460	39,127	9,333	8,897	48,460	39,127	9,333	8,897
16 - 20 years	46,454	30,192	16,262	12,558	46,454	30,192	16,262	12,558
	2,052,725	1,819,735	232,990	221,588	2,052,725	1,819,735	232,990	221,588

## 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 - Bank**

As required by Rule 7.6 (viii) of Listing Rules of Colombo Stock Exchange

Date of valuation: 31st December 2021.

Bank	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
Akkaipattu Branch	Mr. S. Suresh	Rs.7,000,000 p.p/Rs.4,125 p. sq.ft	72,450	60,568	135,000	37,700	62,550	(22,868)
Ambalangoda Branch	Mr. G.K.D.K. Abayathunga	Rs.5,000,000 p.p/Rs.9,000 p. sq.ft	119,500	27,887	150,000	26,000	30,500	(1,887)
Anuradhapura Branch	Mr. W. M. S. K.Walisundara	Rs.1,650,000 to Rs.3,750,000 p.p/ Rs.10,000 to Rs.11,000 p. sq.ft	112,000	29,780	143,648	73,352	31,648	43,572
Badulla Branch	Mr. E.P.P. Jayaratne	Rs.4,500,000 p.p/Rs.4,000 to Rs. 6,000 p.sq.ft	106,837	36,058	127,890	20,110	21,053	(15,948)
Bambalapitiya Branch	Mr. G.W.G. Abeygunawardene	Rs.22,500,000 p.p/Rs.3,000 p. sq.ft to Rs. 6,200 p.sq.ft	380,000	75,413	450,000	102,800	70,000	27,387
Boralesgamuwa Branch	Mr. G.W.G. Abeygunawardene	Rs.5,800,000 p.p/Rs.6,000 to Rs.6,250 p. sq.ft	125,587	28,557	176,000	38,500	50,413	9,943
Borella Branch	Mr. G.W.G. Abeygunawardene	Rs.14,000,000 p.p/Rs.3,000 to Rs.12,500 p. sq.ft	315,000	94,865	392,000	123,000	77,000	28,135
Centre of Aspiration	Mr. G.W.G. Abeygunawardene	Rs.17,000,000 p.p/Rs.8,000 to Rs.8,750 p. sq.ft	3,311,700	87,844	4,233,000	86,000	921,300	(1,844)
Chavakachcheri Branch	Mr. S. Suresh	Rs.1,400,000 p.p/Rs.4,235 p. sq.ft	31,670	27,049	49,500	22,800	17,830	(4,249)
City Office	Mr. G.W.G. Abeygunawardene	Rs.26,000,000 p.p/Rs.3,500 to Rs.6,500 p. sq.ft	1,848,000	89,583	2,184,000	286,700	336,000	197,117
Dambulla Branch	Mr. W.M. S.K.Walisundara	Rs.1,800,000 to Rs.3,500,000 p.p/ Rs.9,000 to Rs.10,000 p. sq.ft	200,000	38,315	224,600	53,400	24,600	15,085
Fruithill Bungalow	Mr. A. Senevirathne	Rs.500,000 p.p/Rs.4,400 p. sq.ft	20,175	16,999	26,900	20,100	6,725	3,101
Galle Branch	Mr. G.K.D.K. Abayathunga	Rs.8,500,000 p.p/Rs.11,000 p. sq.ft	95,000	30,207	117,300	52,200	22,300	21,993
Gampaha Branch	Mr. D.C. Sosa	Rs.4,850,000 p.p/Rs.6,500 to Rs.14,000 p. sq.ft	93,750	144,315	121,250	160,750	27,500	16,435
Gampola Branch	Mr. A. Senevirathne	Rs.4,500,000 p.p/Rs. 10,200 p. sq.ft	65,642	93,502	76,725	136,275	11,083	42,773
Grandpass Branch	Mr. G.W.G. Abeygunawardene	Rs.9,000,000 p.p/Rs.9,000 to Rs. 12,500 p. sq.ft	168,000	87,719	216,000	125,200	48,000	37,481
Gunasinghepura Stores	Mr. G.W.G. Abeygunawardene	Rs.9,500,000 p.p/Rs.5,000 to Rs.5,750 p. sq.ft	301,000	23,151	458,900	32,000	157,900	8,849
Ja-Ela Branch	Mr. D.C. Sosa	Rs.3,300,000 p.p	30,400	-	62,000	-	31,600	-
Jaffna Metro Branch	Mr. S. Suresh	Rs.6,000,000 p.p/Rs.9,570 p. sq.ft	276,000	382,209	372,500	296,500	96,500	(85,709)
Kahawatte Branch	Mr. E.P.P.Jayaratne	Rs.2,250,000 p.p/Rs.2,000 to Rs.6,000 p. sq.ft	32,000	22,609	36,315	49,685	4,315	27,076
Kalmunai Branch	Mr. S. Suresh	Rs.4,500,000 p.p/Rs.4,715 p. sq.ft	80,320	41,234	113,000	30,000	32,680	(11,234)
Kandy Branch	Mr. A. Senevirathne	Rs.20,000,000 p.p/Rs.4,000 to Rs.12,750 p.sq.ft	720,625	189,753	1,153,000	263,000	432,375	73,247
Kuliyapitiya Branch	Mr. W.M. S.K.Walisundara	Rs.1,650,000 /Rs.8,500 p. sq.ft to Rs.9,000 p. sq.ft	25,560	14,525	41,745	31,255	16,185	16,730

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Kurunegala Branch	Mr. W.M. S.K.Walisundara	Rs.5,800,000 p.p/Rs.10,000 to Rs.13,000 p. sq.ft	163,125	95,557	150,800	164,200	(12,325)	68,643
Mount Bungalow	Mr. A. Senevirathne	Rs.300,000 p.p/Rs.3,450 p. sq.ft	44,025	20,198	48,027	20,973	4,002	775
Mannar Branch	Mr. S. Suresh	Rs.1,750,000 p.p/Rs.3,500 to p. sq.ft	12,650	19,661	40,000	22,700	27,350	3,039
Marawila Branch	Mr. W.M. S.K.Walisundara	Rs.1,400,000 p.p/Rs.9,500 to Rs.10,000 p. sq.ft	34,800	22,530	58,800	52,200	24,000	29,670
Maskeliya Branch	Mr. A. Senevirathne	Rs.2,200,000 p.p/Rs.2,700 to Rs.8,250 p. sq.ft	32,512	49,356	44,704	51,296	12,192	1,940
Matara Branch	Mr. G.K.D.K. Abayathunga	Rs.4,000,000 p.p/Rs.9,500 p. sq.ft	78,000	39,700	90,000	59,000	12,000	19,300
Minuwangoda Branch	Mr. D.C. Sosa	Rs.2,500,000 p.p/Rs.8,000 p. sq.ft	45,000	26,408	51,275	33,725	6,275	7,317
Manager Bungalow	Mr. A. Senevirathne	Rs.475,000 p.p/Rs.3,565p. sq.ft	15,825	8,725	20,045	7,355	4,220	(1,370)
Mount Lavinia Branch	Mr. G.W.G. Abeygunawardene	Rs.8,500,000 p.p/Rs.5,500 to Rs.7,500 p. sq.ft	124,300	76,104	192,100	97,100	67,800	20,996
Negombo Branch	Mr. D.C. Sosa	Rs.3,500,000 p.p/Rs.1500 to Rs.9,000p. sq.ft	19,536	18,230	32,000	30,000	12,464	11,770
Negombo Metro Building	Mr. D.C. Sosa	Rs.3,250,000 p.p/Rs.4,400 to Rs.11,000 p. sq.ft	133,029	188,240	170,000	240,000	36,971	51,760
Nittambuwa Branch	Mr. D.C. Sosa	Rs.2,800,000 p.p/Rs.8,000 to Rs.20,000 p. sq.ft	139,225	120,658	155,932	172,068	16,707	51,410
Nochchiyagama Branch*	Mr. W.M. S.K.Walisundara	Rs 7,000 to Rs.7,500 p. sq.ft	-	22,168	-	50,500	-	28,332
Nugegoda Branch	Mr. G.W.G. Abeygunawardene	Rs 10,500,000 p.p/Rs.6,500 to Rs.11,500 p. sq.ft	297,375	164,671	416,300	226,300	118,925	61,629
Nuwara Eliya Branch/ Bungalow	Mr. A. Senevirathne	Rs.5,000,000 to Rs.7,000,000 p.p/ Rs.3,600 to Rs.3,750 p. sq.ft	656,508	89,405	865,150	51,850	208,642	(37,555)
Panchikawatta Branch	Mr. G.W.G. Abeygunawardene	Rs.12,500,000 p.p/Rs.4,500 p. sq.ft to Rs.9800 p. sq.ft	225,500	104,698	281,800	136,500	56,300	31,802
Pettah Branch	Mr. G.W.G. Abeygunawardene	Rs.30,000,000 p.p/Rs.5,500 p. sq.ft to Rs.10,500 p. sq.ft	293,175	86,126	390,900	120,200	97,725	34,074
Pettah Metro**	Mr. G.W.G. Abeygunawardene	Rs.230 p.sq.ft to Rs.250 p.sq.ft	-	91,438	-	127,700	-	36,262
Polonnaruwa Branch*	Mr. W.M. S.K.Walisundara	Rs.9,000 to Rs.12,000 p. sq.ft	-	49,362	-	80,000	-	30,638
Pussellawa Branch	Mr. A. Senevirathne	Rs.2,750,000 p.p/Rs.9,000 p. sq.ft	30,030	31,894	39,325	59,175	9,295	27,281
Ratnapura Branch	Mr. E.P.P. Jayaratne	Rs.4,750,000 p.p/Rs.2,000 to Rs.6,500 p. sq.ft	140,000	167,784	206,150	78,850	66,150	(88,934)
Sea Street Branch	Mr. G.W.G. Abeygunawardene	Rs.27,500,000 p.p/Rs.5,500 p. sq.ft to Rs.7,500 p. sq.ft	129,937	49,202	191,500	65,800	61,563	16,598
Trincomalee Branch	Mr. S. Suresh	Rs.3,500,000 p.p/ Rs.4,200 p. sq.ft	82,550	46,126	111,000	38,000	28,450	(8,126)
Vavuniya Branch*	Mr. S. Suresh	Rs. 3,850 p. sq.ft	-	30,394	-	36,850	-	6,456
Wattala Branch	Mr. D.C. Sosa	Rs.6,000,000 p.p/Rs.7,500 p. sq.ft	265,000	57,432	318,000	57,000	53,000	(432)
Welimada Branch	Mr. E.P.P.Jayaratne	Rs.5,000,000 p.p/Rs.2,000 to Rs.6,000 p. sq.ft	51,732	67,179	71,850	48,150	20,118	(19,029)

## NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Wellawaya Branch	Mr. E.P.P. Jayaratne	Rs.400,000 p.p to Rs.2,000,000 p.p/Rs.1,500 to Rs.6,000 p. sq.ft	22,500	20,166	31,560	41,440	9,060	21,274
Wellawatte Branch	Mr. G.W.G. Abeygunawardene	Rs.20,500,000 p.p/Rs.7,500 to Rs.12,000 p. sq.ft	630,875	131,208	739,000	183,700	108,125	52,492
Centralised Operations Building	Mr. G.W.G. Abeygunawardene	Rs.27,000,000 p.p/Rs.6,500 p. sq.ft to Rs.9,500 p. sq.ft	880,000	388,811	1,080,000	578,000	200,000	189,189
			13,078,425	3,925,573	16,857,491	4,997,959	3,779,066	1,072,386

\* Buildings constructed on the state land given on lease

\*\* Condominium property

## 37 (d) Fair value measurement of Freehold land and buildings

Given below are the valuation techniques used in measuring freehold land and buildings;

Type	Valuation technique	Inter-relationship between significant unobservable inputs and fair value measurement
Freehold land and buildings	Depreciated replacement cost basis	This method involves the capitalisation of expected cost of construction at appropriate remaining life time of the building. 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	This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market. 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 Group's freehold land and buildings are determined by independent valuers at least once in every three years according to the Group's policy. During the year 2021, the fair values of the Group's freehold land and buildings were determined by independent valuers as per the Group's policy to revalue the freehold land and buildings at least once in every three years.

**37 (e) Temporarily Idle Property, Plant and Equipment - Bank**

There was no temporarily idle property, plant and equipment as at 31st December 2022.

**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) Capitalisation of Borrowing Costs**

Borrowing costs were not capitalized in the acquisition of property plant and equipment during the year 2022 (2021 - 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 - Bank**

There were no item of property, plant and equipment pledged as securities for liabilities as at the reporting date in the Bank.

**37 (j) 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 31st December	Bank	
	2022 Rs 000	2021 Rs 000
Leasehold building	1,546,463	1,413,183
Computer equipment	3,246,804	3,045,848
Office equipment, furniture and fixtures	4,097,515	3,524,618
Motor Vehicle	120,377	78,540
	9,011,159	8,062,189

**37(k) Assessment of Impairment**

The Board of Directors has assessed the potential impairment loss on property, plant and equipment as at 31st December 2022. Based on the assessment, no impairment provision is required to be made in the financial statements as at reporting date.

**37(l) Change in Classification from /(to) Investment Properties**

Group did not reclassify any property, plant and equipment as investment properties during the year. Details of investment properties reclassified as property plant and equipment have been provided in 36 (b) iv.

## NOTES TO THE FINANCIAL STATEMENTS

## 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 a lease 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 of 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 within "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.

- **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 31 to the financial statements.



- **Leases as lessee**

The Bank leases a number of branch and office premises. For some leases, payments are renegotiated once in every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The leases on 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 in Note 38 (c) to the financial statements.

## 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 judgement 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Cost</b>				
Balance as at 1st January	7,711,675	6,885,017	4,156,914	3,153,030
Acquisition of subsidiary through HNB Finance PLC	-	-	-	64,187
Additions/renewals of operating leases during the year	908,985	944,018	1,205,658	1,106,814
Expiration of operating lease agreements during the year	(85,407)	(117,360)	(116,553)	(167,117)
<b>Balance as at 31st December</b>	<b>8,535,253</b>	<b>7,711,675</b>	<b>5,246,019</b>	<b>4,156,914</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	2,272,291	1,528,149	1,979,012	1,325,198
Acquisition of subsidiary through HNB Finance PLC	-	-	-	40,819
Amortisation for the year [Note 18 (b)]	865,228	744,142	871,892	660,093
Depreciation on Disposals	-	-	(68,673)	(47,098)
<b>Balance as at 31st December</b>	<b>3,137,519</b>	<b>2,272,291</b>	<b>2,782,231</b>	<b>1,979,012</b>
<b>Carrying value as at 31st December</b>	<b>5,397,734</b>	<b>5,439,384</b>	<b>2,463,788</b>	<b>2,177,902</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.

## NOTES TO THE FINANCIAL STATEMENTS

**38 RIGHT-OF-USE ASSETS (Contd.)****38 (b) Movement in lease liabilities**

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	6,252,865	6,087,039	2,429,736	2,131,436
Acquisition of subsidiary through HNB Finance PLC	-	-	-	26,682
Additions/renewal of operating lease agreements during the year	908,985	944,018	1,224,432	1,084,676
Accretion of interest [Note 8 (b)]	859,672	730,245	341,159	192,856
Payments to lease creditors	(1,482,974)	(1,391,077)	(1,088,399)	(884,254)
Expiration of operating lease agreements during the year	(85,407)	(117,360)	(89,670)	(121,660)
<b>Balance as at 31st December (Note 51)</b>	<b>6,453,141</b>	<b>6,252,865</b>	<b>2,817,258</b>	<b>2,429,736</b>

**38 (c) Future Minimum Lease Payments under Non-cancellable Operating Leases**

As at 31 December	Bank	
	2022 Rs 000	2021 Rs 000
<b>Maturity analysis of contractual undiscounted cash flows</b>		
Less than one year	1,367,561	1,233,020
Between one and five years	4,489,560	4,186,365
More than five years	6,320,715	6,902,618
<b>Total undiscounted lease liabilities</b>	<b>12,177,836</b>	<b>12,322,003</b>

**38 (d) Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumptions****Sensitivity to Incremental Borrowing Rate**

Increase/(decrease) in incremental borrowing rate as at 31st December 2022 by 1% would have (decreased)/ increased the lease liability by approximately Rs 249.21 Mn and Rs 266.36 Mn respectively. Had the Bank increased/ (decreased) the incremental borrowing rate by 1%, the Bank's profit before tax for the year would have (decreased)/ increased by approximately Rs 1.53 Mn and Rs 5.53 Mn respectively.

**38 (e) Amounts Recognised in Profit or loss**

For the year ended 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Interest expense on operating lease liabilities	859,672	730,245	341,159	192,856
Amortisation of right-of-use assets	865,228	744,142	871,892	660,093
	<b>1,724,900</b>	<b>1,474,387</b>	<b>1,213,051</b>	<b>852,949</b>

**38 (f)** Amounts recognised in statement of cash flows in respect of operating lease liabilities during the year ended 31st December 2022 amounts to Rs 1,438 Mn (2021 - Rs 1,411 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 a significant change in circumstances within its control.

**38 (h) Leases as Lessor**

The details of maturity analysis of finance lease receivables have been provided in Note 61 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.

**Goodwill**

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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

## 39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Cost</b>				
Balance as at 1st January	5,176,004	4,671,665	6,319,136	5,589,419
Acquisition of subsidiary through HNB Finance PLC	-	-	-	10,486
Goodwill on acquisition [Note 39 (a) i]	-	-	-	58,185
Additions and improvements during the year	229,884	504,339	285,513	661,046
<b>Balance as at 31st December</b>	<b>5,405,888</b>	<b>5,176,004</b>	<b>6,604,649</b>	<b>6,319,136</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	3,746,460	3,362,493	4,330,002	3,839,425
Acquisition of subsidiary through HNB Finance PLC	-	-	-	9,539
Amortisation for the year [Note 18 (b)]	409,274	383,967	503,555	481,038
<b>Balance as at 31st December</b>	<b>4,155,734</b>	<b>3,746,460</b>	<b>4,833,557</b>	<b>4,330,002</b>
<b>Carrying value as at 31st December</b>	<b>1,250,154</b>	<b>1,429,544</b>	<b>1,771,092</b>	<b>1,989,134</b>

### 39 (a) Analysis of Intangible Assets

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Computer Software	1,250,154	1,429,544	1,489,966	1,707,739
Goodwill *	-	-	181,126	181,395
License	-	-	100,000	100,000
	1,250,154	1,429,544	1,771,092	1,989,134

\*Goodwill amounting to Rs 122.94 Mn has been recognised in respect of acquisition of HNB Finance PLC in 2014. Further, goodwill amounting to Rs 58.2 Mn was recognised during the year ended 31st December 2021 in respect of acquisition of Prime Finance PLC by HNB Finance PLC. This goodwill continues to be recognised post amalgamation of HNB Finance PLC with Prime Finance PLC.

#### 39 (a) i Purchase consideration allocation

The acquisition of Prime Finance PLC had the following effect on the Group's assets and liabilities on acquisition date (31st December 2021).

	Recognised values on Acquisition Rs 000
Cash and cash equivalents	822,513
Financial assets measured at amortised cost - loans and advances to customers	4,655,645
Financial assets measured at amortised cost - debt and other financial instruments	302,342
Financial assets measured at fair value through other comprehensive income	56
Property, plant and equipment	16,592
Intangible assets	948
Deferred tax Assets	731
Other assets	958,147
Due to banks	(708,805)
Financial liabilities measured at amortised cost - due to depositors	(3,242,068)
Current tax liabilities	(52,220)
Other liabilities	(388,326)
Identifiable assets and liabilities	2,365,555
Non Controlling Interest	(301,135)
Net identifiable assets and liabilities	2,064,420
Goodwill on acquisition	58,185
Consideration paid full in cash	2,122,605
<b>Net cash effect on acquisition of subsidiary through HNB Finance PLC</b>	<b>1,300,092</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

### 39 (a) ii Assessment of Impairment

As at 31st December 2022, 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

##### Profit Growth

Profit growth was projected based on the forecast given in the strategic plan of the company. Budgeted Profit before taxes, depreciation and amortization was based on expectation of future outcomes taking into past experience, adjusted for anticipated economic conditions.

##### Discount factor

The discount rate of 20% used is based on the risk free rate, adjusted for temporary fluctuations in interest rates.

##### 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 2022. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

### 39 (a) iii 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) iv Intangible Assets pledged as Security

None of the intangible assets have been pledged as security as at the reporting date.

### 39 (a) v Acquisition of Intangible Assets During the Year

During the financial year, the Bank and Group acquired intangible assets to the aggregate value of Rs. 229 Mn and Rs. 285 Mn respectively (2021 - Rs. 504 Mn and Rs.730 Mn respectively). Cash payments amounting to Rs. 229 Mn and Rs. 285 Mn respectively (2021 - Rs. 504 Mn and Rs. 730 Mn) were made for purchase of intangible assets by the Bank and Group respectively, during the year.

### 39 (a) vi Fully Amortised Intangible Assets in Use

Intangible assets include fully amortised computer software amounting Rs. 2.9 Bn (2021 - Rs. 2.6 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 is 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Net deferred tax liabilities [Note 40 (a)]	-	-	6,465,029	5,157,978
Net deferred tax assets [Note 40 (b)]	30,471,351	4,461,561	30,763,166	4,941,105
	30,471,351	4,461,561	24,298,137	(216,873)

#### 40 (a) Net Deferred Tax Liabilities

	Bank		Group	
	2022 Tax Effect Rs 000	2021 Tax Effect Rs 000	2022 Tax Effect Rs 000	2021 Tax Effect Rs 000
Balance as at 1st January	5,612,197	6,511,212	11,241,706	12,431,718
<b>Recognised in profit or loss</b>				
Originating during the year				
Recognised/(realised) in the income statement	(425,790)	(411,070)	(178,642)	(835,158)
Effect of change in tax rate	362,723	(310,327)	261,026	(367,407)
	(63,067)	(721,397)	82,384	(1,202,565)
<b>Recognised in OCI</b>				
Originating during the year				
Recognised/(realised) in the income statement	466,439	(795,698)	442,517	(803,238)
Effect of change in tax rate	1,157,240	618,080	2,379,326	815,791
<b>Balance as at 31st December</b>	<b>7,172,809</b>	<b>5,612,197</b>	<b>14,145,933</b>	<b>11,241,706</b>
Offset against deferred tax assets	(7,172,809)	(5,612,197)	(7,680,904)	(6,083,728)
<b>Net deferred tax liabilities (Note 40)</b>	<b>-</b>	<b>-</b>	<b>6,465,029</b>	<b>5,157,978</b>



## NOTES TO THE FINANCIAL STATEMENTS

**40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)****40 (b) Net Deferred Tax Assets**

	Bank		Group	
	2022 Tax Effect Rs 000	2021 Tax Effect Rs 000	2022 Tax Effect Rs 000	2021 Tax Effect Rs 000
Balance as at 1st January	10,073,758	7,317,751	11,024,833	8,789,286
Originating during the year				
Recognised/(realised) in the income statement	25,051,962	3,801,399	25,018,563	3,489,971
Effect of change in tax rate	2,518,440	(1,045,392)	2,373,210	(1,244,211)
	27,570,402	2,756,007	27,391,773	2,245,760
Recognised in OCI	-	-	27,464	(10,213)
Balance as at 31st December	37,644,160	10,073,758	38,444,070	11,024,833
Offset against deferred tax liabilities	(7,172,809)	(5,612,197)	(7,680,904)	(6,083,728)
Net deferred tax assets (Note 40)	30,471,351	4,461,561	30,763,166	4,941,105

**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	
	2022 Rs 000	2022 Rs 000	2021 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Accelerated depreciation for tax purposes								
Property, plant and equipment	(2,159,283)	(647,785)	(2,219,446)	(532,667)	(115,118)	(310,909)	-	-
Intangible assets	(369,007)	(110,702)	(506,933)	(121,664)	10,962	2,207	-	-
Assets on leasing business	(2,097,790)	(629,337)	(3,319,000)	(796,560)	167,223	(412,695)	-	-
Revaluation of government securities	-	-	1,948,558	467,654	-	-	(466,439)	(754,542)
Revaluation surplus on freehold lands	(15,780,037)	(4,734,011)	(15,780,037)	(3,787,209)	-	-	(946,802)	408,247
Revaluation surplus on freehold buildings	(3,507,297)	(1,052,189)	(3,507,296)	(841,751)	-	-	(210,438)	168,677
	(23,913,414)	(7,174,024)	(23,384,154)	(5,612,197)	63,067	(721,397)	(1,623,679)	(177,618)
Operating lease rights	1,059,447	317,834	813,471	195,233	121,386	9,213	-	-
Temporary difference on allowance for impairment	124,425,137	37,327,541	41,160,521	9,878,525	27,449,016	(2,765,221)	-	-
	125,484,584	37,645,375	41,973,992	10,073,758	27,570,402	(2,756,008)	-	-
	101,571,170	30,471,351	18,589,838	4,461,561	27,633,469	(3,477,405)	(1,623,679)	(177,618)

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		
	2022 Rs 000	2022 Rs 000	2021 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Accelerated depreciation for tax purposes</b>								
Property, plant and equipment	(3,745,253)	(1,123,576)	(2,993,867)	(718,528)	(405,048)	(315,287)	-	-
Intangible assets	(369,127)	(110,738)	(506,933)	(121,664)	10,926	2,207	-	-
Assets on leasing business	(2,097,790)	(629,337)	(3,563,013)	(855,123)	225,786	(464,439)	-	-
Revaluation of government securities	-	-	1,948,758	467,702	-	-	(467,702)	(763,270)
Revaluation surplus on freehold lands	(29,771,170)	(8,931,351)	(28,021,563)	(6,725,175)	-	-	(2,206,176)	455,839
Revaluation surplus on freehold buildings	(10,374,753)	(3,112,426)	(12,232,750)	(2,935,860)	-	-	(176,566)	330,197
Undistributed profits of subsidiaries and joint ventures	(981,087)	(294,326)	(948,462)	(227,631)	(66,695)	(425,046)	-	-
	(47,339,180)	(14,201,754)	(46,317,830)	(11,116,279)	(235,031)	(1,202,565)	(2,850,444)	22,766
Unutilised tax losses	-	-	1,139,762	273,543	(273,543)	451,712	-	-
Operating lease rights	1,042,483	312,745	715,804	171,793	139,736	31,455	-	-
Temporary difference on allowance for impairment and retirement benefits	127,290,487	38,187,146	43,558,625	10,454,070	27,678,227	(2,761,771)	20,257	-
	128,332,970	38,499,891	45,414,191	10,899,406	27,544,420	(2,278,604)	20,257	-
	80,993,790	24,298,137	(903,639)	(216,873)	27,309,389	(3,481,169)	(2,830,187)	22,766

40 (d) Tax losses - Subsidiaries

HNB Assurance PLC "Company"

As per Section 67 of Inland Revenue Act No. 24 of 2017 which was effective from 1st April 2018, the company incurred a taxable income. 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 2021, Life Insurance business had a cumulative tax loss of Rs.1,140 Mn (2021 - Rs. 1,140 Mn) recognised as per Section 92 Inland Revenue Act No. 10 of 2006. According to the transitional provisions of the Act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1st April 2018. The company made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. As at 31st December 2022, company has utilised the total amount of brought forward tax losses against taxable income and there are no tax losses or deferred tax assets recorded as at the reporting date. Further, company has recognised an income tax expense for the year since brought forward tax losses have been fully utilised.

The Group does not have unrecognised deferred tax assets on tax losses as at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

**40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)****40 (e) New Amendments to Income Tax Law Announced by the Government**

As provided for in LKAS 12 - Income taxes, deferred tax assets and liabilities should be measured at the tax rates that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date.

As per the Inland Revenue (Amendment) Act No 45 of 2022 (certified on 19th December 2022) income tax rates applicable to the Bank and the subsidiaries increased from 24% to 30% with effect from 01st October 2022. Accordingly deferred tax has been computed at 30% by Bank/ Group.

**41 OTHER ASSETS****ACCOUNTING POLICY**

The financial assets included in other assets have been accounted for based on the accounting policy discussed in Note 3.4 to the financial statements.

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Un-amortised cost on staff loans	10,907,185	2,765,605	11,003,181	2,823,876
Other debtors	1,815,034	1,473,924	5,835,577	4,442,650
Reimbursement under special senior citizen deposit scheme	6,764,470	4,405,150	6,764,470	4,405,150
Receivable from pension fund	3,479,578	1,248,708	3,479,578	1,248,708
Inventories - Real Estate Stock		-	-	811,813
Deposits and prepayments	3,293,958	2,554,720	3,486,051	2,175,859
Stationary and other consumables	129,548	75,642	129,548	75,642
Allowance for impairment [Note 41 (a)]	(108,655)	(108,655)	(125,033)	(125,033)
	26,281,118	12,415,094	30,573,372	15,858,665

As at 31st December 2022 other assets includes Rs 9,228 Mn (2021 - Rs 6,123 Mn) financial assets in the Bank and Rs 12,042 Mn (2021 - Rs 8,034 Mn) in the Group.

**41 (a) Movement in Impairment Allowance**

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	108,655	108,655	125,033	120,950
Net impairment charge/(reversal) for the year	-	-	-	4,083
As at 31st December	108,655	108,655	125,033	125,033

Impairment provision of Rs 109 Mn in the Bank and Rs 125 Mn in the Group has been recognised in respect of non financial assets as at 31st December 2022 (2021 - Rs 109 Mn in Bank and Rs 125 Mn in Group).

#### 41 (b) Credit and Market Risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

#### 42 DUE TO BANKS

##### ACCOUNTING POLICY

The accounting policy pertaining to due to banks has been given in Note 3.4 to the financial statements.

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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Local bank borrowings	-	2,581,394	-	2,581,394
Foreign bank borrowings	2,298,113	6,695,883	2,298,113	6,695,883
Refinance borrowings	1,868,875	6,987,216	1,868,875	6,987,216
Other balances	1,937,590	811,009	1,937,590	811,009
	6,104,578	17,075,502	6,104,578	17,075,502

The maturity analysis of due to banks is given in Note 61 to the financial statements

#### 42 (b) Credit and Market Risk

Information about the Group's credit and market risks for due to banks are included in Note 5 to the financial statements.

#### 43 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

##### ACCOUNTING POLICY

The accounting policy pertaining to securities sold under repurchase agreements has been given in Note 3.4 to the financial statements.

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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Securities sold under repurchase agreements				
- With banks	-	9,215,426	-	9,215,426
- With customers	6,540,014	24,308,800	6,540,014	24,308,800
	6,540,014	33,524,226	6,540,014	33,524,226

## NOTES TO THE FINANCIAL STATEMENTS

## 44 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - DUE TO DEPOSITORS

## ACCOUNTING POLICY

The accounting policy pertaining to financial liabilities measured at amortised cost- due to depositors has been given in Note 3.4 to the financial statements.

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 as 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.

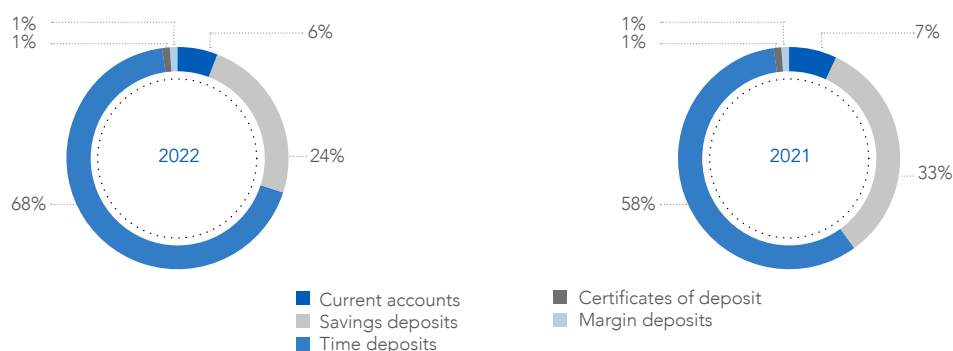
As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Local currency deposits	1,038,635,870	847,200,450	1,074,681,115	878,888,337
Foreign currency deposits	369,164,622	228,508,837	368,498,006	228,177,483
	1,407,800,492	1,075,709,287	1,443,179,121	1,107,065,820

## Analysis of Due to Customers

## 44 (a) i By Product

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Current account deposits	79,901,172	73,204,038	79,530,635	72,951,564
Savings deposits	356,052,620	367,749,343	358,670,096	370,187,281
Time deposits	968,669,141	632,199,785	1,001,800,831	661,370,854
Certificates of deposit	305,891	322,715	305,891	322,715
Margin deposits	2,871,668	2,233,406	2,871,668	2,233,406
	1,407,800,492	1,075,709,287	1,443,179,121	1,107,065,820

## Analysis of deposits- Bank



44 (a) ii By Currency

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Sri Lankan Rupees	1,038,635,871	847,200,450	1,074,681,115	878,888,337
United States Dollars	323,462,965	202,588,420	322,799,153	202,258,694
Great Britain Pounds	17,451,026	11,689,047	17,451,026	11,689,047
Euros	13,536,909	5,375,398	13,534,105	5,373,770
Australian Dollars	11,607,107	7,240,959	11,607,107	7,240,959
Other currencies	3,106,614	1,615,013	3,106,615	1,615,013
	1,407,800,492	1,075,709,287	1,443,179,121	1,107,065,820

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 disclosed 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".

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	989,212	962,185	1,013,629	980,507
Final cash dividends declared in the prior year	3,418,380	2,303,891	3,616,180	2,471,891
Transfer to retained earning	-	-	-	-
Dividends paid during the year	(3,399,267)	(2,276,864)	(3,591,267)	(2,438,769)
<b>Balance as at 31st December</b>	<b>1,008,325</b>	<b>989,212</b>	<b>1,038,542</b>	<b>1,013,629</b>

46 FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

**ACCOUNTING POLICY**

The accounting policy pertaining to financial liabilities at amortised cost - other borrowings has been given in Note 3.4 to the financial statements.

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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Refinance borrowings	8,080,861	7,282,396	8,080,861	7,282,396
Foreign borrowings	24,269,733	17,465,473	24,269,733	17,465,473
Local borrowings	-	-	1,035,004	807,965
	32,350,594	24,747,869	33,385,598	25,555,834

The maturity analysis of financial liabilities at amortised cost – other borrowings is given in Note 61 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

## 47 DEBT SECURITIES ISSUED

## ACCOUNTING POLICY

The accounting policy pertaining to debt securities issued has been given in Note 3.4 to the financial statements.

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.

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Fixed / floating interest rate	Interest rate	Interest rate of comparable government securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2022 Rs 000	As at 31.12.2021 Rs 000	As at 31.12.2022 Rs 000	As at 31.12.2021 Rs 000
2013/2023	Listed	Annually	2,000,000	Fixed	8.00%	24.68%	10 Years	30th Aug 2013	29th Aug 2023	1,978,910	1,878,709	1,951,606	1,852,737
2014/2024	Listed	Semi Annually	84,040	Fixed	8.33%	26.51%	10 Years	15th Dec 2014	15th Dec 2024	84,040	84,040	63,201	64,040
2011/2040*	Not Listed	Monthly	665,000	Fixed	1 Year Average T-bill rate	1 Year Average T-bill rate	20 Years	01st Apr 2011	31st Mar 2040	-	-	540,302	548,308
Total debt securities issued										2,062,950	1,962,749	2,555,109	2,465,085
Analysis of total debt securities issued													
Due within one year										1,978,910	54,356	2,014,630	51,645
Due after one year										84,040	1,908,393	540,479	2,413,440
										2,062,950	1,962,749	2,555,109	2,465,085

HNB Assurance PLC, subsidiary of the Bank has invested Rs 48.1 Mn (2021 - Rs. 46 Mn) in debt securities issued by the Bank.

\* Debt securities issued by HNB Finance PLC. Capital repayment commenced from December 2020.

There were no debt securities designated at FVTPL as at 31st December 2022.

The Group did not have any defaults of principal and interest or other breaches with respect to its debt securities during the year ended 31st December 2022.

## 48 CURRENT TAX LIABILITIES

## ACCOUNTING POLICY

The policy adopted in accounting for current tax liabilities is given in Note 21 to the financial statements.

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	10,051,689	7,725,731	10,518,569	8,093,584
Provision for the year	26,627,382	7,374,514	26,968,465	7,932,077
Effect of changes in tax rate [Note 21 (b) (iii)]	-	(820,750)	-	(869,702)
Over provision in previous years	(1,053,500)	(551,100)	(987,055)	(611,984)
Payments during the year	(5,599,652)	(3,545,046)	(6,026,123)	(3,892,651)
Notional tax credits	-	-	(13,341)	-
Withholding tax/other credits	-	(131,660)	(273)	(132,755)
<b>Balance as at 31st December</b>	<b>30,025,919</b>	<b>10,051,689</b>	<b>30,460,242</b>	<b>10,518,569</b>



#### 48 (a) Surcharge Tax

As per the Surcharge Tax Act No. 14 of 2022, the Bank paid surcharge tax of Rs. 3,611.5 Mn out of the taxable income of Rs.14,446.2 Mn pertaining to the year of assessment 2020/21. Further, the Group paid Rs 3,981.8 Mn as surcharge tax. According to the said Act, the surcharge tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment 2020/21. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the surcharge tax expense has been accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka. Accordingly, the Bank has recognised the total liability to the surcharge tax as an adjustment to the opening retained earnings as at 1st January 2022.

The impact of the surcharge tax under the Surcharge Tax Act on the comparative year would have been as given below:

	Bank Rs 000	Group Rs 000
Profit after Tax for the year ended 31st December 2020	11,462,636	13,662,263
Surcharge tax levied under Surcharge Act	3,611,567	3,981,895
Comparable Profit for the year 2020/2021	7,851,069	9,680,368

#### 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 sufficient 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 lifestyle, 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 the life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates for the non-participating products, whereas it is the expected fund yield of par fund for the policies with discretionary participating benefit.

## NOTES TO THE FINANCIAL STATEMENTS

## 49 INSURANCE PROVISION - LIFE (Contd.)

As at 31st December	Group	
	2022 Rs 000	2021 Rs 000
<b>Insurance Contract Liabilities</b>		
Life Insurance Fund [Note 49 (a)]	24,373,392	20,097,793
Claims Outstanding	219,011	280,222
<b>Total Insurance Contract Liabilities - Life Insurance</b>	<b>24,592,403</b>	<b>20,378,015</b>

## 49 (a) Life Insurance Fund

	Group	
	2022 Rs 000	2021 Rs 000
Balance as at 01st January	20,097,793	16,841,994
Surcharge tax	(21,966)	-
<b>Adjusted balance as at 1st January 2021</b>	<b>20,075,827</b>	<b>16,841,994</b>
Change in contract liabilities - life fund		
Increase in life insurance fund before surplus distribution to shareholders	5,594,607	4,255,670
Surplus distributed to shareholders	(1,280,000)	(980,000)
Increase in life insurance fund	4,314,607	3,275,670
Effect of taxation on surplus/bonus transferred to policyholders	(17,042)	(19,871)
Change in contract liabilities - life fund (after tax)	4,297,565	3,255,799
<b>Balance as at 31st December</b>	<b>24,373,392</b>	<b>20,097,793</b>

The valuation of the life insurance business as at 31st December 2022 was carried out by Mr. Abhishek Chadha, FIA, on behalf of Messrs. Willis Towers Watson India Private Limited. 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. 24,592 Mn (2021 : Rs 20,378 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.

## 49 (a) i Surcharge tax

Although HNB Assurance PLC and its subsidiary (HNBGI) did not meet the chargeability threshold of Rs. 2 Billion, it was liable for surcharge tax, being a subsidiary of Hatton National Bank PLC.

As per the Statement of Alternative Treatment (SoAT) issued by CA Sri Lanka on 22nd April 2022, surcharge tax expense which is deemed to be an expenditure for the year of assessment 2021/2020, shall be recorded as an adjustment to the opening retained earnings reported in the statement of changes in equity on 1st January 2021 and HNBGI financial statements have been adjusted accordingly. However, HNBA accounted for the relevant tax expense in the opening balance of life fund since taxable income arose from the surplus attributable to life policy holders.

## 49 (b) Sensitivity of the Value of Insurance Liabilities

As at 31st December	Change in assumptions	Impact on gross liabilities	
		2022 %	2021 %
Mortality	+10%	0.13	0.22
	-10%	(0.22)	(0.22)
Discount rate	+50% basis points	(0.13)	(0.56)
	-50% basis points	0.13	0.58
Expense	+10%	0.29	0.44
	-10%	(0.37)	(0.43)

### Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for life insurance contract liability was carried out by Mr. Abhishek Chadha, FIA, on behalf of Messrs Willis Towers Watson India Private Limited, as at 31st December 2022 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 reserves as at 31st December 2022. No additional provision was required against the LAT as at 31st December 2022.

## 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") and claims Incurred But Not Enough Reported ("IBNER") 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 Provision of Risk Margins for Adverse Deviation (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.

## NOTES TO THE FINANCIAL STATEMENTS

## 50 INSURANCE PROVISION - NON LIFE (Contd.)

## ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

## Valuation of Non Life Insurance Contract Liabilities of Subsidiary, HNB General Insurance Limited (HNBGI)

The estimates of general 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 and claims Incurred, But Not Enough Reported (IBNR/ IBNER) 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 in estimating the amount of outstanding claims is the past claims development experience.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster 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	2022 Rs 000	2021 Rs 000
Unearned premium		
Gross	3,428,085	2,826,784
Reinsurance	(692,584)	(483,311)
<b>Net</b>	<b>2,735,501</b>	<b>2,343,473</b>
Reserve for title insurance	57,059	63,531
	<b>2,792,560</b>	<b>2,407,004</b>
<b>Claims outstanding - Gross</b>	<b>1,006,371</b>	<b>1,145,463</b>
Claims incurred but not reported - Gross	382,657	183,454
	<b>4,181,588</b>	<b>3,735,921</b>

## Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2022 have been actuarially computed by the consultant actuary, Ms. Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private Limited (2021 - valuation was carried by Ms. Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private 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 31st December 2022	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 2022	+/- 10%	1,006,371	+/- 114,546	+/-65,846	+/-65,846	-/+50,043

## Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for non life insurance contract liability was carried out by Ms. Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private Limited as at 31st December 2022 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 2022. No additional provision was required against the LAT as at 31st December 2022.

## 51 OTHER LIABILITIES

### ACCOUNTING POLICY

The financial liabilities included in other liabilities have been accounted for based on the accounting policy discussed in Note 3.4 to the financial statements.

The operating lease liability has been accounted for based on the accounting policy discussed in Note 38 to the financial statements.

Employee benefit obligations have been accounted for based on the accounting policy discussed in Note 53 to the financial statements.

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Bills payable	1,048,783	1,665,885	1,048,783	1,665,885
Employee benefit obligations [Note 51 (a)]	269,106	238,829	834,878	796,535
Impairment allowance for off-balance sheet credit exposures [Note 51 (b)]	4,410,515	2,192,974	4,410,515	2,192,974
Operating lease liability [Note 38 (b)]	6,453,141	6,252,865	2,817,258	2,429,736
Other creditors	4,868,080	3,037,654	8,404,507	6,264,978
Payable to lease creditors	328,645	1,012,249	525,854	1,246,543
	17,378,270	14,400,456	18,041,795	14,596,651

As at 31st December 2022 other liabilities include Rs 4.2 Mn (2021 - Rs 9.3 Mn) financial liabilities in the Bank and Rs 2,435 Mn (2021 - Rs 2,329 Mn) in the Group.

### 51 (a) Employee Benefit Obligations

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Liability for EPF interest rate guarantee [Note 53 (d)]	88,294	84,614	88,294	84,614
Liability for leave accrual plan [Note 53 (e)]	180,812	154,215	180,812	154,215
Provision for gratuity benefits [Note 53 (g)]	-	-	565,772	557,706
	269,106	238,829	834,878	796,535

### 51 (b) Movement in Impairment for Off Balance Sheet Credit Exposures during the Year

#### ACCOUNTING POLICY

The expected credit losses 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 (e) to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

## 51 OTHER LIABILITIES (Contd.)

	Bank/Group	
	2022 Rs 000	2021 Rs 000
<b>Stage 1</b>		
Balance as at 1st January	789,147	735,795
Net impairment charge for the year [Note 15]	1,778,367	53,352
Balance as at 31st December	2,567,514	789,147
<b>Stage 2</b>		
Balance as at 1st January	154,772	256,266
Net impairment charge/(reversal) for the year [Note 15]	362,578	(101,494)
Balance as at 31st December	517,350	154,772
<b>Stage 3</b>		
Balance as at 1st January	1,249,055	1,218,185
Net impairment charge for the year [Note 15]	76,596	30,870
Balance as at 31st December	1,325,651	1,249,055
<b>Total impairment allowance for off balance sheet credit exposures</b>	<b>4,410,515</b>	<b>2,192,974</b>

## 52 SUBORDINATED TERM DEBTS

**ACCOUNTING POLICY**

The accounting policy pertaining to subordinated term debts is given in Note 3.4 to the financial statements.

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 income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Subordinated debentures [Note 52 (a)]	22,914,299	23,552,323	23,724,442	24,391,912
	22,914,299	23,552,323	23,724,442	24,391,912

## 52 (a) Subordinated Debentures

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value	Fixed / floating interest rate	Interest Rate	Interest Rate of Comparable Government Securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2022	As at 31.12.2021	As at 31.12.2022	As at 31.12.2021
										Rs 000	Rs 000	Rs 000	Rs 000
2006	Listed	At maturity	1,362,800	Fixed	11.25%	25.72%	18 Year	1st Apr 2006	31st Mar 2024	1,193,302	1,072,701	1,176,474	1,072,701
2007	Listed	Annually	700,000	Fixed	16.75%	-	15 Year	1st Aug 2007	31st Jul 2022	-	758,625	-	758,625
2016	Listed	Annually	4,000,000	Fixed	13.00%	24.99%	7 Year	1st Nov 2016	1st Nov 2023	4,086,904	4,086,904	4,086,904	4,086,904
2019	Listed	Annually	1,922,570	Fixed	12.30%	26.61%	5 Year	23rd Sep 2019	22nd Sep 2024	1,987,358	1,987,358	1,987,358	1,845,439
2019	Listed	Annually	8,077,430	Fixed	12.80%	27.58%	7 Year	23rd Sep 2019	22nd Sep 2026	8,360,693	8,360,693	8,297,181	8,297,181
2019	Listed	Annually	1,033,820	Fixed	13.20%	29.35%	5 Year	30th Dec 2019	30th Dec 2024	-	-	1,037,534	1,158,820
2021	Listed	Annually	7,000,000	Fixed	9.50%	25.91%	10 Year	28th Jul 2021	29th Jul 2031	7,286,042	7,286,042	7,172,241	7,172,242
2022	Unlisted	Annually	2,000,000	Floating	1 year T Bill rate + 3%	1 year T Bill rate + 3%	5 Year	25th April 2022	25th April 2027	-	-	2,393,608	-
<b>Total subordinated debentures</b>										<b>22,914,299</b>	<b>23,552,323</b>	<b>26,151,300</b>	<b>24,391,912</b>
<b>Analysis of subordinated debentures</b>													
Due within one year										4,720,996	1,479,621	4,920,463	1,472,481
Due after one year										18,193,303	22,072,702	21,230,837	22,919,431
										<b>22,914,299</b>	<b>23,552,323</b>	<b>26,151,300</b>	<b>24,391,912</b>

HNB Assurance PLC has invested Rs 194 Mn in (2021 - 194 Mn) subordinated debentures issued by the Bank and Rs 125 Mn (2021 - 125 Mn) in the debentures issued by HNB Finance PLC.

The Group did not have any defaults of principal and interest or other breaches with respect to its debt securities during the year ended 31st December 2022.

### BASEL III Compliant approved Subordinated Debentures

BASEL III compliant subordinated debentures are either perpetual or dated subordinated securities on which there is an obligation to pay coupons with a minimum maturity period of five years and which can be converted to ordinary shares at an objective, pre-specified trigger point determined by the Monetary Board. They may be called before maturity date at the option of the Group and subject to permission by the Group's lead regulator. These capital securities are included within the Group's regulatory capital base as Tier 2 capital.

The securities would, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.



## NOTES TO THE FINANCIAL STATEMENTS

## 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 by an actuarial valuation using project credit method. 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 as 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, 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 the 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 income statement 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.

When the benefits of a plan has changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gain or losses on the settlement of a defined plan when the settlement occurs.

#### **(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 (f) 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 income statement as and when they are due.

#### **(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, expected future salary increment rates and expected future pension increases.

## NOTES TO THE FINANCIAL STATEMENTS

**53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)**

53 (a)	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
As at 31st December				
Unfunded defined benefit plans [Note 53 (a) i]	269,105	238,829	180,811	796,535
Funded defined benefit plan [Note 53 (c) i]	(3,479,579)	(1,248,708)	(3,479,579)	(1,248,708)
<b>Total employee benefit obligations</b>	<b>(3,210,474)</b>	<b>(1,009,879)</b>	<b>(3,298,768)</b>	<b>(452,173)</b>
<b>53 (a) i Unfunded defined benefit plans</b>				
Liability for EPF interest rate guarantee plan [Note 53 (d)]	88,294	84,614	-	84,614
Liability for leave accrual plan [Note 53 (e)]	180,811	154,215	180,811	154,215
Provision for gratuity benefits	-	-	-	557,706
	269,105	238,829	180,811	796,535

**53 (b) Implementation of the Provisions of the Minimum Age of Workers Act No 28 of 2021**

In accordance with the provisions of the above Act, during the year 2021, the Group extended the minimum retirement age of its employees as follows.

Age of Employee	Minimum Retirement Age
54 or above and below 55 years	57 Years
53 or above and below 54 years	58 Years
52 or above and below 53 years	59 Years
Below 52 years	60 Years

Accordingly the amended minimum retirement age was incorporated in the assessment of actuarial valuation of defined benefit obligations as at 31st December 2021 and impact from same was disclosed in Note 53 (c) iii to the financial statements as past service benefit.

**53 (c) Funded defined benefit plan****Pension Fund - Bank**

An actuarial valuation of the pension fund was carried out as at 31st December 2022 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 contributed 13.96% out of the pensionable salary, to the pension fund in 2022 (2021 - 18.26%).

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 (c) i Deficit/(surplus) on funded defined benefit plan - pension fund

As at 31st December	Bank/Group	
	2022 Rs 000	2021 Rs 000
Present value of funded obligation [Note 53 (c) iii]	16,352,743	17,725,989
Total present value of obligations	16,352,743	17,725,989
Fair value of plan assets [Note 53 (c) ii]	(19,832,322)	(18,974,697)
(Surplus)/deficit on funded defined benefit plan - pension fund	(3,479,579)	(1,248,708)
<b>Recognised (asset)/liability for defined benefit obligations - pension fund</b>	<b>(3,479,579)</b>	<b>(1,248,708)</b>

As per Sri Lanka Accounting Standard LKAS 19 – “Employee Benefits” if a plan is in surplus, the amount recognised as the net defined benefit asset in the statement of financial position is the lower of the surplus in the defined benefit plan and the asset ceiling which is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. Since the actuarial valuation of the pension fund as at 31st December 2022 resulted in a surplus, Bank assessed the requirement to apply the asset ceiling, and recognised the surplus in the pension fund valuation amounting to Rs 3,479 Mn as a net receivable in respect of pension fund (2021 – Rs 1,249 Mn).

53 (c) ii Fair Value of Plan Assets consists of the following

As at 31st December	Bank/Group	
	2022 Rs 000	2021 Rs 000
Equity securities and debentures	2,940,540	3,007,346
Government securities	7,755,140	10,533,220
Balances with banks	20,779	23,897
Fixed deposits	9,281,270	5,464,844
Others	(165,407)	(54,610)
	19,832,322	18,974,697

53 (c) iii Movement in the Present Value of Defined Benefit Obligations

As at 31st December	Bank/Group	
	2022 Rs 000	2021 Rs 000
Liability for defined benefit obligations as at 1st January	17,725,989	20,687,877
Current service cost [Note 16 (a)]	746,605	680,370
Interest on obligation	1,949,859	1,861,909
Actuarial (gain)/loss	(3,253,330)	(1,987,849)
Past service benefit [Note 16 (a)]	-	(2,291,509)
Benefits paid by the plan	(816,380)	(1,224,809)
<b>Liability for defined benefit obligations as at 31st December</b>	<b>16,352,743</b>	<b>17,725,989</b>

## NOTES TO THE FINANCIAL STATEMENTS

**53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)**

## 53 (c) iv Movement in the Present Value of Plan Assets

	Bank/Group	
	2022	2021
	Rs 000	Rs 000
Fair value of plan assets as at 1st January	18,974,697	18,327,559
Expected return on plan assets	2,087,217	1,649,480
Contributions paid into plan	983,066	1,179,388
Benefits paid by the plan	(816,380)	(1,224,809)
Actuarial loss	(1,396,278)	(956,921)
Fair value of plan assets as at 31st December	19,832,322	18,974,697

## 53 (c) v Net Interest on Defined Benefit Asset/(Liability)

For the year ended 31st December	Bank/Group	
	2022	2021
	Rs 000	Rs 000
Interest on obligation	1,949,859	1,861,909
Expected return of plan assets	(2,087,216)	(1,649,480)
Net interest on defined benefit (asset)/liability [Note 16 (a)]	(137,357)	212,429

## 53 (c) vi Actuarial Gains and Losses Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000
Actuarial gain/(loss) on present value of defined benefit obligations	3,253,330	1,987,849	3,307,343	2,057,709
Actuarial gain/(loss) on fair value of plan assets	(1,396,278)	(956,921)	(1,396,278)	(956,921)
Actuarial gain/(loss) recognised during the year	1,857,052	1,030,928	1,911,065	1,100,788

## 53 (c) vii Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic assumptions	Mortality - In service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age that represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at 31st December 2021) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at 31st December 2022.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a scheme specific study was not available.
Financial assumptions	Normal retirement age	As per the provisions of Minimum Age of Workers Act No. 28 of 2021
	Rate of discount	A long-term interest rate of 18.50% p.a. (2021 – 11.00% p.a.) has been used to discount future liabilities taking into consideration remaining working life of the eligible employees.
	Salary increases	A salary increment rate of 17.00% p.a. (2021 – 9.80% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	Nil (2021 - Nil)

The average duration of the pension fund obligation is 12.1 years as at 31st December 2022 (2021 - 14.8 years).

### 53 (c) viii Sensitivity of Assumptions Employed in 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 2022.

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%		1,327,515	1,327,515
-1%		(1,552,880)	(1,552,880)
	1%	(1,223,577)	(1,223,577)
	-1%	1,087,343	1,087,343

### 53 (c) ix Distribution of Present Value of Defined Benefit Obligations - Pension Fund - Bank

Given below is an analysis of the distribution of present value of defined benefit obligation pertaining to the pension fund of the Bank excluding the frozen pension benefit for the employees who have opted for the optional scheme for pensions introduced in 2005.

As at 31st December	2022 Rs 000	2021 Rs 000
Less than one year	506,621	462,185
1 - 3 years	1,092,018	1,092,745
3 - 5 years	1,865,908	1,477,958
5 - 10 years	3,818,350	3,516,351
Above 10 years	6,735,586	9,111,716
	14,018,483	15,660,955

## NOTES TO THE FINANCIAL STATEMENTS

**53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)****53 (d) 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 of Messers Actuarial and Management Consultants (Pvt) Limited to value the Bank's obligation on same with the following actuarial assumptions.

As at 31st December	Bank/Group	
	2022	2021
Discount rate	18.50%	11.00%
Long term interest rate to credit the fund	18.50%	11.00%
Liability for EPF interest rate guarantee		
	Bank/Group	
	2022	2021
	Rs 000	Rs 000
Present value of obligation as at 1st January	84,614	82,639
Provision made during the year (Note 16)	3,680	1,975
<b>Present value of obligation as at 31st December [Note 53 (a) i]</b>	<b>88,294</b>	<b>84,614</b>

**53 (e) 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 of Messers Actuarial and Management Consultants (Pvt) Limited on same with the following assumptions.

## Liability for leave accrual plan

As at 31st December	Bank/Group	
	2022	2021
Discount rate	18.50%	11.00%
Future salary increase	17.00%	9.80%
Liability for leave accrual plan		
	Bank/Group	
	2022	2021
	Rs 000	Rs 000
Present value of obligation as at 1st January	154,215	126,594
Provision made during the year (Note 16)	26,596	27,621
<b>Present value of obligation as at 31st December [Note 53 (a) i]</b>	<b>180,811</b>	<b>154,215</b>

**53 (f) 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 of Messrs Actuarial and Management Consultants (Pvt) Limited indicate that the actuarial present value of the promised benefit is Rs 803 Mn and that the fair value of the fund assets is Rs 2,674 Mn resulting in a past service surplus of Rs 1,871 Mn (2021 : Rs.1,185.4 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2022.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 118.9 Mn. (2021 - Rs. 127 Mn)



**53 (g) Provision for gratuity benefits**

	Group	
	2022	2021
	Rs 000	Rs 000
Balance as at 1st January	557,706	546,688
Provision during the year [Note 16]	111,649	106,187
Acquisition of subsidiary held through HNB Finance PLC	-	11,665
Actuarial (gain)/loss recognised in OCI	(103,583)	(69,860)
Payments during the year	-	(36,974)
<b>Balance as at 31st December</b>	<b>565,772</b>	<b>557,706</b>

As at 31st December	Group	
	2022	2021
<b>Actuarial Assumptions</b>		
Discount rate	8% - 18.5%	8% - 11%
Future salary increment rate	6% - 12%	6% - 9.5%

Actuarial valuations for HNB Assurance PLC and HNB Finance PLC as at 31st December 2022 and 31st March 2022 respectively were carried out by actuary, Mr. Pushpakumar Gunasekara, Associate of Institute of Australia of Messers Smiles Global (Pvt) Ltd .

**54 STATED CAPITAL****Ordinary shares**

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 in 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 (a) Stated Capital - Bank/Group**

	2022		2021	
	Number of shares	Value	Number of shares	Value
		Rs 000		Rs 000
<b>Voting ordinary shares</b>				
Balance as at 1st January	420,859,924	30,680,591	410,319,604	29,244,472
Issue of shares through scrip dividend [Note 54 (b)]	7,583,061	1,052,150	10,540,320	1,436,119
<b>Balance as at 31st December</b>	<b>428,442,985</b>	<b>31,732,741</b>	<b>420,859,924</b>	<b>30,680,591</b>
<b>Non-voting ordinary shares</b>				
Balance as at 1st January	105,044,649	6,683,653	101,656,112	6,327,857
Issue of shares through scrip dividend [Note 54 (b)]	2,067,808	262,611	3,388,537	355,796
<b>Balance as at 31st December</b>	<b>107,112,457</b>	<b>6,946,264</b>	<b>105,044,649</b>	<b>6,683,653</b>
	<b>535,555,442</b>	<b>38,679,005</b>	<b>525,904,573</b>	<b>37,364,244</b>

**54 (b) Issue of Shares through Scrip Dividends**

Bank issued 7,583,061 voting shares in the form of scrip dividend at a price of Rs 138.75 and 2,067,808 non-voting shares at a price of Rs.127 on 26th April 2022.

## NOTES TO THE FINANCIAL STATEMENTS

## 55 STATUTORY RESERVE FUND

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	8,560,000	7,660,000	8,560,000	7,660,000
Transfers during the year	750,000	900,000	750,000	900,000
<b>Balance as at 31st December</b>	<b>9,310,000</b>	<b>8,560,000</b>	<b>9,310,000</b>	<b>8,560,000</b>

## 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.

## 56 RETAINED EARNINGS

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Balance as at 1st January</b>	<b>35,186,607</b>	<b>22,665,227</b>	<b>43,643,800</b>	<b>29,361,200</b>
Acquisition of non controlling interest during amalgamation of HNB Finance PLC with Prime Finance PLC	(3,611,625)	-	(3,912,900)	-
<b>Adjusted balance as at 1st January 2022</b>	<b>31,574,982</b>	<b>22,665,227</b>	<b>39,730,900</b>	<b>29,361,200</b>
Profit for the year	14,033,493	17,299,767	15,328,572	19,024,882
Other comprehensive income for the year	1,561,607	1,217,686	1,590,675	1,253,791
Transfer to other reserves	(1,750,000)	(1,900,000)	(1,750,000)	(1,900,000)
Transfer of / (subsequent settlement of) unclaimed dividends	20,022	(267)	20,022	(267)
Dividends to equity holders	(4,733,141)	(4,095,806)	(4,733,141)	(4,095,806)
Merger reserve arising from amalgamation of subsidiary, HNB Finance PLC and Prime Finance PLC	-	-	6,649	-
Pre amalgamation profit of Prime Finance PLC	-	-	53,683	-
<b>Balance as at 31st December</b>	<b>40,706,963</b>	<b>35,186,607</b>	<b>50,247,360</b>	<b>43,643,800</b>

This represents cumulative net earnings, inclusive of final dividend proposed amounting to Rs 2,678 Mn. The balance is retained and reinvested in the business of the Bank/Group.

## 57 OTHER RESERVES

## 57 (a)

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
As at 31st December				
Capital reserve [Note 57 (b)]	13,927,316	15,084,556	28,493,417	30,816,980
General reserve [Note 57 (c)]	58,100,000	57,100,000	58,100,000	57,100,000
Fair value reserve [Note 57 (d)]	(1,395,906)	(1,254,053)	(1,182,630)	(1,258,039)
Life policy holder reserve fund [Note 57 (e)]	-	-	(1,347,731)	(103,302)
Restricted regulatory reserve [Note 57 (f)]	-	-	381,156	381,156
Exchange equalization reserve [Note 57 (g)]	-	-	611,253	163,202
	<b>70,631,410</b>	<b>70,930,503</b>	<b>85,055,465</b>	<b>87,099,997</b>

**57 (b) Capital Reserve**

	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	15,084,556	10,782,706	30,816,980	23,054,710
Other comprehensive income for the period, net of tax	(1,157,240)	4,301,850	(2,323,563)	7,762,270
Impairment charges	-	-	-	-
<b>Balance as at 31st December</b>	<b>13,927,316</b>	<b>15,084,556</b>	<b>28,493,417</b>	<b>30,816,980</b>

**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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	57,100,000	56,100,000	57,100,000	56,100,000
Transfer during the year	1,000,000	1,000,000	1,000,000	1,000,000
<b>Balance as at 31st December</b>	<b>58,100,000</b>	<b>57,100,000</b>	<b>58,100,000</b>	<b>57,100,000</b>

**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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Balance as at 1st January	(1,254,053)	1,221,363	(1,258,039)	1,270,055
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category (net of tax)	1,477,057	-	2,181,042	-
Net change in fair value during the year	(1,618,910)	(2,475,416)	(2,105,633)	(2,528,094)
<b>Balance as at 31st December</b>	<b>(1,395,906)</b>	<b>(1,254,053)</b>	<b>(1,182,630)</b>	<b>(1,258,039)</b>

**Nature and purpose of reserve**

The fair value reserve comprises of net change in fair value of financial assets measured at fair value through other comprehensive income.

**57 (e) Life Policy Holder Reserve Fund**

	Group	
	2022 Rs 000	2021 Rs 000
Balance as at 1st January	(103,302)	748,391
Transfer from life policy holder reserve fund	(1,244,429)	(851,693)
<b>Balance as at 31st December</b>	<b>(1,347,731)</b>	<b>(103,302)</b>

**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.

## NOTES TO THE FINANCIAL STATEMENTS

**57 OTHER RESERVES (Contd.)****57 (f) Restricted Regulatory Reserve**

	Group	
	2022 Rs 000	2021 Rs 000
Balance as at 1st January	381,156	381,156
Transfer to/(from) restricted regulatory reserve	-	-
<b>Balance as at 31st December</b>	<b>381,156</b>	<b>381,156</b>

## 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	
	2022 Rs 000	2021 Rs 000
Balance as at 1st January	163,202	101,634
Transfer to/(from) exchange equalization reserve	448,051	61,568
<b>Balance as at 31st December</b>	<b>611,253</b>	<b>163,202</b>

## 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 Interests (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	
	2022 Rs 000	2021 Rs 000
<b>Subsidiaries</b>		
HNB Assurance PLC	3,895,645	3,269,503
HNB Finance PLC	2,899,451	3,329,719
	<b>6,795,096</b>	<b>6,599,222</b>

	HNB Assurance PLC	HNB Finance PLC	Total
NCI percentage	40.00%	57.84%	
<b>As at 31st December 2022</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Non-current assets	29,639,750	51,810,318	81,450,068
Current assets	12,058,544	1,150,938	13,209,482
Non-current liabilities	(29,293,340)	(46,520,612)	(75,813,952)
Current liabilities	(4,013,583)	(1,582,462)	(5,596,045)
<b>Net assets</b>	<b>8,391,371</b>	<b>4,858,182</b>	<b>13,249,553</b>
Other adjustments	1,347,741	154,700	1,502,441
<b>Net asset</b>	<b>9,739,112</b>	<b>5,012,882</b>	<b>14,751,994</b>
Net assets attributable to NCI	3,895,645	2,899,451	6,795,096
Acquisition of subsidiary through HNB Finance PLC	-	-	-
Net assets attributable to NCI	3,895,645	2,899,451	6,795,096
<b>For the year ended 31st December 2022</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Revenue	18,247,007	11,097,674	29,344,681
Profit	1,810,134	(526,263)	1,283,871
Other Comprehensive Income	2,217,832	(366,083)	1,851,749
<b>Total comprehensive income</b>			
Profit allocated to NCI	724,054	(304,391)	419,663
Other comprehensive income allocated to NCI	887,133	(211,742)	675,391
	HNB Assurance PLC	HNB Finance PLC	Total
NCI percentage	40.00%	57.84%	
<b>As at 31st December 2021</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Non-current assets	17,937,182	41,409,103	59,346,285
Current assets	17,914,707	2,977,237	20,891,944
Non-current liabilities	(24,113,936)	(36,668,857)	(60,782,793)
Current liabilities	(3,667,498)	(2,334,916)	(6,002,414)
<b>Net assets</b>	<b>8,070,455</b>	<b>5,382,567</b>	<b>13,453,022</b>
Other adjustments	103,302	(146,413)	(43,111)
<b>Net asset</b>	<b>8,173,757</b>	<b>5,236,154</b>	<b>13,409,911</b>
Net assets attributable to NCI	3,269,503	3,028,584	6,298,087
Acquisition of subsidiary through HNB Finance PLC	-	301,135	301,135
Net assets attributable to NCI	3,269,503	3,329,719	6,599,222
<b>For the year ended 31st December 2021</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Revenue	13,708,255	7,279,424	20,987,679
Profit	1,221,758	513,584	1,735,342
Other Comprehensive Income	1,172,052	542,156	1,714,208
<b>Total comprehensive income</b>			
Profit allocated to NCI	488,703	297,057	785,760
Other comprehensive income allocated to NCI	468,821	313,583	782,404

# NOTES 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 income statement, 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 (b) to the financial statements.

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 litigations 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	2022	2021
	Rs 000	Rs 000
Documentary credit	21,226,810	32,567,799
Guarantees	109,352,321	100,774,437
Acceptances	6,758,569	22,336,884
Bills for collection	30,593,348	20,880,918
Forward exchange contracts		
Forward exchange sales	2,310,116	12,150,970
Forward exchange purchases	16,891,372	44,324,835
Cheques sent on clearing	5,549,168	4,069,632
Commitments for unutilised facilities - direct	250,332,701	193,057,343
Commitments for unutilised facilities - indirect	366,314,552	246,079,532
	809,328,957	676,242,350

**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 1,655 Mn.

As at 31st December	Bank/Group	
	2022	2021
	Rs 000	Rs 000
Approved and contracted but not provided for	721,488	323,328
Approved and not contracted for	933,708	23,782
	1,655,196	347,110

**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 three legal cases pertaining to guarantee related issues (viz HC (Civil) 657/2019 MR, M 5491 and HC (Civil) 143/2020) and one legal case pertaining to a LC related issue (HC (Civil) 663/2019 MR), 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 307 Mn on VAT on financial services of 2003,2004 and WHT of Y/A 2017/18 3rd quarter and assessment to the value of Rs 12.2Mn 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 263.04Mn on VAT and NBT on financial services (relating to 2014, 2015,2016,2017,2018 and 2019), assessments to the value of Rs 243.6Mn on VAT, assessments to the value of Rs 1,830 Mn on Income tax (relating to Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 ,2016/17, 2017/18 and 2018/19) received by HNBA are outstanding and have been duly appealed.

## NOTES TO 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 35 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Short term employee benefits	192,219	140,856	196,289	144,868
Post-employment benefits	2,766	2,485	2,766	2,485
	194,985	143,341	199,055	147,353

**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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	358,464	122,541	232,073	111,316
	358,464	122,541	232,073	111,316
<b>Liabilities</b>				
Securities sold under repurchase agreements	-	10,000	124,430	10,000
Debt securities issued and subordinated term debts	-	-	-	2,356
Financial liabilities measured at amortised cost - due to depositors	1,448,703	674,541	1,122,207	674,721
	1,448,703	684,541	1,246,637	687,077



## Commitments and Contingencies

As at 31st December	Closing Balance	
	2022 Rs 000	2021 Rs 000
<b>Commitments for unutilised facilities</b>		
Direct	365,199	125,172
	<b>365,199</b>	<b>125,172</b>

## Direct and indirect accommodation – Bank

As at 31st December	2022 Rs 000	2021 Rs 000
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	0.01%	0.06%

## Income Statement - Bank

For the year ended 31st December	2022 Rs 000	2021 Rs 000
Interest income	20,843	6,132
Interest expenses	92,849	37,236
Fee and commission income/(expenses)	416	100

## Number of shares held by KMP

As at 31st December	2022 Rs 000	2021 Rs 000
Voting	140,921	130,797
Non-Voting	65,237	40,027

Cash dividends paid to KMP amount to Rs. 1.256 Mn in 2022 (2021 - Rs. 741,875)

## 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	150,907	99,408	132,992	133,261
	<b>150,907</b>	<b>99,408</b>	<b>132,992</b>	<b>133,261</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	6,472	8,203	5,670	15,983
	<b>6,472</b>	<b>8,203</b>	<b>5,670</b>	<b>15,983</b>

## NOTES TO THE FINANCIAL STATEMENTS

**60 RELATED PARTY DISCLOSURES (Contd.)**

## Commitments and Contingencies

As at 31st December	Closing Balance	
	2022 Rs 000	2021 Rs 000
<b>Commitments for unutilised facilities</b>		
Direct	20,240	61,046
Indirect	50,000	91,860
	70,240	152,906

## Income Statement - Bank

For the year ended 31st December	2022 Rs 000	2021 Rs 000
Interest income	28,098	9,181
Interest expenses	37	161
Fee and commission income/(expenses)	8,251	1,025

**60 (c) Transactions with Group Entities**

The group entities include subsidiaries and joint venture of the Bank.

**60 (c) i Transactions with Subsidiaries**

## Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost				
- loans and advances to customers	1,234,263	301,000	1,009,855	182,568
Other assets	266,273	719,731	441,090	765,034
	1,500,536	1,020,731	1,450,945	947,602
<b>Liabilities</b>				
Securities sold under repurchase agreements	-	600,000	1,644,000	1,758,330
Debt securities issued and subordinated term debt	233,618	232,232	233,618	291,136
Financial liabilities measured at amortised cost - due to depositors	4,225,036	2,112,577	3,876,623	2,831,483
	4,458,654	2,944,809	5,754,241	4,880,949

## Commitments and Contingencies

As at 31st December	Closing Balance	
	2022	2021
	Rs 000	Rs 000
Guarantees	227,410	26,690
<b>Commitments for unutilised facilities</b>		
Direct	818,180	1,752,150
	<b>1,045,590</b>	<b>1,778,840</b>

## Income Statement - Bank

For the year ended 31st December	2022	2021
	Rs 000	Rs 000
Interest income	269,609	70,063
Interest expenses	612,295	145,342
Fee and commission income/(expenses)	522,239	390,670
Other income	320,625	291,476
Other expenses	906,634	868,042
<b>Other transactions</b>		
Expenses reimbursed to the bank	44,562	32,703
Expenses reimbursed by the bank	88,112	83,042
Insurance claims received	35,261	16,529

## 60 (c) ii Transactions with the Joint Venture

### Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost				
- loans and advances to customers	296,772	552,372	521,534	383,240
	<b>296,772</b>	<b>552,372</b>	<b>521,534</b>	<b>383,240</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	129,746	57,293	305,118	72,023
Securities sold under repurchase agreements	194,200	55,300	217,910	96,960
	<b>323,946</b>	<b>112,593</b>	<b>523,028</b>	<b>168,983</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 60 RELATED PARTY DISCLOSURES (Contd.)

## Commitments and Contingencies

As at 31st December	Closing Balance	
	2022 Rs 000	2021 Rs 000
Letter of Guarantees	29,000	31,800
<b>Commitments for unutilised facilities</b>		
Direct	3,969,500	3,899,450
Indirect	38,200	38,220
	4,036,700	3,969,470

## Income Statement - Bank

For the year ended 31st December	2022 Rs 000	2021 Rs 000
Interest income	107,340	30,466
Interest expenses	42,620	1,934
Fee and commission income/(expenses)	14,403	13,153
Other expenses	1,791	6,951
Expenses reimbursed to the bank	83	125

## 60 (d) Transactions with Post Employment Benefit Plans of the Bank

As at 31st December	Closing Balance		Average Balance	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	16,620,892	2,459,412	8,730,114	4,057,164
Debt securities issued and subordinated term debts	130,159	130,159	130,159	130,159
Securities sold under repurchase agreements	854,000	5,013,900	2,578,810	908,180
	17,605,051	7,603,471	11,439,083	5,095,503
<b>Equity</b>				
Stated capital	61,550	59,262	60,464	57,969
	61,550	59,262	60,464	57,969

## Income Statement - Bank

For the year ended 31st December	2022 Rs 000	2021 Rs 000
Interest expenses	2,598,658	376,502
<b>Other transactions</b>		
Dividends paid	8,238	7,095
Contributions made	2,496,520	2,538,714

## Number of shares held by post employment benefit plans of the Bank

As at 31st December	2022	2021
Voting	162,230	159,359
Non voting	770,799	755,799

**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 25.88% of the voting rights of the Bank as at 31st December 2022 (2021 - 25.88%) 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 2022, 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	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Assets</b>				
Balances with Central Bank of Sri Lanka	32,344,341	25,820,489	28,613,126	17,851,282
Reverse repurchase agreements	-	-	-	6,704,060
Financial assets measured at amortised cost- -debt and other instruments	446,166,752	159,647,189	379,549,578	171,065,394
Financial assets measured at fair value through other comprehensive income	-	199,100,863	48,697,783	228,078,564
Financial assets measured at fair value through profit or loss	496	-	2,713	5,518
Financial assets measured at amortised cost-loans and advances to customers	65,104,081	57,588,792	60,334,266	53,771,534
	<b>543,615,670</b>	<b>442,157,333</b>	<b>517,197,466</b>	<b>477,476,352</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	14,412,390	12,877,122	14,975,831	9,484,487
Due to banks	9,029,991	11,601,283	11,604,699	11,909,792
Debt securities issued/Subordinated term debts	10,464,091	10,469,914	10,464,091	12,269,565
Securities sold under repurchase agreements	718,210	11,350,910	203,980	6,566,840
Current tax liabilities	30,025,919	10,051,689	23,183,496	8,504,241
	<b>64,650,601</b>	<b>56,350,918</b>	<b>60,432,097</b>	<b>48,734,925</b>

**Commitments and Contingencies**

As at 31st December	Closing Balance	
	2022 Rs 000	2021 Rs 000
<b>Forward foreign exchange contracts</b>		
Sales	-	-
Purchases	10,400,143	18,651,479
Documentary credit	7,565,650	5,724,780
Guarantee	1,846,960	9,817,056
<b>Commitments for unutilised facilities</b>		
Direct	8,732,084	7,978,560
Indirect	10,351,970	5,058,991

## 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**

## Income Statement - Bank

For the year ended 31st December	2022 Rs 000	2021 Rs 000
Interest income	71,906,093	33,307,171
Interest expenses	2,913,094	2,392,709
Fee and commission income/(expenses)	112,749	49,432
Other income	225,440	155,798
Impairment charge/(reversal) for loans and other losses	272,500	13,671
Tax expenses (income tax, financial services VAT, crop insurance levy, local taxes and stamp duty)	30,880,002	10,699,838

## Number of Shares held by Government

As at 31st December	2022	2021
Voting	110,928,493	111,072,789
Non voting	1,609,933	1,578,854

Cash dividends paid to government related entities amounts to Rs. 718.53 Mn in 2022 (2021 - Rs. 510.26 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 2022 was Rs. 741.40 Mn (2021 - Rs. 665.62 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 (loans and advances) 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 2022

	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	80,238,881	-	80,238,881	80,629,698	-	80,629,698
Placements with banks	54,371,028	-	54,371,028	56,093,356	2,078,690	58,172,046
Balances with central banks	-	32,344,341	32,344,341	-	32,344,341	32,344,341
Reverse repurchase agreements	-	-	-	1,380,579	-	1,380,579
Derivative financial instruments	5,370,501	-	5,370,501	5,370,501	-	5,370,501
Financial assets recognised through profit or loss - Measured at fair value	111,617	-	111,617	236,178	-	236,178
Financial assets at amortised cost - loans and advances	542,404,109	431,727,143	974,131,252	568,947,561	445,571,378	1,014,518,939
Financial assets at amortised cost - debt and other instruments	307,083,398	141,708,476	448,791,874	322,088,001	157,699,014	479,787,015
Financial assets measured at fair value through other comprehensive income	-	2,706,660	2,706,660	562,682	5,499,513	6,062,195
Investment in joint venture	-	755,000	755,000	-	3,650,354	3,650,354
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	464,439	464,439	-	935,549	935,549
Property, plant and equipment	-	24,835,729	24,835,729	-	49,616,338	49,616,338
Right-of-use assets	741,208	4,656,526	5,397,734	59,279	2,404,509	2,463,788
Intangible assets and goodwill	-	1,250,154	1,250,154	-	1,771,092	1,771,092
Deferred tax assets	-	30,471,351	30,471,351	-	30,763,166	30,763,166
Other assets	10,013,756	16,267,362	26,281,118	13,945,616	16,627,756	30,573,372
<b>Total assets</b>	<b>1,000,334,498</b>	<b>690,204,466</b>	<b>1,690,538,964</b>	<b>1,049,313,451</b>	<b>748,961,700</b>	<b>1,798,275,151</b>
<b>LIABILITIES</b>						
Due to banks	4,533,317	1,571,261	6,104,578	4,533,317	1,571,261	6,104,578
Derivative financial instruments	25,632	-	25,632	25,632	-	25,632
Securities sold under repurchase agreements	6,540,014	-	6,540,014	6,540,014	-	6,540,014
Financial liabilities at amortised cost - due to depositors	1,281,852,060	125,948,432	1,407,800,492	1,305,917,109	137,262,012	1,443,179,121
Dividends payable	1,008,325	-	1,008,325	1,038,542	-	1,038,542
Financial liabilities at amortised cost - other borrowings	8,733,367	23,617,227	32,350,594	9,768,371	26,010,835	35,779,206
Debt securities issued	1,978,910	84,040	2,062,950	1,981,380	606,979	2,588,359
Current tax liabilities	30,025,919	-	30,025,919	30,460,242	-	30,460,242
Deferred tax liabilities	-	-	-	-	6,465,029	6,465,029
Insurance provision - life	-	-	-	219,012	24,373,391	24,592,403
Insurance provision - general	-	-	-	4,124,529	57,059	4,181,588
Other provisions	5,000,513	-	5,000,513	5,467,274	-	5,467,274
Other liabilities	10,204,501	7,173,769	17,378,270	13,983,655	4,058,140	18,041,795
Subordinated term debts	4,720,996	18,193,303	22,914,299	4,724,800	18,999,642	23,724,442
Total shareholders' equity	-	159,327,378	159,327,378	-	183,291,830	183,291,830
Non-controlling interests	-	-	-	-	6,795,096	6,795,096
<b>Total equity and liabilities</b>	<b>1,354,623,554</b>	<b>335,915,410</b>	<b>1,690,538,964</b>	<b>1,388,783,877</b>	<b>409,491,274</b>	<b>1,798,275,151</b>
Maturity gap	(354,289,056)	354,289,056	-	(339,470,426)	339,470,426	-
Cumulative gap	(354,289,056)	-	-	(339,470,426)	-	-

## NOTES TO THE FINANCIAL STATEMENTS

## 61 MATURITY ANALYSIS (Contd.)

## 61 (b) As at 31st December 2021

	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	38,185,254	-	38,185,254	40,900,372	-	40,900,372
Placements with banks	-	-	-	3,338,211	3,033,062	6,371,273
Balances with central banks	-	25,820,489	25,820,489	-	25,820,489	25,820,489
Reverse repurchase agreements	-	-	-	6,246,276	-	6,246,276
Derivative financial instruments	927,487	-	927,487	927,487	-	927,487
Financial assets recognised through profit or loss - Measured at fair value	103,365	-	103,365	862,641	-	862,641
Financial assets at amortised cost - loans and advances	447,148,494	429,106,199	876,254,693	467,800,657	443,452,688	911,253,345
Financial assets at amortised cost - debt and other instruments	61,179,018	99,498,502	160,677,520	65,362,033	106,568,607	171,930,640
Financial assets measured at fair value through other comprehensive income	171,204,902	32,221,531	203,426,433	172,088,328	38,716,159	210,804,487
Investment in joint venture	-	755,000	755,000	-	2,877,420	2,877,420
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	469,774	469,774	-	964,854	964,854
Property, plant and equipment	-	24,953,738	24,953,738	-	49,724,473	49,724,473
Right-of-use assets	666,348	4,773,036	5,439,384	452,978	1,724,924	2,177,902
Intangible assets and goodwill	-	1,429,544	1,429,544	-	1,989,134	1,989,134
Deferred tax assets	-	4,461,561	4,461,561	-	4,941,105	4,941,105
Other assets	6,428,649	5,986,445	12,415,094	9,426,514	6,432,151	15,858,665
<b>Total assets</b>	<b>725,843,517</b>	<b>632,493,104</b>	<b>1,358,336,621</b>	<b>767,405,497</b>	<b>686,245,066</b>	<b>1,453,650,563</b>
<b>LIABILITIES</b>						
Due to banks	12,063,201	5,012,301	17,075,502	12,063,201	5,012,301	17,075,502
Derivative financial instruments	353,356	-	353,356	353,356	-	353,356
Securities sold under repurchase agreements	33,524,226	-	33,524,226	33,524,226	-	33,524,226
Financial liabilities at amortised cost - due to depositors	1,033,999,205	41,710,082	1,075,709,287	1,060,576,080	46,489,740	1,107,065,820
Dividends payable	989,212	-	989,212	1,013,629	-	1,013,629
Financial liabilities at amortised cost - other borrowings	8,236,601	16,511,268	24,747,869	8,894,598	16,661,236	25,555,834
Debt securities issued	54,356	1,908,393	1,962,749	54,356	2,410,729	2,465,085
Current tax liabilities	10,051,689	-	10,051,689	10,518,569	-	10,518,569
Deferred tax liabilities	-	-	-	-	5,157,978	5,157,978
Insurance provision - life	-	-	-	280,222	20,097,793	20,378,015
Insurance provision - general	-	-	-	3,672,388	63,533	3,735,921
Other provisions	3,928,598	-	3,928,598	4,550,802	-	4,550,802
Other liabilities	7,659,223	6,741,233	14,400,456	11,112,878	3,483,773	14,596,651
Subordinated term debts	1,479,621	22,072,702	23,552,323	1,479,621	22,912,291	24,391,912
Total shareholders' equity	-	152,041,354	152,041,354	-	176,668,041	176,668,041
Non-controlling interests	-	-	-	-	6,599,222	6,599,222
<b>Total liabilities</b>	<b>1,112,339,288</b>	<b>245,997,333</b>	<b>1,358,336,621</b>	<b>1,148,093,926</b>	<b>305,556,637</b>	<b>1,453,650,563</b>
Maturity gap	(386,495,771)	386,495,771	-	(380,688,429)	380,688,429	-
Cumulative gap	(386,495,771)	-	-	(380,688,429)	-	-



## 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, 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 of corporate assets, expenses, tax assets and liabilities.

#### 62 (a) Basis for Segmentation

Group's activities have been segregated into eight different segments 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 NBF1 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.)

For the year ended 31st December	Corporate		Retail		SME		Micro	
	2022	2021	2022	2021	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	9,242,018	5,881,015	35,986,295	14,298,239	10,427,177	7,772,862	862,155	857,464
Foreign exchange income	(4,705,790)	361,573	269,586	150,180	(6,513)	271,604	3,263	1,865
Net fee and commission income	5,283,473	3,329,351	5,712,717	4,365,300	3,990,060	2,339,534	194,038	159,806
Other operating income	-	-	-	-	-	-	-	-
<b>Total operating income</b>	<b>9,819,701</b>	<b>9,571,939</b>	<b>41,968,598</b>	<b>18,813,719</b>	<b>14,410,724</b>	<b>10,384,000</b>	<b>1,059,456</b>	<b>1,019,135</b>
Impairment charge for loans and other losses	19,724,214	6,228,846	3,539,098	1,272,391	7,960,907	3,587,920	410,403	696,707
<b>Net operating income</b>	<b>(9,904,513)</b>	<b>3,343,093</b>	<b>38,429,500</b>	<b>17,541,328</b>	<b>6,449,817</b>	<b>6,796,080</b>	<b>649,053</b>	<b>322,428</b>
Profit from operations	-	-	-	-	-	-	-	-
Share of profit of joint venture	-	-	-	-	-	-	-	-
Income tax expenses	-	-	-	-	-	-	-	-
Non - controlling interests	-	-	-	-	-	-	-	-
<b>Net Profit for the year attributable to equity holders of the parent company</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

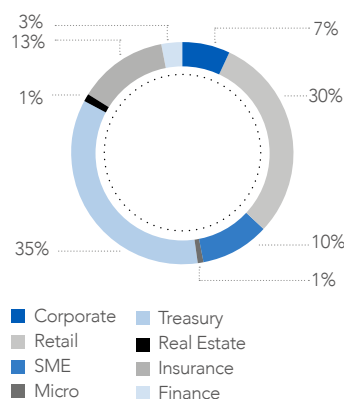
As at 31st December	2022	2021	2022	2021	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Segment assets	551,729,193	445,909,400	274,656,111	238,392,204	228,894,215	228,282,039	26,116,133	29,076,531
Investment in joint venture	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>551,729,193</b>	<b>445,909,400</b>	<b>274,656,111</b>	<b>238,392,204</b>	<b>228,894,215</b>	<b>228,282,039</b>	<b>26,116,133</b>	<b>29,076,531</b>
Segment liabilities	258,174,870	171,902,142	835,246,480	688,395,688	260,588,569	197,715,739	15,851,101	10,903,678
<b>Total liabilities</b>	<b>258,174,870</b>	<b>171,902,142</b>	<b>835,246,480</b>	<b>688,395,688</b>	<b>260,588,569</b>	<b>197,715,739</b>	<b>15,851,101</b>	<b>10,903,678</b>

For the year ended 31st December	2022	2021	2022	2021	2022	2021	2022	2021
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Information on cash flows</b>								
Cash flows from operating activities	11,777,702	(41,673,839)	75,779,664	59,941,700	55,411,307	13,182,684	8,967,277	1,340,197
Cash flows from investing activities	(1,500,000)	(4,700,000)	-	-	-	-	-	-
Cash flows from financing activities	-	-	-	-	-	-	-	-
<b>Net cash flow generated during the year</b>	<b>10,277,702</b>	<b>(46,373,839)</b>	<b>75,779,664</b>	<b>59,941,700</b>	<b>55,411,307</b>	<b>13,182,684</b>	<b>8,967,277</b>	<b>1,340,197</b>
<b>Capital expenditure</b>								
- Property, plant and equipment	-	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

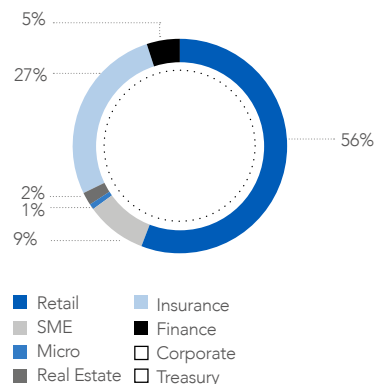
### Geographic information

The Group functions in one geographic location. Accordingly, geographic information is not presented in these financial statements.

Total operating income



Net Operating Income

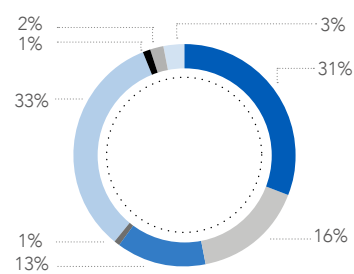


Treasury		Real Estate		Insurance		NBFI*		Eliminations/Unallocated		Consolidated	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
44,744,360	18,440,948	165,334	(15,209)	4,484,745	2,496,287	3,415,972	3,802,744	2,238,488	2,928,018	111,566,544	56,462,368
4,167,927	2,837,153	-	-	-	-	-	-	19,418,284	1,582,347	19,146,757	5,204,722
3,921	1,879	-	-	272,222	225,740	455,272	467,911	(9,958)	(573,310)	15,901,745	10,316,211
73,794	12,222	1,038,607	1,017,160	13,441,723	10,937,322	571,735	258,896	(865,814)	195,428	14,260,045	12,421,028
48,990,002	21,292,202	1,203,941	1,001,951	18,198,690	13,659,349	4,442,979	4,529,551	20,781,000	4,132,484	160,875,091	84,404,329
58,823,539	6,964,860	-	-	31,354	1,890	1,246,157	754,372	-	27,323	91,735,672	19,534,309
(9,833,537)	14,327,342	1,203,941	1,001,951	18,167,336	13,657,459	3,196,822	3,775,179	20,781,000	4,105,161	69,139,419	64,870,020
-	-	-	-	-	-	-	-	-	-	14,088,284	22,760,747
-	-	-	-	-	-	-	-	-	-	331,973	292,837
-	-	-	-	-	-	-	-	-	-	1,327,978	(2,969,222)
-	-	-	-	-	-	-	-	-	-	(419,663)	(1,059,480)
-	-	-	-	-	-	-	-	-	-	15,328,572	19,024,882

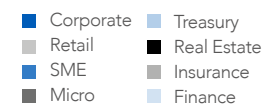
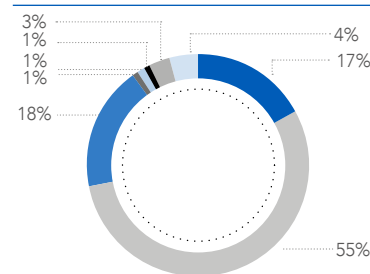
2022	2021	2022	2021	2022	2021	2022	2021	2022	2022	2022	2021
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
573,212,402	394,285,880	10,970,479	10,954,224	41,698,294	35,851,889	52,961,257	44,386,340	34,386,713	23,634,636	1,794,624,797	1,450,773,143
-	-	-	-	-	-	-	-	3,650,354	2,877,420	3,650,354	2,877,420
573,212,402	394,285,880	10,970,479	10,954,224	41,698,294	35,851,889	52,961,257	44,386,340	38,037,067	26,512,056	1,798,275,151	1,453,650,563
7,028,292	41,693,276	10,970,479	10,954,224	41,698,294	35,851,889	52,961,257	44,386,340	315,755,809	251,847,586	1,798,275,151	1,453,650,563
7,028,292	41,693,276	10,970,479	10,954,224	41,698,294	35,851,889	52,961,257	44,386,340	315,755,809	251,847,586	1,798,275,151	1,453,650,563

2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2021	2020
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
15,940,347	(43,215,524)	647,987	647,986	1,941,282	3,141,494	3,077,562	494,123	(31,561,841)	(39,414,489)	141,981,287	(45,555,668)
(33,860,569)	59,766,382	(900,454)	(900,454)	(2,531,942)	(1,176,386)	(3,201,534)	(3,365,819)	(6,138,018)	2,499,951	(48,132,517)	52,123,674
-	-	-	-	(642,654)	(550,835)	(359,940)	(311,253)	(1,316,077)	(5,459,664)	(2,318,671)	(6,321,752)
(17,920,222)	16,550,858	(252,467)	(252,468)	(1,233,314)	1,414,273	(483,912)	(3,182,949)	(39,015,936)	(42,374,202)	91,530,099	246,254
-	-	-	(986)	(218,651)	(177,280)	(86,937)	(170,590)	(1,165,910)	(714,145)	(1,471,498)	(1,063,001)
-	-	-	-	(17,706)	(16,904)	(42,381)	(139,802)	(225,426)	(504,340)	(285,513)	(661,046)
-	-	-	(986)	(236,357)	(194,184)	(129,318)	(310,392)	(1,391,336)	(1,218,485)	(1,757,011)	(1,724,047)

Segment assets



Segment liabilities



## NOTES TO THE FINANCIAL STATEMENTS

**63 NET ASSETS VALUE PER ORDINARY SHARE**

As at 31st December	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Amount used as the numerator:</b>				
Equity holders funds (Rs 000)	159,327,378	152,041,354	183,291,830	176,668,041
<b>Number of ordinary shares used as the denominator:</b>				
Total number of shares* ('000) [Note 22 (c)]	535,555	535,555	535,555	535,555
<b>Net assets value per ordinary share (Rs)</b>	<b>297.50</b>	<b>283.89</b>	<b>342.25</b>	<b>329.88</b>

\*Number of shares used in net assets value per ordinary share calculation of 2021 has been adjusted by the number of shares issued as scrip dividends in 2022.

**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 items presented in income statement and statement of financial position in 2021 has not been amended during the current year. However, the presentation and classification of items presented in notes to the financial statement have been amended wherever necessary to ensure comparability with the current year.

**66 DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements.

Please refer page 230 to 231 for the statement of the directors' responsibility for financial reporting.

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# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 1

### Key regulatory ratios - Capital and liquidity

As at December 31,	Bank		Group	
	2022	2021	2022	2021
<b>Regulatory capital (Rs. '000)</b>				
Common equity	110,339,128	122,797,863	125,236,381	134,611,494
Tier 1 capital	110,339,128	122,797,863	125,236,381	134,611,494
Total capital	139,614,626	153,483,612	155,160,353	165,799,543
<b>Regulatory capital ratios (%)</b>				
Common equity Tier 1 capital ratio (minimum requirement : 2022-8% , 2021-7% )	11.06%	14.53%	11.42%	14.45%
Tier 1 capital ratio (minimum requirement : 2022-9.5% , 2021-8.5%)	11.06%	14.53%	11.42%	14.45%
Total capital ratio (minimum requirement : 2022-13.5% , 2021-12.5%)	14.00%	18.16%	14.15%	17.80%
Leverage ratio (minimum requirement - 3%)	6.22%	7.97%	6.65%	8.22%
Net stable funding ratio (minimum requirement : 2022-90% , 2021-100%)	130.85%	117.57%		
<b>Regulatory liquidity</b>				
Statutory liquid assets (Rs. '000)	494,462,429	326,079,579		
Statutory liquid assets ratio (minimum requirement – 20%)				
Consolidated (Bank) (%)	33.95%	28.02%		
Domestic Banking Unit (%)	31.04%	27.51%		
Off-Shore Banking Unit (%)	29.10%	24.95%		
Liquidity coverage ratio – Rupee (minimum requirement : 2022-90% , 2021-100%)	255.83%	191.38%		
Liquidity coverage ratio – All currency (minimum requirement : 2022-90% , 2021-100%)	519.47%	207.99%		

## TEMPLATE 2

### Basel III computation of capital ratios

As at December 31,	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>Common equity Tier 1 (CET1) capital after adjustments</b>	110,339,128	122,797,863	125,236,381	134,611,494
<b>Total common equity Tier 1 (CET1) capital</b>	148,633,241	132,774,260	163,216,182	144,168,933
Equity capital (stated capital)/Assigned Capital	38,679,005	38,679,005	38,679,005	38,679,005
Reserve fund	9,310,000	8,560,000	9,310,000	8,560,000
Published retained earnings/(Accumulated retained losses)	40,600,740	30,266,696	50,141,139	38,687,797
Published accumulated other comprehensive income (OCI)	1,943,496	(1,831,441)	994,315	(4,838,668)
General and other disclosed reserves	58,100,000	57,100,000	57,296,627	57,541,056
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	-	-	6,795,096	5,539,743
<b>Total adjustments to CET1 capital</b>	38,294,113	9,976,396	37,979,801	9,557,439
Goodwill (net)	-	-	181,396	181,396
Intangible assets (net)	1,139,451	1,307,880	1,589,696	1,407,880
Deferred tax assets (net)	30,471,351	4,461,561	30,763,166	4,941,106
Defined benefit pension fund assets	3,479,578	1,248,708	3,479,578	1,248,708
Revaluation losses of property, plant & equipment	-	-	-	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	499,670	377,538	443,345	348,552
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	2,704,063	2,580,709	1,522,620	1,429,797
<b>Additional Tier 1 (AT1) capital after adjustments</b>	-	-	-	-
<b>Additional Tier 1 (AT1) capital</b>	-	-	-	-
Qualifying additional Tier 1 capital instruments	-	-	-	-
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>	29,275,498	30,685,749	29,923,972	31,188,049
<b>Total Tier 2 Capital</b>	29,275,498	30,685,749	29,923,972	31,188,049
Qualifying Tier 2 capital instruments	16,104,275	18,963,673	15,785,044	18,644,442
Revaluation gains	2,090,479	2,090,479	2,090,479	2,090,479
General provision / eligible impairment	11,080,745	9,631,598	12,048,450	10,453,129
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	-	-	-	-

## MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

As at December 31,	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Others (specify)	-	-	-	-
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	-	-	-	-
<b>CET1 capital</b>	110,339,128	122,797,863	125,236,381	134,611,494
<b>Total Tier 1 capital</b>	110,339,128	122,797,863	125,236,381	134,611,494
<b>Total capital</b>	139,614,626	153,483,612	155,160,353	165,799,543
<b>Total risk weighted amount (RWA)</b>	997,470,892	845,057,594	1,096,482,202	931,653,271
RWAs for Credit Risk	886,459,570	770,527,810	963,875,964	836,250,291
RWAs for Market Risk	14,398,617	1,495,688	14,566,345	1,770,833
RWAs for Operational Risk	96,612,704	73,034,096	118,039,893	93,632,147
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer & surcharge on D-SIBs) (%)	11.06%	14.53%	11.42%	14.45%
Of which: capital conservation buffer (%)	2.50%	1.50%	2.50%	1.50%
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)	1.00%	1.00%	1.00%	1.00%
<b>Total Tier 1 capital ratio (%)</b>	11.06%	14.53%	11.42%	14.45%
<b>Total capital ratio (including capital conservation buffer, countercyclical capital buffer &amp; surcharge on D-SIBs) (%)</b>	14.00%	18.16%	14.15%	17.80%
Of which: capital conservation buffer (%)	1.50%	1.50%	1.50%	1.50%
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)	1.00%	1.00%	1.00%	1.00%

### TEMPLATE 3

#### Leverage ratio

As at December 31,	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
Tier 1 capital	110,339,128	122,797,863	125,236,381	134,611,494
Total exposures	1,775,343,805	1,541,401,389	1,883,394,300	1,637,315,685
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	1,642,069,382	1,327,980,535	1,750,119,877	1,417,648,555
Derivative exposures	30,458,098	79,773,591	30,458,098	79,773,591
Securities financing transaction exposures	11,344,982	52,976,429	11,344,982	59,222,705
Other off-balance sheet exposures	91,471,343	80,670,834	91,471,343	80,670,834
Basel III leverage ratio (Tier 1/Total exposure) (minimum requirement 3%)	6.22%	7.97%	6.65%	8.22%



#### TEMPLATE 4

##### Liquidity coverage ratio (LCR) - All currency

As at December 31,	2022		2021	
	Total Unweighted Value Rs 000	Total Weighted Value Rs 000	Total Unweighted Value Rs 000	Total Weighted Value Rs 000
Total stock of High-Quality Liquid Assets (HQLA)	331,494,802	323,526,317	258,645,986	248,265,881
Total adjusted level 1 assets	279,336,065	279,336,065	192,950,928	192,950,928
Level 1 assets	278,545,799	278,545,799	189,584,236	189,584,236
Total adjusted level 2A assets	52,874,333	44,943,183	69,002,201	58,651,871
Level 2A assets	52,874,333	44,943,183	69,002,201	58,651,871
Total adjusted level 2B assets	74,670	37,335	-	29,774
Level 2B assets	74,670	37,335	59,548	29,774
Total cash outflows	1,470,420,144	236,178,117	1,188,655,343	187,419,777
Deposits	1,069,409,787	106,940,979	853,805,013	85,380,501
Unsecured wholesale funding	243,495,449	92,090,974	160,097,825	64,375,197
Secured funding transactions	4,124,652	-	31,928,291	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	130,077,854	13,833,763	118,811,903	13,651,767
Additional requirements	23,312,402	23,312,402	24,012,312	24,012,312
Total cash inflows	315,131,003	173,897,663	128,226,432	68,057,930
Maturing secured lending transactions backed by collateral	-	-	-	-
Committed facilities	3,000,000	-	3,000,000	-
Other inflows by counterparty which are maturing within 30 days	202,682,130	132,795,609	103,361,643	60,560,978
Operational deposits	32,495,733	-	7,316,633	-
Other cash inflows	76,953,140	41,102,054	14,548,155	7,496,952
Liquidity coverage ratio (%) (stock of high Quality liquid assets / total net cash outflows over the next 30 calendar days) * 100		519.47%		207.99%

#### TEMPLATE 5

##### Net stable funding ratio (NSFR)

As at December 31,	Bank	
	2022 Rs 000	2021 Rs 000
Total available stable funding (ASF)	1,243,182,006	1,005,970,929
Required stable funding – On balance sheet assets	931,918,978	839,667,564
Required stable funding – Off balance sheet items	18,132,061	15,944,363
Total required stable funding (RSF)	950,051,040	855,611,928
NSFR (minimum requirement - 2022 - 90%, 2021 - 100%)	130.85%	117.57%

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 6

### Main Features of Regulatory Capital Instruments

Description of the capital instrument	Stated Capital	Debentures - 2006 Type F	Debentures - 2016
Issuer	HNB PLC	HNB PLC	HNB PLC
Unique identifier			
Governing law(s) of the instrument	Sri Lanka	Sri Lanka	Sri Lanka
Original date of issuance	Not Applicable	April 1, 2006	November 1, 2016
Par value of instrument		LKR 100/-	LKR 100/-
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date, if applicable	Not Applicable	March 31, 2024	November 1, 2023
Amount recognised in regulatory capital (in Rs 000 as at the reporting date)	38,679,005	1,073,303	800,000
Accounting classification (equity/liability)	Equity	Liability	Liability
Issuer call subject to prior supervisory approval			
Optional call date, contingent call dates and redemption amount (Rs. '000)	Not Applicable	Not Applicable	Not Applicable
Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable
Coupons/dividends:	Dividends	Coupons	Coupons
Fixed or floating dividend/coupon	Not Applicable	Fixed	Fixed
Coupon rate and any related index		11.25% p.a.	13% p.a.
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
Convertible or non-convertible	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion trigger (s)			
If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable
If convertible, mandatory or optional	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable

Debentures - 2019 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion	Debentures - 2019 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion	Debentures - 2021 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion
HNB PLC	HNB PLC	HNB PLC
Sri Lanka	Sri Lanka	Sri Lanka
September 23, 2019	September 23, 2019	July 28, 2021
LKR 100/-	LKR 100/-	LKR 100/-
Dated	Dated	Dated
September 22, 2024	September 22, 2026	July 28, 2031
769,028	6,461,944	7,000,000
Liability	Liability	Liability
Not Applicable	Not Applicable	Not Applicable
Not Applicable	Not Applicable	Not Applicable
Coupons	Coupons	Coupons
Fixed	Fixed	Fixed
12.3% p.a.	12.8% p.a.	9.50% p.a.
Cumulative	Cumulative	Cumulative
Convertible	Convertible	Convertible
A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of – (a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.	A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of – (a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.	A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of – (a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.
Fully	Fully	Fully
Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.
The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 6 (Contd.)

### Main Features of Regulatory Capital Instruments

#### Notes

1. A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of –
  - (a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR
  - (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.
2. Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.
3. The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.

## TEMPLATE 7

### Summary discussion on adequacy/meeting current and future capital requirements

The Bank's capital adequacy remained at 11.06% and 14% respectively against the regulatory minimum of 9.5% and 13.5% for tier I capital and total capital adequacy ratios respectively. However, the Bank has the option to drawdown on the capital conservation buffer of 2.5% as per the guidelines issued by the Central Bank of Sri Lanka which effectively enables to maintain tier I capital and total capital adequacy ratios at 7% and 11% respectively. Accordingly, at present HNB has a leeway in terms of its capital level.

HNB has built in sizeable impairment of 35% with regard to its investments in foreign currency denominated government securities. Finalisation of the debt restructuring programme of the government would be a key determinant with regard to the future capital requirements.

The options available with regard to capital raising include rights issue, debenture issue (for tier II capital), disposal of capital inefficient investments to free up capital and containing the loan book growth. In the event there is a requirement, the Bank will consider the most feasible option at the time.

## TEMPLATE 8

### Credit risk under standardised approach

#### Credit risk exposures and credit risk mitigation (CRM) effects - Bank

As at December 31, 2022	Bank					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-balance sheet amount (a)	Off-Balance Sheet Amount (b)	On-balance sheet amount (c)	Off-Balance Sheet Amount (d)	RWA (e)	RWA Density {e/(c+d)}
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	(%)
Claims on Central Government and CBSL	558,928,579	-	520,464,195	-	33,191,042	0.06
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-
Claims on Banks Exposures	97,728,339	-	97,728,339	-	27,760,180	0.28
Claims on Financial Institutions	33,213,682	1,783,110	33,213,682	1,783,110	21,046,046	0.60
Claims on Corporates	425,644,129	257,146,913	400,099,753	74,502,469	433,572,247	0.91
Retail Claims	415,305,836	138,011,682	347,152,908	15,185,763	240,824,486	0.66
Claims Secured by Residential property	57,964,699	-	57,964,699	-	30,123,783	0.52
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	49,044,888	-	49,044,888	-	52,547,928	1.07
Higher-risk Categories	1,130,432	-	1,130,432	-	2,826,080	2.50
Cash items and Other Assets	81,497,115	-	81,497,116	-	44,567,778	0.55
<b>Total</b>	<b>1,720,457,699</b>	<b>396,941,705</b>	<b>1,588,296,012</b>	<b>91,471,342</b>	<b>886,459,570</b>	

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 8 (Contd.)

### Credit risk under standardised approach

#### Credit risk exposures and credit risk mitigation (CRM) effects - Group

As at December 31, 2022	Group					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-balance sheet amount (a)	Off-Balance Sheet Amount (b)	On-balance sheet amount (c)	Off-Balance Sheet Amount (d)	RWA (e)	RWA Density {e/(c+d)}
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	(%)
Claims on Central Government and CBSL	573,954,646	-	535,490,262	-	33,191,042	0.06
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-
Claims on Banks Exposures	105,601,783	-	105,601,783	-	31,470,793	0.30
Claims on Financial Institutions	35,937,282	1,783,110	35,937,282	1,783,110	22,407,846	0.59
Claims on Corporates	439,967,451	257,146,913	414,423,075	74,502,469	447,475,542	0.92
Retail Claims	456,486,795	138,011,682	388,333,867	15,185,763	271,710,205	0.67
Claims Secured by Residential Property	57,964,699	-	57,964,699	-	30,123,783	0.52
Claims Secured by commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	49,044,888	-	49,044,888	-	52,547,928	1.07
Higher-Risk Categories	1,267,590	-	1,267,590	-	3,168,975	2.50
Cash items and Other Assets	109,308,994	-	109,308,995	-	71,779,850	0.66
Total	1,829,534,128	396,941,705	1,697,372,441	91,471,342	963,875,964	

**TEMPLATE 9**

**Credit risk under standardised approach**

**Exposures by asset classes and risk weights (Post CCF & CRM) - Bank**

As at December 31,2022	Bank											
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Claims on Central Government and Central Bank of Sri Lanka	354,508,986	-	165,955,209	-	-	-	-	-	-	-	-	520,464,195
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development banks	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	-	80,782,754	-	10,801,115	-	-	6,027,267	117,203	-	-	97,728,339
Claims on Financial Institutions	-	-	454,898	-	27,173,655	-	-	7,368,239	-	-	-	34,996,792
Claims on Corporates	-	-	28,687,413	-	36,160,090	-	-	409,754,719	-	-	-	474,602,222
Retail Claims	-	-	-	-	-	72,736,688	154,963,543	80,959,816	-	-	-	308,660,047
Claims Secured by gold	53,678,625	-	-	-	-	-	-	-	-	-	-	53,678,625
Claims secured by Residential Property	-	-	-	42,832,178	-	-	-	15,132,521	-	-	-	57,964,699
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	130,266	-	-	41,778,277	7,136,345	-	-	49,044,888
Higher-risk Categories	-	-	-	-	-	-	-	-	-	1,130,432	-	1,130,432
Cash Items and Other Assets	36,929,336	-	-	-	-	-	-	44,567,779	-	-	-	81,497,115
<b>Total</b>	<b>445,116,947</b>	<b>-</b>	<b>275,880,274</b>	<b>42,832,178</b>	<b>74,265,126</b>	<b>72,736,688</b>	<b>154,963,543</b>	<b>605,588,618</b>	<b>7,253,548</b>	<b>1,130,432</b>	<b>-</b>	<b>1,679,767,354</b>

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 9 (Contd.)

### Credit risk under standardised approach

#### Exposures by asset classes and risk weights (Post CCF & CRM) - Group

As at December 31,2022	Group										
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Claims on Central Government and Central Bank of Sri Lanka	369,535,053	-	165,955,209	-	-	-	-	-	-	-	535,490,262
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	-	81,536,452	-	17,920,861	-	-	6,027,267	117,203	-	105,601,783
Claims on Financial Institutions	-	-	454,898	-	29,897,255	-	-	7,368,239	-	-	37,720,392
Claims on Corporates	-	-	29,212,446	-	36,160,090	-	-	423,553,008	-	-	488,925,544
Retail Claims	-	-	-	-	-	72,736,688	196,144,502	80,959,816	-	-	349,841,006
Claims Secured by gold	53,678,625	-	-	-	-	-	-	-	-	-	53,678,625
Claims Secured by Residential Property	-	-	-	42,832,178	-	-	-	15,132,521	-	-	57,964,699
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	130,266	-	-	41,778,277	7,136,345	-	49,044,888
Higher-risk Categories	-	-	-	-	-	-	-	-	-	1,267,590	1,267,590
Cash Items and other Assets	37,529,144	-	-	-	-	-	-	71,779,850	-	-	109,308,994
Total	460,742,822	-	277,159,005	42,832,178	84,108,472	72,736,688	196,144,502	646,598,978	7,253,548	1,267,590	1,788,843,783



## TEMPLATE 10

### Market risk under standardised measurement method

As at December 31,	Bank		Group	
	2022 Rs 000	2021 Rs 000	2022 Rs 000	2021 Rs 000
<b>(a) Capital charge for interest rate risk</b>	1	-	1	-
General interest rate risk				
(i) Net long or short position	1	-	1	-
(ii) Horizontal disallowance	-	-	-	-
(iii) Vertical disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific interest rate risk				
<b>(b) Capital charge for equity</b>	20,161	12,251	42,804	46,644
(i) General equity risk	10,080	7,444	21,579	26,838
(ii) Specific equity risk	10,080	4,807	21,225	19,806
<b>(c) Capital charge for foreign exchange &amp; gold</b>	1,923,651	174,710	1,923,651	174,710
<b>Capital charge for market risk [(a) + (b) + (c)] * CAR</b>	14,398,617	1,495,688	14,566,345	1,770,833

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 11

### Operational Risk under basic indicator approach - Bank

As at December 31,			2022 Gross income			2021 Gross income		
	Capital Charge Factor	Fixed Factor	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
	%		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross income	N/A	N/A	56,578,162	66,006,125	138,270,013	60,000,953	56,578,162	66,006,125
Capital charges	15%	N/A	8,486,724	9,900,919	20,740,502	9,000,143	8,486,724	9,900,919
Capital charges for operational risk					13,042,715			9,129,262
The basic indicator approach					13,042,715			9,129,262
Risk weighted amount for operational risk					96,612,704			73,034,096

### Operational Risk under basic indicator approach - Group

As at December 31,			2022 Gross income			2021 Gross income		
	Capital Charge Factor	Fixed Factor	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
	%		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross income	N/A	N/A	72,447,965	84,765,100	161,494,645	76,867,302	72,447,965	84,765,100
Capital charges	15%	N/A	10,867,195	12,714,765	24,224,197	11,530,095	10,867,195	12,714,765
Capital charges for operational risk					15,935,386			11,704,018
The basic indicator approach					15,935,386			11,704,018
Risk weighted amount for operational risk					118,039,893			93,632,147

## TEMPLATE 12

### Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank only

As at December 31, 2022	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets	1,690,538,964	1,690,538,964	1,510,555,667	111,617	138,736,794
Cash and cash equivalents	80,238,881	80,238,881	80,238,881	-	-
Placements with banks	54,371,028	54,371,028	54,371,028	-	-
Balances with Central Bank of Sri Lanka	32,344,341	32,344,341	39,108,812	-	-
Reverse repurchase agreements	-	-	-	-	-
Derivative financial instruments	5,370,501	5,370,501	-	-	-
Financial assets measured at fair value through profit or loss	111,617	111,617	-	111,617	-
Financial assets at amortised cost - Loans and advances to banks	-	-	-	-	-
Financial assets measured at amortised cost - loans and advances to customers	974,131,252	974,131,252	841,969,564	-	132,161,688
Financial assets measured at amortised cost - debt and other instruments	448,791,874	448,791,874	448,791,874	-	-
Financial assets measured at fair value through other comprehensive income	2,706,660	2,706,660	(929,710)	-	3,636,370
Investment in joint venture	755,000	755,000	-	-	755,000
Investments in subsidiaries	3,017,285	3,017,285	1,973,000	-	1,044,285
Investments in associates	-	-	-	-	-
Investment properties	464,439	464,439	464,439	-	-
Property, plant and equipment	24,835,729	24,835,729	24,835,729	-	-
Right-of-use assets	5,397,734	5,397,734	-	-	-
Intangible assets and goodwill	1,250,154	1,250,154	-	-	1,139,451
Deferred tax assets	30,471,351	30,471,351	-	-	-
Other assets	26,281,118	26,281,118	19,732,050	-	-
Liabilities	1,531,211,586	1,531,211,586	-	-	-
Due to banks	6,104,578	6,104,578	-	-	-
Derivative financial instruments	25,632	25,632	-	-	-
Securities sold under repurchase agreements	6,540,014	6,540,014	-	-	-
Financial liabilities measured at amortised cost - due to depositors	1,407,800,492	1,407,800,492	-	-	-
Dividends payable	1,008,325	1,008,325	-	-	-
Financial liabilities measured at amortised cost - other borrowings	32,350,594	32,350,594	-	-	-
Debt securities issued	2,062,950	2,062,950	-	-	-
Current tax liabilities	30,025,919	30,025,919	-	-	-
Deferred tax liabilities	-	-	-	-	-

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 12 (Contd.)

As at December 31, 2022	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Other provisions	5,000,513	5,000,513	-	-	-
Other liabilities	17,378,270	17,378,270	-	-	-
Due to subsidiaries	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Subordinated term debts	22,914,299	22,914,299	-	-	-
Off-balance sheet liabilities	809,328,957	809,328,957	-	-	-
Guarantees	67,645,156	67,645,156	67,645,156	-	-
Performance bonds	41,707,165	41,707,165	41,707,165	-	-
Letters of credit	21,226,810	21,226,810	21,226,810	-	-
Other contingent items	62,102,573	62,102,573	62,102,573	-	-
Undrawn loan commitments	616,647,253	616,647,253	616,647,253	-	-
Other commitments	-	-	-	-	-
Shareholders' equity					
Equity Capital (stated capital)/assigned capital :Of which amount eligible for CET1	38,679,005	38,679,005	-	-	-
Of which amount eligible for AT1	-	-	-	-	-
Retained earnings	40,706,963	40,706,963	-	-	-
Accumulated other comprehensive income	(1,395,905)	(1,395,905)	-	-	-
Other reserves	81,337,315	81,337,315	-	-	-
Total Shareholders' Equity	159,327,378	159,327,378	-	-	-

### TEMPLATE 13 : BANK RISK MANAGEMENT APPROACH

The Risk Report from pages 41 to 87 in CG&RR sets out the Bank's approach to risk management including governance structures, policies, processes, limits and the current risk profile of the Bank.

### TEMPLATE 14 : RISK MANAGEMENT RELATED TO KEY RISK EXPOSURES

Risk	Compliance
Section I -Credit Risk	Refer Pages 263 to 281
Section II Market Risk	Refer Pages 288 to 291
Section II (a) IRR	Refer Page 452
Section II (b) Equity Position Risk	Refer Page 454
Section II (c) Foreign Exchange	Refer Page 454
Section III Liquidity Risk	
Section III (a) Key Ratios	Refer Page 455
Section III (b) Currency Wise	Refer Pages 456
Section IV Operational Risk	Major Operational Losses incurred by Bank on page 201
Section V Interest Rate Risk in Banking Book (IRRBB)	Refer page 458

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION II MARKET RISK -(A) INTEREST RATE RISK

### Interest Rate Sensivity Gap Analysis as at 31-Dec-2022-LKR

( Values are in Millions LKR )

			1M	3M	6M	1Y	3Y	5Y	>5Y
<b>Account Type</b>	<b>Product</b>	<b>Product Name Level18</b>							
Rate Sensitive Assets	Inflows	Balances due from Head Office, Affiliates and Own Branches	0.00	0.00	0.00	0.00	0.00	0.00	3,772.29
		Bills of Exchange	172.68	0.00	0.00	0.00	0.00	0.00	0.00
		Cash on hand	36,916.24	0.00	0.00	238.70	0.00	0.00	0.00
		Deposits with CBSL	1,397.04	1,397.04	1,397.04	2,794.08	6,985.21	6,985.21	6,985.21
		Investments (Net of provisions)	41,350.50	190,201.63	2,040.67	-3,572.57	42,246.60	5,384.46	6,954.01
		Loans and Advances	242,852.16	74,684.65	75,715.71	92,972.44	110,150.02	53,370.04	35,381.24
		NPLs	0.68	0.68	0.00	11,040.25	0.00	0.00	33,120.75
		Net Inter-Branch Transactions	0.00	0.00	0.00	0.00	0.00	0.00	-0.47
		Other Assets	1,075.09	3,523.63	124.49	9,743.53	0.00	1,246.20	11,364.54
		Overdraft	72,596.33	10,112.86	8,452.00	9,736.40	7,718.08	6,576.67	6,415.61
		Accrued Interest	4,742.54	1,247.67	1,568.68	1,909.73	1.70	0.64	0.29
		Balances due from Other Banks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		Fixed Assets L1	0.00	0.00	0.00	0.00	0.00	0.00	26,527.15
			401,103.26	281,168.16	89,298.59	124,862.58	167,101.61	73,563.21	130,520.61
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0.00	0.00	0.00	0.00	0.00	0.00	1,616.31
		Bills Payable	619.48	0.00	0.00	0.00	0.00	0.00	0.00
		Demand Deposits	13,709.60	13,709.60	10,282.20	13,709.59	16.00	16.00	17,147.66
		Interest Payable	4,236.84	3,698.33	11,210.15	8,591.01	8,521.47	687.77	19.66
		Other Liabilities	226.82	202.19	258.15	6,756.72	19,576.68	865.79	6,356.12
		Savings Deposits	18,045.61	32,686.23	12,683.82	16,894.85	63,420.38	63,419.11	63,419.11
		Time Deposits	85,668.38	111,630.35	173,235.20	182,771.53	95,800.00	14,158.20	406.72
		Bonds Issued	0.00	0.00	0.00	5,924.55	3,199.91	8,077.43	7,000.00
		Borrowings	321.85	409.20	638.26	1,107.81	2,023.16	851.89	125.50
		Capital & Reserves	0.00	0.00	0.00	0.00	0.00	0.00	38,343.05
		Repo	4,111.29	122.08	1,588.38	441.59	0.00	0.00	0.00
		Reserves	0.00	0.00	0.00	0.00	0.00	0.00	183,985.93
			126,939.86	162,457.96	209,896.14	236,197.66	192,557.59	88,076.19	318,420.06
Net Gap			274,163.40	118,710.20	(120,597.56)	(111,335.08)	(25,455.99)	(14,512.97)	(187,899.44)
Cumulative Gap			274,163.40	392,873.59	272,276.04	160,940.96	135,484.97	120,972.00	(66,927.45)
Rate Sensitive Assets total		(Excl- Cash on hand, Deposits with CBSL)	362,789.97	279,771.12	87,901.55	121,829.79	160,116.40	66,578.00	123,535.40
Rate Sensitive Liabilities total		(Excl- Demand Deposits, Capital)	113,230.26	148,748.37	199,613.95	222,488.07	192,541.59	88,060.18	262,929.34
Net Gap			249,559.71	131,022.75	(111,712.40)	(100,658.27)	(32,425.19)	(21,482.18)	(139,393.94)
Cumulative Gap			249,559.71	380,582.46	268,870.06	168,211.79	135,786.60	114,304.42	(25,089.52)

## Interest Rate Sensitivity Gap Analysis as at 31-Dec-2022-USD

(Values are in Thousands USD)

			1M	3M	6M	1Y	3Y	5Y	>5Y
<b>Account Type</b>	<b>Product</b>	<b>Product Name Level18</b>							
Rate Sensitive Assets	Inflows	Bills of Exchange	1,984.03	2,263.66	0.00	0.00	0.00	0.00	0.00
		Cash on hand	4,696.28	0.00	0.00	0.00	0.00	0.00	0.00
		Investments (Net of provisions)	35,000.00	50,000.00	94,562.00	0.00	233,456.00	88,797.73	27,380.00
		Loans and Advances	257,622.77	111,528.80	1,755.91	7,383.61	5,383.94	2,706.38	-17,334.70
		NPLs	0.00	0.00	0.00	9,346.47	0.00	0.00	28,039.40
		Other Assets	538.31	1,661.61	0.00	121,462.69	0.00	0.00	476.07
		Overdraft	12,840.23	310.72	256.59	468.39	598.44	598.39	598.62
		Accrued Interest	1,162.39	182.78	90.04	180.69	198.38	0.00	0.00
		Balances due from Other Banks	48,000.00	0.00	0.00	0.00	0.00	0.00	62,609.20
			361,844.01	165,947.57	96,664.54	138,841.85	239,636.76	92,102.51	101,768.59
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0.00	0.00	66,153.85	0.00	0.00	0.00	0.00
		Demand Deposits	6,029.28	6,029.29	4,521.93	6,029.13	385.69	385.69	7,793.67
		Interest Payable	2,316.31	5,506.62	4,364.59	7,384.87	839.64	515.34	0.00
		Other Liabilities	242.25	366.31	582.44	1,622.51	908.07	908.05	17,195.20
		Savings Deposits	13,219.93	13,220.93	9,910.74	13,201.10	49,554.68	49,553.69	49,553.69
		Time Deposits	95,072.89	141,465.80	116,256.97	251,861.59	8,589.97	12,997.82	0.00
			116,880.67	166,588.95	201,790.52	280,099.21	60,278.05	64,360.59	74,542.56
Net Gap			244,963.34	-641.38	-105,125.98	-141,257.36	179,358.71	27,741.91	27,226.02
Cumulative Gap			244,963.34	244,321.96	139,195.98	-2,061.37	177,297.34	205,039.25	232,265.28
Rate Sensitive Assets total (Excl - Cash on Hand)			357,147.73	165,947.57	96,664.54	138,841.85	239,636.76	92,102.51	101,768.59
Rate Sensitive Liabilities total (Excl- Demand Deposit)			110,851.39	160,559.66	197,268.59	274,070.07	59,892.36	63,974.91	66,748.90
Net Gap			246,296.34	5,387.91	-100,604.05	-135,228.23	179,744.41	28,127.60	35,019.69
Cumulative Gap			246,296.34	251,684.25	151,080.20	15,851.97	195,596.38	223,723.97	258,743.67

### Notes

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION II MARKET RISK -(B) EQUITY POSITION RISK

Equity	Carrying Value	Fair Value
Investment Portfolio	13,062	17,290
Trading Portfolio	129	111

## TEMPLATE 14 - SECTION II MARKET RISK -(C) FOREIGN EXCHANGE RISK

### Report on Liquidity Gap Summary as at 31st Dec 2022 (Consolidated Foreign Currency)

(Amounts are in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	1,987.18	2,288.42	0.00	0.00	0.00	0.00	0.00
	Cash on hand	6,380.04	0.00	0.00	0.00	0.00	0.00	0.00
	Investments (Net of provisions)	38,561.79	54,603.00	103,817.73	12,352.64	267,597.25	101,099.06	28,807.91
	Loans and Advances	32,923.60	65,570.07	62,314.57	32,405.55	101,888.46	121,343.85	5,357.49
	NPLs	0.00	0.00	0.00	10,046.14	0.00	0.00	30,138.41
	Other Assets	538.31	1,661.61	0.00	121,449.39	0.00	0.00	0.00
	Other	0.00	0.00	2,188.02	4,376.70	0.00	0.00	0.00
	Overdraft	1,329.92	1,548.29	1,700.17	3,269.39	5,949.80	4,862.78	3,798.49
	Accrued Interest	1,166.47	182.78	90.73	180.85	198.38	0.00	0.00
	Balances due from Other Banks	148,130.93	0.00	0.00	0.00	0.00	0.00	68,030.88
	Forward Contracts	59,584.64	1,933.06	0.00	319.84	0.00	0.00	0.00
		290,602.89	127,787.23	170,111.22	184,400.49	375,633.88	227,305.69	136,133.18
Total Outflows	Balances due to Other Banks	0.00	1,806.03	0.00	5,183.91	44,625.96	19,265.02	4,673.18
	Demand Deposits	6,515.07	6,515.08	4,886.27	6,514.92	392.39	392.39	8,405.37
	Interest Payable	2,499.66	5,936.99	4,983.84	7,745.38	844.68	517.35	0.00
	Letters of Credit/Guarantees/ Acceptances	0.00	2,194.36	2,194.36	2,195.02	0.00	0.00	0.00
	Other Liabilities	252.95	462.78	622.71	1,704.13	948.17	948.15	16,754.09
	Savings Deposits	15,844.22	16,147.65	12,572.01	17,280.44	63,789.40	61,427.03	59,112.03
	Time Deposits	108,085.59	175,936.88	145,171.07	309,036.67	11,247.89	17,264.92	0.00
	Forward Contracts Payable	22,997.92	1,933.06	0.00	319.84	0.00	0.00	0.00
		156,195.41	210,932.84	170,430.27	349,980.31	121,848.49	99,814.85	88,944.67
Net Liquidity Gap		134,407.48	(83,145.62)	(319.05)	(165,579.82)	253,785.39	127,490.83	47,188.51
Net Gap as % of Total Outflows		86.05	(39.42)	(0.19)	(47.31)	208.28	127.73	53.05
Cumulative Gap		134,407.48	51,261.86	50,942.82	(114,637.00)	139,148.39	266,639.22	313,827.73

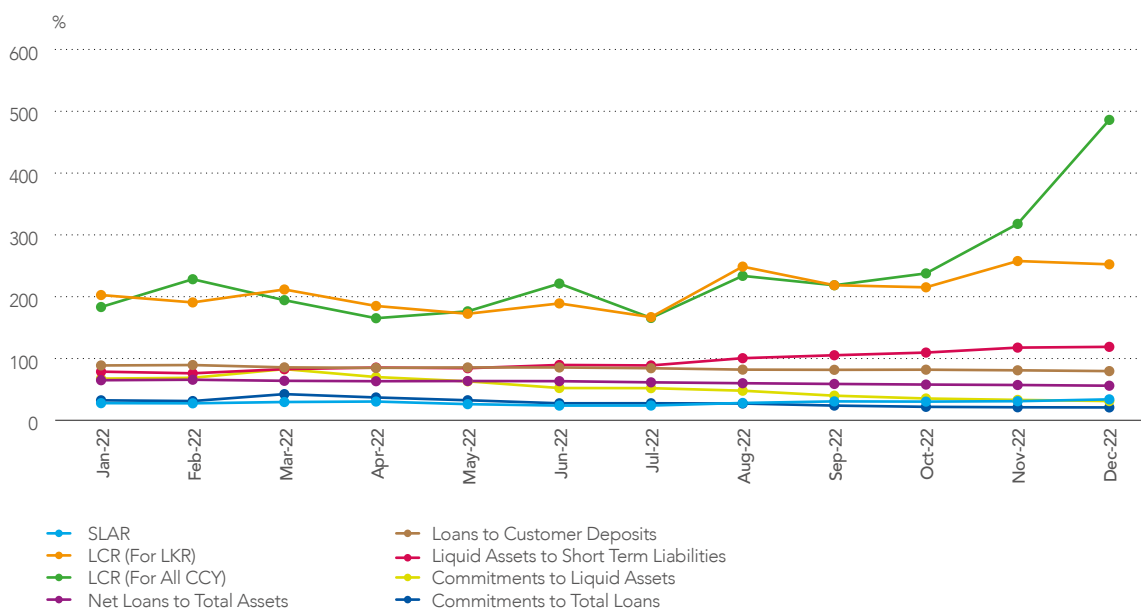
#### Notes

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".



### TEMPLATE 14 - SECTION III LIQUIDITY RISK - KEY LIQUIDITY RATIOS

Ratio	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
SLAR	27.82%	27.53%	29.65%	30.43%	26.20%	23.86%	23.93%	28.10%	30.66%	30.30%	30.97%	33.95%
LCR (For LKR)	202.70%	190.77%	211.69%	185.02%	172.39%	189.14%	166.97%	248.71%	218.59%	215.20%	257.71%	252.37%
LCR (For All CCY)	183.31%	228.28%	194.41%	165.21%	176.35%	221.24%	165.65%	233.71%	218.53%	237.72%	317.80%	486.03%
Net Loans to Total Assets	64.89%	65.70%	63.94%	63.31%	63.59%	63.38%	61.48%	60.04%	58.87%	57.88%	57.17%	56.02%
Loans to Customer Deposits	88.80%	89.47%	85.69%	84.91%	85.59%	85.51%	84.31%	82.04%	81.72%	81.94%	80.94%	79.65%
Liquid Assets to Short Term Liabilities	78.77%	76.07%	82.82%	85.35%	84.31%	89.59%	88.81%	100.54%	105.30%	109.64%	117.66%	118.89%
Commitments to Liquid Assets	67.49%	68.80%	82.86%	70.05%	63.16%	52.29%	52.07%	47.94%	39.89%	35.33%	33.05%	31.19%
Commitments to Total Loans	32.38%	31.20%	42.41%	37.01%	32.48%	27.59%	27.63%	27.20%	23.87%	21.85%	21.14%	20.89%



# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION III (B) LIQUIDITY RISK- CURRENCY WISE

### Report on Liquidity Gap Summary as at 31st Dec 2022 (LKR/ Behavioural)

(Amounts are in Millions LKR)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Balances due from Head Office, Affiliates and Own Branches	0.00	0.00	0.00	0.00	0.00	0.00	3,772.29
	Bills of Exchange	172.68	0.00	0.00	0.00	0.00	0.00	0.00
	Cash on hand	36,916.24	0.00	0.00	238.70	0.00	0.00	0.00
	Deposits with CBSL	1,397.04	1,397.04	1,397.04	2,794.08	6,985.21	6,985.21	6,985.21
	Investments (Net of provisions)	45,544.21	201,770.81	3,748.74	323.93	53,667.50	13,469.50	8,395.20
	Loans and Advances	108,841.92	97,735.66	98,688.91	138,622.00	256,453.41	148,893.42	192,148.49
	NPLs	0.68	0.69	0.00	11,040.25	0.00	0.00	33,120.75
	Net Inter-Branch Transactions	0.00	0.00	0.00	0.00	0.00	0.00	(0.47)
	Other Assets	1,075.09	3,523.63	124.49	9,743.53	0.00	1,246.20	11,364.54
	Other	0.00	0.00	527.76	1,055.69	0.00	0.00	0.00
	Overdraft	11,164.82	13,647.14	15,487.54	29,349.01	57,639.60	44,611.65	31,847.14
	Accrued Interest	4,742.54	1,247.67	1,568.68	1,909.73	1.70	0.64	0.29
	Balances due from Other Banks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Fixed Assets L1	0.00	0.00	0.00	0.00	0.00	0.00	26,527.15
	Forward Contracts	6,831.71	357.06	0.00	108.55	0.00	0.00	0.00
	Reverse Repo	4,405.24	0.00	0.00	0.00	0.00	0.00	0.00
		221,092.18	319,679.69	121,543.16	195,185.47	374,747.42	215,206.62	314,160.58
Total Outflows	Balances due to Other Banks	0.00	0.00	0.00	0.00	0.00	0.00	1,616.31
	Bills Payable	619.48	0.00	0.00	0.00	0.00	0.00	0.00
	Demand Deposits	13,709.60	13,709.60	10,282.20	13,709.59	16.00	16.00	17,147.66
	Interest Payable	4,236.84	3,698.33	11,210.15	8,591.01	8,521.47	687.77	19.66
	Letters of Credit/Guarantees/ Acceptances	0.00	527.76	527.76	527.92	0.00	0.00	0.00
	Other Liabilities	226.82	202.19	258.15	6,756.72	19,576.68	865.79	6,356.12
	Savings Deposits	19,343.24	20,368.41	16,865.67	24,283.24	87,486.93	79,453.95	71,579.50
	Time Deposits	91,907.42	121,449.47	198,222.10	215,209.22	131,247.83	26,594.21	1,111.95
	Bonds Issued	0.00	0.00	3.47	8,533.06	5,857.27	11,179.16	12,321.82
	Borrowings	356.34	450.55	676.72	1,196.10	2,218.52	913.28	134.67
	Capital	0.00	0.00	0.00	0.00	0.00	0.00	38,343.05
	Forward Contracts Payable	15,881.92	1,071.64	0.00	108.55	0.00	0.00	0.00
	Repo	4,153.81	128.65	1,911.18	554.62	0.00	0.00	0.00
	Reserves	0.00	0.00	0.00	0.00	0.00	0.00	183,985.93
		150,435.47	161,606.59	239,957.40	279,470.03	254,924.70	119,710.17	332,616.67
Net Liquidity Gap		70,656.71	158,073.10	(118,414.24)	(84,284.56)	119,822.72	95,496.45	(18,456.09)
Net Gap as % of Total Outflows		46.97	97.81	(49.35)	(30.16)	47.00	79.77	-5.55
Cumulative Gap		70,656.71	228,729.80	110,315.56	26,031.00	145,853.72	241,350.18	222,894.09

**TEMPLATE 14 - SECTION III (B) LIQUIDITY RISK- CURRENCY WISE**
**Report on Liquidity Gap Summary as at 31st Dec 2022 (USD/ Behavioural)**
*(Amounts are in Thousands USD)*

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	1,984.03	2,288.42	0.00	0.00	0.00	0.00	0.00
	Cash on hand	4,696.28	0.00	0.00	0.00	0.00	0.00	0.00
	Investments (Net of provisions)	38,561.78	54,602.99	103,817.72	12,352.64	267,597.21	101,099.04	28,472.08
	Loans and Advances	32,731.90	65,215.84	61,546.41	31,748.02	100,697.63	120,920.49	3,911.12
	NPLs	0.00	0.00	0.00	9,346.47	0.00	0.00	28,039.40
	Other Assets	538.31	1,661.61	0.00	121,462.69	0.00	0.00	0.00
	Other	0.00	0.00	1,397.63	2,795.67	0.00	0.00	0.00
	Overdraft	1,329.92	1,548.29	1,700.16	3,269.37	5,949.77	4,862.76	3,798.47
	Accrued Interest	1,162.39	182.78	90.04	180.69	198.38	0.00	0.00
	Balances due from Other Banks	48,158.42	0.00	0.00	0.00	0.00	0.00	62,609.20
	Forward Contracts	55,949.80	1,400.00	0.00	0.00	0.00	0.00	0.00
		185,112.83	126,899.92	168,551.95	181,155.56	374,442.99	226,882.29	126,830.27
Total Outflows	Balances due to Other Banks	0.00	1,806.03	0.00	5,183.91	44,625.95	19,265.01	4,673.18
	Demand Deposits	6,029.28	6,029.29	4,521.93	6,029.13	385.69	385.69	7,793.67
	Interest Payable	2,316.31	5,506.62	4,364.59	7,384.87	839.64	515.34	0.00
	Letters of Credit/Guarantees/ Acceptances	0.00	1,403.97	1,403.97	1,404.39	0.00	0.00	0.00
	Other Liabilities	242.25	367.12	603.82	1,640.81	908.07	908.05	16,719.13
	Savings Deposits	13,575.04	13,856.20	10,820.12	14,907.84	54,961.90	52,772.32	50,626.57
	Time Deposits	97,830.26	149,333.56	124,386.29	276,723.18	10,946.98	17,002.15	0.00
	Forward Contracts Payable	21,023.49	1,400.00	0.00	0.00	0.00	0.00	0.00
		141,016.63	179,702.78	146,100.70	313,274.12	112,668.23	90,848.57	79,812.55
Net Liquidity Gap		44,096	(52,803)	22,451	(132,119)	261,775	136,034	47,018
Net Gap as % of Total Outflows		31.27	(29.38)	15.37	(42.17)	232.34	149.74	58.91
Cumulative Gap		44,096	(8,707)	13,745	(118,374)	143,401	279,435	326,452
Adjustments for Behavioural Maturities	Time Deposits	82,925.94	117,794.85	76,944.93	194,284.18	(230,192.58)	(113,639.49)	(128,117.83)
	Unutilised O/D	(1,236.42)	(1,236.42)	(1,236.42)	(2,472.83)	0.00	0.00	0.00
	Undisbursed Loans	(230.02)	(230.02)	(230.02)	(460.05)	(383.37)	0.00	0.00
Total Adjustments		81,459.50	116,328.41	75,478.49	191,351.30	(230,575.95)	(113,639.49)	(128,117.83)
Adjusted Net Liquidity Gap		125,555.71	63,525.55	97,929.74	59,232.73	31,198.81	22,394.23	(81,100.11)
Adjusted Net Gap as % of Total Outflows		210.82	100.24	138.67	48.58	9.09	10.95	(39.00)
Adjusted Cumulative Gap		125,555.71	189,081.25	287,010.99	346,243.72	377,442.54	399,836.77	318,736.66

**Notes**

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION (V) INTEREST RATE RISK IN THE BANKING BOOKS (IRRBB)

### Present Market Value of RSA/RSL on Movement of Market Interest Rates - LKR

(Values are in Millions LKR)

	1M	3M	6M	1Y	3Y	5Y	>5Y
Rate Sensitive Assets total	362,789.97	279,771.12	87,901.55	121,829.79	160,116.40	66,578.00	123,535.40
Rate Sensitive Liabilities total	113,230.26	148,748.37	199,613.95	222,488.07	192,541.59	88,060.18	262,929.34
Net Gap	249,559.71	131,022.75	(111,712.40)	(100,658.27)	(32,425.19)	(21,482.18)	(139,393.94)
Cumulative Gap	249,559.71	380,582.46	268,870.06	168,211.79	135,786.60	114,304.42	(25,089.52)
Duration weight	0.08	0.25	0.50	1.00	3.00	5.00	30.00
Market Rates	24.40	34.00	33.54	30.49	29.50	27.90	25.89
Present Value at market rates	245,060	121,778	96,670	77,139	14,930	6,278	140
Present Value at market rates + 50 basis pt	244,978	121,665	96,490	76,844	14,759	6,156	124
Change in Market value for 50 basis point interest movement	(82)	(113)	(180)	(294)	(172)	(121)	(16)

### Present Market Value of RSA/RSL on Movement of Market Interest Rates - USD

(Values are in Thousands USD)

	1M	3M	6M	1Y	3Y	5Y	>5Y
Rate Sensitive Assets total	357,147.73	165,947.57	96,664.54	138,841.85	239,636.76	92,102.51	101,768.59
Rate Sensitive Liabilities total	110,851.39	160,559.66	197,268.59	274,070.07	59,892.36	63,974.91	66,748.90
Net Gap	246,296.34	5,387.91	-100,604.05	-135,228.23	179,744.41	28,127.60	35,019.69
Cumulative Gap	246,296.34	251,684.25	151,080.20	15,851.97	195,596.38	223,723.97	258,743.67
Duration weight	0.08	0.25	0.5	1	3	5	10
Market Rates	4.39157	4.76729	5.13886	5.48214	4.361	4.045	3.837
Present Value at market rates	245,416	5,326	98,115	128,200	158,140	23,069	24,032
Present Value at market rates + 10 basis pt	245,396	5,324	98,068	128,079	157,686	22,958	23,802
Change in Market value for 10 basis point interest movement	(20)	(1)	(47)	(121)	(454)	(111)	(230)

#### Notes

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

# INCOME STATEMENT IN US DOLLARS

For the year ended 31st December	Bank		Group	
	2022 US\$ 000	2021 US\$ 000	2022 US\$ 000	2021 US\$ 000
<b>Gross income</b>	659,625	566,805	736,080	668,606
Interest income	563,318	485,777	600,221	529,167
Less : Interest expenses	283,381	241,612	296,639	250,993
<b>Net interest income</b>	279,937	244,165	303,582	278,174
Fee and commission income	42,231	48,741	44,956	52,603
Less: Fee and commission expenses	941	1,334	1,686	1,777
<b>Net fee and commission income</b>	41,290	47,407	43,270	50,826
<b>Net interest, fee and commission income</b>	321,227	291,572	346,852	329,000
Net gains/(losses) from trading	13,330	(2,572)	13,131	(1,891)
Net gain from financial investments at fair value through other comprehensive income	61	965	63	966
Net insurance premium income	-	-	34,695	52,429
Net gains arising on de-recognition of financial assets	-	-	-	29
Net other operating income	40,685	33,894	43,014	35,303
<b>Total operating income</b>	375,303	323,859	437,755	415,836
Less: Impairment charge for loans and other losses	246,153	92,514	249,621	96,240
<b>Net operating income</b>	129,150	231,345	188,134	319,596
<b>Less : Operating expenses</b>	-	-	-	-
Personnel expenses	40,887	53,000	50,314	67,378
Benefits, claims and underwriting expenditure	-	-	31,878	44,120
Other expenses	41,800	58,509	53,327	72,512
<b>Total operating expenses</b>	82,687	111,509	135,519	184,010
<b>Operating profit before taxes on financial services</b>	46,463	119,836	52,615	135,586
Less: Taxes on financial services	13,881	22,164	14,279	23,451
<b>Operating profit after taxes on financial services</b>	32,582	97,672	38,336	112,135
Share of profit of joint venture (net of income tax)	-	-	903	1,443
<b>PROFIT BEFORE INCOME TAX</b>	32,582	97,672	39,239	113,578
Less: Income tax expense	(5,604)	12,441	(3,614)	14,628
<b>PROFIT FOR THE YEAR</b>	38,186	85,231	42,853	98,950
Profit attributable to:				
Equity holders of the Bank	38,186	85,231	41,711	93,730
Non-controlling interests	-	-	1,142	5,220
<b>PROFIT FOR THE YEAR</b>	38,186	85,231	42,853	98,950
<b>Earnings per share</b>				
Basic earnings per ordinary share (\$)	0.07	0.16	0.08	0.18
Diluted earnings per ordinary share (\$)	0.07	0.16	0.08	0.18
<b>Dividend per share</b>				
Dividend per share: Gross (\$)	*0.01	0.04	*0.01	0.04

Exchange rate of US\$ 1 was Rs. 367.5 as at 31st December 2022 (Rs. 202.975 as at 31st December 2021)

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	
	2022 US\$ 000	2021 US\$ 000	2022 US\$ 000	2021 US\$ 000
<b>PROFIT FOR THE YEAR</b>	<b>38,186</b>	<b>85,231</b>	<b>42,853</b>	<b>98,950</b>
<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	(4,405)	(1,269)	(4,405)	(1,269)
Remeasurement of post-employment benefit obligations	5,054	5,079	5,200	5,423
Revaluation gain on freehold land and buildings	-	24,037	544	42,109
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	1,219	6
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change	(3,149)	(2,842)	(6,646)	(3,872)
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>	<b>(2,500)</b>	<b>25,005</b>	<b>(4,088)</b>	<b>42,397</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	(9,889)	(14,644)	(14,387)	(19,297)
Cumulative net gains/(losses) on debt instruments measured at fair value through other comprehensive income that are reclassified to amortised cost	15,177	-	17,093	-
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to income statement	-	-	-	(29)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	(804)	920	(804)	920
Transfer to life policy holder reserve fund	-	-	3,386	4,196
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	(19)	304
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change	(1,269)	3,717	(1,055)	3,760
<b>Total other comprehensive income that will be reclassified to profit or loss</b>	<b>3,215</b>	<b>(10,007)</b>	<b>4,214</b>	<b>(10,146)</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>715</b>	<b>14,998</b>	<b>126</b>	<b>32,251</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>38,901</b>	<b>100,229</b>	<b>42,979</b>	<b>131,201</b>
Total comprehensive income attributable to:				
Equity holders of the Bank	38,901	100,229	41,141	125,998
Non-controlling interests	-	-	1,838	5,203
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>38,901</b>	<b>100,229</b>	<b>42,979</b>	<b>131,201</b>

Exchange rate of US\$ 1 was Rs. 367.5 as at 31st December 2022 (Rs. 202.975 as at 31st December 2021)

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	
	2022 US\$ 000	2021 US\$ 000	2022 US\$ 000	2021 US\$ 000
<b>ASSETS</b>				
Cash and cash equivalents	218,337	188,128	219,400	201,504
Placements with banks	147,948	-	158,291	31,389
Balances with Central Bank of Sri Lanka	88,012	127,210	88,012	127,210
Reverse repurchase agreements	-	-	3,757	30,774
Derivative financial instruments	14,614	4,570	14,614	4,570
Financial assets measured at fair value through profit or loss	304	509	643	4,250
Financial assets measured at amortised cost - loans and advances to customers	2,650,697	4,317,057	2,760,596	4,489,486
Financial assets measured at amortised cost - debt and other financial instruments	1,221,202	791,612	1,305,543	847,053
Financial assets measured at fair value through other comprehensive income	7,365	1,002,224	16,496	1,038,574
Investment in joint venture	2,055	3,720	9,933	14,176
Investment in subsidiaries	8,210	14,865	-	-
Investment properties	1,264	2,314	2,546	4,754
Property, plant and equipment	67,580	122,940	135,010	244,978
Right-of-use assets	14,688	26,798	6,704	10,730
Intangible assets and goodwill	3,402	7,043	4,819	9,800
Deferred tax assets	82,915	21,981	83,709	24,343
Other assets	71,513	61,166	83,193	78,131
<b>Total assets</b>	<b>4,600,106</b>	<b>6,692,137</b>	<b>4,893,266</b>	<b>7,161,722</b>
<b>LIABILITIES</b>				
Due to banks	16,611	84,126	16,611	84,126
Derivative financial instruments	70	1,741	70	1,741
Securities sold under repurchase agreements	17,796	165,164	17,796	165,164
Financial liabilities measured at amortised cost - due to depositors	3,830,750	5,299,713	3,927,018	5,454,198
Dividends payable	2,744	4,873	2,826	4,994
Financial liabilities measured at amortised cost - other borrowings	88,029	121,926	90,845	125,906
Debt securities issued	5,613	9,670	6,953	12,145
Current tax liabilities	81,703	49,522	82,885	51,822
Deferred tax liabilities	-	-	17,592	25,412
Insurance provision - life	-	-	66,918	100,397
Insurance provision - non-life	-	-	11,379	18,406
Other provisions	13,607	19,355	14,877	22,420
Other liabilities	47,288	70,947	49,093	71,914
Subordinated term debts	62,352	116,036	71,160	120,172
<b>Total liabilities</b>	<b>4,166,563</b>	<b>5,943,073</b>	<b>4,376,023</b>	<b>6,258,817</b>
<b>EQUITY</b>				
Stated capital	105,249	184,083	105,249	184,083
Statutory reserve fund	25,333	42,173	25,333	42,173
Retained earnings	110,767	173,354	136,728	215,020
Other reserves	192,194	349,454	231,443	429,117
<b>Total shareholders' equity</b>	<b>433,543</b>	<b>749,064</b>	<b>498,753</b>	<b>870,393</b>
Non-controlling interests	-	-	18,490	32,512
<b>Total equity</b>	<b>433,543</b>	<b>749,064</b>	<b>517,243</b>	<b>902,905</b>
<b>Total equity and liabilities</b>	<b>4,600,106</b>	<b>6,692,137</b>	<b>4,893,266</b>	<b>7,161,722</b>
Contingent liabilities and commitments	2,202,256	3,331,653	2,202,256	3,331,653
Net assets value per ordinary share (\$)	0.81	1.40	0.93	1.63

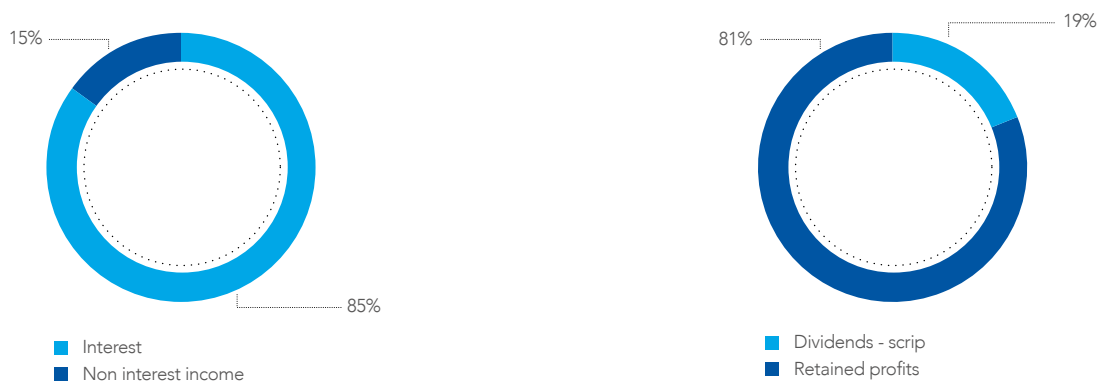
Exchange rate of US\$ 1 was Rs. 367.5 as at 31st December 2022 (Rs. 202.975 as at 31st December 2021)

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## SOURCES AND UTILISATION OF INCOME

	2017 Rs 000	2018 Rs 000	2019 Rs 000	2020 Rs 000	2021 Rs 000	2022 Rs 000
<b>Sources of Income</b>						
Interest	96,175,453	108,104,923	115,210,769	103,944,602	98,600,557	207,019,354
Non interest income	10,119,741	13,251,166	10,787,317	11,869,016	16,446,768	35,393,137
<b>Total</b>	<b>106,295,194</b>	<b>121,356,089</b>	<b>125,998,086</b>	<b>115,813,618</b>	<b>115,047,325</b>	<b>242,412,491</b>
<b>Utilisation of Income</b>						
<b>Employees</b>						
Salaries and other payment to staff	8,866,642	10,717,978	11,444,259	11,459,352	10,757,563	15,025,888
<b>Suppliers and Providers of Funding</b>						
Interest paid	56,526,138	60,525,342	65,997,133	59,235,456	49,041,200	104,142,478
Other expenses	9,419,591	9,963,875	10,091,780	8,376,595	9,505,351	12,935,090
	65,945,729	70,489,217	76,088,913	67,612,051	58,546,551	117,077,568
<b>Provisions and Depreciation</b>						
Depreciation and amortisation	1,128,802	1,354,762	2,246,114	2,359,326	2,442,964	2,567,704
Impairment for loans and other losses	3,035,468	9,292,421	9,656,010	15,258,468	18,778,047	90,461,305
	4,164,270	10,647,183	11,902,124	17,617,794	21,221,011	93,029,009
<b>Net Income before Government Taxes and Levies</b>	<b>27,318,553</b>	<b>29,501,711</b>	<b>26,562,790</b>	<b>19,124,421</b>	<b>24,522,200</b>	<b>17,280,026</b>
<b>Government</b>						
Income tax, VAT, SGT, SSCL, Crop Insurance, DRL	9,827,293	16,466,502	13,399,141	9,788,490	10,699,838	30,880,002
<b>Shareholders</b>						
Dividends - Cash	3,175,513	2,463,253	2,251,830	2,303,891	3,418,380	-
Retained through scrip dividend	977,592	1,724,277	1,751,423	1,791,915	1,314,761	2,672,884
Retained profits	12,313,685	11,330,673	10,028,999	7,366,832	12,566,626	11,360,609
Deferred taxation	1,024,470	(2,482,994)	(868,603)	(2,126,705)	(3,477,405)	(27,633,469)
<b>Total</b>	<b>106,295,194</b>	<b>121,356,089</b>	<b>125,998,086</b>	<b>115,813,618</b>	<b>115,047,325</b>	<b>242,412,491</b>

### Sources and Utilisation of Income 2022

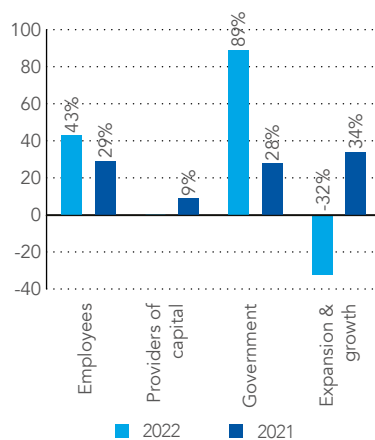




# VALUE ADDED STATEMENT

	2022		2021	
	Rs 000	%	Rs 000	%
<b>Value Added</b>				
Income earned by providing banking services	237,001,785		114,987,851	
Cost of services	117,077,568		58,546,552	
Value added by banking services	119,924,217		56,441,299	
Non-banking income	489,368		385,587	
Net gain/ (loss) from trading & financial investments	4,921,338		(326,112)	
Impairment for loans and other losses	(90,461,305)		(18,778,047)	
	34,873,618		37,722,727	
<b>Value Allocated to Employees</b>				
Salaries, wages & other benefits	15,025,888	43.09	10,757,563	28.52
<b>To Providers of Capital</b>				
Dividends to shareholders - cash	-	0.00	3,418,380	9.06
<b>To Government</b>				
Income tax	25,573,882		6,002,665	
Value added tax on financial services	4,932,774		4,498,822	
Social Security Contribution Levy	168,598		-	
Crop Insurance Levy	150,000		165,000	
Local taxes	21,205		15,924	
Stamp duty	33,543	30,880,002	17,428	10,699,838
		88.55		28.36
<b>To Expansion and Growth</b>				
Retained income	11,360,609	32.58	12,566,626	33.31
Retained through scrip dividend	2,672,884	7.66	1,314,761	3.49
Depreciation & amortization	2,567,704	7.36	2,442,964	6.48
Deferred taxation	(27,633,469)	(79.24)	(3,477,405)	(9.22)
	34,873,618	100.00	37,722,727	100.00

## Analysis of Value Additions



## VALUE CREATED TO STAKEHOLDERS

For the year ended 31st December	2022 Rs 000	2021 Rs 000
<b>Direct Economic Value Generated</b>		
Interest income	207,019,354	98,600,557
Fee commission income	15,520,113	9,893,263
Net gain/ (loss) from trading & financial investment	4,921,338	(326,112)
Other operating income	14,951,686	6,879,617
<b>Total Direct Economic Value Generated</b>	<b>242,412,491</b>	<b>115,047,325</b>
<b>Economic Value Distributed</b>		
To depositors/ debenture holders as interest	104,142,478	49,041,200
To employees as emoluments	15,025,888	10,757,563
Depreciation/ amortisation set aside	2,567,704	2,442,964
Impairment charge for loans and other losses	90,461,305	18,778,047
To providers of supplies and services	11,629,186	8,505,997
To government as taxation	30,880,002	10,699,839
- Income tax	25,573,882	6,002,665
- VAT and SSCL on financial services	5,101,372	4,498,822
- Crop Insurance Levy	150,000	165,000
- Stamp duty and other local taxes	54,748	33,352
To Central Bank of Sri Lanka as deposit insurance premium	1,276,819	987,001
To shareholders as dividends	2,672,884	4,733,141
To community as donation/ CSR	29,085	12,352
<b>Total Economic value distributed</b>	<b>258,685,351</b>	<b>105,958,104</b>
<b>Economic Value Retained</b>	<b>(16,272,860)</b>	<b>9,089,221</b>

# TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (Rs Mn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>OPERATING RESULTS</b>										
Income	61,006	59,500	61,153	84,351	106,295	121,356	125,998	115,814	115,047	242,412
Interest income	56,771	51,868	52,615	75,608	96,175	108,105	115,211	103,945	98,601	207,019
Interest expense	31,424	26,967	26,280	41,237	56,526	60,525	65,997	59,235	49,041	104,142
Non interest income	4,236	7,633	8,538	8,743	10,120	13,251	10,787	11,869	16,447	35,393
Operating expenses (Incl. financial VAT, SSSL & DRL)	19,575	20,470	19,824	22,968	27,719	37,879	41,538	41,497	46,181	126,296
Profit before income tax	10,008	12,064	15,050	20,146	22,050	22,952	18,463	15,081	19,825	11,974
Income tax on profit	2,998	3,059	4,601	6,002	5,583	7,433	4,431	3,619	2,525	(2,060)
Profit after taxation	7,010	9,005	10,449	14,143	16,467	15,518	14,032	11,463	17,300	14,033
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>										
Customer deposits	387,158	419,327	527,126	623,495	701,519	799,975	810,035	967,821	1,075,709	1,407,800
Refinance borrowings	5,615	4,889	4,227	4,140	5,244	5,639	6,364	15,089	14,270	9,950
Other liabilities	66,084	87,736	128,424	154,080	134,884	163,312	179,723	174,939	116,316	113,461
Deferred tax liabilities	-	-	379	231	5,083	1,809	1,382	-	-	-
Shareholders' funds	51,454	60,899	65,051	77,017	108,148	115,754	127,504	134,002	152,041	159,327
<b>Total</b>	<b>510,310</b>	<b>572,851</b>	<b>725,208</b>	<b>858,963</b>	<b>954,878</b>	<b>1,086,489</b>	<b>1,125,009</b>	<b>1,291,852</b>	<b>1,358,337</b>	<b>1,690,539</b>
<b>ASSETS</b>										
Loans and receivables to customers (net)	351,965	396,277	498,342	584,413	639,102	749,049	741,769	772,581	876,255	974,131
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	29,238	33,838	35,033	52,042	63,533	62,342	59,487	41,336	64,006	112,583
Property, plant and equipment	9,521	9,305	11,474	13,945	17,905	21,304	21,077	20,705	24,954	24,836
Deferred tax assets	768	287	-	-	-	-	-	807	4,462	30,471
Other assets	118,818	133,144	180,360	208,564	234,337	253,794	302,676	456,423	388,661	548,517
<b>Total</b>	<b>510,310</b>	<b>572,851</b>	<b>725,208</b>	<b>858,963</b>	<b>954,878</b>	<b>1,086,489</b>	<b>1,125,009</b>	<b>1,291,852</b>	<b>1,358,337</b>	<b>1,690,539</b>
<b>RATIOS</b>										
Return on average shareholders funds (%)	14.3	16.0	16.6	19.9	17.8	13.9	11.5	8.8	12.1	9.0
Income growth (%)	18.4	(2.5)	2.8	37.9	26.0	14.2	3.8	(8.1)	(0.7)	110.7
Return on average assets (%)	1.5	1.7	1.6	1.8	1.8	1.5	1.3	0.9	1.3	0.9
Dividend cover (times)	2.1	2.6	3.0	4.0	4.0	3.7	3.5	2.8	3.7	5.3
Property, plant and equipment to shareholders' funds (%)	18.5	15.3	17.6	18.1	16.6	18.4	16.5	15.5	16.4	15.6
Total assets to shareholders' funds (times)	9.9	9.4	11.1	11.2	8.8	9.4	8.8	9.6	8.9	10.6
Liquid assets to liabilities (%)	23.3	22.8	23.9	23.5	24.1	24.4	29.6	39.6	28.0	34.0
<b>SHARE INFORMATION</b>										
Market value per share (Rs)										
- Voting	147.00	194.90	210.60	225.00	249.00	214.00	172.20	126.50	135.00	78.90
- Non voting	119.00	152.90	177.90	190.00	195.00	168.50	135.50	100.60	122.25	70.00
Group earnings per share (Rs)	19.20	24.50	26.09	34.99	35.50	35.25	29.32	25.58	36.18	28.62
*Group earnings per share (adjusted) (Rs)	14.55	18.67	20.07	28.06	30.32	33.53	27.89	24.90	35.52	28.62
Price earnings ratio	7.66	7.96	8.07	6.43	7.01	6.07	5.87	4.95	3.73	2.76
Group net assets per share (Rs)	144.06	168.67	186.20	220.61	247.79	269.28	290.78	301.28	335.93	342.25
**Group net assets per share (adjusted) (Rs)	109.45	129.12	143.68	173.59	232.00	252.25	276.68	293.30	329.88	342.25
Dividend per share (Rs)	8.50	8.50	8.50	8.50	8.50	8.50	8.00	8.00	9.00	5.00
Cash dividend per share (Rs)	8.50	8.50	5.00	5.00	6.50	5.00	4.50	4.50	6.50	-
Gross dividends (Rs Mn)	3,400	3,431	3,451	3,523	4,153	4,188	4,003	4,096	4,733	2,673
<b>OTHER INFORMATION</b>										
No of employees	4,604	4,451	4,285	4,190	4,348	4,781	4,913	4,836	5,042	5,156
No of customer centres	250	249	249	251	251	250	252	252	255	255
No of student banking centres	168	168	168	150	152	155	156	162	162	162

\* Earnings per share has been adjusted for weighted average number of shares outstanding during the current year.

\*\* Net asset per share has been computed for the current number of shares issued as at 31st December 2022.

# QUARTERLY STATISTICS

For the three months ended	2022				*2021											
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st								
<b>Statement of Financial Position (Rs. Mn)</b>																
Total assets	1,690,539	1,632,094	1,597,327	1,505,748	1,358,337	1,352,781	1,336,831	1,307,981								
Loans and advances to customers	974,131	973,929	991,284	948,088	876,255	849,751	790,229	763,240								
Due to customers	1,407,800	1,346,076	1,292,900	1,216,530	1,075,709	1,060,054	1,032,194	996,065								
Shareholders' funds	159,327	154,868	149,870	150,092	152,041	142,699	140,965	136,605								
Average assets	1,606,427	1,523,376	1,487,137	1,432,042	1,338,982	1,322,361	1,312,221	1,299,917								
<b>Statement of Profit or Loss (Rs 000)</b>																
Net interest income	31,799,463	30,918,265	23,295,356	16,863,792	13,980,187	12,417,650	12,561,953	10,599,567								
Net fee and commission income	4,171,801	3,855,045	3,902,514	3,244,890	2,961,100	2,246,331	2,132,377	2,282,753								
Net gains/(losses) from trading	(36,058)	(4,867,897)	2,303,227	7,499,447	886,863	(761,891)	(704,025)	57,014								
Net gains/(losses) from financial investments at fair value through other comprehensive income	12,720	(201,505)	54,446	156,958	12,720	14,218	-	168,989								
Net other operating income	2,460,239	6,482,166	5,786,690	222,591	433,206	1,943,757	2,353,847	2,148,807								
<b>Total operating income</b>	<b>38,408,165</b>	<b>36,186,074</b>	<b>35,342,233</b>	<b>27,987,678</b>	<b>18,274,076</b>	<b>15,860,065</b>	<b>16,344,152</b>	<b>15,257,130</b>								
Less : Impairment charge for loans and other losses	30,185,979	20,181,419	26,740,331	13,353,576	7,584,687	4,864,527	3,665,858	2,662,975								
<b>Net operating income</b>	<b>8,222,186</b>	<b>16,004,655</b>	<b>8,601,902</b>	<b>14,634,102</b>	<b>10,689,389</b>	<b>10,995,538</b>	<b>12,678,294</b>	<b>12,594,155</b>								
Less : Operating expenses	7,570,897	7,960,562	7,837,496	7,018,612	4,672,439	6,146,119	6,018,689	5,796,280								
Taxes on financial services	838,608	1,870,162	715,814	1,676,788	929,654	1,043,301	1,277,750	1,248,117								
Income tax expenses	(3,935,742)	1,393,528	(641,204)	1,123,831	22,321	648,179	1,000,216	854,544								
<b>Profit for the quarter ended</b>	<b>3,748,423</b>	<b>4,780,403</b>	<b>689,796</b>	<b>4,814,871</b>	<b>5,064,975</b>	<b>3,157,939</b>	<b>4,381,639</b>	<b>4,695,214</b>								
<b>Other comprehensive income for the quarter ended</b>	<b>912,388</b>	<b>1,894</b>	<b>2,700,251</b>	<b>(3,352,019)</b>	<b>4,277,872</b>	<b>(1,424,556)</b>	<b>(20,756)</b>	<b>211,560</b>								
<b>Total comprehensive income for the quarter ended</b>	<b>4,660,811</b>	<b>4,782,297</b>	<b>3,390,047</b>	<b>1,462,852</b>	<b>9,342,847</b>	<b>1,733,383</b>	<b>4,360,883</b>	<b>4,906,774</b>								
<b>Ordinary share information</b>																
<b>Market price per share (Rs)</b>																
High	84.30	77.00	90.10	85.20	110.75	101.25	142.40	100.00	171.00	147.75	142.75	133.75	139.00	111.75	165.00	130.75
Low	72.00	64.90	77.30	69.90	76.50	73.00	132.80	100.00	133.00	120.25	128.00	105.50	123.00	91.50	125.00	96.00
Closing	78.90	70.00	84.70	74.50	79.50	73.80	109.25	105.00	135.00	122.25	141.00	133.75	134.00	107.25	126.00	97.20
V- Voting NV - Non Voting																
Net Asset Value per Share (Adjusted)	297.50	289.17	279.84	280.25	283.89	266.45	263.21	255.07								
<b>Financial measures</b>																
<b>Profitability (Annualised)</b>																
Interest Margin	6.40	6.22	5.40	4.71	3.70	3.59	3.53	3.26								
Return on Assets (before Tax), %	0.75	1.08	0.81	1.66	1.48	1.49	1.67	1.71								
Return on Equity	9.14	9.22	7.31	12.75	12.09	11.77	13.23	13.88								
<b>Productivity</b>																
Cost to Income Ratio	19.71	22.00	22.18	25.08	25.57	38.75	36.82	37.99								
<b>BASEL III</b>																
<b>Risk weighted capital ratios</b>																
Common Equity Tier I Capital (%)	11.06	11.31	11.39	12.23	14.53	14.43	15.31	14.82								
Tier I Capital (%)	11.06	11.31	11.39	12.23	14.53	14.43	15.31	14.82								
Total Capital (%)	14.00	14.36	14.54	15.59	18.16	18.22	18.42	17.88								
Leverage Ratio	6.22	6.36	6.59	7.14	7.97	7.86	8.03	7.67								
<b>Asset quality</b>																
Gross NPA ratio (%)	N/A	N/A	N/A	N/A	3.38	3.92	4.25	4.28								
Net NPA ratio (%)	N/A	N/A	N/A	N/A	0.15	0.42	0.64	0.78								
Impaired loans (stage 3) Ratio %	3.40	3.34	2.46	2.41	2.55	N/A	N/A	N/A								
Impairment (stage 3) to stage 3 loans Ratio %	56.99	56.30	63.00	58.59	56.11	N/A	N/A	N/A								

\* Quarterly information has been amended based on classification changes made in 2022.

# 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 2022 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". Reuters code of Hatton National Bank PLC is "HNB.CM".

## 2 ORDINARY SHAREHOLDERS

### SHARE INFORMATION - VOTING

There were 8,282 registered Voting Shareholders as at 31st December 2022 (2021 - 7,675) 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	5,148	1,166,314	0.32	44	12,172	0.02	5,192	1,178,486	0.28
1,001	- 10,000	2,209	6,684,721	1.81	40	136,535	0.24	2,249	6,821,256	1.60
10,001	- 100,000	660	19,651,709	5.32	24	726,598	1.25	684	20,378,307	4.77
100,001	- 1,000,000	109	23,472,797	6.35	13	3,546,588	6.11	122	27,019,385	6.32
Over	1,000,000	29	318,469,887	86.20	6	53,597,055	92.38	35	372,066,942	87.04
		8,155	369,445,428	100.00	127	58,018,948	100.00	8,282	427,464,376	100.000

### ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2022			31st December 2021		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	8,155	369,445,428	86.43	7,547	358,793,561	85.45
Non-Resident	127	58,018,948	13.57	128	61,105,074	14.55
<b>Total</b>	<b>8,282</b>	<b>427,464,376</b>	<b>100.00</b>	<b>7,675</b>	<b>419,898,635</b>	<b>100.00</b>

### ANALYSIS OF SHAREHOLDERS

Individuals/Institutions

	31st December 2022			31st December 2021		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	7,843	91,768,791	21.47	7,224	88,258,713	21.02
Institutions	439	335,695,585	78.53	451	331,639,922	78.98
<b>Total</b>	<b>8,282</b>	<b>427,464,376</b>	<b>100.00</b>	<b>7,675</b>	<b>419,898,635</b>	<b>100.00</b>

As at 31/12/2022 the average size of holding of ordinary shareholding was 51,732 voting shares (31/12/2021 - 54,835 voting shares), including unregistered 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 2022 was 69% approximately (69% as at 31st December 2021).

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 2022 - 8,260 (7,661 as at 31st December 2021).

978,609 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.

## INVESTOR RELATIONS

**3 SHARE INFORMATION - NON VOTING**

There were 11,290 registered Non Voting Shareholders as at 31st December 2022 (2021- 11,307) 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	6,978	2,270,698	2.15	40	14,393	1.17	7,018	2,285,091	2.13
1,001	- 10,000	3,542	11,160,910	10.54	40	146,469	11.85	3,582	11,307,379	10.56
10,001	- 100,000	614	15,695,036	14.82	13	509,601	41.24	627	16,204,637	15.13
100,001	- 1,000,000	54	14,261,045	13.47	3	565,090	45.74	57	14,826,135	13.84
Over	1,000,000	6	62,489,215	59.02	0	0	0	6	62,489,215	58.34
		11,194	105,876,904	100.00	96	1,235,553	100.00	11,290	107,112,457	100.00

**ANALYSIS OF SHAREHOLDERS**

Resident / Non-Resident

	31st December 2022			31st December 2021		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	11,194	105,876,904	98.85	11,210	103,657,302	98.68
Non-Resident	96	1,235,553	1.15	97	1,387,347	1.32
<b>Total</b>	<b>11,290</b>	<b>107,112,457</b>	<b>100.00</b>	<b>11,307</b>	<b>105,044,649</b>	<b>100.00</b>

Individuals / Institutions

	31st December 2022			31st December 2021		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	11,048	42,470,894	39.65	10,996	36,247,592	34.51
Institutions	242	64,641,563	60.35	311	68,797,057	65.49
<b>Total</b>	<b>11,290</b>	<b>107,112,457</b>	<b>100.00</b>	<b>11,307</b>	<b>105,044,649</b>	<b>100.00</b>

As at 31/12/2022 the average size of holding of ordinary shareholding was 9,487 non-voting shares (31/12/2021- 9,290 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 2022 was 99% approximately (99% as at 31st December 2021).

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 2022 - 11,274 (11,298 as at 31st December 2021).

#### 4 SHARE TRADING

VOTING	2022	2021
Number of Transactions	13,373	37,634
Number of Shares Traded (Mn)	31	151
Value of Shares Traded (Rs Mn)	2,701	20,648

NON VOTING	2022	2021
Number of Transactions	6,199	30,855
Number of Shares Traded (Mn)	4	102
Value of Shares Traded (Rs Mn)	479	11,458

#### 5 DIVIDENDS

	2022	2021
Cash Dividend (Rs)	-	Cash Dividend 6.50
Scrip Dividend (Rs)	5	Scrip Dividend 2.50
Cash Dividend payout ratio (%)	-	Cash Dividend payout ratio (%) 20

#### 6 EARNINGS

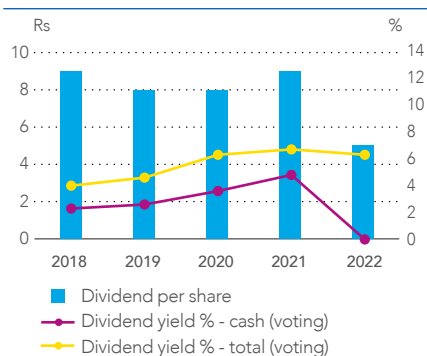
VOTING	2022	2021
Group Earnings Per Share (Rs)	28.62	36.18
Price Earnings ratio (Times)-Voting Shares	2.76	3.73

#### 7 MARKET VALUES

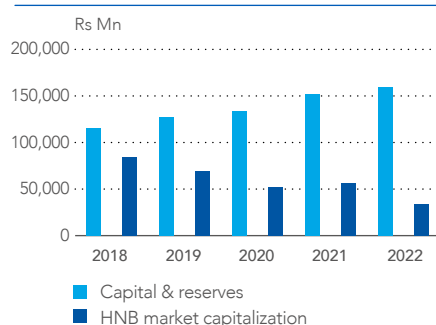
	Highest Rs.	Lowest Rs.	Year End Rs.
2017 - Voting	271.00	220.00	249.00
- Non Voting	214.00	184.10	195.00
2018 - Voting	257.50	200.00	214.00
- Non Voting	200.00	150.00	168.50
2019 - Voting	214.90	130.50	172.20
- Non Voting	168.50	118.30	135.50
2020 - Voting	173.20	91.70	126.50
- Non Voting	136.20	74.70	100.60
2021 - Voting	170.00	123.50	135.00
- Non Voting	146.75	92.00	122.25
2022 - Voting	145.00	72.00	78.90
- Non Voting	135.50	64.90	70.00

# INVESTOR RELATIONS

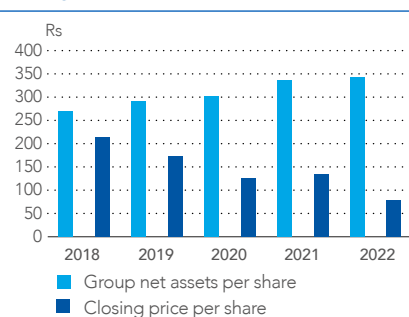
Dividend Per Share and Dividend Yield



Shareholder Funds and HNB Market Capitalization



Group Net Assets Per Share and Closing Price Per Share



## 8 MARKET CAPITALISATION (AS AT 31ST DECEMBER)

	Capital & Reserves	*HNB Market Capitalization	CSE Market Capitalization	HNB Market Capitalization as a % of CSE Market Capitalization	Market Capitalization Ranking
	Rs Mn	Rs Mn	Rs Mn	%	
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
2021	152,041	56,816	5,489,168	1.04	22
2022	159,327	33,804	3,847,150	0.88	26

\*HNB Market Capitalisation include only Voting shares

## 9 PUBLIC SHAREHOLDING

	2022 Number	%	2021 Number	%
Number of shareholders representing the public holding (Voting)	8,260	69	7,661	69
Number of shareholders representing the public holding (Non Voting)	11,274	99	11,298	99
Complaint under Option 1 - Float Adjusted Market Capitalization (Rs Bn)	23.3		39.2	



## 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/-)	42:50:00	230,000
1980	Rights issue (@ Rs 10/-)	1:01	500,000
1982	Bonus	1:01	1,000,000
1988	Bonus	1:01	2,000,000
1990	Bonus	1:02	2,000,000
1993	Bonus	1:01	6,000,000
1996	Bonus	2:03	8,000,000
1998	Bonus	1:02	10,000,000
1999	Bonus	2:03	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/-)	2:05	28,600,000
2005	Issue of underlying Shares for GDR		17,664,700
2007	Bonus	1:01	117,764,700
2009	Shares issued under ESOP		240,747
2010	Shares issued under ESOP		2,198,875
2011	Sub Division of Shares	1:02	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	1:06	5,830,259
2017	Rights Issue (voting @Rs 220/- and non-voting @Rs 190/-)		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
2021	Scrip Dividend		13,928,857
2022	Scrip Dividend		9,650,869
	Total		535,555,442

## INVESTOR RELATIONS

## 11 20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2022

Name	% on total capital	% on total voting capital	No. of Shares 2022	No. of Shares 2021
1. BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	7.99	9.99	42,781,221	42,024,032
2. EMPLOYEES PROVIDENT FUND	7.80	9.75	41,760,448	41,021,326
3. SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	6.61	8.27	35,420,657	34,793,743
4. MILFORD EXPORTS (CEYLON) (PVT) LIMITED	6.33	**7.91	33,879,251	33,279,619
5. STASSEN EXPORTS (PVT) LIMITED	5.48	**6.85	29,365,409	28,845,668
6. MR. S.E. CAPTAIN	5.21	6.51	27,893,390	27,399,702
7. SONETTO HOLDINGS LIMITED.	3.93	4.91	21,057,534	20,684,835
8. SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	3.40	4.25	18,197,265	17,875,190
9. DISTILLERIES COMPANY OF SRI LANKA PLC	2.45	**3.07	13,138,456	12,905,917
10. CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	2.36	2.95	12,648,965	12,425,090
11. NATIONAL SAVINGS BANK	2.30	2.87	12,293,280	12,075,700
12. DON AND DON HOLDINGS (PRIVATE) LIMITED (CONSISTING OF PEOPLE'S LEASING & FINANCE PLC / DON AND DON HOLDINGS (PRIVATE) LIMITED & DON AND DON HOLDINGS (PRIVATE) LIMITED)	2.17	2.71	11,612,806	10,700,848
13. RBC INVESTOR SERVICES TRUST-RBC EMERGING MARKETS SMALL-CAP EQUITY FUND	1.75	2.19	9,396,056	8,853,176
14. MR. D.N.N. LOKUGE	1.66	2.08	8,909,890	8,752,193
15. STANDARD CHARTERED BANK SINGAPORE S/A HL BANK SINGAPORE BRANCH	1.50	1.88	8,041,493	7,899,166
16. MS. L.A. CAPTAIN	1.50	1.87	8,007,163	7,865,444
17. FINCO HOLDINGS (PRIVATE) LIMITED	1.26	1.57	6,747,077	-
18. SIMONAS TRUST SERVICE PVT LTD	0.81	1.02	4,360,582	-
19. EMPLOYEES TRUST FUND BOARD	0.59	0.74	3,162,155	3,106,188
20. MR. S.V. SOMASUNDERAM	0.51	0.64	2,745,697	1,628,528
Sub total	65.62	82.02	351,418,795	332,136,365
* Unregistered Shares	0.18	0.23	978,609	961,289
Balance held by 8,262* voting shareholders (Total voting shareholders- 8,282)	14.20	17.75	76,045,581	87,762,270
Total voting shares	80.00	100.00	428,442,985	420,859,924
Shares held by 11,290 Non-voting shareholders	20.00		107,112,457	105,044,649
Total No. of Ordinary shares	100.00		535,555,442	525,904,573

\* 978,609 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 2022**

Name	% on total capital	% on total voting capital	No. of Shares 2022	No. of Shares 2021
1. BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	9.17	45.87	49,131,696	46,603,402
2. ACUITY PARTNERS (PVT) LIMITED/MR.ELAYATHAMBY THAVAGNANASOORIYAM/MR.ELAYATHAMBY THAVAGNANASUNDARAM	1.00	5.02	5,372,196	5,368,439
3. AKBAR BROTHERS PVT LTD A/C NO 1	0.89	4.43	4,745,503	4,653,891
4. MR. S.E. CAPTAIN	0.31	1.55	1,658,622	1,626,603
5. EMPLOYEES TRUST FUND BOARD	0.30	1.48	1,581,198	1,550,673
6. HATTON NATIONAL BANK PLC A/C NO 2	0.14	0.72	770,799	755,919
7. SABOOR CHATOOR (PVT) LTD	0.14	0.68	733,462	719,303
8. MR. E. CHATOOR	0.13	0.65	694,370	680,966
9. MR. J.D. BANDARANAYAKE (JOINT - 1 : DR. V. BANDARANAYAKE & JOINT - 2 : MISS I. BANDARANAYAKE)	0.11	0.55	588,621	577,258
10. MR. J.D. BANDARANAYAKE (JOINT - 1 : MISS N. BANDARANAYAKE & JOINT - 2 : DR. V. BANDARANAYAKE)	0.11	0.55	588,521	577,160
11. E.W. BALASURIYA & CO. (PVT) LTD	0.10	0.50	535,046	524,717
12. PEOPLE'S LEASING & FINANCE PLC/MR. I.D.R. PERERA	0.10	0.49	525,613	509,997
13. DON AND DON HOLDINGS PRIVAT LIMITED	0.09	0.44	471,409	-
14. MISS R.H. ABDULHUSSEIN	0.09	0.43	461,334	452,428
15. MR. M.J. FERNANDO	0.08	0.41	438,508	430,043
16. DR. R.D. BANDARANAIKE	0.08	0.39	414,547	406,545
17. HATTON NATIONAL BANK PLC-ARPICO ATARAXIA EQUITY INCOME FUND	0.07	0.37	392,414	39,452
18. LANKA SYNTHETIC FIBRE CO LTD	0.07	0.36	390,200	382,668
19. MR. Y.H. ABDULHUSSEIN	0.07	0.36	380,768	373,418
20. MR. M.V. THEAGARAJAH	0.07	0.32	356,904	350,014
Sub total	13.11	65.57	70,231,731	66,582,896
Balance held by 11,270 Non-voting shareholders (Total Non-voting shareholders-11,290)	6.89	34.43	36,880,726	38,461,753
Total Non-voting shares	20.00	100.00	107,112,457	105,044,649
Shares held by 8,262 voting shareholders	59.82		320,351,919	314,853,986
* Unregistered voting Shares	0.18		978,609	961,289
Total voting shares	80.00		428,442,985	420,859,924
Total No. of Ordinary shares	100.00		535,555,442	525,904,573

\* 978,609 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.

## INVESTOR RELATIONS

### 13 DEBENTURE INFORMATION

#### HNB SUBORDINATED DEBENTURES 2006

i) Market Value

12 months ended 31st December 2022.

These debentures have not traded during the year ended 31st December 2022.

ii) Interest Rate

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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 %
18 year Fixed Rate (11.25% p.a.) (Zero Coupon)	1,193,302	-	11.25	25.72	1,072,701	-	11.25	9.13

#### HNB SUBORDINATED DEBENTURES 2007

i) Market Value

12 months ended 31st December 2022.

	Market Value			Traded Yield (%)		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest	Lowest	Last Traded
15 year Fixed Rate (16.75% p.a.)	100.76	100.76	100.76	13.9	13.9	13.9

ii) Interest Rate

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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.)	N/A	N/A	N/A	N/A	758,625	16.75	16.75	7.88

#### HNB SENIOR DEBENTURES 2013

i) **Market Value**

12 months ended 31st December 2022.

These debentures have not traded during the year ended 31st December 2022.

ii) **Interest Rate**

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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.)	1,978,910	8.00	14.25	24.68	1,878,709	8.00	14.25	8.58

#### HNB SENIOR DEBENTURES 2014

i) **Market Value**

12 months ended 31st December 2022.

These debentures have not traded during the year ended 31st December 2022.

ii) **Interest Rate**

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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	26.51	84,040	8.33	8.50	9.50

## INVESTOR RELATIONS

## HNB SUBORDINATED DEBENTURES 2016

## i) Market Value

12 months ended 31st December 2022.

These debentures have not traded during the year ended 31st December 2022.

## ii) Interest Rate

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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 %
7 year Fixed Rate (13.00% p.a.)	4,086,904	13.00	13.00	24.99	4,086,904	13.00	13.00	8.75

## HNB SUBORDINATED DEBENTURES 2019

## i) Market Value

12 months ended 31st December 2022.

	Market Value			Traded Yield (%)		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest	Lowest	Last Traded
5 year Fixed Rate (12.30% p.a.)	74	74	74	30.4	30.4	30.4

7 year debentures have not traded during the year ended 31st December 2022.

## ii) Interest Rate

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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	26.61	1,987,358	12.30	12.30	9.32
7 year Fixed Rate (12.80% p.a.)	8,360,693	12.80	12.80	27.58	8,360,693	12.80	12.80	10.65

## HNB SUBORDINATED DEBENTURES 2021

### i) Market Value

12 months ended 31st December 2022.

These debentures have not traded during the year ended 31st December 2022.

### ii) Interest Rate

12 months ended 31st December.

	31st December 2022				31st December 2021			
	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 (9.5% p.a.)	7,286,042	9.50	9.50	25.91	7,286,042	9.50	9.50	11.79

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	2022	2021
Debt to Equity Ratio (%) *	30.91	28.27
Interest Cover (Times) **	3.98	5.49
Liquidity Asset Ratio (LAR) (%)	33.95	28.02

\* Debt includes Borrowings and Debentures.

\*\* Includes interest paid on Borrowings and Debentures.

# INDEPENDENT ASSURANCE STATEMENT



## Introduction

DNV represented by DNV Business Assurance Lanka (Private) Limited ('DNV') has been commissioned by the management of Hatton National Bank PLC ('HNB' or 'the Bank', Corporate Registration Number PQ 82) to carry out an independent assurance engagement of its non-financial/sustainability performance disclosed in the Bank's Annual Report 2022 ('the Report') in its printed format. The non-financial performance in this Report covers the disclosures related to material topics for the reporting period 1st January 2022 to 31st December 2022. The sustainability disclosures in this Report have been prepared by HNB 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 as well as performance trends related to identified material topics. The reporting topic boundaries for non-financial performance are based on the internal and external materiality assessment carried out by HNB and covers identified material topics for the Bank's operations as brought out in the Report in the section 'About the Report'.

We performed our assurance (Type 2, Moderate level) activities based on Account Ability's AA1000 Assurance Standard v3, and DNV's assurance methodology VeriSustain™1 protocol. In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report, together with using the Guiding Principles of the <IR> Framework, together with HNB's protocols for how the non-financial performance was measured, recorded and reported. Our assurance engagement was planned and carried out in December 2022 to February 2023.

The intended user of this assurance statement is the Management of HNB. We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this Assurance Statement. We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and this process did not involve engagement with any external stakeholders.

## Responsibilities of the Management of HNB and of the Assurance Provider

The Management of the Bank has the sole responsibility for the preparation of the Report as well as the processes for collecting, analyzing and reporting the information presented in the Report and also responsible for ensuring the maintenance and integrity of its website and any referenced disclosures on non-financial performance and management approach. In performing this assurance work, DNV's responsibility is to the Management of HNB; however, this statement represents our independent opinion and is intended to inform the outcome of the assurance to the stakeholders of the HNB.

DNV'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 material misstatements or errors. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

We did not come across limitations to scope of the agreed assurance agreement during our assurance process. We understand that any reported data on financial performance of the Bank and the Group including its subsidiaries within the Report are based on financial disclosures and data which has been subjected to a separate independent statutory audit process and is not included in our scope of work.

## Basis of our opinion

We planned and performed our work to obtain the evidence considered necessary to provide a basis for our assurance opinion, and as part of the assurance engagement, a multi-disciplinary team of sustainability and assurance specialists conducted onsite and remote assessments and interactions with key internal stakeholders at the Bank's Head Office in Colombo and six (6) operational branches of the Bank in Sri Lanka based on DNV's sampling plan. We adopted a risk-based approach, that is, we concentrated our onsite and remote verification efforts on the issues of high material relevance to the Bank and its key stakeholders. 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 capitals identified by the Bank (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 selected evidence including 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 non-financial 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 onsite and remote assessments and interviews with management teams at HNB's Regional Office and six (6) branches

<sup>1</sup> The VeriSustain protocol is available on request from [www.dnv.com](http://www.dnv.com). The protocol is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and the Global Reporting Initiative's (GRI's) Principles for Defining Report Content and Quality.



from the Maritime district of Jaffna, Northern Province of Sri Lanka including Point Pedro Branch, Nelliady Branch, Chunnakam Branch, Thirunelvally Branch, Jafna Metro Branch and Jafna Main branch. We were free to choose the sites we sampled for our onsite 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.

### Opinion and Observations

On the basis of our assurance work undertaken, nothing has come to our attention to suggest 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 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.

### Principles of the AA1000 Accountability Principles Standard (2018) Inclusivity

*The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.*

The Report brings out the engagement platforms and systems which have been established for identifying key stakeholder concerns and expectations. The Company has identified employees and contractual employees, vendors, local communities, regulators, investors, shareholders, customers and media as its key stakeholder groups. The Company identifies and prioritizes its formal and informal processes for engagement with its significant stakeholders based on significance of actual and potential impacts of the Company's activities, and these processes are brought out within the Report, along with the identified expectations and concerns of stakeholders as well as HNB's responses.

**Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity.**

### Materiality

*The process of determining the issues that are most relevant to an organization and its stakeholders.*

The Report brings out HNB's process for identification of material topics which have direct and indirect impacts on the Company's ability to create, preserve and enhance values for sustainable development, which was carried out in 2022. This process and related outcomes were reviewed during the reporting period through views of senior

management as well as key stakeholder groups, and HNB confirmed the continuing relevance of its existing material topics and topic boundaries. In our opinion, the Company does not miss out any known material topics related to its chosen reporting boundary.

**Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Materiality.**

### Responsiveness

*The extent to which an organization responds to stakeholder issues.*

The Report brings out the Company's responses to key material issues through descriptions of the Company's policies, strategies and management systems including key performance indicators for the identified material topics using selected GRI Standards and other global standards which are of relevance to the Company and its stakeholders.

**Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.**

### Impact

*The level to which an organization monitors, measures and is accountable for how its actions affect its broader ecosystems.*

The Report brings out the key performance metrics, surveys and management processes used by HNB to monitor, measure and evaluate its significant direct and indirect impacts linked to identified material topics across the Company, its significant value chain entities and key stakeholder groups.

**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 the process for gathering information developed by HNB for its sustainability performance reporting to be appropriate, and both 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.

### 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 the methodology and approach related to qualitative and quantitative disclosures considering the principle of Reliability. Most data and information verified through assessments with the Company's Corporate Office and sampled sites were found to be accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation, and aggregation errors. These identified errors were communicated and subsequently corrections made in the reported disclosures.

# 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 VeriSustain Completeness

*How much of all the information that has been identified as material to the organization and its stakeholders is reported.*

The Report brings out disclosures related to HNB’s non-financial/ sustainability performance considering the principle of Completeness and the chosen scope, boundary and time period of reporting. The Report articulates descriptions of the Company’s policies and management approaches including key performance indicators for the identified material topics using selected GRI Topic-specific Standards and other standards/frameworks found relevant to the Company and its stakeholders.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness with respect to scope, boundary, and time.

### 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 sustainability issues, challenges, stakeholder concerns, and performance in a neutral tone, in terms of content and presentation, applying adequate consideration to not unduly influence stakeholders’ opinions made based on the reported disclosures.

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 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 Code of Conduct<sup>2</sup> 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. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report. DNV maintains complete impartiality toward stakeholders interviewed during the assurance process. We did not provide any services to HNB or its subsidiaries in the scope of assurance for the reporting period that could compromise the independence or impartiality of our work.

For DNV,

**Panda, Tapan Kumar**  
Digitally signed by Panda, Tapan Kumar  
Date: 2023.02.26 12:00:01 +05:30

Tapan Panda  
Lead Assessor  
DNV Business Assurance India Private Limited, India

**Tikare, Prakash**  
Digitally signed by Tikare, Prakash  
Date: 2023.02.26 12:51:42 +05:30

Prakash Tikare  
Country Manager – India & Sri Lanka  
DNV Business Assurance Lanka (Private) Limited, Sri Lanka.

**Lankalpalli, Bhargav**  
Digitally signed by Lankalpalli, Bhargav  
Date: 2023.02.26 12:00:01 +05:30

Bhargav Lankalpalli  
Technical Reviewer  
DNV Business Assurance India Private Limited, India

Tapan Panda Lead Assessor  
DNV Business Assurance  
India Private Limited,  
India.

Prakash Tikare  
Country Manager – India & Sri Lanka DNV Business  
Assurance Lanka (Private) Limited,  
Sri Lanka.

Bhargav Lankalpalli  
Technical Reviewer  
DNV Business Assurance India  
Private Limited, India.

Colombo, Sri Lanka, 26th February 2023.



DNV Business Assurance Lanka (Private) Limited is part of DNV – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. [www.dnv.com](http://www.dnv.com)

<sup>2</sup> DNV Corporate Governance & Code of Conduct - <https://www.dnv.com/about/in-brief/corporate-governance.html>.

Project Number: PRJN-506928-2023-AST-LKA

# 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 32-33 and our future plans are given in all business line reviews and the Chairman's and Managing Director/CEO's messages on pages 18 to 22 respectively.</p>
Connectivity of Information	<p>We have provided links to other reports for additional and supporting information related to identified material topics. The value creation for stakeholders 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 28-29.</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 30-31.</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 232-236, and non-financial disclosures related to the integrated reporting framework has been assured by DNV and their Independent assurance statement is given on page 482-485.</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 INDEX

## STATEMENT OF USE

Hatton National Bank PLC has reported in accordance with the GRI Standards for the period 1st January 2022 to 31st December 2022.

## GRI 1 USED

GRI 1: Foundation 2021

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>GRI 2: General Disclosures 2021</b>						
	2-1	Organizational details				Inner back cover
	2-2	Entities included in the organization's sustainability reporting				4
	2-3	Reporting period, frequency and contact point				4
	2-4	Restatements of information				229,231
	2-5	External assurance				232-236, 478-480
	2-6	Activities, value chain and other business relationships				34,35
	2-7	Employees	8	8.3		56-59
	2-8	Workers who are not employees	8	8.3		56-59
	2-9	Governance structure and composition	5 & 16	5.5,16.7		106
	2-10	Nomination and selection of the highest governance body	5 & 16	5.5,16.7		110
	2-11	Chair of the highest governance body	5 & 16	5.5,16.7		103
	2-12	Role of the highest governance body in overseeing the management of impacts				109
	2-13	Delegation of responsibility for managing impacts				107,115
	2-14	Role of the highest governance body in sustainability reporting				231
	2-15	Conflicts of interest	16	16.6		116
	2-16	Communication of critical concerns				123,124
	2-17	Collective knowledge of the highest governance body				88
	2-18	Evaluation of the performance of the highest governance body				110
	2-19	Remuneration policies				153,154
	2-20	Process to determine remuneration				153,154
	2-21	Annual total compensation ratio				256
	2-22	Statement on sustainable development strategy				32,33
	2-23	Policy commitments				116-118
	2-24	Embedding policy commitments				116-118
	2-25	Processes to remediate negative impacts				116
	2-26	Mechanisms for seeking advice and raising concerns				116
	2-27	Compliance with laws and regulations				119-120
	2-28	Membership associations				4
	2-29	Approach to stakeholder engagement				28,29
	2-30	Collective bargaining agreements				62
<b>MATERIAL TOPICS</b>						
GRI 3: Material Topics 2021	3-1	Process to determine material topics				30,31
	3-2	List of material topics				30,31
<b>ECONOMIC PERFORMANCES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				48-51
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	8 & 9	8.1, 8.2, 9.1, 9.4, 9.5		463,464
	201-2	Financial implications and other risks and opportunities due to climate change	13	13.1		76
	201-3	Defined benefit plan obligations and other retirement plans				47
<b>MARKET PRESENCE</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-62
GRI 202: Market Presence 2016	202-2	Proportion of senior management hired from the local community	8	8.5		56-57

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>INDIRECT ECONOMIC IMPACTS</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				436-465
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	9 & 11	9.1, 9.4, 11.2		372
	203-2	Significant indirect economic impacts	1, 3 & 8	1.2, 1.4, 3.8, 8.2, 8.3, 8.5		464
<b>PROCUREMENT PRACTICES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				65
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	8,17	8.3, 17.17		65,73
<b>ANTI CORRUPTION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				117
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption				117
	205-2	Communication and training about anti-corruption policies and procedures				56-62
	205-3	Confirmed incidents of corruption and actions taken				60
<b>ANTI-COMPETITIVE BEHAVIOUR</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				119-122
GRI 206: Anti-competitive Behaviour 2016	206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	16	16.3		119
<b>TAX</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				393-396
GRI 207: Tax 2019	207-1	Approach to tax	1, 10 & 17	1.1, 10.4, 17.1, 17.3		118
	207-2	Tax governance, control, and risk management	1, 10 & 17	1.1, 10.4, 17.1, 17.3		393-396
	207-3	Stakeholder engagement and management of concerns related to tax	1, 10 & 17	1.1, 10.4, 17.1, 17.3		393-396
<b>ENERGY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74-79
GRI 302: Energy 2016	302-1	Energy consumption within the organization	7,8 & 12	7.3, 8.4, 12.2		75
	302-2	Energy consumption outside of the organization				75
	302-3	Energy intensity	7, 8,12 & 13	7.3, 8.4, 12.2, 13.1		75
	302-4	Reduction of energy consumption	7, 8,12 & 13	7.3, 8.4, 12.2, 13.1		75
	302-5	Reductions in energy requirements of products and services				75
<b>BIODIVERSITY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74-79
GRI 304: Biodiversity 2016	304-2	Significant impacts of activities, products and services on biodiversity	6,14 & 15	6.6, 14.2, 15.1, 15.5		79
	304-3	Habitats protected or restored	6,14 & 15	6.6, 14.2, 15.2, 15.5		79
<b>EMISSIONS</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74-79
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	3,12, 13 & 15	3.9, 12.4, 13.1, 15.2	Metrics & Targets b	78
	305-2	Energy indirect (Scope 2) GHG emissions	3, 15, 12 & 13	3.9, 12.4, 13.1, 15.2	Metrics & Targets b	78
	305-3	Other indirect (Scope 3) GHG emissions				78
	305-4	GHG emissions intensity	13, 14 & 15	13.1, 14.3, 15.2		78
	305-5	Reduction of GHG emissions	13, 14 & 15	13.1, 14.3, 15.2	Strategy b	78
<b>WASTE</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74-79
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	3, 6, 12 & 14	3.9, 6.3, 6.4, 6.6, 12.4, 14.1		78
	306-2	Management of significant waste-related impacts	3, 6 & 12	3.9,6.3,12.4,12.5		78
	306-3	Waste generated	3, 6,12, 14 & 15	3.9, 6.3, 6.4, 6.6, 12.4, 14.1, 15.1		78
	306-4	Waste diverted from disposal	8 & 12	8.4, 12.4		78
	306-5	Waste directed to disposal	6, 14 & 15	6.6, 14.2, 15.1,15.5		78

# GRI INDEX

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				64-65
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria				65
	308-2	Negative environmental impacts in the supply chain and actions taken				65
<b>EMPLOYMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-62
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	5, 8 & 10	5.1, 8.5, 8.6, 10.3		56-57
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	5 & 8	5.4, 8.5		56-57
<b>OCCUPATIONAL HEALTH &amp; SAFETY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-62
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system	3, 8 & 16	3.3, 3.4, 3.9, 8.8, 16.1		62
	403-2	Hazard identification, risk assessment, and incident investigation				62
	403-3	Occupational health services				62
	403-4	Worker participation, consultation, and communication on occupational health and safety				62
	403-5	Worker training on occupational health and safety				62
	403-6	Promotion of worker health				62
<b>TRAINING AND EDUCATION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-62
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	4, 5, 8 & 10	4.3, 4.4, 4.5, 5.1, 8.2, 8.5 & 10.3		56
	404-2	Programs for upgrading employee skills and transition assistance programs	8	8.2, 8.5		59-61
	404-3	Percentage of employees receiving regular performance and career development reviews	5, 8 & 10	5.1, 8.5, 10.3		59-61
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-62
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	5 & 8	5.1, 5.5, 8.5		58,59
	405-2	Ratio of basic salary and remuneration of women to men				58,59
<b>NON DISCRIMINATION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				176-216
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken				135
<b>LOCAL COMMUNITIES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				63-68
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs				63,77
	413-2	Operations with significant actual and potential negative impacts on local communities				63,77
<b>SUPPLIER SOCIAL ASSESSMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				64-67
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria				65
	414-2	Negative social impacts in the supply chain and actions taken				65
<b>PUBLIC POLICY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				116-120
GRI 415: Public Policy 2016	415-1	Political contributions				116

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>MARKETING AND LABELING</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				80-85
GRI 417: Marketing and Labeling 2016	417-1	Requirements for product and service information and labeling	12	12.8		81,82
	417-2	Incidents of non-compliance concerning product and service information and labeling	16	16.3		81,82
	417-3	Incidents of non-compliance concerning marketing communications	16	16.3		64,81
<b>CUSTOMER PRIVACY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				55,121
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	16	16.3, 16.10		55,121

#### Other Disclosures (SDG / TCFD)

Reference	SDG		TCFD	Page No
	Goals	Targets	Component / Disclosure	
<b>ECONOMIC PERFORMANCE</b>				
End poverty in all its forms everywhere	1	1.1, 1.2		71,72
<b>ENERGY</b>				
Renewable energy	7	7.2		70,77
<b>ENVIRONMENTAL COMPLIANCE</b>				
Sustainable management and efficient use of natural resources	12	12.2		74,76,85
Provide relevant information and awareness for sustainable development and lifestyles in harmony with nature	12	12.2,12.8		79
Improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	13	13.3	Strategy c	76-77
Greater adoption of clean and environmentally sound technologies and industrial processes	9	9.4		52-55
<b>TRAINING AND EDUCATION</b>				
Support for education development in the country	4	4.1, 4.3		72
<b>LOCAL COMMUNITIES</b>				
Provide financial support to the agriculture sector to achieve food security and improved nutrition and promote sustainable agriculture	2	2.3		71
Provide access to safe and affordable drinking water for all	6	6.1		71
Safe and affordable housing for all	11	11.1		70
Health care development in the country	3	3.3, 3.8		67
Reduce exposure and vulnerability to climate-related extreme events and other economic, social, and environmental shocks and disasters	1	1.5		76-77
Provide financial services focusing on women	5 & 10	5.a, 10.2		71
<b>REPORTING PRACTICE</b>				
Integrate sustainability information into reporting cycle	12	12.6		69
<b>PROCUREMENT PRACTICES</b>				
Promote public procurement practices that are sustainable, in accordance with national policies and priorities	12	12.7		65
<b>EMPLOYMENT</b>				
Policies and procedures to create friendly working environment	8, 5	8.7, 8.8, 5.1, 5.2, 5.c		62
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>				
Support women's health and wellbeing, career advancement, education, access to finance or financial	5,8 &10	5.1,5.5,8.5,10.3		62
<b>CUSTOMER PRIVACY</b>				
Partnership with international and national organisation to promote sustainable development	17	17.9		65,73

# SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE	PAGE NO
Data Security	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected	Quantitative	Number, Percentage (%)	FN-CB-230a.1	205, 241
	Description of approach to identifying and addressing data security risks	Discussion and Analysis	n/a	FN-CB-230a.2	55
Financial Inclusion & Capacity Building	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development	Quantitative	Number, Reporting currency	FN-CB-240a.1	50
	(1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development	Quantitative	Number, Reporting currency	FN-CB-240a.2	199
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	Quantitative	Number	FN-CB-240a.3	48-51
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	Quantitative	Number	FN-CB-240a.4	28, 34, 38-39
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Commercial and industrial credit exposure, by industry	Quantitative	Reporting currency	FN-CB-410a.1	194
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2	123
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	Quantitative	Reporting currency	FN-CB-510a.1	136
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-CB-510a.2	116
Systemic Risk Management	Global Systemically Important Bank (G-SIB) score, by category	Quantitative	Basis points (bps)	FN-CB-550a.1	185
	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities	Discussion and Analysis	n/a	FN-CB-550a.2	158-160

## ACTIVITY METRICS

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE	PAGE NO
(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	Number, Reporting currency	FN-CB-000.A	50
(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate <sup>7</sup>	Quantitative	Number, Reporting currency	FN-CB-000.B	432



# 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.

### AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding Interest-bearing deposits of commercial banks and the corresponding Interest rates.

### AVERAGE WEIGHTED PRIME LENDING RATE (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week

## B

### BASEL III

The Basel committee on banking Supervision (BCBS) issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

### BASIS POINT(BP)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

### 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.

### BUSINESS MODEL ASSESSMENT

Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary

to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's key management personnel and how managers of the business are compensated.

### BUSINESS CONTINUITY PLAN

A document that consist of the critical information an organization needs to continue operating during an unplanned event. The BCP should state the essential functions of the business, identify which systems and processes must be sustained, and detail how to maintain them. It should take into account any possible business disruption.

## 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.

### CAPITAL CONSERVATION BUFFER

Designed to ensure that banks build up buffers of capital outside any period of stress and avoid breaches of minimum capital requirements.

### 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.

## GLOSSARY OF FINANCIAL/BANKING TERMS

**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.

**COMMITMENTS**

Credit facilities approved but not yet utilised by the clients as at the reporting date.

**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.

**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.

**CREDIT RISK MITIGATION**

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

**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.

## DOMESTIC SYSTEMATICALLY IMPORTANT BANKS (D-SIBS)

Systematically important banks (SIBs) are perceived as banks that are "Too Big To Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500Bn as D-SIBs.

## E

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### 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

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### 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 ASSETS MEASURED AT AMORTISED COST

A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

FVOCI include debt and equity instruments measured at fair value through other Comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on

# GLOSSARY OF FINANCIAL/BANKING TERMS

specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation, and are not held for trading.

## 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

### GLOBAL REPORTING INITIATIVES (GRI)

The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

## 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.

### HIGH QUALITY LIQUID ASSETS (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, Ideally, be central bank eligible. These Include, for example, cash and claims on central governments and central banks.

## 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.

### 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

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### 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

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### 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

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### 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.

### LEVERAGE RATIO

A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.

### 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.

### LIQUIDITY COVERAGE RATIO - LCR

Refers to highly liquid assets held by Banks to meet short - term obligations. The ratio represents a generic stress scenario that aims to anticipate market - wide shocks.

## 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.

### LOAN - TO - VALUE RATIO (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

### LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

## M

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### 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

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### 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, refinancing funds and inter-bank borrowings.

# GLOSSARY OF FINANCIAL/BANKING TERMS

## NET - INTEREST MARGIN (NIM)

The margin is expressed as net Interest Income divided by average Interest earning assets.

## NET PREMIUM METHOD

A Net Premium Valuation is an actuarial calculation, used to place a value on the liabilities of a life insurer.

## NET STABLE FUNDING RATIO (NSFR)

Measures the amount of longer - term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

## 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.

## NOSTRO ACCOUNT

A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

## 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.

### PROVISION COVER

Total provisions for loan losses expressed as a percentage of net non - performing loans and advances before discounting for provisions on non - performing loans and advances.

### 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.

### RELATED PARTIES

One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### RELATED PARTY TRANSACTION (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is changed.

## 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.

## SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the standard that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

## SOLELY PAYMENTS OF PRINCIPAL AND INTEREST TEST (SPPI)-

Classification decision for non-equity financial assets under SLFRS 9.

## 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

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### 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.

### TWELVE MONTH EXPECTED CREDIT LOSSES (12 MONTH ECL)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

## U

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### 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

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### 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

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### YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

### YIELD CURVE

A yield curve is a line that plots yields (Interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat.

# OUR BRANCH & SMART SELF-SERVICE MACHINE (SSM) NETWORK

 **Branches : 255**

 **ATMs : 314**

 **CRMs : 312**

 **CDMs : 161**

## NORTHERN PROVINCE - 21

 24  28  8

### JAFFNA - 12

Atchchuveli  
Chankanai  
Chavakachcheri  
Chunnakam  
Jaffna  
Jaffna Metro  
Kaithady  
Kodikamam  
Manipay  
Nelliady  
Point Pedro  
Thirunelvly

### KILINCHCHI - 02

Kilinochchi North  
Kilinochchi South

### MANNAR - 03

Mannar  
Mallavi  
Nanattan

### MULLAITIVU - 02

Mullaitivu  
Mulliyawalai

### VAVUNIYA - 02

Kurumankadu  
Vavuniya

## NORTH WESTERN PROVINCE - 18

 18  24  14

### KURUNEGALA - 09

Alawwa  
Galgamuwa  
Giriulla  
Hettipola  
Kuliyapitiya  
Kurunegala  
Kurunegala Metro  
Nikaweratiya  
Wariyapola

### PUTTALAM - 09

Anamaduwa  
Chilaw  
Dankotuwa  
Madampe  
Marawila  
Norochole  
Puttalam  
Udappuwa  
Wenappuwa

## WESTERN PROVINCE - 107

 145  139  81

### COLOMBO - 66

Aluthkade  
Asiri Surgical Hospital  
Athurugiriya  
Avisawella  
Bambalapitiya  
Boralessgamuwa  
Borella  
Cinnamon Gardens  
City Office  
Dehiwela  
Dematagoda  
Department of Immigration  
and Emigration  
Grandpass  
Greenpath  
Hanwella  
Head Office Branch  
Homagama  
Hulftsdorp  
International Water  
Management Institute

Islamic Banking Unit  
Jampettah  
Sri Jayawardenapura  
Hospital  
Kaduwela  
Kirulapone  
Kohuwela  
Kollupitiya  
Kolonnawa  
Kotahena  
Kottawa  
Rajagiriya  
Kothalawala Defence  
University (KDU)  
Maharagama  
Pettah Metro  
Malabe  
Maligawatte  
Maradana  
Mirihana  
Moratumulla  
Moratuwa  
Mount Lavinia  
Mutwal

Narahenpita  
Nawala  
Nawaloka Hospital  
Nawam Mawatha  
Nugegoda  
Ninewells Hospital  
Overseas School of  
Colombo  
Padukka  
Pamankada  
Panchikawatte  
Pettah  
Piliyandala  
Ratmalana  
Sea Street  
Sri Lanka Ports Authority  
Battaramulla  
Thalawathugoda  
Asiri Central Hospital  
Thimbirigasyaya  
Wellawatte  
Wijerama  
World Trade Centre  
Orion City

Pensions Department  
Lanka Hospital PLC

### GAMPAHA - 32

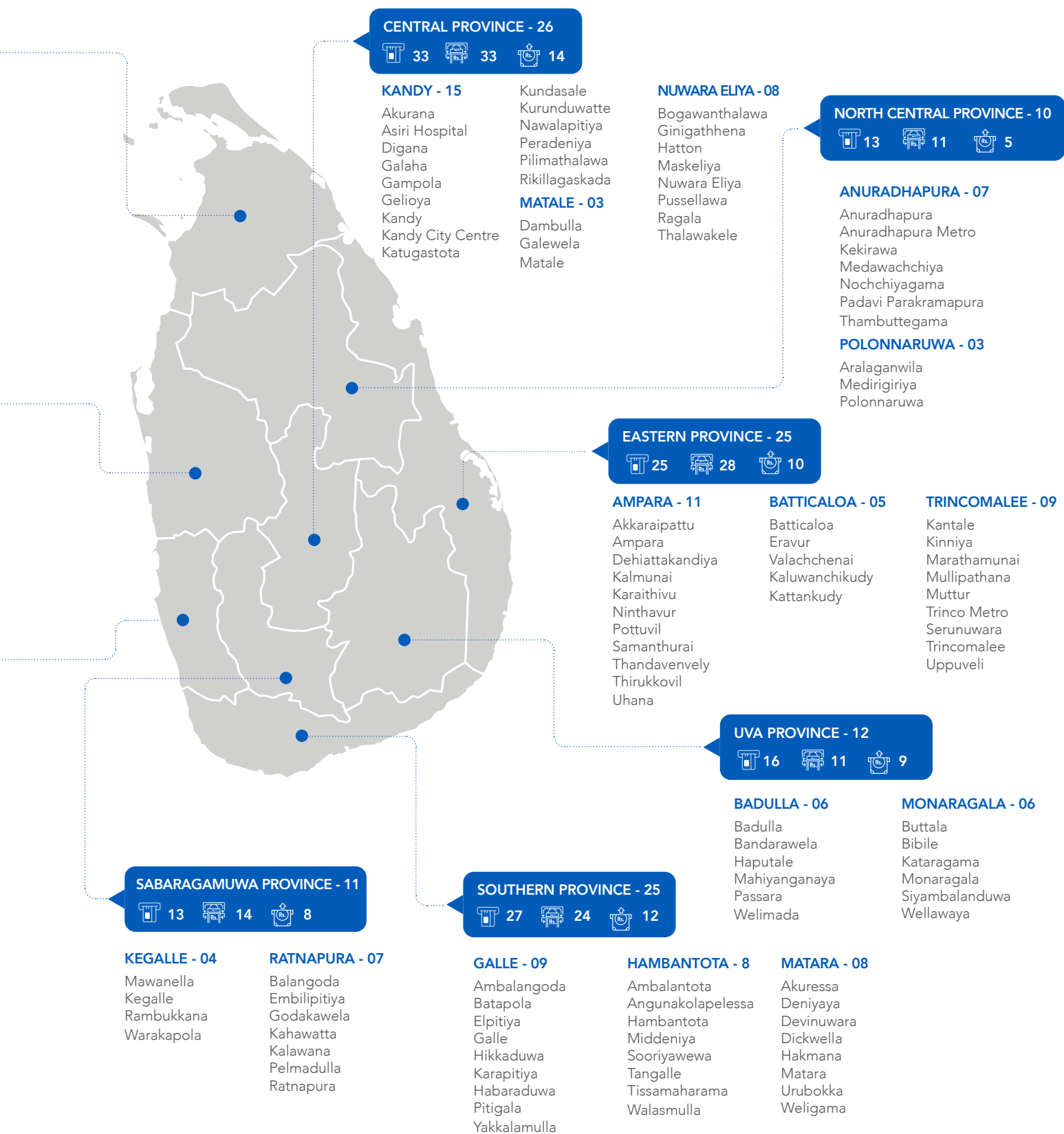
Airport Departure Counter  
Biyagama  
Delgoda  
Divulapitiya  
Ekala  
Gampaha  
Ganemulla  
Hendala  
Ja-Ela  
Kadawatha  
Kandana  
Katunayake  
Kelaniya  
Kiribathgoda  
Kirindiwela  
Kochchikade  
Marandagahamula  
Minuwangoda  
Mirigama  
Negombo

Negombo Metro  
Nittambuwa  
Pamunugama  
Peliyagoda  
Pugoda  
Ragama  
Seeduwa  
Sri Lankan Airlines  
Veyangoda  
Wattala  
Weliweriya  
Yakkala

### KALUTARA - 09

Aluthgama  
Bandaragama  
Beruwala  
Horana  
Ingiriya  
Kalutara  
Mathugama  
Panadura  
Wadduwa





# NOTICE OF MEETING

## 1. NOTICE OF MEETING AND AGENDA

Notice is hereby given that the Fifty Fourth (54th) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Thursday, the Thirtieth (30th) day of March 2023 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 2022 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 Five (Rs. 5/-) in the form of a scrip dividend 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 2022 ;
- (b) THAT the shareholders entitled to such dividend ('Entitled Shareholders') 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 third (3rd) Market Day from and excluding the date of the Annual General Meeting ( the "Record Date");
- (c) THAT the said final dividend of Rupees Five (Rs. 5/-) be distributed and satisfied by the allotment and issue of new ordinary voting shares and ordinary non-voting shares (the "distribution scheme") 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:
  - A. For voting shares:
 

A sum of Rupees One Billion Eight Hundred Twenty Million Eight Hundred Eighty Two Thousand Six Hundred Eighty Six and Cents Twenty Five (Rs. 1,820,882,686/25) be distributed to the holders of ordinary voting shares in the form of a scrip dividend, by the issue of a total of 18,208,826 ordinary voting shares on the basis of one (1) ordinary voting share for every 23.5294128792 ordinary voting shares currently in issue (which computation is based on the consideration of Rupees One Hundred (Rs. 100/-) per each new ordinary voting share being the share price of ordinary voting shares as at the commencement of trading on 17th February 2023).
  - B. For non-voting shares:
 

A sum of Rupees Four Hundred Fifty Five Million Two Hundred Twenty Seven Thousand Nine Hundred Forty Two and Cents Twenty Five (Rs. 455,227,942/25) be distributed to the holders of ordinary non-voting shares in the form of a scrip dividend by the issue of 5,974,119 ordinary non-voting shares which is distributed on the basis of one (1) ordinary non-voting share for every 17.9294146969 non-voting shares currently in issue (which computation is based on the consideration of Rupees Seventy Six and Cents Twenty (Rs. 76.20/-) per each new ordinary non-voting share being the share price of ordinary non-voting shares as at the commencement of trading on 17th February 2023).
- (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

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date} \times 1}{23.5294128792}$$

In the context of ordinary non-voting shares

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date} \times 1}{17.9294146969}$$

- (e) THAT (a) the new ordinary voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment and issue 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 and issue 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 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) 18,208,826 ordinary voting shares on the basis of one (1) ordinary voting share for every 23.5294128792 ordinary voting shares currently in issue and (b) 5,974,119 ordinary non-voting shares on the basis of one (1) ordinary non-voting share for every 17.9294146969 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 trustees to be nominated by the Board of Directors and disposed of in the market by such trustees and the proceeds from such disposal being distributed to charitable purposes, be and is hereby approved.

- iii. To re-elect Dr. Talpawila Kankanamge Don Aruna Prasad Samarasinghe as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- iv. (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.
- v. To authorize the Directors to determine payments for the year 2023 for charitable and other purposes.

By order of the Board of Hatton National Bank PLC,



Shiromi Halloluwa (Ms)  
*Head of Legal /Board Secretary*

Colombo, Sri Lanka  
17th February 2023

## NOTICE OF MEETING

### NOTES:

- (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.

### **SUMMARY OF ARTICLE 22 OF THE ARTICLES OF ASSOCIATION OF HATTON NATIONAL BANK PLC ON 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.

# HATTON NATIONAL BANK PLC FORM OF PROXY (VOTING)

I/We .....  
 ..... of .....  
 ..... being \*a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint  
 .....  
 of .....

or failing him/her, (Mrs) Aruni Goonetilleke or failing her, Antonio Jonathan Alles or failing him, Damian Amal Cabraal or failing him, Wanniarachchi Mudiyansele Madura Duminda Ratnayake or failing him, Mututantrige Parakrama Devaka Cooray or failing him, Dilshan Peter Nirosh Rodrigo or failing him, Osman Chandrawansa or failing him, Prawira Rimoe Saldin or failing him, Kuttikande Vidanelage Nihal Jayawardene or failing him, Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him, Kahandawela Arachige Kithsiri Perera Gunawardana or failing him Talpawila Kankanamge Don Aruna Prasad Samarasinghe as \*my/our proxy, to attend, vote and speak on \*my/our behalf and to represent \*me/us at the Fifty Fourth (54th) 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, 2023 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.5/- per share in the form of a scrip dividend as the final dividend for the financial year ended 31st December 2022 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 Dr. Talpawila Kankanamge Don Aruna Prasad Samarasinghe	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iii)	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"/>
(iv)	To authorize the Directors to determine payments for F/Y 2023 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 ..... 2023.

Signature/s .....  
 .....

# FORM OF PROXY (VOTING)

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) :	.....

## 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 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.

# HATTON NATIONAL BANK PLC FORM OF PROXY [NON-VOTING]

I/We .....  
..... of .....  
..... being \*a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint  
.....  
of .....

or failing him/her, (Mrs) Aruni Goonetilleke or failing her, Antonio Jonathan Alles or failing him, Damian Amal Cabraal or failing him, Wanniarachchi Mudiyansele Madura Duminda Ratnayake or failing him, Mututantrige Parakrama Devaka Cooray or failing him, Dilshan Peter Nirosh Rodrigo or failing him, Osman Chandrawansa or failing him, Prawira Rimoe Saldin or failing him, Kuttikande Vidanelage Nihal Jayawardene or failing him, Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him, Kahandawela Arachige Kithsiri Perera Gunawardana or failing him Talpawila Kankanamge Don Aruna Prasad Samarasinghe as \*my/our proxy, to attend and speak on \*my/our behalf and to represent \*me/us at the Fifty Fourth (54th ) 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, 2023 at 10.00 in the forenoon and at any adjournment thereof.

\* Delete inappropriate words

Signed this ..... day ..... 2023.

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 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.



# 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

- |   |                          |                          |
|---|--------------------------|--------------------------|
|   | <b>Yes</b>               | <b>No</b>                |
| 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"/> |



# 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 No 30 of 1988 (as amended).

### COMPANY REGISTRATION NUMBER

PQ 82 (Previous PBS 613)

### ACCOUNTING YEAR END

31st December 2022

### STOCK EXCHANGE LISTING

The ordinary shares and senior and subordinated debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.

### REGISTERED OFFICE

"HNB Towers"  
No. 479, T B Jayah Mawatha,  
Colombo 10,  
Sri Lanka.

### HEAD OFFICE

"HNB Towers",  
No. 479, T B Jayah Mawatha,  
Colombo 10,  
Sri Lanka.

Cable Address : HATNABANK  
Telephone Nos : +94 11 266 4664  
                  : +94 11 246 2462  
                  : +94 11 476 4764  
Fax No : +94 11 266 2832  
Swift : Bic Code - HBLILKLX  
e-mail : hnbconnect@hnb.lk  
Web : www.hnb.net  
Facebook : HNBPLC  
Instagram : hnbstrilanka  
Twitter : @hnbplc

### CREDIT RATINGS

The Bank has been assigned a national long term rating of A(lka) /RWN 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 PLC

(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 11 266 1178  
Fax : +94 11 266 2815  
e-mail : investor.relations@hnb.lk

## BOARD OF DIRECTORS AND COMMITTEES

### BOARD OF DIRECTORS

(as at 17th February 2023)

Mrs. Aruni Goonetilleke (Chairperson)  
Mr. Jonathan Alles (Managing Director / CEO)  
Mr. Amal Cabraal  
Mr. Madu Ratnayake  
Mr. Devaka Cooray  
Mr. Dilshan Rodrigo (Executive Director / COO)  
Mr. Osman Chandrawansa  
Mr. Rimoe Saldin  
Mr. Nihal Jayawardene PC  
Mr. Rasitha Gunawardana  
Mr. Kithsiri Gunawardana  
Dr. Prasad Samarasinghe  
(appointed w.e.f 26.10. 2022)

### BOARD SECRETARY

Ms. Shiromi Halloluwa  
Attorney-at-Law

### STATUTORY BOARD SUB-COMMITTEES (as at 31st December 2022)

#### AUDIT COMMITTEE

Mr. Devaka Cooray (Chairman)  
Mr. Osman Chandrawansa  
Mr. Kithsiri Gunawardana  
Mr. Rasitha Gunawardana

#### NOMINATION COMMITTEE

Mr. Devaka Cooray (Chairman)  
Mr. Madu Ratnayake  
Mrs. Aruni Goonetilleke

#### HR & REMUNERATION COMMITTEE

Mr. Madu Ratnayake (Chairman)  
Mr. Amal Cabraal  
Mrs. Aruni Goonetilleke  
Mr. Kithsiri Gunawardana

#### BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. Rimoe Saldin (Chairman)  
Mr. Jonathan Alles (Managing Director / CEO)  
Mr. Madu Ratnayake  
Dr. Prasad Samarasinghe  
Mr. Rasitha Gunawardana  
Mr. Ruwan Manatunga  
– Chief Risk Officer/DGM (Risk)  
Mr. Neil Rasiah – AGM (Compliance)

#### Invitee

Mr. Devaka Cooray - Only on need basis



[www.hnb.net](http://www.hnb.net)



## HATTON NATIONAL BANK PLC

"HNB Towers" No 479, T B Jayah Mawatha (Darley Road),  
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Fax No : +94 11 266 2832, e-mail : [hnbconnect@hnb.lk](mailto:hnbconnect@hnb.lk).